

City of Shelby

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2010

PREPARED BY

**CITY OF SHELBY
FINANCE DEPARTMENT**

**THEODORE B. PHILLIPS
FINANCE DIRECTOR**



CITY OF SHELBY, NORTH CAROLINA

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INTRODUCTORY SECTION





February 15, 2011

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

State law requires that all municipal governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Shelby for the fiscal year ended June 30, 2010.

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 Dixon Hughes PLLC 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, 2010, 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, 2010, 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 hero at the Battle of Kings Mountain and later became the governor of Kentucky. The City has a population of approximately 20,793 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 protection, public safety, planning and developmental services, sanitation, street maintenance, cemeteries, airport operations, cultural and recreational activities, general administration, planning and development services, and 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, Advance Shelby Unlimited, 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, truck cabs, transmissions, aircraft parts, fabrications, boats, and electric motors and production equipment. Large manufacturers with facilities located in the County include PPG Industries, KOSA, Eaton Corporation, Ticona, Ultra Machine & Fabrication 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, has been hit especially hard by the current 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 FY 2009-2010 fiscal year.

Progress continued on the development of the Foothills Commerce Center during fiscal year 2009-2010. The City received confirmation of significant grant funding from the NC Department of Commerce for the construction of interior roads, storm drainage systems, and water and wastewater infrastructure. Final engineering design and specifications were also completed. A city owned electric line extension was also completed which allow service to the entire business park. The City also received verification from the NC Department of Commerce that the Foothills Commerce Center was awarded the designation as a “Certified Business Park.” Ultimately this designation lets potential industrial clients know that the City has completed the upfront due diligence on the site.

The City also was awarded a \$1,000,000 grant from the Golden Leaf Foundation Community Assistance Initiative to be used toward the construction of a 100,000 square foot speculative shell building to be built in the Foothills Commerce Center. This building is a partnership between the City, as lead partner, Cleveland County and the Golden Leaf Foundation. Each partner having committed to \$1,000,000. Selection of a design firm is expected to occur in the late summer 2010 with construction to begin in early spring 2011.

The City received good economic development news in June 2010 as Clearwater Paper Corporation announced a \$300,000,000 investment in a tissue manufacturing and warehouse facility just outside the city limits. Clearwater has tentatively agreed to voluntarily annex the property to take advantage of lower water and sewer rates as well as being served by a professional fully staffed fire department. Construction was expected to begin immediately with operations to begin in March 2011. Once completed the nearly 1,000,000 square foot facility would employ between 250-300 people at an average wage above what is currently found in the County. Clearwater will, once fully operational, become the City’s largest water, sewer and natural gas customer. The company manufactures a variety of household tissues for private label customers throughout the United States. The Shelby facility will be there first manufacturing plant in the southeast.

Engineering and design for Phase I of the City Park sports complex. Construction is expected to begin in early fall 2010. The complex will initially include three large baseball fields, walking trails, expanded parking facilities, picnic shelter and a playground. The complex is specifically designed to accommodate youth and adult baseball and softball tournaments in order to attract visitors from around the region. The complex is a small piece of the puzzle being put together by the City as it seeks to diversify the view of economic development and promote alternatives to manufacturing and traditional industry

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

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

In FY 2009 the City Council approved a Comprehensive Parks and Recreation Master Plan. The plan will provide a framework for guiding the City in both its current evaluation, and long-range planning for the parks and recreation system for the City. The plan also makes recommendations for addition or renovations of park and recreational facilities, as well as recommendation on programs. A key objective of the comprehensive plan was the solicitation of community input helping identify the needs of the City's park and recreation system. In FY 2010 the city received a \$500,000 grant from the North Carolina Trust Fund to match with over \$800,000 of city money to begin construction on Phase I of this plan. Construction for Phase I of this plan began in the fall of 2010 and should be completed in the spring of 2011.

In FY 2010 the City was awarded a \$175,000 Weed and Seed Grant. This was the fourth year of the four year cycle for this grant. The Weed and Seed Grant involves a two-pronged approach: law enforcement agencies and prosecutors cooperate in "weeding out" violent criminals and drug abusers and public agencies and community-based private organizations collaborate to "seed" much-needed human services, including prevention, intervention, treatment, and neighborhood restoration programs. A community-oriented policing component bridges the weeding and seeding elements.

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 unmatured 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.

The City tax rate of 43.5 cents remained the same for FY 10. Budgeted expenditures in the General Fund are expected to increase just under 1% to \$17,216,812 in FY 10. There were no increases in rates for the City's Electric, Water, or Sewer Customers in FY 10. 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 2011.

In FY 10 the City entered into a financing agreement for the purchase of rolling stock, the loan proceeds received amounted to \$903,163. The loan term is 59 months with annual payments, beginning June 2011, with an interest rate of 2.36 percent. The City issued a private placement combined enterprise system revenue bond in the amount of \$8,346,400. This money was used for improvements to the water, sewer and natural gas system. The term of the bond is 20 years with an annual interest rate of 6.20 percent. This bond was taxable and issued under the "Build America Bonds" program.

AWARDS AND ACKNOWLEDGMENTS

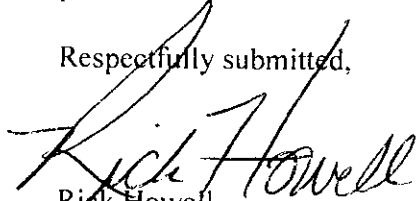
The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Shelby for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This was the twelfth consecutive year that the City has received 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.

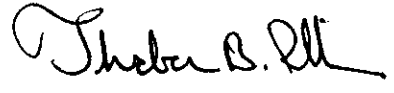
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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, Dixon Hughes PLLC. 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


Theodore B. Phillips, CPA
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Shelby
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

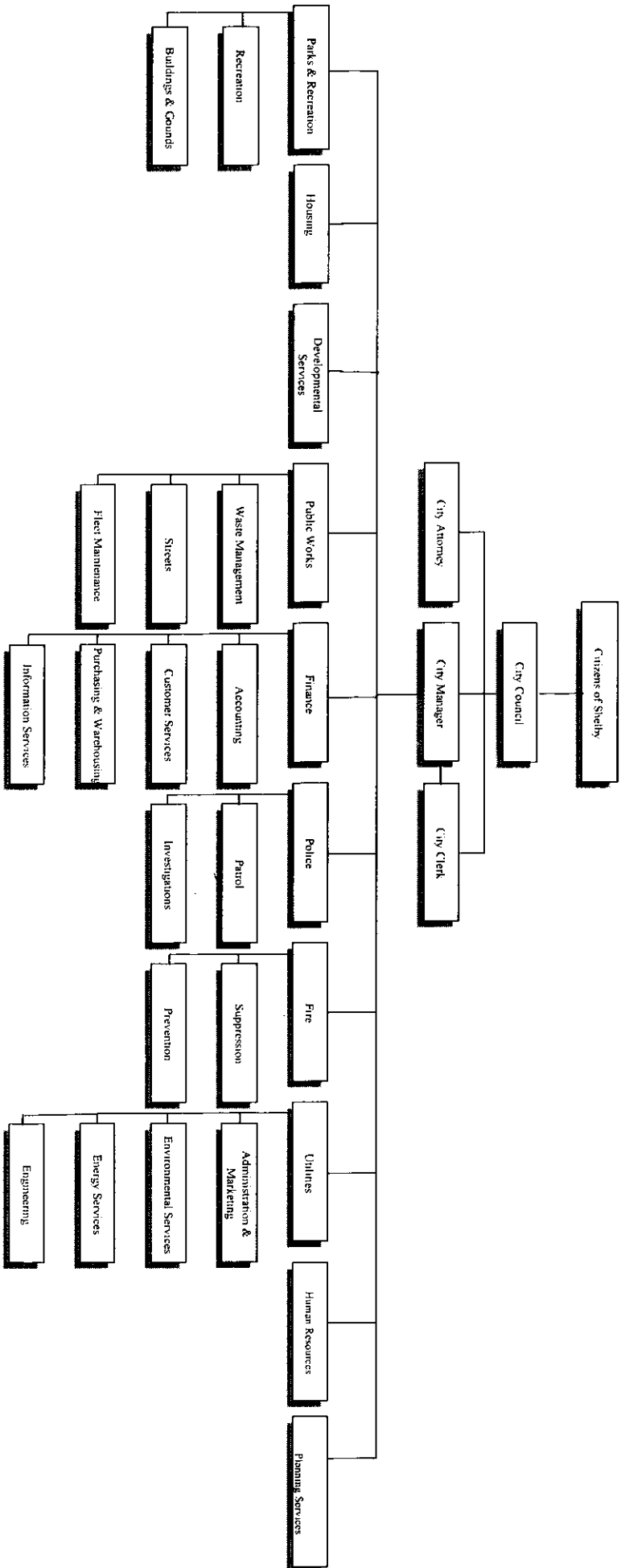
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

City of Shelby Organization Chart



City of Shelby, North Carolina

List of Principal Officials
June 30, 2010

Elected Officials

W. Ted Alexander
Mayor

Christopher H. (Chris) Mabry

Joel R. Shores, Jr.
Mayor Pro Tem

Dennis C. Bailey

Andrew L. Hopper, Sr.

Jeanette D. Patterson

Oliver Stanhope (Stan)
Anthony III

City Administration

Rick Howell
City Manager

Theodore B. Phillips, CPA
Finance Director

Bernadette A. Parduski
City Clerk

Brad Cornwell
Director of Utilities

Deborah Jolly
Human Resources Director

Jeff Ledford
Police Chief

Charles K. Holtzclaw
Director of Parks & Recreation

Daniel C. Darst
Director of Public Works

William P. Hunt
Fire Chief

Bryan T. Howell
Director of Housing

Walter Scharer, AICP
Director Planning Services

Brian Pruett
Director Development Services

Robert (Bob) Yelton
City Attorney

FINANCIAL SECTION



- Independent Auditors' Report -

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2010, which collectively comprise the City of Shelby's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Shelby's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the City of Shelby's ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Shelby's ABC Board, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the 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 the City of Shelby, North Carolina as of June 30, 2010, 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 conformity with accounting principles generally accepted in the United States of America.

(1)

Independent Auditors' Report
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2011, on our consideration of the City of Shelby's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Accordingly, we express no opinion. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedule, and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Shelby, North Carolina. The introductory section, combining and individual fund financial statements, budgetary schedules, other schedules, statistical tables, 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 States, Local Governments, and Non-Profit Organizations*, the State Single Audit Implementation Act and the Financial Data Schedule as required by the U.S. Department of Housing and Urban Development are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

February 15, 2011

Dixon Hughes PLLC

CITY OF SHELBY, NORTH CAROLINA

Management's Discussion and Analysis

June 30, 2010

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, 2010. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

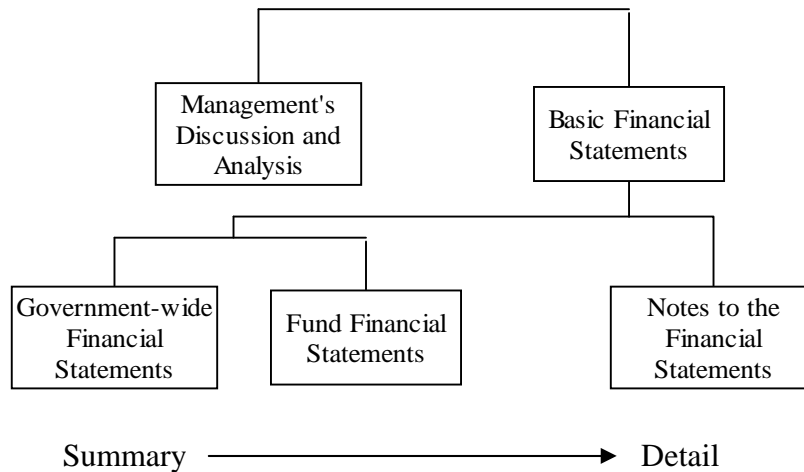
- The assets of the City of Shelby exceeded its liabilities at the close of the fiscal year by \$113,641,727 (*net assets*). Of this amount, \$29,637,251 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$4,066,944. \$762,727 was due to increases in the governmental activities net assets, and \$3,304,217 was due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the City of Shelby's governmental funds reported combined ending fund balances of \$8,317,458, a decrease of \$654,806 in comparison with the prior year. Approximately 33 percent of this total amount, or \$2,741,598, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,987,084, or 17 percent of total general fund expenditures for the fiscal year.
- In June of 2010, the City entered into a financing agreement for the purchase of equipment; the loan proceeds received amounted to \$903,163. The loan term is 59 months with annual payments beginning June 2011, with an annual interest rate of 2.36 percent. Also in June of 2010 the City issued a private placement combined enterprise system revenue bond in the amount of \$8,346,400. This money was used for improvements to the water, sewer and natural gas system. The term of the bond is 20 years with an annual interest rate of 6.20 percent. This bond was taxable and issued under the "Build America Bonds" program.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) the component unit. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal 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.

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 City of Shelby can be divided into two categories: governmental funds and proprietary funds.

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

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

The City of Shelby adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the Board 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds - 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. City of Shelby uses enterprise funds to account for its water, sewer, electric and natural gas operations, as well as its housing assistance program which the U.S. Department of Housing and Urban Development requires to be accounted for in an enterprise fund. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

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

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 postemployment benefits to its employees.

Government-Wide Financial Analysis
The City of Shelby's Net Assets
 Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 9,589,797	\$ 10,681,946	\$ 29,327,317	\$ 23,488,111	\$ 38,917,114	\$ 34,170,057
Capital assets	32,399,580	30,529,606	86,186,315	83,408,633	118,585,895	113,938,239
Total assets	<u>41,989,377</u>	<u>41,211,552</u>	<u>115,513,632</u>	<u>106,896,744</u>	<u>157,503,009</u>	<u>148,108,296</u>
Long-term liabilities outstanding	909,461	1,270,052	3,082,835	3,767,183	3,992,296	5,037,235
Other liabilities	5,594,954	5,219,265	34,274,032	28,277,013	39,868,986	33,496,278
Total liabilities	<u>6,504,415</u>	<u>6,489,317</u>	<u>37,356,867</u>	<u>32,044,196</u>	<u>43,861,282</u>	<u>38,533,513</u>
Net assets:						
Invested in capital assets, net of related debt	29,008,507	26,976,641	53,425,368	56,416,361	82,433,875	83,393,002
Restricted	1,570,601	1,464,809	-	-	1,570,601	1,464,809
Unrestricted	<u>4,905,854</u>	<u>6,280,785</u>	<u>24,731,397</u>	<u>18,436,187</u>	<u>29,637,251</u>	<u>24,716,972</u>
Total net assets	<u>\$ 35,484,962</u>	<u>\$ 34,722,235</u>	<u>\$ 78,156,765</u>	<u>\$ 74,852,548</u>	<u>\$ 113,641,727</u>	<u>\$ 109,574,783</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Shelby exceeded liabilities by \$113,641,727 as of June 30, 2010. The City's net assets increased by \$4,066,944 for the fiscal year ended June 30, 2010. However, a large portion (73%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The City of Shelby uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Shelby's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Shelby's net assets (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$29,637,251 is unrestricted.

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

- Continued diligence in the collection of ad valorem taxes by maintaining a tax collection percentage of 96.83 percent.
- The City issued a revenue bond in the amount of \$8,346,600 much of which reimbursed the City for construction cost that had already occurred.

- Continued low cost of debt due to the City's good credit rating and market conditions.

City of Shelby Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,650,495	\$ 1,618,713	\$ 41,145,180	\$ 43,880,906	\$ 42,795,675	\$ 45,499,619
Operating grants and contributions	593,214	528,076	475,828	430,498	1,069,042	958,574
Capital grants and contributions	1,819,734	2,711,955	1,424,460	2,942,504	3,244,194	5,654,459
General revenues:						
Property taxes	7,587,256	7,856,439	-	-	7,587,256	7,856,439
Other taxes	4,446,562	4,684,666	-	-	4,446,562	4,684,666
Other	434,514	467,840	224,622	440,872	659,136	908,712
Total revenues	<u>16,531,775</u>	<u>17,867,689</u>	<u>43,270,090</u>	<u>47,694,780</u>	<u>59,801,865</u>	<u>65,562,469</u>
Expenses:						
General government	2,311,739	2,403,130	-	-	2,311,739	2,403,130
Public safety	9,669,122	9,564,562	-	-	9,669,122	9,564,562
Transportation	2,531,874	2,108,454	-	-	2,531,874	2,108,454
Environmental protection	1,444,098	1,562,873	-	-	1,444,098	1,562,873
Culture and recreation	1,966,670	2,140,498	-	-	1,966,670	2,140,498
Housing and redevelopment	209,377	191,950	-	-	209,377	191,950
Interest on long-term debt	94,652	74,983	-	-	94,652	74,983
Business-type activities:						
Water	-	-	3,320,724	3,604,646	3,320,724	3,604,646
Sewer	-	-	3,406,582	3,522,314	3,406,582	3,522,314
Electric	-	-	16,998,802	15,980,363	16,998,802	15,980,363
Gas	-	-	12,806,314	16,221,691	12,806,314	16,221,691
Housing assistance	-	-	1,083,051	1,118,729	1,083,051	1,118,729
Total expenses	<u>18,227,532</u>	<u>18,046,450</u>	<u>37,615,473</u>	<u>40,447,743</u>	<u>55,843,005</u>	<u>58,494,193</u>
Increase (decrease) in net assets before transfers	(1,695,757)	(178,761)	5,654,617	7,247,037	3,958,860	7,068,276
Contributions to permanent fund:						
Principal	108,084	41,870	-	-	108,084	41,870
Transfers	<u>2,350,400</u>	<u>2,351,050</u>	<u>(2,350,400)</u>	<u>(2,351,050)</u>	<u>-</u>	<u>-</u>
Increase in net assets	762,727	2,214,159	3,304,217	4,895,987	4,066,944	7,110,146
Net assets, July 1	<u>34,722,235</u>	<u>32,508,076</u>	<u>74,852,548</u>	<u>69,956,561</u>	<u>109,574,783</u>	<u>102,464,637</u>
Net assets, June 30	<u>\$ 35,484,962</u>	<u>\$ 34,722,235</u>	<u>\$ 78,156,765</u>	<u>\$ 74,852,548</u>	<u>\$ 113,641,727</u>	<u>\$ 109,574,783</u>

Governmental activities -Governmental activities increased the City's net assets by \$762,727. Key elements of this increase are as follows:

- Most of the revenue category saw decreases in FY 2010 as the City's revenue based struggled during the year due to the slow economy. The revenue category with the largest increase was operating grants and contributions, which saw an increase of \$52,342 that was in large part due to City's agreement with Cleveland County to do the maintenance work on Sheriff Department's vehicles.
- The decrease in other taxes was related to a decrease in sales tax revenues.
- The large increase in expenditure category for transportation was related to building of the new airport terminal building.

Business-type activities - Business-type activities increased the City of Shelby's net assets by \$3,304,217. Key elements of this increase are as follows:

- All five proprietary funds have a net asset increase in FY 10. The major funds are as follows: Water Fund's net assets increased \$57,950; Sewer Fund's net assets increased \$1,543,102; Electric Fund's net assets increased \$359,572; and the Gas Fund's net assets increased \$1,114,164.
- The City's Sewer Fund received \$778,621 in capital grants from NC Clean Water Management Trust Fund in FY 2010 for its Westside Sewer Project.
- The City's Sewer Fund received \$176,000 in developer fees in FY 2010 for its Hallelujah Communities Sewer Project.
- The City's Electric Fund received \$599,500 from the North Carolina Power Agency to be used towards expanding the City's electric system.
- The City's Gas Fund received \$635,000 in revenue bond proceeds for the PPG Meter and Regulator Station Project that were not spent as of June 30, 2010.

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, unreserved fund balance 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, unreserved fund balance of the General Fund was \$2,987,084, while total fund balance reached \$8,075,474. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund

balance represents 17 percent of total General Fund expenditures, while total fund balance represents 47 percent of that same amount.

At June 30, 2010, the governmental funds of City of Shelby reported a combined fund balance of \$8,317,458, a 7 percent decrease over last year.

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. The General Fund had one large budget amendment during FY 2010. This amendment appropriated \$400,000 of fund balance that was used to match the PARTF grant received by the City's Park and Recreation Department.

Revenues were \$214,965 more than the final budget and \$613,765 more than the original budget. Expenditures were \$1,555,855 less than the final budget and \$609,471 more than the original budget.

Proprietary Funds - The City of Shelby's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets at the fiscal year-end in the Water Fund were \$3,740,288; the Sewer Fund's were \$710,405; the Electric Fund's were \$6,914,626; and the Gas Fund's were \$11,268,599. Factors concerning the finances 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 investment in capital assets for its governmental and business-type activities as of June 30, 2010, totals \$118,585,895 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Construction in progress of the Westside Water Line Improvements Project \$782,675
- Construction in progress of the Westside Elevated Tank Project \$742,641
- Construction in progress of the Westside Sewer Line Project \$1,558,671
- Construction in progress of the Fueling Station Project \$478,594
- Construction in progress of the Airport Parallel Taxiway Project \$818,813
- Construction in progress of the Airport Terminal Building Project \$1,015,822
- No major demolitions were recorded this year.

City of Shelby's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 4,982,070	\$ 4,982,070	\$ 449,199	\$ 449,199	\$ 5,431,269	\$ 5,431,269
Buildings and system	5,815,692	6,042,479	23,448,116	23,874,593	29,263,808	29,917,072
Improvements other than buildings	4,877,167	4,658,492	47,646,162	47,121,001	52,523,329	51,779,493
Machinery and equipment	1,203,912	1,424,184	1,712,523	1,956,958	2,916,435	3,381,142
Infrastructure	8,248,687	8,424,145	-	-	8,248,687	8,424,145
Vehicles and motorized equipment	1,721,770	1,920,281	501,416	305,799	2,223,186	2,226,080
Construction in progress	5,550,282	3,077,955	12,428,899	9,701,083	17,979,181	12,779,038
Total	<u>\$ 32,399,580</u>	<u>\$ 30,529,606</u>	<u>\$ 86,186,315</u>	<u>\$ 83,408,633</u>	<u>\$ 118,585,895</u>	<u>\$ 113,938,239</u>

Additional information on the City's capital assets can be found in Note 2A of the Basic Financial Statements.

Long-Term Debt - As of June 30, 2010, the City of Shelby had total bonded debt outstanding of \$29,281,485. All of this debt is secured solely by specified revenue sources (i.e. revenue bonds).

**City of Shelby's Outstanding Debt
General Obligation and Revenue Bonds**

Figure 5

	Business-type Activities	
	2010	2009
Revenue bonds	<u>\$ 9,281,485</u>	<u>\$ 22,773,113</u>

In FY 10 the City entered into a financing agreement for the purchase of rolling stock, the loan proceeds received amounted to \$903,163. The loan term is 59 months with annual payments, beginning June 2011, with an interest rate of 2.36 percent. The City issued a private placement combined enterprise system revenue bond in the amount of \$8,346,400. This money was used for improvements to the water, sewer and natural gas system. The term of the bond is 20 years with an annual interest rate of 6.20 percent. This bond was taxable and issued under the "Build America Bonds" program.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Shelby is \$134,177,810.

Additional information regarding the City of Shelby's long-term debt can be found in Note 3B of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

- The State of NC unemployment numbers changed from 11.0% in June 2009 to 10.2% in June 2010. Cleveland County's numbers changed from 15.4% in June 2009 to 13.2% in June 2010. Cleveland County's industrial base has been hard hit during the current recession.
- The City received good economic development news in June 2010 as Clearwater Paper Corporation announced a \$300,000,000 investment in a tissue manufacturing and warehouse facility just outside the city limits. Clearwater has tentatively agreed to voluntarily annex the property to take advantage of lower water and sewer rates as well as being served by a professional fully staffed fire department. Construction was expected to begin immediately with operations to begin in March 2011. Once completed the nearly 1,000,000 square foot facility would employ between 250-300 people at an average wage above what is currently found in the County. Clearwater will, once fully operational, become the City's largest water, sewer and natural gas customer. The company manufactures a variety of household tissues for private label customers throughout the United States. The Shelby facility will be there first manufacturing plant in the southeast.
- Progress continued on the development of the Foothills Commerce Center during FY 10. The City received confirmation of significant grant funding from the NC Department of Commerce for the construction of interior roads, storm drainage systems, water and wastewater infrastructure. Final engineering design and specifications were also completed. A city owned electric line extension was also completed which allow service to the entire business park. The City also received verification from the NC Department of Commerce that the Foothills Commerce Center was awarded the designation as a "Certified Business Park." Ultimately this designation lets potential industrial clients know that the City has completed the upfront due diligence on the site.
- The City also was awarded a \$1,000,000 grant from the Golden Leaf Foundation Community Assistance Initiative to be used toward the construction of a 100,000 square foot speculative shell building to be built in the Foothills Commerce Center. This building is a partnership between the City, as lead partner, Cleveland County and the Golden Leaf Foundation. Each partner having committed to \$1,000,000. Selection of a design firm is expected to occur in the late summer 2010 with construction to begin in early spring 2011.
- Engineering and design for Phase I of the City Park sports complex. Construction is expected to begin in early fall 2010. The complex will initially include three large baseball fields, walking trails, expanded parking facilities, picnic shelter and a playground. The complex is specifically designed to accommodate youth and adult baseball and softball tournaments in order to attract visitors from around the region. The complex is a small piece of the puzzle being put together by the City as it seeks to diversify the view of economic development and promote alternatives to manufacturing and traditional industry

Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental Activities - The City tax rate of 43.5 cents remained the same for FY 11. Budgeted expenditures in the General Fund are expected to decrease by about .3 percent to \$17,173,500 in FY 11.

Business-type Activities - After seeing no increases in rates in FY 10, the City's water and sewer rates were each increased 12 percent in FY 11. Electric rates were increased by 7 percent in FY 11 after seeing no increase in FY 10. 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 2011.

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, P. O. Box 207, Shelby, NC 28151.



BASIC FINANCIAL STATEMENTS

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



CITY OF SHELBY, NORTH CAROLINA

Statement of Net Assets

June 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Shelby ABC Board
Assets:				
Current assets:				
Cash and cash equivalents	\$ 5,498,689	\$ 21,483,770	\$ 26,982,459	\$ 242,002
Taxes receivables (net)	280,950	-	280,950	-
Accounts receivable (net)	423,466	4,509,726	4,933,192	-
Interest receivable	37,135	-	37,135	-
Loans receivable	90,889	-	90,889	-
Due from other governments	2,202,631	771,944	2,974,575	-
Internal balances	57,943	(57,943)	-	-
Inventories	202,588	1,612,982	1,815,570	519,383
Prepays	335,043	34,195	369,238	-
Restricted assets:				
Cash and cash equivalents	460,463	972,643	1,433,106	-
Capital assets:				
Land and construction in progress	10,532,352	12,878,098	23,410,450	182,567
Other capital assets, net of depreciation	21,867,228	73,308,217	95,175,445	191,110
Total assets	41,989,377	115,513,632	157,503,009	1,135,062
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	861,800	2,374,536	3,236,336	144,342
Accrued interest payable	8,961	180,185	189,146	-
Due to other governments	1,200	-	1,200	-
Unearned revenue	37,500	38,821	76,321	-
Customer deposits	-	489,293	489,293	-
Long-term liabilities:				
Due within one year	1,106,259	2,992,455	4,098,714	-
Due in more than one year	4,488,695	31,281,577	35,770,272	-
Total liabilities	6,504,415	37,356,867	43,861,282	144,342
Net assets:				
Invested in capital assets, net of related debt	29,008,507	53,425,368	82,433,875	373,677
Restricted for:				
Highways and streets	1,100,597	-	1,100,597	-
Contributions held in perpetuity - expendable	4,987	-	4,987	-
Contributions held in perpetuity - nonexpendable	465,017	-	465,017	-
Unrestricted	4,905,854	24,731,397	29,637,251	617,043
Total net assets	\$ 35,484,962	\$ 78,156,765	\$ 113,641,727	\$ 990,720

The notes to the financial statements are an integral part of this statement.

CITY OF SHELBY, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,311,739	\$ 4,388	\$ 4,356	\$ -
Public safety	9,669,122	265,486	475,578	112,042
Transportation	2,531,874	209,408	20,000	1,663,778
Environmental protection	1,444,098	832,945	-	-
Cultural and recreation	1,966,670	338,268	-	43,914
Housing and redevelopment	209,377	-	93,280	-
Interest on long-term debt	94,652	-	-	-
Total governmental activities	<u>18,227,532</u>	<u>1,650,495</u>	<u>593,214</u>	<u>1,819,734</u>
Business-type activities:				
Water	3,320,724	3,317,513	-	-
Sewer	3,406,582	3,982,999	-	954,621
Electric	16,998,802	17,591,313	-	242,404
Gas	12,806,314	15,676,291	-	-
Housing assistance	1,083,051	577,064	475,828	227,435
Total business-type activities	<u>37,615,473</u>	<u>41,145,180</u>	<u>475,828</u>	<u>1,424,460</u>
Total primary government	<u>\$ 55,843,005</u>	<u>\$ 42,795,675</u>	<u>\$ 1,069,042</u>	<u>\$ 3,244,194</u>
Component unit:				
ABC Board	<u>\$ 2,595,809</u>	<u>\$ 2,615,857</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Sales tax				
Franchise tax				
Other taxes				
Unrestricted investment earnings				
Miscellaneous				
Contributions to permanent fund principal				
Total general revenues not including transfers				
Transfers				
Total general revenues, contributions to permanent fund principal, and transfers				
Change in net assets				
Net assets--beginning				
Net assets--ending				

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	City of Shelby ABC Board
\$ (2,302,995)	\$ -	\$ (2,302,995)	\$ -
(8,816,016)	-	(8,816,016)	-
(638,688)	-	(638,688)	-
(611,153)	-	(611,153)	-
(1,584,488)	-	(1,584,488)	-
(116,097)	-	(116,097)	-
(94,652)	-	(94,652)	-
<u>(14,164,089)</u>	<u>-</u>	<u>(14,164,089)</u>	<u>-</u>
-	(3,211)	(3,211)	-
-	1,531,038	1,531,038	-
-	834,915	834,915	-
-	2,869,977	2,869,977	-
-	197,276	197,276	-
-	<u>5,429,995</u>	<u>5,429,995</u>	<u>-</u>
<u>(14,164,089)</u>	<u>5,429,995</u>	<u>(8,734,094)</u>	<u>-</u>
-	-	-	20,048
7,587,256	-	7,587,256	-
2,669,105	-	2,669,105	-
1,540,052	-	1,540,052	-
237,405	-	237,405	-
173,153	224,622	397,775	-
261,361	-	261,361	-
108,084	-	108,084	-
<u>12,576,416</u>	<u>224,622</u>	<u>12,801,038</u>	<u>-</u>
<u>2,350,400</u>	<u>(2,350,400)</u>	<u>-</u>	<u>-</u>
<u>14,926,816</u>	<u>(2,125,778)</u>	<u>12,801,038</u>	<u>-</u>
762,727	3,304,217	4,066,944	20,048
<u>34,722,235</u>	<u>74,852,548</u>	<u>109,574,783</u>	<u>970,672</u>
<u>\$ 35,484,962</u>	<u>\$ 78,156,765</u>	<u>\$ 113,641,727</u>	<u>\$ 990,720</u>

CITY OF SHELBY, NORTH CAROLINA

Balance Sheet Governmental Funds

June 30, 2010

	General Fund	Capital Projects	Non-Major Funds	Total Governmental Funds
Assets:				
Cash and investments	\$ 5,251,930	\$ -	\$ 246,759	\$ 5,498,689
Receivables, net:				
Taxes	279,137	-	1,813	280,950
Accounts	411,683	-	11,783	423,466
Interest	32,267	4,314	554	37,135
Loans	-	-	90,889	90,889
Due from other funds	528,074	-	-	528,074
Due from other governments	1,998,268	202,951	1,412	2,202,631
Inventories	202,588	-	-	202,588
Prepays	320,043	-	15,000	335,043
Cash and investments--restricted	-	-	460,463	460,463
	\$ 9,023,990	\$ 207,265	\$ 828,673	\$ 10,059,928
Liabilities:				
Accounts payable and accrued liabilities	\$ 669,379	\$ 190,679	\$ 1,742	\$ 861,800
Due to other funds	-	470,131	-	470,131
Due to other governments	-	1,200	-	1,200
Deferred revenue	279,137	37,500	92,702	409,339
Total liabilities	948,516	699,510	94,444	1,742,470
Fund balances (deficit):				
Reserved for:				
State statute	2,970,292	-	2,466	2,972,758
Encumbrances	548,252	-	15,000	563,252
Prepays	320,043	-	-	320,043
Inventories	202,588	-	-	202,588
Streets--Powell Bill	1,047,215	-	-	1,047,215
Contributions held in perpetuity	-	-	470,004	470,004
Unreserved, designated for subsequent year's expenditures:				
General fund	273,600	-	-	273,600
Special revenue funds	-	-	13,150	13,150
Unreserved, reported in:				
General fund	2,713,484	-	-	2,713,484
Special revenue funds	-	-	233,609	233,609
Capital project funds	-	(492,245)	-	(492,245)
Total fund balances (deficit)	8,075,474	(492,245)	734,229	8,317,458
Total liabilities and fund balances (deficit)	\$ 9,023,990	\$ 207,265	\$ 828,673	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	32,399,580
Liabilities for earned but deferred revenues in fund statements.	371,839
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Other financing agreements	(3,391,073)
Net pension obligation	(225,870)
Compensated absences	(1,020,032)
Other postemployment benefits	(957,979)
Accrued interest payable	(8,961)

Net assets of governmental activities

\$ 35,484,962

The notes to the financial statements are an integral part of this statement.

CITY OF SHELBY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)--
Governmental Funds

For the Year Ended June 30, 2010

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Ad valorem taxes	\$ 7,642,791	\$ -	\$ 112,103	\$ 7,754,894
Other taxes and licenses	2,681,605	-	-	2,681,605
Unrestricted intergovernmental	1,793,227	-	-	1,793,227
Restricted intergovernmental	1,108,291	1,227,293	2,391	2,337,975
Permits and fees	254,105	-	-	254,105
Sales and services	1,396,390	-	-	1,396,390
Investment earnings	142,420	20,435	10,298	173,153
Donations	-	-	108,084	108,084
Miscellaneous	189,061	-	-	189,061
Total revenues	<u>15,207,890</u>	<u>1,247,728</u>	<u>232,876</u>	<u>16,688,494</u>
Expenditures:				
Current:				
General government	1,973,658	130,129	27,210	2,130,997
Public safety	9,087,302	569,660	-	9,656,962
Transportation	2,043,904	2,350,110	-	4,394,014
Environmental protection	1,218,946	-	-	1,218,946
Culture and recreation	1,854,977	-	-	1,854,977
Housing and redevelopment	-	-	209,377	209,377
Debt service:				
Principal retirement	868,965	-	-	868,965
Interest and other charges	94,649	-	-	94,649
Total expenditures	<u>17,142,401</u>	<u>3,049,899</u>	<u>236,587</u>	<u>20,428,887</u>
Revenues under expenditures	<u>(1,934,511)</u>	<u>(1,802,171)</u>	<u>(3,711)</u>	<u>(3,740,393)</u>
Other financing sources (uses):				
Transfers from other funds	2,400,031	422,869	63,050	2,885,950
Transfers to other funds	(469,869)	-	(65,681)	(535,550)
Installment purchase contract	707,073	-	-	707,073
Proceeds from sale of capital assets	28,114	-	-	28,114
Total other financing sources (uses)	<u>2,665,349</u>	<u>422,869</u>	<u>(2,631)</u>	<u>3,085,587</u>
Net change in fund balances (deficit)	730,838	(1,379,302)	(6,342)	(654,806)
Fund balances--beginning	<u>7,344,636</u>	<u>887,057</u>	<u>740,571</u>	<u>8,972,264</u>
Fund balances (deficit)--ending	<u>\$ 8,075,474</u>	<u>\$ (492,245)</u>	<u>\$ 734,229</u>	<u>\$ 8,317,458</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2010

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

Net changes in fund balances--total governmental funds	\$ (654,806)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts are as follows:

Capital outlay expenditures	3,355,913
Depreciation	(1,482,180)
Book value of capital asset disposed	(3,759)

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

Change in deferred revenue	(76,749)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt:

Issuance of long-term debt	(707,073)
Repayment of principal of long-term debt	868,965

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

Change in accrued interest payable	(3)
Change in compensated absences	(22,510)
Change in net pension obligation	(37,062)
Change in other postemployment benefits	(478,009)

Total changes in net assets of governmental activities	<u>\$ 762,727</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF SHELBY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance--Budget and Actual General Fund

For the Year Ended June 30, 2010

General Fund				
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 7,478,100	\$ 7,478,100	\$ 7,642,791	\$ 164,691
Other taxes and licenses	2,646,000	2,646,000	2,681,605	35,605
Unrestricted intergovernmental	1,789,650	1,789,650	1,793,227	3,577
Restricted intergovernmental	778,000	1,151,980	1,108,291	(43,689)
Permits and fees	156,850	156,850	254,105	97,255
Sales and services	1,421,475	1,429,915	1,396,390	(33,525)
Investment earnings	155,000	155,000	142,420	(12,580)
Miscellaneous	169,050	185,430	189,061	3,631
Total revenues	14,594,125	14,992,925	15,207,890	214,965
Expenditures:				
Current:				
General government	2,130,485	2,270,278	1,973,658	296,620
Public safety	9,404,387	9,976,094	9,087,302	888,792
Transportation	2,047,250	2,303,590	2,043,904	259,686
Environmental protection	1,234,600	1,241,550	1,218,946	22,604
Culture and recreation	1,950,850	1,922,444	1,854,977	67,467
Debt service:				
Principal retirement	858,850	868,965	868,965	-
Interest and other charges	125,450	115,335	94,649	20,686
Total expenditures	17,751,872	18,698,256	17,142,401	1,555,855
Revenues under expenditures	(3,157,747)	(3,705,331)	(1,934,511)	1,770,820
Other financing sources (uses):				
Transfers from other funds	2,335,000	2,335,000	2,400,031	65,031
Transfers to other funds	(63,700)	(463,700)	(469,869)	(6,169)
Installment purchase contract	731,000	731,000	707,073	(23,927)
Proceeds from the sale of capital assets	10,000	10,000	28,114	18,114
Total other financing sources (uses)	3,012,300	2,612,300	2,665,349	53,049
Revenues and other sources over (under) expenditures and other uses	(145,447)	(1,093,031)	730,838	1,823,869
Appropriated fund balance	145,447	1,093,031	-	(1,093,031)
Net change in fund balance	\$ -	\$ -	730,838	\$ 730,838
Fund balance--beginning			7,344,636	
Fund balance--ending			\$ 8,075,474	

The notes to the financial statements are an integral part of this statement.

CITY OF SHELBY, NORTH CAROLINA

Statement of Net Assets
Proprietary Funds

June 30, 2010

	Major Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Non-major Fund	
Assets:						
Current assets:						
Cash and investments	\$ 3,037,026	\$ 1,213,790	\$ 5,452,625	\$ 9,716,388	\$ 2,063,941	\$ 21,483,770
Accounts receivable (net of estimated uncollectible accounts)	505,620	593,398	2,490,223	913,949	6,536	4,509,726
Due from other funds	-	-	-	980,000	-	980,000
Due from other governments	176,763	203,689	243,611	5,363	142,518	771,944
Inventories	255,526	77,723	927,796	351,937	-	1,612,982
Prepays	10,967	6,352	6,558	9,999	319	34,195
Total current assets	3,985,902	2,094,952	9,120,813	11,977,636	2,213,314	29,392,617
Non-current assets:						
Restricted assets:						
Cash and investments	36,950	-	199,580	736,113	-	972,643
Capital assets:						
Land	49,483	36,133	75,683	53,489	234,411	449,199
Buildings	12,099,420	15,647,986	4,158,645	475,462	7,973,734	40,355,247
Other improvements	17,039,018	17,854,683	14,425,738	21,964,940	664,131	71,948,510
Machinery and equipment	1,261,885	1,557,265	1,072,115	874,616	170,212	4,936,093
Vehicles	261,772	575,601	935,830	496,755	133,210	2,403,168
Construction in progress	4,574,486	5,320,222	2,385,744	148,447	-	12,428,899
	35,286,064	40,991,890	23,053,755	24,013,709	9,175,698	132,521,116
Less accumulated depreciation	(11,705,303)	(12,350,563)	(8,445,749)	(9,442,401)	(4,390,785)	(46,334,801)
Capital assets, net	23,580,761	28,641,327	14,608,006	14,571,308	4,784,913	86,186,315
Total non-current assets	23,617,711	28,641,327	14,807,586	15,307,421	4,784,913	87,158,958
Total assets	27,603,613	30,736,279	23,928,399	27,285,057	6,998,227	116,551,575

(continued)

CITY OF SHELBY, NORTH CAROLINA

Statement of Net Assets
Proprietary Funds

June 30, 2010

	Major Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Non-major Fund	
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 56,514	\$ 147,032	\$ 1,715,476	\$ 436,613	\$ 18,901	\$ 2,374,536
Accrued interest payable	46,976	54,438	42,413	36,358	-	180,185
Deposits	19,471	11,268	342,218	79,832	36,504	489,293
Due to other funds	390	1,036,615	399	539	-	1,037,943
Unearned revenue	-	34,180	-	-	4,641	38,821
Compensated absences	36,000	25,000	28,000	35,000	22,000	146,000
Revenue bond payable--current	694,341	330,346	378,990	579,137	-	1,982,814
Other debt, current	18,629	727,146	86,329	31,537	-	863,641
Total current liabilities	872,321	2,366,025	2,593,825	1,199,016	82,046	7,113,233
Non-current liabilities:						
Compensated absences	24,854	14,605	28,554	47,004	9,225	124,242
Other postemployment benefits	61,409	61,409	49,127	73,691	24,564	270,200
Revenue bond payable--non-current	9,349,000	6,618,728	5,771,010	5,559,933	-	27,298,671
Other debt--non-current	64,864	3,289,227	165,376	68,997	-	3,588,464
Total non-current liabilities	9,500,127	9,983,969	6,014,067	5,749,625	33,789	31,281,577
Total liabilities	10,372,448	12,349,994	8,607,892	6,948,641	115,835	38,394,810
Net assets:						
Invested in capital assets, net of related debt	13,490,877	17,675,880	8,405,881	9,067,817	4,784,913	53,425,368
Unrestricted	3,740,288	710,405	6,914,626	11,268,599	2,097,479	24,731,397
Total net assets	\$ 17,231,165	\$ 18,386,285	\$ 15,320,507	\$ 20,336,416	\$ 6,882,392	\$ 78,156,765

The notes to the financial statements are an integral part of this statement.

CITY OF SHELBY, NORTH CAROLINA

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2010

	Major Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Non-major Fund	
Operating revenues:						
Charges for services	\$ 3,196,285	\$ 3,892,527	\$ 16,679,736	\$ 15,626,402	\$ 571,544	\$ 39,966,494
Other fees	59,560	47,550	172,363	38,736	-	318,209
Other operating revenues	61,668	42,922	739,214	11,153	5,520	860,477
Total operating revenues	3,317,513	3,982,999	17,591,313	15,676,291	577,064	41,145,180
Operating expenses:						
Administration	660,094	604,661	929,944	1,170,720	351,856	3,717,275
Operations and maintenance	587,470	395,910	15,257,784	10,862,199	538,378	27,641,741
Treatment plant	1,159,909	1,258,003	-	-	-	2,417,912
Housing assistance payments	-	-	-	-	-	-
Depreciation	681,208	821,980	527,375	545,247	192,817	2,768,627
Total operating expenses	3,088,681	3,080,554	16,715,103	12,578,166	1,083,051	36,545,555
Operating income (loss)	228,832	902,445	876,210	3,098,125	(505,987)	4,599,625
Non-operating revenues (expenses):						
Operating grants	-	-	-	-	475,828	475,828
Investment earnings	46,161	27,064	59,007	60,237	32,153	224,622
Interest and fiscal charges	(232,043)	(326,028)	(283,699)	(228,148)	-	(1,069,918)
Total non-operating revenues (expenses)	(185,882)	(298,964)	(224,692)	(167,911)	507,981	(369,468)
Income (loss) before capital contributions and transfers	42,950	603,481	651,518	2,930,214	1,994	4,230,157
Capital contributions	-	954,621	242,404	-	227,435	1,424,460
Transfers from other funds	15,000	-	-	-	-	15,000
Transfers to other funds	-	(15,000)	(534,350)	(1,816,050)	-	(2,365,400)
Change in net assets	57,950	1,543,102	359,572	1,114,164	229,429	3,304,217
Net assets, beginning of year	17,173,215	16,843,183	14,960,935	19,222,252	6,652,963	74,852,548
Net assets, end of year	\$ 17,231,165	\$ 18,386,285	\$ 15,320,507	\$ 20,336,416	\$ 6,882,392	\$ 78,156,765

The notes to the financial statements are an integral part of this statement.

CITY OF SHELBY, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds

For the Year Ended June 30, 2010

	Major Funds					Totals
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Non-Major Fund	
Cash flows from operating activities:						
Cash received from customers	\$ 3,198,550	\$ 3,958,121	\$ 17,254,499	\$ 15,607,145	\$ 545,897	\$ 40,564,212
Cash paid for goods and services	(2,390,601)	(1,535,911)	(15,060,677)	(11,063,105)	(563,014)	(30,613,308)
Cash paid to or on behalf of employees	(861,118)	(880,423)	(612,009)	(928,572)	(329,275)	(3,611,397)
Net cash provided (used) by operating activities	<u>(53,169)</u>	<u>1,541,787</u>	<u>1,581,813</u>	<u>3,615,468</u>	<u>(346,392)</u>	<u>6,339,507</u>
Cash flows from non-capital financing activities:						
Proceeds from operating grants	-	-	-	-	475,828	475,828
Advances to other funds	-	-	-	2,033,621	-	2,033,621
Advances from other funds	-	(1,977,446)	-	280	-	(1,977,166)
Transfers from other funds	15,000	-	-	-	-	15,000
Transfers to other funds	-	(15,000)	(534,350)	(1,816,050)	-	(2,365,400)
Net cash provided by (used in) non-capital financing activities	<u>15,000</u>	<u>(1,992,446)</u>	<u>(534,350)</u>	<u>217,851</u>	<u>475,828</u>	<u>(1,818,117)</u>
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(1,821,120)	(2,016,733)	(1,305,457)	(175,564)	(227,435)	(5,546,309)
Proceeds from long-term debt	5,517,700	2,328,044	40,891	655,854	-	8,542,489
Principal paid on long-term debt	(753,495)	(922,505)	(444,843)	(562,972)	-	(2,683,815)
Interest paid on long-term debt	(223,401)	(324,658)	(286,316)	(227,821)	-	(1,062,196)
Proceeds from capital grants	-	2,553,549	696,085	-	86,439	3,336,073
Net cash provided (used in) capital and related financing activities	<u>2,719,684</u>	<u>1,617,697</u>	<u>(1,299,640)</u>	<u>(310,503)</u>	<u>(140,996)</u>	<u>2,586,242</u>
Cash flows from investing activities:						
Net cash flows from investments	199,756	19,884	265,039	502,070	(41,085)	945,664
Investment earnings	44,267	26,868	77,286	77,625	41,085	267,131
Net cash provided (used) by investing activities	<u>244,023</u>	<u>46,752</u>	<u>342,325</u>	<u>579,695</u>	<u>-</u>	<u>1,212,795</u>
Net change in cash and cash equivalents	<u>2,925,538</u>	<u>1,213,790</u>	<u>90,148</u>	<u>4,102,511</u>	<u>(11,560)</u>	<u>8,320,427</u>
Cash and cash equivalents--beginning	<u>111,488</u>	<u>-</u>	<u>2,309,564</u>	<u>3,646,575</u>	<u>155,428</u>	<u>6,223,055</u>
Cash and cash equivalents--ending	<u>\$ 3,037,026</u>	<u>\$ 1,213,790</u>	<u>\$ 2,399,712</u>	<u>\$ 7,749,086</u>	<u>\$ 143,868</u>	<u>\$ 14,543,482</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds, Continued

For the Year Ended June 30, 2010

	Major Funds				Non-Major Fund	Totals
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 228,832	\$ 902,445	\$ 876,210	\$ 3,098,125	\$ (505,987)	\$ 4,599,625
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	681,208	821,980	527,375	545,247	192,817	2,768,627
Bad debt allowance	28,064	30,918	108,018	78,198	-	245,198
Change in assets and liabilities:						
(Increase) decrease in receivables	(146,996)	(42,560)	(459,079)	(147,343)	(328)	(796,306)
(Increase) decrease in inventories	9,031	(5,310)	62,379	7,290	-	73,390
(Increase) decrease in prepaids	(260)	(597)	948	(2,207)	5,111	2,995
Increase (decrease) in accounts payable and accrued liabilities	(884,796)	(181,561)	425,039	(3,005)	(18,184)	(662,507)
Increase (decrease) in unearned revenue	-	(13,208)	-	-	(29,112)	(42,320)
Increase (decrease) in customer deposits	(31)	(28)	14,247	(1)	(1,727)	12,460
Increase in compensated absences	1,137	(934)	2,163	2,394	(1,239)	3,521
Increase in other postemployment benefits	30,642	30,642	24,513	36,770	12,257	134,824
Total adjustments	(282,001)	639,342	705,603	517,343	159,595	1,739,882
Net cash provided (used) by operating activities:	\$ (53,169)	\$ 1,541,787	\$ 1,581,813	\$ 3,615,468	\$ (346,392)	\$ 6,339,507
Reconciliation of cash and cash equivalents:						
Cash and investments	\$ 3,037,026	\$ 1,213,790	\$ 5,452,625	\$ 9,716,388	\$ 2,063,941	\$ 21,483,770
Restricted cash and investments	36,950	-	199,580	736,113	-	972,643
Less: investments	(36,950)	-	(3,252,493)	(2,703,415)	(1,920,073)	(7,912,931)
Cash and cash equivalents	\$ 3,037,026	\$ 1,213,790	\$ 2,399,712	\$ 7,749,086	\$ 143,868	\$ 14,543,482

The notes to the financial statements are an integral part of this statement.

CITY OF SHELBY, NORTH CAROLINA

Notes to the Financial Statements

June 30, 2010

1. **Summary of Significant Accounting Policies**

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

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

B. **Basis of Presentation**

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

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

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 non-major 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.

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

The City reports the following non-major governmental funds:

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

Powell Bill Capital Projects Fund - The Powell Bill Capital Projects Fund is used to account for the construction of Powell Bill capital assets.

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 perpetual care of the municipal cemetery.

The City reports the following major enterprise funds:

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

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

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 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 non-major enterprise fund:

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

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Cleveland County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Shelby. 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 1, 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are recognized as revenue when received and are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are

recorded as unearned revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

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

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

D. **Management Estimates**

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

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 proprietary capital projects fund. All annual appropriations lapse at fiscal year-end. Project ordinances are adopted for the capital project 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 project funds, and fund level for enterprise capital project funds. The City Manager is authorized to transfer appropriations between functional areas up to 10% of the appropriation for the department whose allocation is reduced; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is also authorized to transfer between projects that are budgeted in the same capital project fund, transferring any remaining balances from any Capital Project upon its completion to the corresponding reserve fund. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the City Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

Deposits and Investments - All deposits of the City and its component unit are made in board-designated official depositories and are secured as 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 markets accounts, and certificates of deposit.

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

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

Cash and Investments - The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, cash and investments (including restricted assets) include cash on hand, demand deposits, short

term investments with a maturity of three months or less when purchased, and long term investments with a maturity of greater than three months when purchased. Cash on hand, demand deposits and highly liquid investments with a maturity of three months or less when purchased are considered to be cash and cash equivalents.

Restricted Assets - Certain investments in the governmental and enterprise funds have been restricted and represent the unspent portion of grants and bond proceeds.

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, 2009. 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.

Allowances 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.

Inventories and Prepaids - 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 recorded as prepaids 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 estimated fair market 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 assets lives are not capitalized.

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

	<u>Useful Life</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>Useful Life</u>
Building	20 years
Office and store equipment	4-10 years
Vehicles	4 years

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

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

Employees of the ABC Board receive vacation pay based on a scale determined by the Board. Vacation is earned in one year to be taken in the following year. If it is not taken by the end of the following year, it is paid to the employee. No liability for vacation pay existed as of June 30, 2010.

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 the 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 the determination of length of service for retirement benefit purposes. Since the ABC Board has no obligations for accumulated sick leave until it is actually taken, no accrual for sick leave for the ABC Board employees has been made.

For the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

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

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S.159-13(b) (16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year proceeding the budget year.

The governmental fund type classifies fund balances as follows:

RESERVED

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriations under State law [G.S.159-8(a)]. This amount is usually comprised

of accounts receivable and interfund receivables that have not been offset by deferred revenues.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts that remain unperformed at year-end.

Reserved for prepaids - portion of fund balance that is not available for appropriation because it represents the year-end balance of prepaid items, which are not expendable available resources.

Reserved for inventories - portion of fund balance that is not available for appropriation because it represents the year-end balance of ending inventories, which are not expendable, available resources.

Reserved for streets--Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Reserved for contributions held in perpetuity - 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.

UNRESERVED

Designated for subsequent year's expenditures - portion of the general fund and non-major special revenue fund balance available for appropriation that has been designated for the adopted 2010-2011 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

G. Revenues, Expenditures, and Expenses

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

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

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

2. **Stewardship, Compliance, and Accountability**

A. **Deficit Fund Balance**

The Capital Projects Fund ended the year with a deficit balance. The deficit was caused by transfers from other funds that were not received in Fiscal Year 2010 but are expected to be received in Fiscal Year 2011.

B. **Budgetary Violations**

During the year, expenditures and transfers exceeded budget in the General Fund, Capital Projects Fund, Economic and Development Fund, Powell Bill Capital Projects Fund, Water Fund, and the Electric Fund due to year-end adjustments.

Corrective Action Plan - The budget will be reviewed on a frequent basis for all funds and budget amendments will be prepared to reflect changing budgetary needs. Accounting software capabilities will be reviewed to identify budgetary control tools that can be utilized.

3. **Detail Notes on All Funds**

A. **Assets**

Deposits - All deposits of the City and its component unit are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's or its component unit's agents in their unit's names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized

with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and its component unit, these deposits are considered to be held by the City's and the component unit's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer 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 under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City and its component unit have no policy regarding custodial credit risks for deposits.

At June 30, 2010, the City's deposits had a carrying amount of \$9,313,279 and a bank balance of \$9,946,984. The ABC Board's deposits had a carrying amount of \$234,922 and a bank balance of \$259,551.

Of the City's bank balance, \$1,500,000 was covered by federal depository insurance and \$8,446,984 was covered by collateral held under the Pooling Method.

The City had petty cash of \$4,645 at June 30, 2010 and the ABC Board had cash on hand of \$7,080.

Investments - As of June 30, 2010 the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than Six Months</u>	<u>Six Months to Five Years</u>	<u>Five to Seven Years</u>
US government agencies	\$ 6,356,539	\$ -	\$ 3,053,409	\$ 3,303,130
First National Bank CD	3,765,986	3,765,986	-	-
Shelby Savings CD	2,802,956	2,802,956	-	-
NCCMT	6,172,160	6,172,160	-	-
Total	<u>\$ 19,097,641</u>	<u>\$ 12,741,102</u>	<u>\$ 3,053,409</u>	<u>\$ 3,303,130</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, Ginnie Mae and Fannie Mae) are rated AAA by Standard & Poor's and AAA by Moody's Investors Service. The City's investment in the North Carolina Capital Management Trust cash portfolio carried a credit rating of AAAM by Standard & Poors as of June 30, 2010. 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.

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. At June 30, 2010 the City had no investments for which the securities are held by counterparty or by a trust department not in the City's name.

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

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Taxes receivable	\$ 184,000	\$ -	\$ 184,000
Pledges receivable	1,900	-	1,900
Customers	26,001	582,147	608,148
	<u>\$ 211,901</u>	<u>\$ 582,147</u>	<u>\$ 794,048</u>

Capital Assets - Capital asset activity for the year ended June 30, 2010, was as follows:

<u>Primary Government</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 4,982,070	\$ -	\$ -	\$ -	\$ 4,982,070
Construction in progress	3,077,955	2,848,929	-	(376,602)	5,550,282
Total capital assets not being depreciated	8,060,025	2,848,929	-	(376,602)	10,532,352
Capital assets being depreciated:					
Buildings	10,690,225	28,796	-	-	10,719,021
Improvements other than buildings	5,778,214	-	-	376,602	6,154,816
Machinery and equipment	4,780,408	137,028	-	-	4,917,436
Vehicles	6,978,312	341,160	204,697	-	7,114,775
Infrastructure	11,484,875	-	-	-	11,484,875
Total capital assets being depreciated	39,712,034	506,984	204,697	376,602	40,390,923
Less accumulated depreciation for:					
Buildings	4,647,746	255,583	-	-	4,903,329
Improvements other than buildings	1,119,722	157,927	-	-	1,277,649
Machinery and equipment	3,356,224	357,300	-	-	3,713,524
Vehicles	5,058,031	535,912	200,938	-	5,393,005
Infrastructure	3,060,730	175,458	-	-	3,236,188
Total accumulated depreciation	17,242,453	1,482,180	200,938	-	18,523,695
Total capital assets being depreciated, net	22,469,581	(975,196)	3,759	376,602	21,867,228
Governmental activities capital assets, net	\$ 30,529,606	\$ 1,823,733	\$ 3,759	\$ -	\$ 32,399,580
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 449,199	\$ -	\$ -	\$ -	\$ 449,199
Construction in progress	9,701,083	4,005,162	(481)	(1,276,865)	12,428,899
Total capital assets not being depreciated	10,150,282	4,005,162	(481)	(1,276,865)	12,878,098
Capital assets being depreciated:					
Buildings and system	40,131,616	382,082	-	-	40,513,698
Improvements other than buildings	69,805,794	770,925	-	1,213,340	71,790,059
Machinery and equipment	4,861,586	10,982	-	63,525	4,936,093
Vehicles	2,108,290	377,639	(82,761)	-	2,403,168
Total capital assets being depreciated	116,907,286	1,541,628	(82,761)	1,276,865	119,643,018
Less accumulated depreciation for:					
Buildings and system	16,257,023	808,559	-	-	17,065,582
Improvements other than buildings	22,684,793	1,459,104	-	-	24,143,897
Machinery and equipment	2,904,628	318,942	-	-	3,223,570
Vehicles	1,802,491	182,022	(82,761)	-	1,901,752
Total accumulated depreciation	43,648,935	2,768,627	(82,761)	-	46,334,801
Total capital assets being depreciated, net	73,258,351	(1,226,999)	-	1,276,865	73,308,217
Business-type activities capital assets, net	\$ 83,408,633	\$ 2,778,163	\$ (481)	\$ -	\$ 86,186,315

The following capital asset activity summary for the City's Electric Fund for the year ended June 30, 2010, is presented as additional information for reporting purposes by the State of North Carolina:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Capital assets not being depreciated:					
Land	\$ 75,683	\$ -	\$ -	\$ -	\$ 75,683
Construction in progress	2,461,201	554,635	(481)	(629,611)	2,385,744
Total capital assets not being depreciated	<u>2,536,884</u>	<u>554,635</u>	<u>(481)</u>	<u>(629,611)</u>	<u>2,461,427</u>
Capital assets being depreciated:					
Buildings and system	4,158,645	-	-	-	4,158,645
Improvements other than buildings	13,341,993	517,659	-	566,086	14,425,738
Machinery and equipment	997,608	10,982	-	63,525	1,072,115
Vehicles	713,168	222,662	-	-	935,830
Total capital assets being depreciated	<u>19,211,414</u>	<u>751,303</u>	<u>-</u>	<u>629,611</u>	<u>20,592,328</u>
Less accumulated depreciation for:					
Buildings and system	1,452,410	97,046	-	-	1,549,456
Improvements other than buildings	5,281,727	270,915	-	-	5,552,642
Machinery and equipment	590,674	69,494	-	-	660,168
Vehicles	593,563	89,920	-	-	683,483
Total accumulated depreciation	<u>7,918,374</u>	<u>527,375</u>	<u>-</u>	<u>-</u>	<u>8,445,749</u>
Total capital assets being depreciated, net	<u>11,293,040</u>	<u>223,928</u>	<u>-</u>	<u>629,611</u>	<u>12,146,579</u>
Business-type activities capital assets, net	<u>\$ 13,829,924</u>	<u>\$ 778,563</u>	<u>\$ (481)</u>	<u>\$ -</u>	<u>\$ 14,608,006</u>

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

Governmental activities:	
General government	\$ 179,721
Public safety	414,284
Transportation	469,806
Environmental protection	204,253
Culture and recreation	214,116
Total depreciation expense--governmental activities	<u>\$ 1,482,180</u>
Business-type activities:	
Water	\$ 681,208
Sewer	821,980
Electric	527,375
Gas	545,247
Housing assistance	192,817
Total depreciation expense--business-type activities	<u>\$ 2,768,627</u>

Construction Commitments - The City has active construction projects as of June 30, 2010. At year-end, the City of Shelby's commitments with contractors are as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Eastside Water Tank	\$ 131,820
Westside Line Improvement	102,935
Westside Sewer	228,942
PPG Meter Station Upgrade	7,683
Fueling Station	1,139
Airport 8.1	12,284
Airport Parallel Taxiway	3,338
Airport Terminal Building	314,612
Communication Upgrade	23,306
Park Enhancements	16,671
Water & Sewer Asset Management Plan	21,300
Shelby Middle School Sewer Project	24,500
Foothills Commerce Center	97,821
Electric Line Extension to Foothill	48,273
	<hr/>
Total	\$ 1,034,624
	<hr/>

Activity for the ABC Board for the year ended June 30, 2010 was as follows:

<u>Component Unit</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 182,567	\$ -	\$ -	\$ 182,567
Capital assets being depreciated:				
Buildings	677,115	6,524	-	683,639
Office and store equipment	294,352	52,348	(47,113)	299,587
Vehicle	35,000	24,250	(26,928)	32,322
Total capital assets being depreciated	<hr/> 1,006,467	<hr/> 83,122	<hr/> (74,041)	<hr/> 1,015,548
Less accumulated depreciation for:				
Buildings	(561,494)	(17,218)	-	(578,712)
Office and store equipment	(218,583)	(18,668)	-	(237,251)
Vehicle	(35,000)	(403)	26,928	(8,475)
Total accumulated depreciation	<hr/> (815,077)	<hr/> (36,289)	<hr/> 26,928	<hr/> (824,438)
Total ABC capital assets being depreciated	<hr/> 191,390	<hr/> 46,833	<hr/> (47,113)	<hr/> 191,110
ABC capital assets, net	<hr/> \$ 373,957	<hr/> \$ 46,833	<hr/> \$ (47,113)	<hr/> \$ 373,677

B. Liabilities and Net Assets

Accounts Payable and Accrued Liabilities - Accounts payable and accrued liabilities at the fund and government-wide level at June 30, 2010, were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 317,635	\$ 432,920
Accrued gas and electric purchases	-	1,769,006
Accrued payroll liabilities	<u>544,165</u>	<u>172,610</u>
 Total accounts payable and accrued liabilities	 <u>\$ 861,800</u>	 <u>\$ 2,374,536</u>

Long-Term Obligations

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, 2010, are as follows:

	<u>Interest Rates</u>	<u>Date Series Matures</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2010</u>
Combined Enterprise System, Series 2004	3.00 - 5.00	5/2029	\$ 18,465,000	\$ 13,280,000
Combined Enterprise System, Series 2005	3.29	5/2017	6,605,000	4,075,000
Combined Enterprise System, Series 2008	3.69	5/2028	3,835,500	3,580,085
Combined Enterprise System, Series 2010	4.03	5/2025	8,346,400	<u>8,346,400</u>
				<u>\$ 29,281,485</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Business-type Activities	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 1,982,814	\$ 1,119,772
2012	1,850,025	1,093,274
2013	1,918,122	1,028,687
2014	1,982,139	960,768
2015	2,057,114	889,586
2016-2020	8,146,487	3,347,142
2021-2025	7,538,429	1,806,125
2026-2029	3,806,355	409,173
Total	<u>\$ 29,281,485</u>	<u>\$ 10,654,527</u>

The City has pledged future water, sewer, electric and gas customer revenues, net of specified operating expenses, to repay \$37,251,400 revenue bonds issued in 2004, 2005, 2008 and 2010. Proceeds from the bonds provided financing for various capital improvements. The bonds are payable solely from water, sewer, electric and gas customer net revenues and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$39,936,011. Principal and interest paid for the current year and total customer net revenues were \$2,748,106 and \$40,568,116, 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, 2010, is as follows:

Operating revenues	\$ 40,568,116
Operating expenses*	<u>32,886,694</u>
Income available for debt service	<u>\$ 7,681,422</u>
Debt service, principal and interest paid (Revenue Bond only)	<u>\$ 2,748,106</u>
Debt service coverage ratio	280%

*Per rate covenants, this does not include the depreciation expense of \$2,575,810.

Other Debt - In June 2010, the City entered into a financing agreement for the acquisition of several pieces of equipment in the amount of \$903,162. The terms call for five annual payments through May 2015 at an interest rate of 2.36%.

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, 2010 are summarized as follows:

<u>Financing Agreements:</u>	<u>Interest Rate</u>	<u>Date Debt Matures</u>	<u>Amount of Original Debt</u>	<u>Balance Outstanding at June 30, 2010</u>	
				<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Fire house construction	5.27%	11/2014	\$ 835,000	\$ 250,500	\$ -
Sewer extension	5.56%	03/2015	300,000	-	100,000
State revolving loan	2.89%	05/2015	11,800,000	-	3,512,216
Park and recreation improvements	3.24%	04/2015	1,352,345	676,173	-
Purchase of equipment	3.78%	05/2011	696,655	109,761	40,472
Purchase of equipment	4.01%	06/2012	283,577	73,083	47,076
Purchase of equipment	3.25%	05/2013	720,945	152,198	294,261
Purchase of equipment	3.20%	06/2014	688,496	297,285	261,991
Capital projects	3.64%	06/2019	1,250,000	1,125,000	-
Purchase of equipment	2.36%	05/2015	903,162	707,073	196,089
				<u>\$ 3,391,073</u>	<u>\$ 4,452,105</u>

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

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 716,259	\$ 114,016	\$ 863,641	\$ 132,176
2012	614,980	91,460	830,057	105,967
2013	585,087	72,503	812,445	80,705
2014	538,392	46,902	714,101	56,686
2015	436,355	28,879	646,493	34,320
2016-2019	500,000	28,438	585,368	16,917
Total	<u>\$ 3,391,073</u>	<u>\$ 382,198</u>	<u>\$ 4,452,105</u>	<u>\$ 426,771</u>

Changes in Long-Term Liabilities - Long-term liability activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Governmental activities:					
Other debt	\$ 3,552,965	\$ 707,073	\$ 868,965	\$ 3,391,073	\$ 716,259
Net pension obligations	188,808	112,327	75,265	225,870	-
Compensated absences	997,522	527,401	504,891	1,020,032	390,000
Other postemployment benefits	479,970	810,884	332,875	957,979	-
Governmental activity long-term liabilities	<u>\$ 5,219,265</u>	<u>\$ 2,157,685</u>	<u>\$ 1,781,996</u>	<u>\$ 5,394,954</u>	<u>\$ 1,106,259</u>
Business-type activities:					
Revenue bonds	\$ 22,773,113	\$ 8,346,400	\$ 1,838,028	\$ 29,281,485	\$ 1,982,814
Other debt	5,101,803	196,089	845,787	4,452,105	863,641
Compensated absences	266,721	143,683	140,162	270,242	146,000
Other postemployment benefits	135,376	228,711	93,887	270,200	-
Business-type activity long-term liabilities	<u>\$ 28,277,013</u>	<u>\$ 8,914,883</u>	<u>\$ 2,917,864</u>	<u>\$ 34,274,032</u>	<u>\$ 2,992,455</u>

At June 30, 2010, the City of Shelby has a legal debt margin of \$134,177,810.

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

	<u>Governmental Funds</u>	<u>Accrual Adjustment</u>	<u>Government- Wide</u>	<u>Business-type Activities</u>
Taxes receivable	\$ 280,950	\$ (280,950)	\$ -	\$ -
Loans	90,889	(90,889)	-	-
Special assessment	-	-	-	34,180
Grants	37,500	-	37,500	4,641
Total	<u>\$ 409,339</u>	<u>\$ (371,839)</u>	<u>\$ 37,500</u>	<u>\$ 38,821</u>

Net Assets - Net assets invested in capital assets net of related debt is comprised of the following:

Governmental activities:	
Capital assets, net of accumulated depreciation	\$ 32,399,580
Outstanding balance on related debt	<u>(3,391,073)</u>
Total governmental activities	<u>\$ 29,008,507</u>
Business-type activities:	
Capital assets, net of accumulated depreciation	\$ 23,580,761
Outstanding balance on related debt	(10,126,834)
Unspent debt proceeds	<u>36,950</u>
Total water	<u>\$ 13,490,877</u>
Capital assets, net of accumulated depreciation	\$ 28,641,327
Outstanding balance on related debt	<u>(10,965,447)</u>
Total sewer	<u>\$ 17,675,880</u>
Capital assets, net of accumulated depreciation	\$ 14,608,006
Outstanding balance on related debt	(6,401,705)
Unspent debt proceeds	<u>199,580</u>
Total electric	<u>\$ 8,405,881</u>
Capital assets, net of accumulated depreciation	\$ 14,571,308
Outstanding balance on related debt	(6,239,604)
Unspent debt proceeds	<u>736,113</u>
Total gas	<u>\$ 9,067,817</u>
Capital assets, net of accumulated depreciation	<u>\$ 4,784,913</u>
Total housing assistance	<u>\$ 4,784,913</u>

4. Pension Plan and Postemployment Obligations**A. Local Governmental Employees' Retirement System**

Plan Description - The City of Shelby and the ABC Board contribute to the statewide 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 Local Governmental Employees' Retirement System 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 calling (919) 981-5454.

Funding Policy - Plan members are required to contribute six percent 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 4.90% and 4.86%, 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 of Shelby 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, 2010, 2009, and 2008 were \$564,661, \$570,180 and \$541,914, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2010, 2009, and 2008 were \$33,330, \$32,874 and \$32,736, respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

B. Law Enforcement Officers' Special Separation Allowance

Plan Description - The City of Shelby 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 .85 percent 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.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2009, the Separation Allowance's membership consisted of:

Retirees receiving benefits and terminated plan members entitled to but not yet receiving benefits	7
Active plan members	<u>73</u>
Total	<u>80</u>

Summary of Significant Accounting Policies

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

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

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

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

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	\$ 110,532
Interest on net pension obligation	13,689
Adjustment to annual required contribution	<u>(11,894)</u>
Annual pension cost	112,327
Contributions made	<u>75,265</u>
Increase in net pension obligation	37,062
Net pension obligation beginning of year	<u>188,808</u>
 Net pension obligation end of year	 <u>\$ 225,870</u>

3 Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	\$ 100,860	75.09%	\$ 157,630
6/30/09	\$ 99,649	68.71%	\$ 188,808
6/30/10	\$ 112,327	67.01%	\$ 225,870

Funded Status and Funding Progress - As of December 31, 2009, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$1,186,468. The covered payroll (annual payroll of active employees covered by the plan) was \$2,994,601, and the ratio of the UAAL to the covered payroll was 39.62 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

C. **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 Controller, 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 five percent 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, 2010 were \$723,222, which consisted of \$572,629 from the City and \$150,593 from the covered employees.

D. **Firemen's and Rescue Squad Workers' Pension Fund**

Plan Description - The State of North Carolina contributes, on behalf of the City of Shelby, 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 that have elected to become members of the Fund. Article 86 of G.S. 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing 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.

E. **Other Postemployment 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 postemployment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty-two years of creditable service with the City. The City pays the full cost of

coverage for these benefits through private insurers. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

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

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

The City has 38 retirees receiving benefits.

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

The current ARC rate is 7.92% of annual covered payroll. For the current year, the City contributed \$426,762 or 3.74% 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 - Postemployment 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.

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

Annual required contribution	\$ 1,036,216
Interest on net OPEB obligation	24,614
Adjustment to annual required contribution	<u>(21,235)</u>
Annual OPEB cost (expense)	1,039,595
Contributions made	<u>(426,762)</u>
Increase in net OPEB obligation	612,833
Net OPEB obligation, beginning of year	<u>615,346</u>
 Net OPEB obligation, end of year	 <u>\$ 1,228,179</u>

The City's net OPEB obligation is comprised of \$957,980 and \$270,199 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 2010 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009	\$ 1,036,216	40.6%	\$ 615,346
June 30, 2010	\$ 1,039,595	41.1%	\$ 1,228,179

Funded Status and Funding Progress - As of December 31, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$10,875,002. The covered payroll (annual payroll of active employees covered by the plan) was \$11,399,035, and the ratio of the UAAL to the covered payroll was 95.4 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

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

All death benefit payments are made from the Death Benefit Plan. The ABC Board has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the ABC Board, the ABC Board does not determine the number of eligible participants. For the year ended June 30, 2010, the ABC Board made contributions to the State for death benefits of \$808. The ABC Board's required contributions for employees represented 0.12% of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

F. 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 postemployment benefit amount and the other benefit amount. The City considers these contributions to be immaterial.

G. On Behalf of Payments for fringe Benefits and Salaries

For the year ended June 30, 2010, the City of Shelby has recognized on-behalf of payments for pension contributions made by the State as a revenue and an expenditure of \$14,268 for the 27 full-time firemen who perform fire-fighting duties for the City's fire department. The employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Also, the City has recognized as a revenue and an expenditure on-behalf of payments for fringe benefits and salaries of \$28,800 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, 2010. 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.

4. 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 \$100,000 workers' compensation for the fiscal year 2010 policy period.

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

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

City of Shelby 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 surety 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-803, the ABC Board's employees that have access to \$250 or more at any given time of the Board's funds are performance bonded through a commercial surety bond. All employees including store managers are bonded for \$25,000. Board members are each individually bonded for \$5,000.

5. **Claims, Judgments and Contingent Liabilities**

At June 30, 2010, 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.

6. **Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2010, 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	390
General Fund	Sewer Fund	56,615
General Fund	Electric Fund	399
General Fund	Gas Fund	539
Gas Fund	Sewer Fund loan	980,000

Amounts due to the general and gas funds from the non-major 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, 2010, was \$980,000.

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 534,350
General Fund	Gas Fund	1,800,000
Capital Projects Fund	General Fund	422,869
Economic Development Fund	General Fund	47,000
Water Capital Projects Fund	Sewer Fund	15,000
Economic Development Fund	Gas Fund	16,050

The transfers from the gas and electric funds are made in accordance with the City's transfer policy to provide the City a return on its investment. The transfers to the non-major governmental funds are for economic development purposes.

7. 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, 2010, were \$13,170.

The City is a member of the Isothermal Planning & 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 \$5,842 to the Commission during the year ended June 30, 2010.

8. Joint Ventures

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these monies to the local board of the Firemen's Relief Fund. These funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of 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, 2010, the City reported revenues and expenditures for the payments of \$14,268 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, 2010. 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 Post Office Box 188, Farmville, NC, 27828.

REQUIRED SUPPLEMENTARY INFORMATION

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

- Analysis of funding progress for Law Enforcement Officers' Special Separation allowance.
 - Schedule of employer required contributions for 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 Postemployment Benefits.
 - Schedule of Employer Contributions for the Other Postemployment Benefits.
 - Notes to the Required Schedules for the Other Postemployment Benefits.
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CITY OF SHELBY, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/00	\$ -	\$ 789,500	\$ 789,500	0.0%	\$ 1,849,163	42.69%
12/31/01	-	867,099	867,099	0.0%	1,994,481	43.47%
12/31/02	-	1,000,295	1,000,295	0.0%	1,944,970	51.43%
12/31/03	-	928,646	928,646	0.0%	1,986,121	46.76%
12/31/04	-	1,019,876	1,019,876	0.0%	2,287,709	44.58%
12/31/05	-	930,412	930,412	0.0%	2,280,754	40.79%
12/31/06	-	936,342	936,342	0.0%	2,685,432	34.87%
12/31/07	-	864,994	864,994	0.0%	2,775,946	31.16%
12/31/08	-	941,730	941,730	0.0%	3,133,929	30.05%
12/31/09	-	1,186,468	1,186,468	0.0%	2,994,601	39.62%

CITY OF SHELBY, NORTH CAROLINA

Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Employer Contributions

Year Ended June 30	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2000	\$ 70,838	83.74%
2001	68,543	78.45%
2002	80,235	79.78%
2003	88,760	103.42%
2004	94,929	102.65%
2005	91,821	118.60%
2006	104,763	96.73%
2007	94,582	86.38%
2008	100,860	75.09%
2009	99,649	68.71%
2010	112,327	67.01%

Notes to the required schedules:

This information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/09
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	21 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increases	4.5% to 12.3%
Includes inflation at	3.75%
Cost-of-living adjustments	None

CITY OF SHELBY, NORTH CAROLINA

Other Postemployment Benefits
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/08	\$ -	\$ 12,186,718	\$ 12,186,718	0.0%	\$ 12,197,685	99.99%
12/31/09	-	10,875,002	10,875,002	0.0%	11,399,038	95.40%

CITY OF SHELBY, NORTH CAROLINA

Other Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 1,036,216	40.6%
2010	1,039,595	41.1%

Notes to the required schedules:

This information presented in the required supplementary schedules was determined as part of the actuarial valuations as follows:

Valuation date	12/31/09
Actuarial cost method	Projected unit credit
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	10.5% to 5.00%
Includes inflation at	3.75%
Cost-of-living adjustments	None

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

Schedule of Revenues, Expenditures and Changes in Fund Balance--Budget and Actual
General Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Current year	\$ 7,223,100	\$ 7,287,981	\$ 64,881
Prior years	230,000	310,551	80,551
Tax discounts	(20,000)	(14,420)	5,580
Interest and penalties	45,000	58,679	13,679
Total	<u>7,478,100</u>	<u>7,642,791</u>	<u>164,691</u>
Other taxes and licenses:			
Local option sales taxes	2,642,000	2,669,105	27,105
Privilege licenses	4,000	12,500	8,500
Total	<u>2,646,000</u>	<u>2,681,605</u>	<u>35,605</u>
Unrestricted intergovernmental revenues:			
Payment in lieu of taxes	56,100	58,794	2,694
Utility franchise tax	1,473,550	1,540,052	66,502
Beer and wine tax	95,000	31,178	(63,822)
ABC revenue	60,000	44,186	(15,814)
Wireless 911 grant	105,000	119,017	14,017
Total	<u>1,789,650</u>	<u>1,793,227</u>	<u>3,577</u>
Restricted intergovernmental revenues:			
Powell Bill allocation	568,700	592,441	23,741
Local occupancy tax	80,000	110,685	30,685
Federal and State grants	470,280	373,841	(96,439)
ABC Law Enforcement revenue	9,000	7,076	(1,924)
Rental vehicle gross receivable tax	24,000	24,248	248
Total	<u>1,151,980</u>	<u>1,108,291</u>	<u>(43,689)</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance--Budget and Actual
General Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues, continued:			
Permits and fees:			
Building permits/inspection fees	\$ 131,250	\$ 212,424	\$ 81,174
Other permits	25,100	37,293	12,193
Filing fees	500	4,388	3,888
Total	<u>156,850</u>	<u>254,105</u>	<u>97,255</u>
Sales and services:			
Parking penalties	-	30	30
Court costs and fees	12,000	13,606	1,606
Fire protection	500	-	(500)
Cemetery revenue	12,850	22,830	9,980
Golf cart rentals	74,000	73,874	(126)
Recreation revenue	296,765	264,394	(32,371)
Garbage disposal fees	600,000	589,315	(10,685)
Utility late fees	200,000	220,800	20,800
Airport fuel sales	217,400	196,173	(21,227)
Other rent	16,400	15,368	(1,032)
Total	<u>1,429,915</u>	<u>1,396,390</u>	<u>(33,525)</u>
Investment earnings	<u>155,000</u>	<u>142,420</u>	<u>(12,580)</u>
Miscellaneous:			
Student resource officer	114,000	114,000	-
Public nuisance	40,000	51,364	11,364
Donations	9,380	9,380	-
Other	22,050	14,317	(7,733)
Total	<u>185,430</u>	<u>189,061</u>	<u>3,631</u>
Total revenue	<u>14,992,925</u>	<u>15,207,890</u>	<u>214,965</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance--Budget and Actual
General Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General government:			
Mayor and council	\$ 45,450	\$ 35,682	\$ 9,768
Administration and general	219,273	216,176	3,097
Finance	315,023	295,853	19,170
Purchasing	29,821	21,723	8,098
Legal	12,400	12,335	65
Human resources	260,833	242,386	18,447
City Hall	108,450	102,731	5,719
Building and zoning	315,200	273,646	41,554
Community development	420,463	335,507	84,956
Special appropriations	543,365	437,619	105,746
Total general government	<u>2,270,278</u>	<u>1,973,658</u>	<u>296,620</u>
Public safety:			
Police department	6,209,779	5,893,947	315,832
Fire department	3,766,315	3,193,355	572,960
Total public safety	<u>9,976,094</u>	<u>9,087,302</u>	<u>888,792</u>
Transportation:			
Streets and highways	725,100	708,602	16,498
Street maintenance and repairs--Powell Bill	229,500	198,951	30,549
Street construction and improvement-- Powell Bill	541,278	424,995	116,283
Garage	452,226	438,179	14,047
Airport	355,486	273,177	82,309
Total transportation	<u>2,303,590</u>	<u>2,043,904</u>	<u>259,686</u>
Environmental protection:			
Sanitation	1,241,550	1,218,946	22,604
Culture and recreation:			
Parks and recreation	1,922,444	1,854,977	67,467

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance--Budget and Actual
General Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Expenditures, continued:			
Debt service:			
Principal retirement	\$ 868,965	\$ 868,965	\$ -
Interest	115,335	94,649	20,686
Total debt service	<u>984,300</u>	<u>963,614</u>	<u>20,686</u>
Total expenditures	<u>18,698,256</u>	<u>17,142,401</u>	<u>1,555,855</u>
Revenues under expenditures	<u>(3,705,331)</u>	<u>(1,934,511)</u>	<u>1,770,820</u>
Other financing sources (uses):			
Transfers from other funds	2,335,000	2,400,031	65,031
Transfers to other funds	(463,700)	(469,869)	(6,169)
Installment purchase contract	731,000	707,073	(23,927)
Proceeds from the sale of capital assets	10,000	28,114	18,114
Total other financing sources (uses)	<u>2,612,300</u>	<u>2,665,349</u>	<u>53,049</u>
Revenues and other financing sources over (under) expenditures and other financial uses	(1,093,031)	730,838	1,823,869
Appropriated fund balance	<u>1,093,031</u>	<u>-</u>	<u>(1,093,031)</u>
Net change in fund balance	<u>\$ -</u>	<u>730,838</u>	<u>\$ 730,838</u>
Fund balance:			
Beginning of year, July 1		<u>7,344,636</u>	
End of year, June 30		<u>\$ 8,075,474</u>	

See the accompanying Independent Auditors' Report.

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for the acquisition or construction of various City assets.



CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance (Deficit)--Budget and Actual
Capital Projects Fund

From Inception and for the Year Ended June 30, 2010

	<u>Actual</u>			Variance Positive (Negative)	
	Project Authorization	Prior Years	Current Actual		Total to Date
Revenues:					
Airport improvements grants	\$ 3,426,144	\$ 1,849,995	\$ 1,056,881	\$ 2,906,876	\$ (519,268)
Weed and seed grant	375,000	424,896	73,042	497,938	122,938
Fit community program	56,000	29,711	-	29,711	(26,289)
Destination Cleveland County	145,000	144,695	-	144,695	(305)
Safe Routes to Schools	50,000	7,831	14,456	22,287	(27,713)
Fueling Station	200,000	200,000	-	200,000	-
Urgent Repairs Program	75,000	-	-	-	(75,000)
Park Enhancement Project	500,000	-	43,914	43,914	(456,086)
Ballistic Recovery System	39,000	-	39,000	39,000	-
Investment earnings	-	1,309	20,435	21,744	21,744
Total revenues	<u>4,866,144</u>	<u>2,658,437</u>	<u>1,247,728</u>	<u>3,906,165</u>	<u>(959,979)</u>
Expenditures:					
Airport improvements	4,305,539	1,898,236	1,865,674	3,763,910	541,629
Weed and seed grant	403,950	400,368	119,670	520,038	(116,088)
Fit community program	56,000	29,711	11	29,722	26,278
Destination Cleveland County	261,000	260,566	42,289	302,855	(41,855)
Communication upgrade	1,160,000	752,873	410,990	1,163,863	(3,863)
Safe Routes to Schools	50,000	16,897	5,842	22,739	27,261
Fueling Station	450,000	7,913	478,594	486,507	(36,507)
Urgent Repairs Program	75,000	-	-	-	75,000
Park Enhancement Project	1,306,231	-	87,829	87,829	1,218,402
Ballistic Recovery System	39,000	-	39,000	39,000	-
Total expenditures	<u>8,106,720</u>	<u>3,366,564</u>	<u>3,049,899</u>	<u>6,416,463</u>	<u>1,690,257</u>
Revenues over expenditures	(3,240,576)	(708,127)	(1,802,171)	(2,510,298)	730,278
Other financing sources:					
Transfers from other funds	1,830,576	345,184	422,869	768,053	(1,062,523)
Installment purchase contract	1,410,000	1,250,000	-	1,250,000	(160,000)
Total other financing sources	<u>3,240,576</u>	<u>1,595,184</u>	<u>422,869</u>	<u>2,018,053</u>	<u>(1,222,523)</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ 887,057</u>	(1,379,302)	<u>\$ (492,245)</u>	<u>\$ (492,245)</u>
Fund balance (deficit)					
Beginning of year, July 1			<u>887,057</u>		
End of year, June 30			<u>\$ (492,245)</u>		

See the accompanying Independent Auditors' Report.



NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENTS AND SCHEDULES

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

Special Revenue Fund

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

Capital Projects Fund

- **Powell Bill Capital Projects Fund** - This fund is used to account for the construction of Powell Bill capital assets.

Permanent Funds

- **Raper Roark Trust Fund** - This fund is used to account for contributed assets where the principal contributions must be held intact and the income earned by the principal will be used for the 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

Combining Balance Sheet
Non-major Governmental Funds

June 30, 2010

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>		<u>Total Non-major Governmental Funds</u>
	<u>Economic Development Commission Fund</u>	<u>Powell Bill Capital Projects Fund</u>	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	
<u>Assets</u>					
Assets:					
Cash and investments	\$ 246,759	\$ -	\$ -	\$ -	\$ 246,759
Receivables (net of allowance for uncollectibles):					
Taxes	1,813	-	-	-	1,813
Accounts	500	-	11,283	-	11,783
Interest	554	-	-	-	554
Loans	90,889	-	-	-	90,889
Due from other governments	1,412	-	-	-	1,412
Prepays	15,000	-	-	-	15,000
Cash and investments--restricted	-	-	317,172	143,291	460,463
Total assets	\$ 356,927	\$ -	\$ 328,455	\$ 143,291	\$ 828,673
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 1,742	\$ -	\$ 1,742
Deferred revenue	92,702	-	-	-	92,702
Total liabilities	92,702	-	1,742	-	94,444
Fund balances:					
Reserved by State statute	2,466	-	-	-	2,466
Reserved for prepaids	15,000	-	-	-	15,000
Reserved for contributions held in perpetuity	-	-	326,713	143,291	470,004
Unreserved, designated for subsequent year's budget	13,150	-	-	-	13,150
Unreserved	233,609	-	-	-	233,609
Total fund balances	264,225	-	326,713	143,291	734,229
Total liabilities and fund balances	\$ 356,927	\$ -	\$ 328,455	\$ 143,291	\$ 828,673

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-major Governmental Funds

For the Year Ending June 30, 2010

	Special Revenue	Capital Projects	Permanent		Total Non-major Governmental Funds
	Economic Development Commission Fund	Powell Bill Capital Projects Fund	Raper Roark Trust Fund	Cemetery Fund	
Revenues:					
Ad valorem taxes	\$ 112,103	\$ -	\$ -	\$ -	\$ 112,103
Restricted intergovernmental	2,391	-	-	-	2,391
Investment earnings	2,156	-	8,142	-	10,298
Donations	-	-	58,334	49,750	108,084
Total revenues	<u>116,650</u>	<u>-</u>	<u>66,476</u>	<u>49,750</u>	<u>232,876</u>
Expenditures:					
General government	-	-	27,210	-	27,210
Housing and redevelopment	209,377	-	-	-	209,377
Total expenditures	<u>209,377</u>	<u>-</u>	<u>27,210</u>	<u>-</u>	<u>236,587</u>
Excess of revenues over (under) expenditures	<u>(92,727)</u>	<u>-</u>	<u>39,266</u>	<u>49,750</u>	<u>(3,711)</u>
Other financing sources:					
Transfers from other funds	63,050	-	-	-	63,050
Transfers to other funds	-	(65,681)	-	-	(65,681)
Total other financing sources	<u>63,050</u>	<u>(65,681)</u>	<u>-</u>	<u>-</u>	<u>(2,631)</u>
Net change in fund balances	(29,677)	(65,681)	39,266	49,750	(6,342)
Fund balances--beginning	<u>293,902</u>	<u>65,681</u>	<u>287,447</u>	<u>93,541</u>	<u>740,571</u>
Fund balances--ending	<u>\$ 264,225</u>	<u>\$ -</u>	<u>\$ 326,713</u>	<u>\$ 143,291</u>	<u>\$ 734,229</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues, Expenditures, and Changes in Fund Balance--Budget and Actual
Economic Development Commission Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes	\$ 108,600	\$ 112,103	\$ 3,503
Restricted intergovernmental	2,000	2,391	391
Investment earnings	7,500	2,156	(5,344)
Total revenues	<u>118,100</u>	<u>116,650</u>	<u>(1,450)</u>
Expenditures:			
Housing and redevelopment	<u>196,500</u>	<u>209,377</u>	<u>(12,877)</u>
Revenues under expenditures	(78,400)	(92,727)	(14,327)
Other financing sources:			
Transfers from other funds	<u>63,050</u>	<u>63,050</u>	<u>-</u>
Revenues and other financing sources under expenditures	(15,350)	(29,677)	(14,327)
Appropriated fund balance	<u>15,350</u>	<u>-</u>	<u>(15,350)</u>
Net change in fund balance	<u><u>\$ -</u></u>	<u>(29,677)</u>	<u><u>\$ (29,677)</u></u>
Fund balance:			
Beginning of year, July 1		<u>293,902</u>	
End of year, June 30		<u><u>\$ 264,225</u></u>	

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues, Expenditures and Changes in Fund Balance--Budget and Actual
Powell Bill Capital Projects Fund

From Inception and for the Year Ended June 30, 2010

	<u>Actual</u>				Variance Positive Negative)
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Actual</u>	<u>Total to Date</u>	
Revenues:					
CDBG grants	\$ 130,000	\$ 227,341	\$ -	\$ 227,341	\$ 97,341
Expenditures:					
Carolina Suttle Street project	594,651	291,660	-	291,660	302,991
Revenues under expenditures	(464,651)	(64,319)	-	(64,319)	400,332
Other financing sources:					
Transfers from other funds	334,651	130,000	-	130,000	(204,651)
Transfers to other funds	-	-	(65,681)	(65,681)	(65,681)
Total other financing sources	<u>334,651</u>	<u>130,000</u>	<u>(65,681)</u>	<u>64,319</u>	<u>(270,332)</u>
Revenues and other financing sources over (under) expenditures	(130,000)	65,681	(65,681)	-	130,000
Appropriated fund balance	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(130,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 65,681</u>	<u>(65,681)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance:					
Beginning in year, July 1			<u>65,681</u>		
End of year, June 30			<u>\$ -</u>		

See the accompanying Independent Auditors' Report.

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** 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

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Water Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Water charges	\$ 3,290,900	\$ 3,196,285	\$ (94,615)
Water taps	60,000	58,000	(2,000)
Water cutoffs	12,500	1,560	(10,940)
Other	49,850	61,668	11,818
Total operating revenues	<u>3,413,250</u>	<u>3,317,513</u>	<u>(95,737)</u>
Non-operating revenues:			
Investment earnings	50,000	9,798	(40,202)
Total revenues	<u>3,463,250</u>	<u>3,327,311</u>	<u>(135,939)</u>
Operating expenditures:			
Administration	678,386	660,094	18,292
Operations and maintenance	622,100	587,470	34,630
Treatment plant	1,368,171	1,128,130	240,041
Capital outlay	243,665	228,955	14,710
Debt service:			
Principal	766,350	753,495	12,855
Interest	236,600	246,812	(10,212)
Total expenditures	<u>3,915,272</u>	<u>3,604,956</u>	<u>310,316</u>
Revenues under expenditures	<u>(452,022)</u>	<u>(277,645)</u>	<u>174,377</u>
Other financing sources:			
Installment debt issued	39,000	44,131	5,131
Transfers to other funds	(15,000)	(15,000)	-
Fund balance appropriated	428,022	-	(428,022)
Total other financing sources	<u>452,022</u>	<u>29,131</u>	<u>(422,891)</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Water Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues and other financing sources under expenditures	<u>\$ -</u>	<u>\$ (248,514)</u>	<u>\$ (248,514)</u>
Reconciling items:			
Debt principal		753,495	
Installment debt issued		(44,131)	
Capital outlay		228,955	
Capitalizable interest		14,769	
Increase in compensated absences		(1,137)	
Increase in other postemployment benefits		(30,642)	
Depreciation		(681,208)	
Net water capital projects fund activity		66,363	
Total reconciling items		<u>306,464</u>	
Change in net assets		<u>\$ 57,950</u>	

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Sewer Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 3,952,000	\$ 3,892,527	\$ (59,473)
Other fees	35,000	47,550	12,550
Other operating revenues	36,000	42,922	6,922
Total operating revenues	<u>4,023,000</u>	<u>3,982,999</u>	<u>(40,001)</u>
Non-operating revenues:			
Investment earnings	<u>30,000</u>	<u>5,091</u>	<u>(24,909)</u>
Total revenues	<u>4,053,000</u>	<u>3,988,090</u>	<u>(64,910)</u>
Operating expenditures:			
Administration	618,861	604,661	14,200
Line operation	437,681	395,910	41,771
Treatment plant	1,319,541	1,228,295	91,246
Capital outlay	587,275	283,438	303,837
Debt service:			
Principal	944,950	922,505	22,445
Interest	337,700	332,066	5,634
Total expenditures	<u>4,246,008</u>	<u>3,766,875</u>	<u>479,133</u>
Revenues over (under) expenditures	<u>(193,008)</u>	<u>221,215</u>	<u>414,223</u>
Other financing sources (uses):			
Installment debt issued	120,000	90,374	(29,626)
Transfers from other funds	(16,195)	(15,000)	1,195
Total other financing sources (uses)	<u>103,805</u>	<u>75,374</u>	<u>(28,431)</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Sewer Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues over (under) expenditures and other financing sources (uses)	\$ (89,203)	\$ 296,589	\$ 385,792
Appropriated fund balance	<u>89,203</u>	<u>-</u>	<u>(89,203)</u>
Revenues, other financing sources, and appropriated fund balance over expenditures	<u>\$ -</u>	296,589	<u>\$ 296,589</u>
Reconciling items:			
Debt principal		922,505	
Installment debt issued		(90,374)	
Capital outlay		283,438	
Capitalizable interest		6,038	
Increase in compensated absences		934	
Increase in other postemployment benefits		(30,642)	
Depreciation		(821,980)	
Net sewer capital projects fund activity		976,594	
Total reconciling items		<u>1,246,513</u>	
Change in net assets		<u>\$ 1,543,102</u>	

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Electric Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 16,377,000	\$ 16,679,736	\$ 302,736
Other fees	200,000	172,363	(27,637)
Other operating revenues	663,700	739,214	75,514
Total operating revenues	<u>17,240,700</u>	<u>17,591,313</u>	<u>350,613</u>
Nonoperating revenues:			
Investment earnings	140,000	36,329	(103,671)
Total revenues	<u>17,380,700</u>	<u>17,627,642</u>	<u>246,942</u>
Operating expenditures:			
Administration	944,845	929,944	14,901
Line operation	14,961,411	15,231,108	(269,697)
Capital outlay	569,061	467,088	101,973
Debt service:			
Principal	457,000	444,843	12,157
Interest	285,650	283,699	1,951
Total expenditures	<u>17,217,967</u>	<u>17,356,682</u>	<u>(138,715)</u>
Revenues over expenditures	<u>162,733</u>	<u>270,960</u>	<u>108,227</u>
Other financing sources (uses):			
Installment debt issued	50,000	40,891	(9,109)
Transfers to other funds	(1,133,850)	(1,133,850)	-
Total other financing uses	<u>(1,083,850)</u>	<u>(1,092,959)</u>	<u>(9,109)</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Electric Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ (921,117)	\$ (821,999)	\$ 99,118
Appropriated fund balance	<u>921,117</u>	<u>-</u>	<u>921,117</u>
Revenues, other financing sources, and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	(821,999)	<u>\$ (821,999)</u>
Reconciling items:			
Debt principal		444,843	
Installment debt issued		(40,891)	
Capital outlay		467,088	
Increase in compensated absences		(2,163)	
Increase in other postemployment benefits		(24,513)	
Depreciation		(527,375)	
Net electric capital projects fund activity		254,292	
Net electric reserve fund activity		610,290	
Total reconciling items		<u>1,181,571</u>	
Change in net assets		<u>\$ 359,572</u>	

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Gas Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 16,317,350	\$ 15,626,402	\$ (690,948)
Other fees	26,000	38,736	12,736
Other operating revenues	1,000	11,153	10,153
Total operating revenues	<u>16,344,350</u>	<u>15,676,291</u>	<u>(668,059)</u>
Non-operating revenues:			
Investment earnings	<u>150,000</u>	<u>50,815</u>	<u>(99,185)</u>
Total revenues	<u>16,494,350</u>	<u>15,727,106</u>	<u>(767,244)</u>
Operating expenditures:			
Administration	1,223,697	1,170,720	52,977
Line operation	12,069,647	10,823,035	1,246,612
Capital outlay	641,463	50,497	590,966
Debt service:			
Principal	571,055	562,972	8,083
Interest	230,845	228,148	2,697
Total expenditures	<u>14,736,707</u>	<u>12,835,372</u>	<u>1,901,335</u>
Revenues over expenditures	<u>1,757,643</u>	<u>2,891,734</u>	<u>1,134,091</u>
Other financing sources (uses)			
Proceeds from financing	24,000	20,693	(3,307)
Transfers to other funds	<u>(1,816,050)</u>	<u>(1,816,050)</u>	<u>-</u>
Total other financing uses	<u>(1,792,050)</u>	<u>(1,795,357)</u>	<u>(3,307)</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Gas Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues and other financing sources under expenditures and other financing uses	\$ (34,407)	\$ 1,096,377	\$ 1,130,784
Appropriated fund balance	<u>34,407</u>	<u>-</u>	<u>(34,407)</u>
Revenues, other financing sources, and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	1,096,377	<u>\$ 1,096,377</u>
Reconciling items:			
Debt principal		562,972	
Proceeds from financing		(20,693)	
Capital outlay		50,497	
Increase in compensated absences		(2,394)	
Increase in other postemployment benefits		(36,770)	
Depreciation		(545,247)	
Net gas capital projects fund activity		9,422	
Total reconciling items		<u>17,787</u>	
Change in net assets		<u>\$ 1,114,164</u>	

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Water Capital Projects Fund

From Inception and for the Fiscal Year Ended June 30, 2010

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Non-operating revenues:					
Capital grants:					
Water Sewer Asset Management Plan	\$ 40,000	\$ -	\$ -	\$ -	\$ (40,000)
Investment earnings	-	13,800	36,363	50,163	50,163
Total revenues	<u>40,000</u>	<u>13,800</u>	<u>36,363</u>	<u>50,163</u>	<u>10,163</u>
Expenditures:					
Project #818--Westside pumpstation	2,440,000	1,645,598	782,675	2,428,273	11,727
Project #819--Westside Elevated Tank	2,085,719	1,327,924	742,641	2,070,565	15,154
Project #820--Eastside Water Line	937,781	937,781	-	937,781	-
Project #821--Water line extensions	423,000	344,674	-	344,674	78,326
Project #822--Eastside Water Tank	147,000	8,800	6,380	15,180	131,820
Project #823--Water Sewer Asset Management Plan	70,000	-	45,700	45,700	24,300
Total expenditures	<u>6,103,500</u>	<u>4,264,777</u>	<u>1,577,396</u>	<u>5,842,173</u>	<u>261,327</u>
Revenues under expenditures	<u>(6,063,500)</u>	<u>(4,250,977)</u>	<u>(1,541,033)</u>	<u>(5,792,010)</u>	<u>271,490</u>
Other financing sources:					
Transfers from other funds	600,000	-	30,000	30,000	(570,000)
Proceeds from financing	5,463,500	-	5,473,569	5,473,569	10,069
Total other financing sources	<u>6,063,500</u>	<u>-</u>	<u>5,503,569</u>	<u>5,503,569</u>	<u>(559,931)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ (4,250,977)</u>	<u>\$ 3,962,536</u>	<u>\$ (288,441)</u>	<u>\$ (288,441)</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Sewer Capital Projects Fund

From Inception and for the Year Ended June 30, 2010

	Project Authorization	Prior Years	Actual		Variance Favorable (Unfavorable)
			Current Year	Total to Date	
Revenues:					
Project #843--Cleanwater management grant	\$ 2,890,000	\$ 1,670,001	\$ 778,621	\$ 2,448,622	\$ (441,378)
Project #845--Hallelujah Communities	569,500	-	176,000	176,000	(393,500)
Project #856--EPA grant	192,900	-	-	-	(192,900)
Project #846--CDBG Grant	750,000	-	-	-	(750,000)
Project #847--Shelby Middle School Sewer Project	327,750	-	-	-	(327,750)
Investment earnings	-	28,339	21,973	50,312	50,312
Total revenues	4,730,150	1,698,340	976,594	2,674,934	(2,055,216)
Expenditures:					
Project #840--Eastside Sewer Project	3,309,100	3,119,493	46,123	3,165,616	143,484
Project #843--Cleanwater management grant	5,735,000	3,658,612	1,558,671	5,217,283	517,717
Project #844--Spruce lift station replacement	121,000	116,445	-	116,445	4,555
Project #845--Hallelujah Communities	962,000	535,047	80,571	615,618	346,382
Project #856--Wastewater treatment plant upgrade	350,800	1,170	25,892	27,062	323,738
Project #846--Chestnut Street CDBG Sewer Project	849,100	-	16,000	16,000	833,100
Project #847--Shelby Middle School Sewer Project	327,750	-	-	-	327,750
Total expenditures	11,654,750	7,430,767	1,727,257	9,158,024	2,496,726
Revenues under expenditures	(6,924,600)	(5,732,427)	(750,663)	(6,483,090)	441,510
Other financing sources:					
Proceeds from financing	5,546,600	2,761,231	2,237,670	4,998,901	(547,699)
Proceeds from gas fund loan	1,000,000	1,000,000	-	1,000,000	-
Fund balance appropriated	121,000	-	-	-	(121,000)
Transfers from other funds	257,000	-	-	-	(257,000)
Total other financing sources	6,924,600	3,761,231	2,237,670	5,998,901	(925,699)
Revenues and other financing sources over (under) expenditures	\$ -	\$ (1,971,196)	\$ 1,487,007	\$ (484,189)	\$ (484,189)

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Electric Capital Projects Fund

From Inception and for the Year Ended June 30, 2010

	Project Authorization	Prior Years	Actual		Variance Favorable (Unfavorable)
			Current Year	Total to Date	
Revenues:					
Investment earnings	\$ -	\$ 91,106	\$ 11,888	\$ 102,994	\$ 102,994
Project #859--Cleveland County grant	1,353,000	696,085	100,297	796,382	(556,618)
Project #860--NC DOT grant	39,100	-	-	-	(39,100)
Project #862--Solar Farm Electric Line	160,000	-	142,107	142,107	(17,893)
Total revenues	<u>1,552,100</u>	<u>787,191</u>	<u>254,292</u>	<u>1,041,483</u>	<u>(510,617)</u>
Expenditures:					
Project #853--aerial mapping	523,550	430,520	40,923	471,443	52,107
Project #859--Westside Industrial Park	2,706,000	1,400,589	192,174	1,592,763	1,113,237
Project #860--Dekalb Street	39,100	-	-	-	39,100
Project #861--Electric line extension	642,400	-	321,538	321,538	320,862
Project #862--Solar Farm Electric Line	320,000	-	284,215	284,215	35,785
Total expenditures	<u>4,231,050</u>	<u>1,831,109</u>	<u>838,850</u>	<u>2,669,959</u>	<u>1,561,091</u>
Revenues under expenditures	<u>(2,678,950)</u>	<u>(1,043,918)</u>	<u>(584,558)</u>	<u>(1,628,476)</u>	<u>1,050,474</u>
Other financing sources:					
Revenue bond issued	523,550	523,550	-	523,550	-
Fund balance appropriated	160,000	-	-	-	(160,000)
Transfers from other funds	1,995,400	247,500	1,026,957	1,274,457	(720,943)
Total other financing sources	<u>2,678,950</u>	<u>771,050</u>	<u>1,026,957</u>	<u>1,798,007</u>	<u>(880,943)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ (272,868)</u>	<u>\$ 442,399</u>	<u>\$ 169,531</u>	<u>\$ 169,531</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Electric Capital Reserve Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Non-operating revenues:			
Investment earnings	<u>\$ 47,993</u>	<u>\$ 10,790</u>	<u>\$ (37,203)</u>
Other financing sources (uses):			
Transfers from other funds	599,500	599,500	-
Transfers to other funds	<u>(1,198,996)</u>	<u>(1,026,957)</u>	<u>172,039</u>
Total other financing sources (uses)	<u>(599,496)</u>	<u>(427,457)</u>	<u>172,039</u>
Revenues and other financing sources under other financing uses	<u>\$ (551,503)</u>	<u>\$ (416,667)</u>	<u>\$ 134,836</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Gas Capital Projects Fund

From Inception and for the Year Ended June 30, 2010

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Investment earnings	\$ -	\$ 11,399	\$ 9,422	\$ 20,821	\$ 20,821
Expenditures:					
Project #876--Airport road gas line	175,000	131,934	-	131,934	43,066
Project #877--PPG meter station upgrade	635,000	23,380	125,067	148,447	486,553
Total expenditures	<u>810,000</u>	<u>155,314</u>	<u>125,067</u>	<u>280,381</u>	<u>529,619</u>
Revenues under expenditures	<u>(810,000)</u>	<u>(143,915)</u>	<u>(115,645)</u>	<u>(259,560)</u>	<u>550,440</u>
Other financing sources:					
Fund balance appropriated	175,000	-	-	-	(175,000)
Proceeds from financing	635,000	-	635,161	635,161	161
Total other financing sources	<u>810,000</u>	<u>-</u>	<u>635,161</u>	<u>635,161</u>	<u>(174,839)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ (143,915)</u>	<u>\$ 519,516</u>	<u>\$ 375,601</u>	<u>\$ 375,601</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Revenues and Expenditures--Budget and Actual (Non-GAAP)
Housing Assistance Fund

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Charges for service	\$ 484,220	\$ 571,544	\$ 87,324
Other	2,000	5,520	3,520
Total operating revenues	<u>486,220</u>	<u>577,064</u>	<u>90,844</u>
Non-operating revenues:			
Operating and capital grants	825,987	703,263	(122,724)
Investment earnings	25,000	32,153	7,153
Total non-operating revenues	<u>850,987</u>	<u>735,416</u>	<u>(115,571)</u>
Total revenues	<u>1,337,207</u>	<u>1,312,480</u>	<u>(24,727)</u>
Operating expenditures:			
Administrative	342,650	340,838	1,812
Operating and maintenance	570,200	538,378	31,822
Capital outlay	424,357	227,435	196,922
Total operating expenditures	<u>1,337,207</u>	<u>1,106,651</u>	<u>230,556</u>
Revenues over expenditures	<u>\$ -</u>	205,829	<u>\$ 205,829</u>
Reconciling items:			
Depreciation		(192,817)	
Capital Outlay		227,435	
Increase in compensated absences		1,239	
Increase in other postemployment benefits:		(12,257)	
Total reconciling items		<u>23,600</u>	
Change in net assets		<u>\$ 229,429</u>	

See the accompanying Independent Auditors' Report.

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*

For the Fiscal Year Ended June 30, 2010

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2009</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2010</u>
2009-2010	\$ -	\$ 7,640,689	\$ 7,398,219	\$ 242,470
2008-2009	317,350	-	260,180	57,170
2007-2008	69,172	-	33,817	35,355
2006-2007	35,106	-	8,891	26,215
2005-2006	28,549	-	3,707	24,842
2004-2005	21,015	-	2,131	18,884
2003-2004	17,742	-	1,477	16,265
2002-2003	18,421	-	668	17,753
2001-2002	14,450	-	1,116	13,334
2000-2001	13,540	-	878	12,662
1999-2000	14,150	-	14,150	-
	<u>\$ 549,495</u>	<u>\$ 7,640,689</u>	<u>\$ 7,725,234</u>	464,950
Less allowance for uncollectible ad valorem taxes receivable:				<u>(184,000)</u>
Ad valorem taxes receivable--net				<u>\$ 280,950</u>
Reconcilement with revenues:				
Ad valorem taxes--General Fund				\$ 7,642,791
Ad valorem taxes--Special Revenue Fund				112,103
				<u>7,754,894</u>
Reconciling items:				
Interest collected				(61,053)
Discounts allowed				14,929
Amounts written off				14,150
Other adjustments				2,314
Subtotal				<u>(29,660)</u>
Total collections and credits				<u>\$ 7,725,234</u>

*Schedule includes both citywide and municipal service district taxes

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Analysis of Current Tax Levy
Total

For the Fiscal Year Ended June 30, 2010

	Total		Total Levy		
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$1,651,317,011	0.435%	\$ 7,183,229	\$ 6,635,027	\$ 548,202
Municipal service district taxed at current year's rate	<u>51,553,282</u>	0.655%	<u>337,674</u>	<u>328,294</u>	<u>9,380</u>
Total	<u>1,702,870,293</u>		<u>7,520,903</u>	<u>6,963,321</u>	<u>557,582</u>
Discoveries:					
Property taxed at current year's rate	39,052,184	0.435%	169,877	169,099	778
Municipal service district taxed at current year's rate	<u>327,481</u>	0.655%	<u>2,145</u>	<u>2,145</u>	<u>-</u>
Total	<u>39,379,665</u>		<u>172,022</u>	<u>171,244</u>	<u>778</u>
Abatements:					
Property taxed at current year's rate	8,679,770	0.435%	37,757	25,001	12,756
Municipal service district taxed at current year's rate	<u>2,210,534</u>	0.655%	<u>14,479</u>	<u>14,141</u>	<u>338</u>
Total	<u>10,890,304</u>		<u>52,236</u>	<u>39,142</u>	<u>13,094</u>
Total property valuation	<u>\$1,731,359,654</u>				
Net levy			7,640,689	7,095,423	545,266
Uncollected taxes at June 30, 2010			<u>242,470</u>	<u>162,824</u>	<u>79,646</u>
Current year's taxes collected			<u>\$ 7,398,219</u>	<u>\$ 6,932,599</u>	<u>\$ 465,620</u>
Current levy collection percentage			<u>96.83%</u>	<u>97.71%</u>	<u>85.39%</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Analysis of Current Tax Levy
City-Wide Levy

For the Fiscal Year Ended June 30, 2010

	<u>City-Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$1,651,317,011	0.435%	\$ 7,183,229	\$ 6,635,027	\$ 548,202
Discoveries:					
Property taxed at current year's rate	39,052,184	0.435%	169,877	169,099	778
Abatements:					
Property taxed at current year's rate	<u>8,679,770</u>	0.435%	<u>37,757</u>	<u>25,001</u>	<u>12,756</u>
Total property valuation	<u><u>\$1,681,689,425</u></u>				
Net levy			7,315,349	6,779,125	536,224
Uncollected taxes at June 30, 2010			<u>238,610</u>	<u>159,623</u>	<u>78,987</u>
Current year's taxes collected			<u><u>\$ 7,076,739</u></u>	<u><u>\$ 6,619,502</u></u>	<u><u>\$ 457,237</u></u>
Current levy collection percentage			<u><u>96.74%</u></u>	<u><u>97.65%</u></u>	<u><u>85.27%</u></u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Analysis of Current Tax Levy
Municipal Service District Levy

For the Fiscal Year Ended June 30, 2010

	<u>Municipal Service District</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$ 51,553,282	0.655%	\$ 337,674	\$ 328,294	\$ 9,380
Discoveries:					
Property taxed at current year's rate	327,481	0.655%	2,145	2,145	-
Abatements:					
Property taxed at current year's rate	<u>2,210,534</u>	0.655%	<u>14,479</u>	<u>14,141</u>	<u>338</u>
Total property valuation	<u><u>\$ 49,670,229</u></u>				
Net levy			325,340	316,298	9,042
Uncollected taxes at June 30, 2010			<u>3,860</u>	<u>3,201</u>	<u>659</u>
Current year's taxes collected			<u><u>\$ 321,480</u></u>	<u><u>\$ 313,097</u></u>	<u><u>\$ 8,383</u></u>
Current levy collection percentage			<u><u>98.81%</u></u>	<u><u>98.99%</u></u>	<u><u>92.71%</u></u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Financial Data Schedule--Balance Sheet

For the Year Ended June 30, 2010

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
Assets:				
Current assets:				
Cash:				
111	Cash--unrestricted	\$ 102,723	\$ 4,641	\$ 107,364
114	Cash--tenant security deposits	36,504	-	36,504
100	Total cash	<u>139,227</u>	<u>4,641</u>	<u>143,868</u>
Accounts and notes receivables:				
124	Accounts receivable--other governments	142,518	-	142,518
126	Accounts receivable--tenants--dwelling rents	12,673	-	12,673
126.1	Allowance for doubtful accounts--dwelling rents	(12,673)	-	(12,673)
129	Accrued interest receivable	6,536	-	6,536
120	Total receivables, net allowances for uncollectibles	<u>149,054</u>	<u>-</u>	<u>149,054</u>
131	Investments--unrestricted	1,920,073	-	1,920,073
142	Prepaid expenses and other assets	319	-	319
150	Total current assets	<u>2,208,673</u>	<u>4,641</u>	<u>2,213,314</u>
Non-current assets:				
Fixed assets:				
161	Land	234,411	-	234,411
162	Buildings	8,410,430	227,435	8,637,865
163	Furniture, equipment and machinery--dwellings	303,422	-	303,422
166	Accumulated depreciation	(4,390,785)	-	(4,390,785)
160	Total fixed assets, net of accumulated depreciation	<u>4,557,478</u>	<u>227,435</u>	<u>4,784,913</u>
180	Total non-current assets	<u>4,557,478</u>	<u>227,435</u>	<u>4,784,913</u>
190	Total assets	<u>\$ 6,766,151</u>	<u>\$ 232,076</u>	<u>\$ 6,998,227</u>
Liabilities and equity:				
Liabilities:				
Current liabilities:				
312	Accounts payable ≤ 90 days	\$ 6,474	\$ -	\$ 6,474
321	Accrued wages/payroll taxes payable	12,427	-	12,427
322	Accrued compensated absences	22,000	-	22,000
341	Tenant security deposits	36,504	-	36,504
342	Deferred revenues	-	4,641	4,641
310	Total current liabilities	<u>77,405</u>	<u>4,641</u>	<u>82,046</u>
Non-current liabilities:				
354	Accrued compensated absences--non-current	9,225	-	9,225
	Other postemployment benefits	24,564	-	24,564
350	Total non-current liabilities	<u>33,789</u>	<u>-</u>	<u>33,789</u>
300	Total liabilities	<u>111,194</u>	<u>4,641</u>	<u>115,835</u>
Net assets:				
508.1	Invested in capital assets, net of related debt	4,557,478	227,435	4,784,913
512.1	Unrestricted net assets	2,097,479	-	2,097,479
513	Total net assets	<u>6,654,957</u>	<u>227,435</u>	<u>6,882,392</u>
600	Total liabilities and net assets	<u>\$ 6,766,151</u>	<u>\$ 232,076</u>	<u>\$ 6,998,227</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Financial Data Schedule--Revenues and Expenses

For the Year Ended June 30, 2010

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
Revenue:				
703	Net tenant rental revenue	\$ 564,268	\$ -	\$ 564,268
704	Tenant revenue--other	7,276	-	7,276
705	Total tenant revenue	<u>571,544</u>	<u>-</u>	<u>571,544</u>
706	HUD PHA operating grants	475,828	-	475,828
706.1	HUD PHA capital grants	-	227,435	227,435
711	Investment income--unrestricted	32,153	-	32,153
715	Other revenues	5,520	-	5,520
700	Total revenue	<u>1,085,045</u>	<u>227,435</u>	<u>1,312,480</u>
Expenses:				
Administrative:				
911	Administrative salaries	246,918	-	246,918
915	Employee benefit contributions--administrative	94,534	-	94,534
916	Other operating--administrative	11,643	-	11,643
Tenant services:				
924	Tenant services--other	7,340	-	7,340
Utilities:				
931	Water	86,267	-	86,267
932	Electricity	105,123	-	105,123
933	Gas	129,456	-	129,456
Ordinary maintenance and operation:				
942	Ordinary maintenance and operation--materials and other	87,412	-	87,412
943	Ordinary maintenance and operation--contract costs	45,954	-	45,954
General expenses:				
961	Insurance premiums	28,657	-	28,657
962	Other general expenses	12,743	-	12,743
9621	Compensated absences	(1,239)	-	(1,239)
963	Payments in lieu of taxes	23,613	-	23,613
964	Bad debt--tenant rents	7,312	-	7,312
969	Total operating expenses	<u>885,733</u>	<u>-</u>	<u>885,733</u>
970	Excess operating revenue over operating expenses	<u>199,312</u>	<u>227,435</u>	<u>426,747</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Financial Data Schedule--Revenues and Expenses

For the Year Ended June 30, 2010

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
	Expenses, Continued:			
971	Extraordinary maintenance	\$ 4,501	\$ -	\$ 4,501
974	Depreciation expense	192,817	-	192,817
900	Total expenses	<u>1,083,051</u>	<u>-</u>	<u>1,083,051</u>
1000	Excess (deficiency) of revenue over expenses:	\$ 1,994	\$ 227,435	\$ 229,429
MEMO Account Information				
1103	Beginning equity	\$ 6,094,926	558,037	\$ 6,652,963
1104	Prior period adjustments, equity transfers and corrections of errors	558,037	(558,037)	-
1120	Unit months available	2,064	-	2,064
1121	Number of unit months leased	2,051	-	2,051

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Statement of Program Costs--Completed

Year ended June 30, 2010

<u>Program Name</u>	<u>CFDA #</u>	<u>Funds Approved</u>	<u>Funds Advanced</u>		
			<u>Ending Balance</u>	<u>Prior Audit</u>	<u>Current Year</u>
Capital Fund Program (CFP): NC19PO3450108	14.872	\$ 294,094	\$ 294,094	\$ 285,596	\$ 8,498
Capital Fund Program (CFP): ARRA - NC19SO3450109	14.872	\$ 372,264	\$ 372,264	\$ 279,955	\$ 92,309
Capital Fund Program (CFP): NC19PO3450108	14.872	\$ 289,762	\$ 97,516	\$ -	\$ 97,516

See the accompanying Independent Auditors' Report.

Funds Expended			Excess (Deficiency of)	
Ending Balance	Prior Audit	Current Year	Funds Approved	Funds Advanced
\$ 294,094	\$ 285,596	\$ 8,498	\$ -	\$ -
\$ 372,264	\$ 246,202	\$ 126,062	\$ -	\$ -
\$ 92,875	\$ -	\$ 92,875	\$ 192,246	\$ 4,641



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

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

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

Debt Capacity

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

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

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 Assets by Component

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

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

CITY OF SHELBY, NORTH CAROLINA

Changes in Net Assets by Component

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

Expenses:	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities:								
General government	\$ 1,764	\$ 2,018	\$ 1,882	\$ 1,846	\$ 2,208	\$ 2,403	\$ 2,403	\$ 2,312
Public safety	7,637	7,998	8,429	8,114	8,683	8,899	9,565	9,669
Transportation	2,268	2,263	2,122	1,955	1,677	2,160	2,108	2,532
Environmental protection	1,656	1,682	1,755	1,420	1,390	1,427	1,563	1,444
Cultural and recreation	1,872	1,984	2,130	2,029	1,982	2,039	2,140	1,967
Housing and redevelopment	340	328	310	281	856	103	192	209
Interest on long-term debt	130	125	152	175	144	130	75	95
Total governmental activities expenses	<u>15,667</u>	<u>16,398</u>	<u>16,780</u>	<u>15,820</u>	<u>16,940</u>	<u>17,161</u>	<u>18,046</u>	<u>18,228</u>
Business-type activities:								
Water	2,927	2,620	3,007	2,920	2,970	3,334	3,605	3,321
Sewer	2,651	2,660	3,003	2,790	2,852	2,976	3,522	3,407
Electric	13,996	13,874	14,199	14,806	14,897	15,814	15,980	16,999
Gas	24,248	24,020	27,704	34,113	15,780	18,404	16,222	12,806
Housing assistance	1,145	1,140	1,330	1,180	1,140	1,030	1,119	1,083
Total business-type activities expenses	<u>44,967</u>	<u>44,314</u>	<u>49,243</u>	<u>55,809</u>	<u>37,639</u>	<u>41,558</u>	<u>40,448</u>	<u>37,616</u>
Total primary government expenses	<u>\$ 60,634</u>	<u>\$ 60,712</u>	<u>\$ 66,023</u>	<u>\$ 71,629</u>	<u>\$ 54,579</u>	<u>\$ 58,719</u>	<u>\$ 58,494</u>	<u>\$ 55,844</u>
Program revenues:								
Governmental activities:								
Charges for services:								
General government	\$ 248	\$ 194	\$ 223	\$ 33	\$ 19	\$ 15	\$ 2	\$ 4
Public safety	6	6	6	229	248	357	228	265
Transportation	-	-	-	1	1	110	195	209
Environmental protection	448	476	565	595	598	631	873	833
Cultural and recreation	271	259	272	276	280	309	320	338
Operating grants and contributions:								
General government	153	258	384	10	-	-	154	4
Public safety	11	12	9	245	524	252	268	476
Transportation	1,110	-	-	-	-	-	26	20
Environmental protection	2	-	-	-	-	-	-	-
Cultural and recreation	8	-	-	-	-	-	-	-
Housing and redevelopment	-	-	-	11	560	3	81	93
Capital grants and contributions:								
General government	-	-	-	-	-	-	32	-
Public safety	187	-	-	-	-	-	250	112
Transportation	279	2,070	1,008	1,004	1,329	2,051	2,236	1,664
Cultural and recreation	-	-	-	-	821	-	-	44
Housing and redevelopment	-	-	-	-	-	-	194	-
Total governmental activities programs revenues	<u>2,723</u>	<u>3,275</u>	<u>2,467</u>	<u>2,404</u>	<u>4,380</u>	<u>3,728</u>	<u>4,859</u>	<u>4,062</u>
Business-type activities:								
Charges for services:								
Water	3,065	3,265	3,171	3,519	3,397	3,464	3,372	3,318
Sewer	2,869	2,834	3,319	3,440	3,735	3,763	4,030	3,983
Electric	14,632	14,803	14,895	15,529	16,907	17,333	17,398	17,591
Gas	28,243	27,853	30,742	36,599	18,759	20,017	18,517	15,676
Housing assistance	498	487	484	505	514	521	564	577

(continued)

CITY OF SHELBY, NORTH CAROLINA

Changes in Net Assets by Component, Continued

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

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Program revenues, continued:								
Business-type activities, continued:								
Operating grants and contributions:								
Water	\$ 245	\$ 8	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer	5	-	57	-	-	-	-	-
Electric	196	-	-	-	214	-	-	-
Gas	3	-	-	-	-	-	-	-
Housing assistance	506	524	724	500	474	425	430	476
Capital grants and contributions:								
Water	3,740	110	16	-	18	-	-	-
Sewer	-	-	-	-	112	-	1,670	955
Electric	-	-	-	-	-	-	696	242
Housing assistance	500	312	73	263	261	284	576	227
Total business-type activities program revenues	<u>54,502</u>	<u>50,196</u>	<u>53,496</u>	<u>60,355</u>	<u>44,391</u>	<u>45,807</u>	<u>47,253</u>	<u>43,045</u>
Total primary government revenues	<u>\$ 57,225</u>	<u>\$ 53,471</u>	<u>\$ 55,963</u>	<u>\$ 62,759</u>	<u>\$ 48,771</u>	<u>\$ 49,535</u>	<u>\$ 52,112</u>	<u>\$ 47,107</u>
Net (expenses) revenue:								
Governmental activities	\$ (12,944)	\$ (13,123)	\$ (14,313)	\$ (13,416)	\$ (12,560)	\$ (13,433)	\$ (13,187)	\$ (14,166)
Business-type activities	<u>9,535</u>	<u>5,882</u>	<u>4,253</u>	<u>4,546</u>	<u>6,751</u>	<u>4,249</u>	<u>6,805</u>	<u>5,429</u>
Total primary government net (expenses) revenue	<u>\$ (3,409)</u>	<u>\$ (7,241)</u>	<u>\$ (10,060)</u>	<u>\$ (8,870)</u>	<u>\$ (5,809)</u>	<u>\$ (9,184)</u>	<u>\$ (6,382)</u>	<u>\$ (8,737)</u>
General revenues and other changes in net assets:								
Governmental activities:								
Taxes:								
Property taxes, levied for general purpose	\$ 5,204	\$ 5,966	\$ 6,540	\$ 6,739	\$ 7,144	\$ 7,277	\$ 7,856	\$ 7,587
Sales tax	2,039	2,394	2,522	2,759	2,972	2,967	2,831	2,669
Franchise tax	1,511	1,458	1,303	1,362	1,385	1,503	1,551	1,540
Other taxes	275	401	344	241	230	298	303	237
Miscellaneous	143	100	145	335	454	264	270	261
Unrestricted investment earnings	180	105	145	399	300	304	197	173
Contributions to permanent fund principal	7	11	7	17	59	25	42	108
Transfers	3,056	3,007	2,844	2,859	2,110	2,091	2,351	2,350
Total governmental activities	<u>12,415</u>	<u>13,442</u>	<u>13,850</u>	<u>14,711</u>	<u>14,654</u>	<u>14,729</u>	<u>15,401</u>	<u>14,925</u>
Business-type activities:								
Unrestricted investment earnings	422	216	425	663	1,004	996	441	225
Miscellaneous	134	30	15	-	106	-	-	-
Transfers	<u>(3,056)</u>	<u>(3,007)</u>	<u>(2,844)</u>	<u>(2,859)</u>	<u>(2,110)</u>	<u>(2,091)</u>	<u>(2,351)</u>	<u>(2,350)</u>
Total business-type activities	<u>(2,500)</u>	<u>(2,761)</u>	<u>(2,404)</u>	<u>(2,196)</u>	<u>(1,000)</u>	<u>(1,095)</u>	<u>(1,910)</u>	<u>(2,125)</u>
Total primary government	<u>\$ 9,915</u>	<u>\$ 10,681</u>	<u>\$ 11,446</u>	<u>\$ 12,515</u>	<u>\$ 13,654</u>	<u>\$ 13,634</u>	<u>\$ 13,491</u>	<u>\$ 12,800</u>
Change in net assets:								
Governmental activities	\$ (529)	\$ 319	\$ (463)	\$ 1,295	\$ 2,094	\$ 1,296	\$ 2,214	\$ 759
Business-type activities	<u>7,035</u>	<u>3,121</u>	<u>1,849</u>	<u>2,350</u>	<u>5,751</u>	<u>3,154</u>	<u>4,895</u>	<u>3,304</u>
Total primary government	<u>\$ 6,506</u>	<u>\$ 3,440</u>	<u>\$ 1,386</u>	<u>\$ 3,645</u>	<u>\$ 7,845</u>	<u>\$ 4,450</u>	<u>\$ 7,109</u>	<u>\$ 4,063</u>

CITY OF SHELBY, NORTH CAROLINA

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting--in thousands of dollars)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
General fund:				
Reserved	\$ 2,038	\$ 1,653	\$ 2,291	\$ 2,535
Unreserved	<u>4,040</u>	<u>3,543</u>	<u>3,689</u>	<u>3,526</u>
Total general fund	<u>\$ 6,078</u>	<u>\$ 5,196</u>	<u>\$ 5,980</u>	<u>\$ 6,061</u>
All other governmental funds:				
Reserved	\$ 220	\$ 230	\$ 232	\$ 238
Unreserved, reported in:				
Special revenue funds	462	473	386	326
Capital project funds	<u>(98)</u>	<u>-</u>	<u>-</u>	<u>(517)</u>
Total all other governmental funds	<u>\$ 584</u>	<u>\$ 703</u>	<u>\$ 618</u>	<u>\$ 47</u>

Fiscal Year

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 2,566	\$ 3,215	\$ 3,003	\$ 3,127	\$ 3,493	\$ 5,088
<u>3,721</u>	<u>3,271</u>	<u>3,189</u>	<u>3,424</u>	<u>3,851</u>	<u>2,987</u>
<u>\$ 6,287</u>	<u>\$ 6,486</u>	<u>\$ 6,192</u>	<u>\$ 6,551</u>	<u>\$ 7,344</u>	<u>\$ 8,075</u>
\$ 275	\$ 262	\$ 541	\$ 445	\$ 1,285	\$ 487
315	262	324	286	328	247
<u>-</u>	<u>-</u>	<u>(88)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 590</u>	<u>\$ 524</u>	<u>\$ 777</u>	<u>\$ 731</u>	<u>\$ 1,613</u>	<u>\$ 734</u>

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)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues:				
Ad valorem taxes	\$ 5,006	\$ 5,217	\$ 5,160	\$ 5,923
Other taxes and licenses	2,173	1,896	2,055	2,403
Unrestricted intergovernmental	2,074	1,319	1,812	1,850
Restricted intergovernmental	1,496	1,088	1,723	2,340
Permits and fees	115	171	156	127
Sales and services	688	662	801	809
Investment earnings	317	186	180	100
Donations	-	-	-	11
Miscellaneous	208	84	87	119
Total revenues	<u>12,077</u>	<u>10,623</u>	<u>11,974</u>	<u>13,682</u>
Expenditures:				
Current:				
General government	2,059	1,803	1,541	1,686
Public safety	6,313	6,520	6,746	6,906
Transportation	1,486	1,522	2,214	2,497
Environmental protection	1,755	1,727	1,512	1,384
Cultural and recreation	1,756	2,191	1,769	1,799
Housing and redevelopment	270	274	226	590
Capital outlay	2,132	51	1,171	2,630
Debt service:				
Principal	351	365	317	425
Interest and other charges	134	143	127	124
Total expenditures	<u>16,256</u>	<u>14,596</u>	<u>15,623</u>	<u>18,041</u>
Revenues under expenditures	<u>(4,179)</u>	<u>(3,973)</u>	<u>(3,649)</u>	<u>(4,359)</u>
Other financing sources (uses):				
Transfers from other funds	2,830	3,026	3,060	3,182
Transfers from component unit	82	119	-	-
Transfers to other funds	(198)	-	(4)	(175)
Installment debt issued	1,000	-	494	858
Proceeds from sale of assets	130	37	84	6
Increase in inventory	-	-	-	-
Total other financing sources (uses)	<u>3,844</u>	<u>3,182</u>	<u>3,634</u>	<u>3,871</u>
Net change in fund balance	<u>\$ (335)</u>	<u>\$ (791)</u>	<u>\$ (15)</u>	<u>\$ (488)</u>
Debt service as a percentage of non-capital expenditures	<u>3.44%</u>	<u>3.50%</u>	<u>3.07%</u>	<u>3.56%</u>

Fiscal Year						
	2005	2006	2007	2008	2009	2010
\$	6,545	\$ 6,770	\$ 6,729	\$ 7,692	\$ 7,951	\$ 7,755
	2,524	2,762	2,976	2,969	2,858	2,682
	1,644	1,627	1,686	1,864	1,887	1,793
	1,400	1,307	2,415	2,328	3,172	2,338
	140	221	237	216	213	254
	926	913	910	1,207	1,405	1,396
	145	335	300	304	197	173
	7	17	69	25	42	108
	135	205	319	167	187	189
	<u>13,466</u>	<u>14,157</u>	<u>15,641</u>	<u>16,772</u>	<u>17,912</u>	<u>16,688</u>
	1,638	1,674	2,094	2,280	2,222	2,067
	7,898	7,706	8,336	8,598	8,677	8,877
	988	1,692	1,362	1,872	1,763	2,034
	1,917	1,158	1,078	1,111	1,225	1,219
	1,700	1,810	1,731	1,794	1,826	1,703
	890	287	855	103	192	209
	2,542	1,984	1,240	1,788	3,216	3,356
	612	1,027	1,147	1,124	1,004	869
	124	186	168	136	79	95
	<u>18,309</u>	<u>17,524</u>	<u>18,011</u>	<u>18,806</u>	<u>20,204</u>	<u>20,429</u>
	<u>(4,843)</u>	<u>(3,367)</u>	<u>(2,370)</u>	<u>(2,034)</u>	<u>(2,292)</u>	<u>(3,741)</u>
	2,982	2,936	2,381	2,155	2,695	2,886
	-	-	-	-	-	-
	(137)	(77)	(271)	(64)	(344)	(536)
	2,747	509	172	246	1,616	707
	21	131	47	11	13	28
	-	-	-	-	-	-
	<u>5,613</u>	<u>3,499</u>	<u>2,329</u>	<u>2,348</u>	<u>3,980</u>	<u>3,085</u>
\$	<u>770</u>	<u>\$ 132</u>	<u>\$ (41)</u>	<u>\$ 314</u>	<u>\$ 1,688</u>	<u>\$ (656)</u>
	<u>4.67%</u>	<u>7.81%</u>	<u>7.84%</u>	<u>7.40%</u>	<u>6.38%</u>	<u>5.65%</u>

CITY OF SHELBY, NORTH CAROLINA

General Government Tax Revenues by Source*

Last Ten Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>Ad Valorem</u>	<u>Sales</u>	<u>Intangibles</u>	<u>Utility Franchise</u>
2001	\$ 5,005,998	\$ 2,146,321	\$ 156,368	\$ 1,385,916
2002	5,216,648	1,884,088	143,260	799,162
2003	5,160,019	2,038,604	-	1,358,970
2004	5,922,699	2,393,588	-	1,297,924
2005	6,545,205	2,521,613	-	1,128,509
2006	6,770,471	2,759,114	-	1,181,332
2007	6,729,415	2,971,686	-	1,263,696
2008	7,691,627	2,966,596	-	1,503,349
2009	7,950,913	2,830,915	-	1,550,877
2010	7,754,894	2,669,105	-	1,540,052

*Includes General and Special Revenue Funds.

Beer and Wine	Inventory	Food Stamp	Licenses and CATV Franchise	Total
\$ 86,486	\$ 160,836	\$ 9,377	\$ 154,014	\$ 9,105,316
-	76,307	8,339	164,374	8,292,178
82,813	-	-	151,632	8,792,038
89,640	-	-	160,243	9,864,094
92,890	-	-	174,255	10,462,472
92,566	-	-	180,671	10,984,154
94,331	-	-	121,166	11,180,294
96,103	-	-	-	12,257,675
93,190	-	-	-	12,425,895
31,178	-	-	-	11,995,229

CITY OF SHELBY, NORTH CAROLINA

Assessed Value and Actual Value of Taxable Property

Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year	Real Property	Personal Property	Public Service Companies	Total Assessed Value*	Total Direct Tax Rate
2001**	\$ 861,207	\$ 288,655	\$ 24,754	\$ 1,174,616	0.42
2002	877,479	306,710	24,370	1,208,559	0.42
2003	953,608	226,078	24,482	1,204,168	0.42
2004	1,130,002	241,081	22,137	1,393,220	0.42
2005**	1,158,263	327,398	38,729	1,524,390	0.42
2006	1,176,662	345,669	41,194	1,563,525	0.42
2007	1,191,948	427,287	46,759	1,665,994	0.42
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

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

Fiscal Year	City of Shelby	Uptown Shelby Municipal Service District	Cleveland County	City School District	County School District
2001	0.42	0.27	0.62	N/A	0.16*
2002	0.42	0.27	0.62	N/A	0.16
2003	0.42	0.27	0.62	N/A	0.16
2004	0.42	0.27	0.62	N/A	0.16
2005	0.42	0.27	0.62	N/A	0.16
2006	0.42	0.27	0.58	N/A	0.15
2007	0.42	0.27	0.58	N/A	0.15
2008	0.435	0.22	0.58	N/A	0.15
2009	0.435	0.22	0.58	N/A	0.15
2010	0.435	0.22	0.58	N/A	0.15

*County and City School district merged their tax rate in FY 2001

CITY OF SHELBY, NORTH CAROLINA

Principal Property Taxpayers

Current Year and Ten Years Ago
(in thousands of dollars)

Taxpayer	2010			2001		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
PPG Industries	\$ 78,244	1	4.52%			
Wal-Mart	77,313	2	4.47%	9,417	6	0.80%
Curtis Wright Controls Inc	13,766	3	0.80%	8,031	8	0.68%
Lowe's Home Centers	11,281	4	0.65%	\$ 7,523	9	0.64%
Duke Energy Corp	11,066	5	0.64%	7,299	10	0.62%
Shelby Mall LLC	10,751	6	0.62%	12,423	5	1.06%
Bell South Telephone Company	10,119	7	0.58%	14,994	4	1.28%
Ultra Machine & Fabrication	9,488	8	0.55%			
Metals America	7,573	9	0.44%			
Carlsle At Deta Park	7,254	10	0.42%			
Copeland Corp				47,962	1	4.08%
Kemet Electronics				16,472	3	1.40%
Fasco Inc				23,995	2	2.04%
Dicey Mills				8,214	7	0.70%
Totals	<u>\$ 236,855</u>		<u>13.68%</u>	<u>\$ 156,330</u>		<u>13.30%</u>

Source: Cleveland County Tax Assessor's Office

CITY OF SHELBY, NORTH CAROLINA

Property Tax Levies and Collections

Last Ten Fiscal Years
(in thousands of dollars)

Fiscal 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
2001	5,071	4,798	94.60%	13	261	5,058	99.74%
2002	5,261	5,028	95.57%	18	215	5,243	99.66%
2003	5,188	4,928	94.99%	16	244	5,172	99.69%
2004	5,984	5,711	95.45%	19	253	5,965	99.68%
2005	6,547	6,290	96.08%	25	232	6,522	99.62%
2006	6,723	6,467	96.20%	28	228	6,695	99.58%
2007	7,148	6,489	90.79%	26	633	7,122	99.64%
2008	7,300	7,033	96.34%	69	198	7,231	99.05%
2009	7,791	7,474	95.93%	317	260	7,734	99.27%
2010	7,641	7,398	96.82%	243	0	7,398	96.82%

CITY OF SHELBY, NORTH CAROLINA

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years
(in thousands of dollars, except per capital amount)

Fiscal Year	Governmental	Business-Type Activities			
	Installment Purchase Obligations	General Obligation Bonds	Revenue Bonds	State Revolving Loans	Installment Purchase Obligations
2001	\$ 2,932	\$ 5,330	\$ 26,203	\$ 8,781	\$ 509
2002	2,567	4,725	25,643	8,195	457
2003	2,743	4,130	25,058	7,610	889
2004	3,176	3,540	24,443	7,024	1,050
2005	5,311	955	24,670	6,439	968
2006	4,794	630	23,380	5,854	921
2007	3,819	310	22,055	5,268	760
2008	2,942	-	24,546	4,683	967
2009	3,553	-	22,773	4,098	1,004
2010	3,391	-	29,282	3,512	925

N/A - Information not available.

Total Primary Government	(County) Personal Income (amounts expressed in thousands)	Percentage of Personal Income	(County) Per Capita Personal Income	Per Capita
\$ 43,755	\$ 2,229,016	1.96%	\$ 22,941	\$ 2,246
41,587	2,250,644	1.85%	23,049	2,126
40,430	2,322,298	1.74%	23,656	1,963
39,233	2,457,323	1.60%	24,831	1,849
38,343	2,558,000	1.50%	26,104	1,830
35,579	2,645,000	1.35%	27,058	1,704
32,212	2,845,959	1.13%	28,151	1,544
33,138	2,932,307	1.13%	27,466	1,597
31,428	N/A	N/A	N/A	1,510
37,110	N/A	N/A	N/A	1,785

CITY OF SHELBY, NORTH CAROLINA

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years
(in thousands of dollars, except per capita)

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2001	\$ 5,330	0.45%	\$ 274
2002	4,725	0.39%	242
2003	4,130	0.34%	200
2004	3,540	0.25%	167
2005	955	0.06%	46
2006	630	0.04%	30
2007	310	0.02%	15
2008	-	0.00%	N/A
2009	-	0.00%	N/A
2010	-	0.00%	N/A

CITY OF SHELBY, NORTH CAROLINA

Direct and Overlapping Governmental Activities Debt

As of June 30, 2010

	<u>Net General Obligation Bonded Debt</u>	<u>Percentage Applicable To City**</u>	<u>City of Shelby Share of Debt</u>
Direct debt--City of Shelby*	\$ -	100.00%	\$ -
Overlapping debt--Cleveland County	<u>1,600,000</u>	26.06%	<u>416,960</u>
Total direct and overlapping debt	<u>\$ 1,600,000</u>		<u>\$ 416,960</u>

*General obligation bonds only

**Percentage of Direct and Overlapping Debt is based on 2010 Assessed valuation of Cleveland County as compared to the 2010 Assessed Valuation of the City of Shelby.

CITY OF SHELBY, NORTH CAROLINA

Legal Debt Margin Information

Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year	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
2001	\$ 93,969	\$ 8,380	\$ 85,589	8.92%
2002	96,685	7,748	88,936	8.01%
2003	96,333	7,763	88,570	8.06%
2004	111,458	3,540	107,918	3.18%
2005	121,951	7,235	114,716	5.93%
2006	125,082	6,345	118,737	5.07%
2007	133,280	4,889	128,391	3.67%
2008	132,372	3,877	128,495	2.93%
2009	141,286	4,557	136,729	3.23%
2010	138,508	4,316	134,192	3.12%

CITY OF SHELBY, NORTH CAROLINA

Computation of Legal Debt Margin

June 30, 2010

Assessed value of taxable property			<u>\$ 1,731,359,654</u>
Debt limit--eight percent (8%) of assessed value			138,508,772
Gross debt:			
Revenue bonds	\$ 29,281,485		
State revolving loan	3,512,216		
Other financing agreements/notes payable	<u>4,330,962</u>	\$ 37,124,663	
Statutory deductions:			
Revenue bonds	29,281,485		
State revolving loan	<u>3,512,216</u>	32,793,701	
Total amount of debt applicable to debt limitation			<u>4,330,962</u>
Legal debt margin			<u>\$ 134,177,810</u>

CITY OF SHELBY, NORTH CAROLINA

Pledged Revenue Coverage

Last Ten Fiscal Years

Fiscal Year Ended June 30	Gross Revenues *	Operating Expenses**	Net Revenue Available For Debt Service
2001	\$ 54,641,951	\$ 45,465,634	\$ 9,176,317
2002	38,449,284	32,448,248	6,001,036
2003	48,809,856	40,967,897	7,841,959
2004	48,754,821	40,363,242	8,391,579
2005	52,126,682	44,445,623	7,681,059
2006	59,087,999	51,392,662	7,695,337
2007	42,797,066	33,504,075	9,292,991
2008	44,577,279	37,208,269	7,369,010
2009	43,317,051	35,794,720	7,522,331
2010	40,568,116	32,886,694	7,681,422

* 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.

Debt Service Requirements***

Principal	Interest	Total	Coverage
\$ 535,000	\$ 743,496	\$ 1,278,496	718%
560,000	718,886	1,278,886	469%
585,000	692,566	1,277,566	614%
615,000	664,486	1,279,486	656%
645,000	634,351	1,279,351	600%
1,290,000	971,269	2,261,269	340%
1,325,000	931,264	2,256,264	412%
1,345,000	1,097,683	2,442,683	302%
1,772,387	1,175,118	2,947,505	255%
1,838,028	910,078	2,748,106	280%

CITY OF SHELBY, NORTH CAROLINA

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year Ended June 30	(1) Population	(2) Per Capita Income	(2) Median Age	(3) School Enrollment	(4) Unemployment Rate	(5) Personal Income
2001	19,477	\$ 22,941	36.5	3,200	11.1%	\$ 2,250,644
2002	19,562	23,049	37.0	3,219	12.2%	2,322,298
2003	20,600	23,656	37.3	3,076	11.1%	2,457,323
2004	21,215	24,831	37.6	3,139	9.3%	2,507,661
2005	20,957	26,104	37.8	17,182	7.4%	2,558,000
2006	20,876	27,058	37.9	17,035	6.8%	2,645,000
2007	20,863	28,151	38.7	17,060	7.1%	2,845,959
2008	20,745	27,466	38.2	16,580	7.9%	2,932,307
2009	20,808	N/A	39.2	16,738	15.4%	N/A
2010	20,793	N/A	N/A	15,997	13.2%	N/A

Sources:

- (1) N.C. Department of Commerce/Office of State Planning
- (2) U.S. Bureau of Economic Analysis for Cleveland County
- (3) Cleveland County/Shelby City Schools Administrative Offices.
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.

N/A - Information not available.

CITY OF SHELBY, NORTH CAROLINA

Principal Employers

Current Year and Four Year Previous

Employer	Industry	2010		2006	
		Rank	Employment Range	Rank	Employment Range
Cleveland County School District	Education	1	1000+	1	2000+
Cleveland Regional Medical Center	Health Services	2	1000+	5	500-999
Cleveland County Government	Public Administration	3	500-999	4	1000+
Wal-Mart Distribution Center	Retail Distribution	4	500-999	2	500-999
PPG Fiber Glass Products	Industrial Supplies	5	250-499	3	500-999
Cleveland Community College	Education	6	250-499	9	100-249
City of Shelby	Public Administration	7	250-499	6	250-499
Curtis-Wright Controls	Transportation Equipment	8	250-499	8	250-499
Ultr Maching	Machine Shop	9	250-499		
White Oak Manor Inc	Education & Health Services	10	250-499		
Honeywell Sensing & Control	Transportation Equipment			7	250-499
Bernhardt Furniture	Furniture			10	100-249

Source: Cleveland County Chamber of Commerce

Note: Data not available prior to 2006.

Note: Data not available on percentage of total employment.

CITY OF SHELBY, NORTH CAROLINA

Full-Time Equivalent City Government Employees by Function

Last Ten Fiscal Years

Function	Fiscal Year			
	2001	2002	2003	2004
General government	30.5	32	33.5	33.5
Public safety:				
Police	81	82	82	82
Fire	56	56	56	56
Transportation	17	18.5	20	21
Environmental protection	46	46	42	38
Cultural and recreation	27	26	24	24
Housing and redevelopment	11.5	9.5	9.5	9.5
Business-type activities:				
Water	19.5	19.5	17.5	17.2
Sewer	21.5	21.5	19.5	19.75
Electric	11	11	9.5	10.88
Gas	17	17	17.5	18.67
Housing	6	6	6	6
Total	344	345	337	336.5

Source: City of Shelby's Finance Department

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
32.5	31.5	30	38	38	38
83	86	86	87	87	87
56	56	54	53	53	53
20.5	20	18	19	19	19
38	19	17	17	17	17
24	23	19	19	19	19
10	8.5	8	9	9	9
17.75	18.5	18.5	17.5	17.5	17.5
19.5	19.5	21	18.5	18.5	18.5
11.25	12.5	11.5	10.5	10.5	10.5
19	20	20.5	18.5	18.5	18.5
<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
<u>337.5</u>	<u>320.5</u>	<u>309.5</u>	<u>313</u>	<u>313</u>	<u>313</u>

CITY OF SHELBY, NORTH CAROLINA

Operating Indicators by Function

Last Ten Fiscal Years

Function	Fiscal Year				
	2001	2002	2003	2004	
Public safety:					
Police:					
Number of calls for service	*	39,903	39,057	46,244	48,388
Uniform Crime Report Part I Crimes Reported	*	2,076	1,863	1,969	1,987
Uniform Crime Report Part II Crimes Reported	*	938	926	874	836
Fire:					
Number of responses		1,730	1,634	1,636	1,724
Number of inspections		1,750	1,912	2,028	1,408
Transportation:					
Miles of street repaved		2.2	0	2.5	2.9
Environmental Protection:					
Tons of Solid Waste Collected		9,008	8,957	9,233	9,133
Cultural and recreation:					
Number of Youth Sport Program Participants		N/A	1,460	1,488	1,540
Number of Adult Sport Program Participants		N/A	855	810	820
Number of Golf Rounds Played		12,441	11,548	9,497	11,115
Housing and redevelopment:					
Building inspections					
Number of permits issued	*	1,408	1,372	1,206	1,263
Number of inspections	*	6,080	6,836	6,112	5,473
Business-type activities:					
Water system:					
Customers at June 30		9,916	10,026	9,822	10,137
Average of daily consumption	**	4.62	5.32	4.28	4.53
Peak daily consumption	**	6.97	7.98	6.51	5.70
Sewer system:					
Customers at June 30		8,200	8,295	8,361	8,397
Average of daily treatment	**	2.88	2.74	2.68	2.62
Peak daily treatment	**	7.50	4.00	4.00	6.00
Electric system:					
Customers at June 30		8,136	8,166	7,939	8,322
Natural gas system:					
Customers at June 30		9,866	10,016	10,168	10,248

* 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

2005	2006	2007	2008	2009	2010
46,794	46,006	43,246	43,310	40,251	39,741
1,875	1,500	1,348	1,489	1,149	1,149
848	771	712	649	625	625
1,740	1,929	1,848	1,883	1,913	1,976
1,683	1,645	1,169	1,355	707	1,426
2.6	1.6	1.2	0	3	0
8,978	8,387	9,928	9,925	10,608	7,937
1,570	1,754	2,019	2,276	2,247	3,566
890	832	1,106	1,044	622	758
10,458	10,894	10,936	12,341	11,818	11,240
1,137	1,064	994	1,072	1,057	919
4,084	3,866	4,067	4,621	4,343	4,205
10,083	10,048	10,090	10,048	9,554	9,601
4.39	4.39	4.68	4.33	4.97	4.06
6.50	6.50	6.32	7.02	7.09	5.78
8,356	8,350	8,362	8,282	7,826	7,866
2.81	2.81	2.77	2.42	2.72	2.26
6.00	6.00	3.20	5.29	7.55	9.98
8,230	8,212	8,245	8,268	8,290	7,432
10,350	10,372	10,437	10,404	9,755	9,793

CITY OF SHELBY, NORTH CAROLINA

Capital Assets Statistics by Function

Last Ten Fiscal Years

Function	Fiscal Year			
	2001	2002	2003	2004
Public safety:				
Police				
Number of stations	1	1	1	1
Number of patrol units	23	23	23	22
Fire				
Number of stations	3	3	3	3
Transportation:				
Number of airports	1	1	1	1
Miles of paved roads	107.30	108.17	118.19	120.09
Miles of unpaved roads	0.80	0.80	0.87	0.19
Miles of sidewalks	36	36	36	36
Cultural and recreation:				
Number of parks	12	12	12	12
Acres of parks land	169	169	169	169
Swimming pools	1	1	1	1
Gymnasiums	2	2	2	2
Golf course (nine holes)	1	1	1	1
Business-type activities:				
Water system:				
Number of treatment plants	1	1	1	1
Plant capacity	12	12	12	12
Miles of water mains	208	216	216	216
Number of fire hydrants	1,280	1,280	1,280	1,176
Sewer system:				
Number of treatment plants	1	1	1	1
Plant capacity	6	6	6	6
Miles of sanitary sewers	159	178	178	178
Miles of storm sewers	6.5	6.5	6.5	6.5
Electric system:				
Number of sub-stations	3	3	3	3
System capacity	47	47	52	52
Miles of primary lines	136	204	207	207
Miles of secondary lines	173	173	173	175
Natural gas system:				
Miles of gas mains	480	486	493	450

* In millions gallons

** In mega-watts

Source: Various City Departments

2005	2006	2007	2008	2009	2010
1	1	1	1	1	1
22	22	31	32	43	43
3	3	3	3	3	3
1	1	1	1	1	1
121.55	120.82	121.14	121.33	121.52	122.41
0.2	0.2	0.25	0.25	0.25	0.25
36	36	27.8	27.8	27.8	27.8
12	12	12	12	12	12
169	169	169	169	169	169
1	1	1	1	1	1
2	2	2	2	2	2
1	1	1	1	1	1
1	1	1	1	1	1
12	12	12	12	12	12
220	220	206	206	215	214
1,273	1,273	1,305	1,301	1,305	1343
1	1	1	1	1	1
6	6	6	6	6	6
178	178	181	191	202	204
6.5	6.5	6.5	6.5	6.5	6.5
3	4	4	4	4	4
52	52	65	65	65	65
207	207	133	134	135	141
175	175	222	222	202	203
462	462	463	465	496	473



COMPLIANCE SECTION

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act

Schedule of Findings and Questioned Costs

Corrective Action Plan

Summary Schedule of Prior Year Audit Findings

Schedule of Expenditures of Federal and State Awards

Note to Schedule of Expenditures of Federal and State Awards

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregated remaining fund information of the City of Shelby, North Carolina (the “City”), as of and for the year ended June 30, 2010, which collectively comprises the City of Shelby’s basic financial statements, and have issued our report thereon dated February 15, 2011. We did not audit the financial statements of the City of Shelby ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Shelby ABC Board, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. Management has disclosed immaterial instances of non-compliance with North Carolina General Statute 159-28 in the notes to the financial statements.

We noted operational matters that we reported to management and those charged with governance in a separate letter dated February 15, 2011.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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 are required to be reported under *Government Auditing Standards*.

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

February 15, 2011

Dixon Hughes PLLC

Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act

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

Compliance

We have audited the compliance of the City of Shelby, North Carolina, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The City of Shelby's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Shelby's management. Our responsibility is to express an opinion on the City of Shelby's compliance based on our audit.

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

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

In our opinion, the City of Shelby complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

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

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

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

February 15, 2011

Dixon Hughes PLLC

Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act

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

Compliance

We have audited the compliance of the City of Shelby, North Carolina, 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 its major state program for the year ended June 30, 2010. The City of Shelby's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the City of Shelby's management. Our responsibility is to express an opinion on the City of Shelby's compliance based on our audit.

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

In our opinion, the City of Shelby complied, in all material respects, with the requirements referred to above that are applicable to its major state program for the year ended June 30, 2010.

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

Internal Control Over Compliance

The management of the City of Shelby is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the City of Shelby's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Shelby's internal control over compliance.

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

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

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

February 15, 2011

Dixon Hughes PLLC

CITY OF SHELBY, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2010

Section I--Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no

- Significant deficiencies identified that
are not considered to be material
weaknesses? _____ yes X none reported

- Non-compliance material to financial
statements noted? _____ yes X no

Federal Awards

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no

- Significant deficiencies identified that
are not considered to be material
weaknesses? _____ yes X none reported

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

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Findings and Questioned Costs, Continued

For the Year Ended June 30, 2010

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

Identification of major federal programs:

Name of Federal Program or Cluster

<u>Program Name</u>	<u>CFDA #</u>
Community Development Block Grant/Small Capital Fund Program	14.872
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? _____ yes _____ X no

State Awards

Internal control over major state programs:

- Material weakness(es) identified? _____ yes _____ X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes _____ X none reported

Type of auditors' report issued on compliance for major state programs: unqualified

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Findings and Questioned Costs, Continued

For the Year Ended June 30, 2010

Any audit findings disclosed that are
required to be reported in accordance
with the State Single Audit
Implementation Act?

_____ yes

_____ **X** _____ no

Identification of major state programs:

Name of State Program or Cluster

Program Name

Clean Water Management Trust Fund
Powell Bill

Section II--Financial Statement Findings

None reported.

Section III--Federal Award Findings and Questioned Costs

None reported.

Section IV--State Award Findings and Questioned Costs

None reported.

CITY OF SHELBY, NORTH CAROLINA

Summary Schedule of Prior Year Audit Findings

For the Year Ended June 30, 2010

Finding 2008-1 Financial Reporting

Status: Corrected

Finding 2008-2 Utility Billing

Status: Corrected

There were no findings reported in 2009.

CITY OF SHELBY, NORTH CAROLINA

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2010

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass-Through Grantor's Number</u>	<u>Federal Direct and Pass-Through Expenditures</u>	<u>State Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Program:				
Low Rent Housing Program:				
Public Housing Authority Owned Rental Housing	14.850	N/A	\$ 475,828	\$ -
Capital Fund Program (CFP)--2008	14.872	N/A	8,498	-
Capital Fund Program (CFP)--2009	14.872	N/A	92,875	-
ARRA--Capital Fund Program (CFP)--2009	14.872	N/A	126,062	-
<u>U.S. Department of Justice</u>				
Direct Program:				
Justice Assistance Grant	16.738	N/A	20,200	-
Weed and Seed Grant	16.595	N/A	73,042	-
Justice Assistance Grant	16.738	N/A	11,334	-
ARRA--Justice Assistance Grant	16.738	N/A	112,681	-
Bulletproof Vest Partnership Program	16.607	N/A	2,500	-
Passed through N.C. Department of Crime Control and Public Safety:				
Project Safe Neighborhoods	16.609	N/A	18,800	-
Project Safe Neighborhoods	16.609	N/A	114,632	-
Project Safe Neighborhoods	16.609	N/A	12,397	-
<u>U.S. Department of Transportation</u>				
Passed-through N.C. Department of Transportation:				
Airport Improvement Program	20.106	36237.16.8.1	27,935	-
Airport Improvement Program	20.106	36237.16.8.2	736,931	-
Airport Improvement Program	N/A	36237.16.9.1	-	292,015
State and Community Highway Safety--Governors Highway Safety Program	20.205	40922.1.11	14,456	-
<u>N.C. Department of Environment and Natural Resources</u>				
Clean Water Management Trust Fund	N/A	N/A	-	778,621
<u>N.C. Department of Transportation</u>				
Powell Bill	N/A	32570	-	592,441
<u>N.C. Department of Parks and Recreation Authority</u>				
Part F Recreation Grant	N/A	N/A	-	43,914

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Expenditures of Federal and State Awards (Continued)

For the Year Ended June 30, 2010

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass- Through Grantor's Number</u>	<u>Federal Direct and Pass- Through Expenditures</u>	<u>State Expenditures</u>
N.C. Department of Environment and Natural Resources Garden Trail Grant	N/A	N/A	\$ -	\$ 2,054
Total federal and state awards			<u>\$1,848,171</u>	<u>\$1,709,045</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying schedule of expenditures of federal and state awards is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

See the accompanying Independent Auditors' Report.

