

**CITY OF SHELBY  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

**PREPARED BY:**

**CITY OF SHELBY FINANCE DEPARTMENT**



**CITY OF SHELBY, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR YEAR ENDED JUNE 30, 2016**

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## **INTRODUCTORY SECTION**





October 31, 2016

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

State law requires that all municipal governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Shelby for the fiscal year ended June 30, 2016.

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

The independent certified public accounting firm of Martin Starnes and Associates, CPA's, P.A. has audited the City of Shelby's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Shelby for the fiscal year ended June 30, 2016, 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 unmodified opinion that the City of Shelby's financial statements for the fiscal year ended June 30, 2016, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Shelby was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not

only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards.

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

## **Profile of the Government**

The City of Shelby was incorporated in 1843 and serves as the county seat of Cleveland County. The City lies in the piedmont region of North Carolina approximately 40 miles west of Charlotte. The City was named after Colonel Isaac Shelby, who fought in the Revolutionary War and was a revolutionary war hero and later became the governor of Kentucky. The City has a population of approximately 21,000 and presently covers a land area of 21.29 square miles. The City of Shelby is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

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

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

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

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

### **Factors Affecting Financial Condition**

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

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

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

The City continues to develop and market the Foothills Commerce Center in Shelby. This 152 acre business park partnership with Cleveland County ensures the availability of a quality economic development product that is being effectively marketed to both new and existing industry. The City Foothills Commerce Center was awarded the designation as a "Certified

Business Park”. Ultimately this designation lets potential industrial clients know that the City has completed the upfront due diligence on the site.

KSM Castings Group, a company that manufactures automotive components, has announced plans to expand its current 110,000 sf. facility with an additional \$80 million in net new investment. KSM is currently employs approximately 120 employees and will add another 80 through this expansion. KSM has annexed into the City and is being served by City utilities.

The City of Shelby and Cleveland County have completed the sale of a 100,000 sq. foot shell building to Ivars Displays, which specializes in a variety of point of purchase displays, glass showcases, store fixtures and retail counter units. They currently have approximately 35 employees.

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

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

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

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

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

fund. The City also maintains an encumbrance accounting system as one method of maintain budgetary control. Encumbrance amounts lapse at year-end but are re-appropriated as part of the following year's budget.

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

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

### **Budget Highlights for FY 2017**

The City tax rate increased to 49.72 cents per one hundred dollars of valuation for FY 2017. Budgeted expenditures in the General Fund are expected to increase modestly to \$20,252,905 in FY 2017. The City's water and sewer rates had increases of 5%, for outside City customers, for FY 2017. The City electric rates were not increased in FY 2017. The City will remain on the margin-based rate structure implemented in July 2001 for its Gas Fund. The margins will not increase in FY 2017.

In FY 16 the City entered into a financing agreement for the purchase of rolling stock, the loan proceeds received amounted to \$1,333,790. The loan term is 59 months with annual payments, beginning March 2016, with an interest rate of 1.49 percent.

### **AWARDS AND ACKNOWLEDGMENTS**

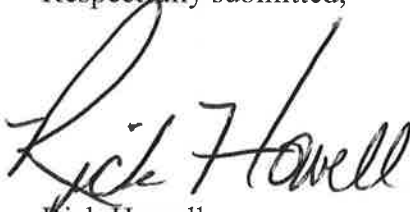
The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Shelby for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This was the eighteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of

Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

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

Respectfully submitted,



Rick Howell  
City Manager



Justin S. Merritt  
Director of Finance





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Shelby  
North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

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City of Shelby, North Carolina

List of Principal Officials  
June 30, 2016

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*Elected Officials*

Oliver Stanhope Anthony, III  
*Mayor*

Eric B. Hendrick

Dennis C. Bailey  
*Mayor Pro Tem*

Dicky Amaya

David W. White

David Causby

Ben U. Kittrell

*City Administration*

Rick Howell  
*City Manager*

Justin S. Merritt  
*Director of Finance*

Bernadette A. Parduski  
*City Clerk*

Julie R. McMurry  
*Energy Services Director*

Deborah Jolly  
*Director of Human Resources*

Jeff Ledford  
*Police Chief*

Charles K. Holtzclaw  
*Director of Parks & Recreation*

Daniel C. Darst  
*Director of Public Works*

William P. Hunt  
*Fire Chief*

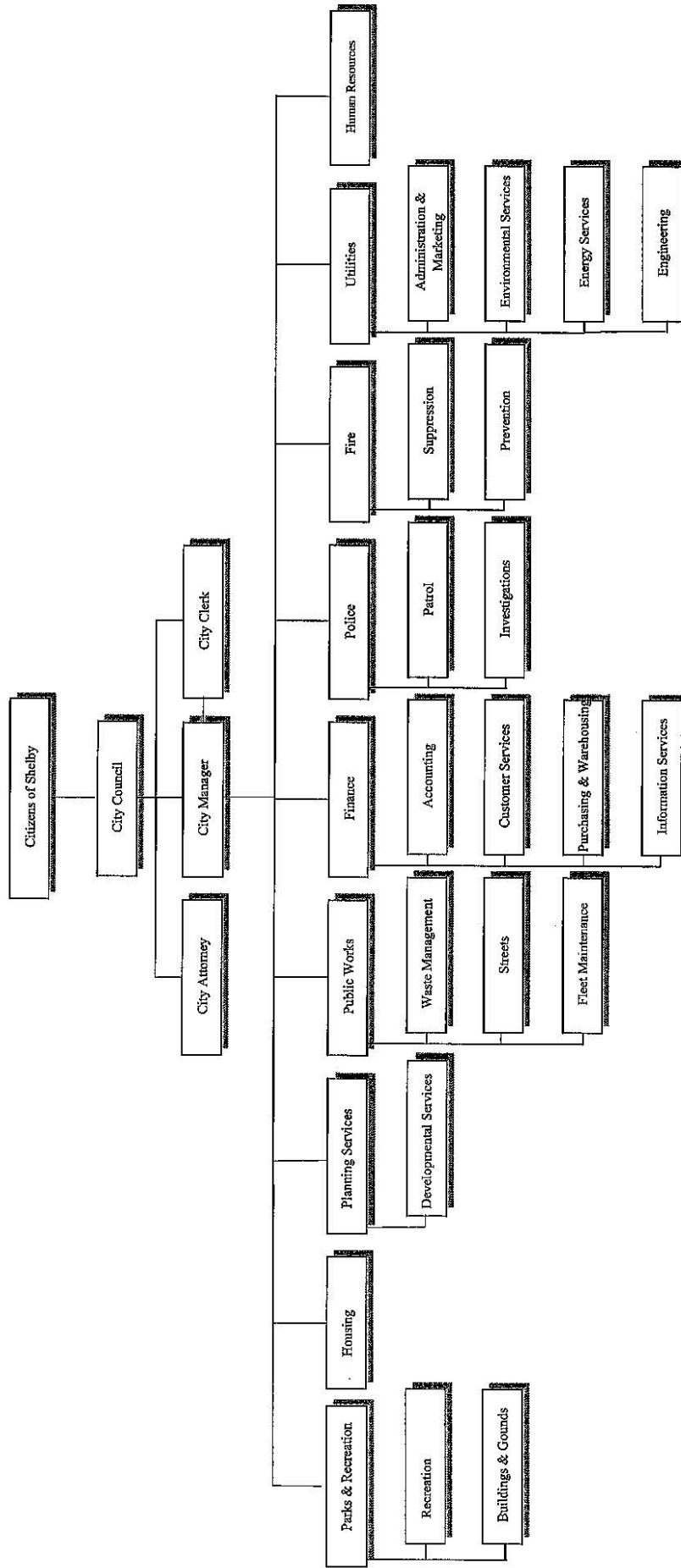
Bryan T. Howell  
*Director of Housing*

Walter Scharer, AICP  
*Director of Planning & Development Services*

Robert W. (Bob) Yelton  
*City Attorney*

David Hux  
*Water Resources Director*

# City of Shelby Organization Chart







# FINANCIAL SECTION



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

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

## INDEPENDENT AUDITOR'S REPORT

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

### **Report On the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Shelby ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Shelby ABC Board, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, based upon 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelby's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, statistical section, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or the basic financial statements themselves, and other additional procedures in



accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors the combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016 on our consideration of the City of Shelby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelby's internal control over financial reporting and compliance.

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 31, 2016



## Management's Discussion and Analysis

As management of the City of Shelby (the "City"), 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, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

### Financial Highlights

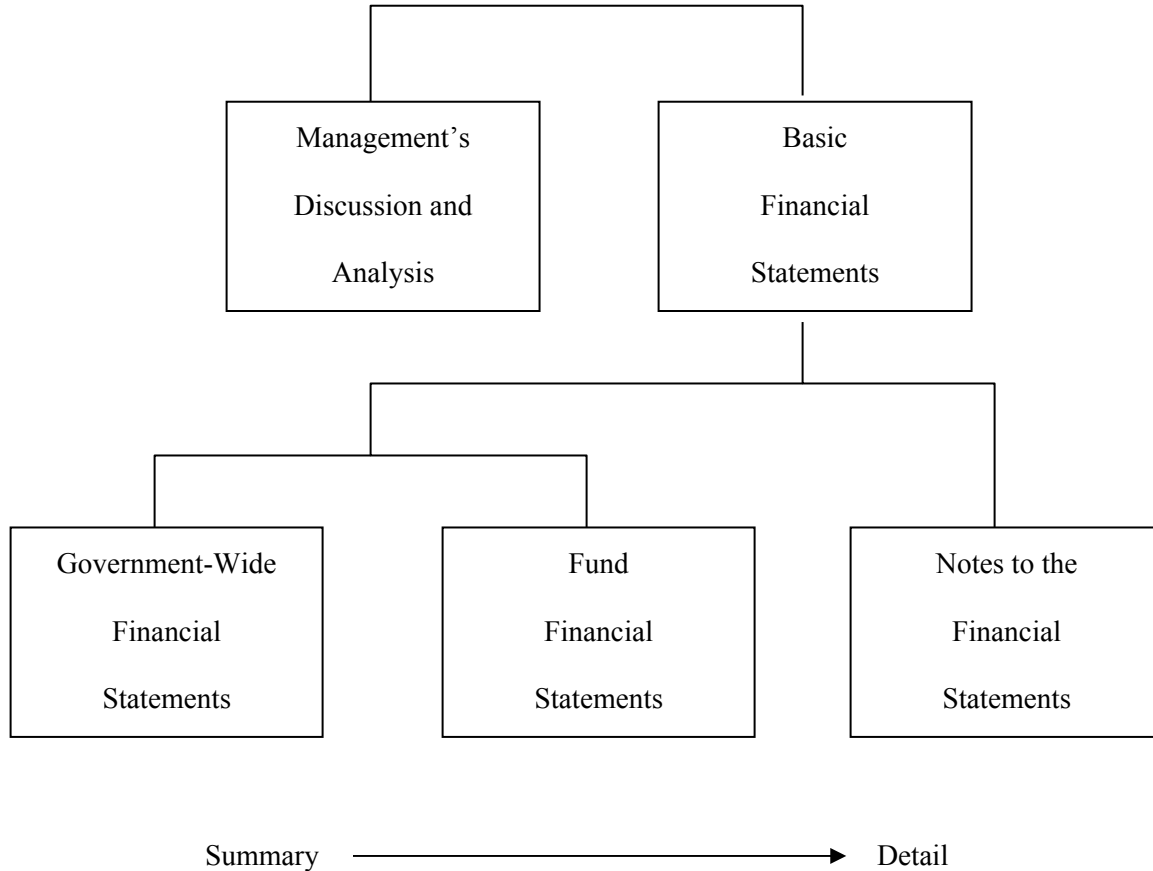
- The assets and deferred outflows of resources of the City of Shelby exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$139,102,683 (*net position*).
- The government's total net position increased by \$4,605,994, due to an increase of \$2,141,239 in governmental activities net position and an increase of \$2,464,755 in business-type activities net position.
- As of the close of the current fiscal year, the City of Shelby's governmental funds reported combined ending fund balances of \$10,818,115, with a net decrease in fund balance of \$506,867. Approximately 55.9 percent of this total amount, or \$6,051,838, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,859,379, or 13.1% percent, of total General Fund expenditures and transfers out for the fiscal year.

### Overview of the Financial Statements

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

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

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

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes explain in detail some of the data contained in those statements. Following the notes is the **Required Supplemental Information**. This section contains funding information about the City's pension plans.

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

## Government-Wide Financial Statements

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

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City's financial condition.

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

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

## Fund Financial Statements

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

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

The City of Shelby maintains six 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 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

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

**Interdependence with Other Entities.** The City depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the City is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

## Government-Wide Financial Analysis

**City of Shelby's Net Position  
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Assets:</b>						
Current/other assets	\$ 11,858,990	\$ 13,248,297	\$ 27,507,628	\$ 27,099,525	\$ 39,366,618	\$ 40,347,822
Capital assets	40,550,723	37,798,701	107,549,218	102,303,882	148,099,941	140,102,583
Total assets	<u>52,409,713</u>	<u>51,046,998</u>	<u>135,056,846</u>	<u>129,403,407</u>	<u>187,466,559</u>	<u>180,450,405</u>
<b>Deferred outflows of resources</b>						
	<u>665,788</u>	<u>662,710</u>	<u>730,339</u>	<u>770,977</u>	<u>1,396,127</u>	<u>1,433,687</u>
<b>Total assets and deferred outflows of resources</b>						
	<u>53,075,501</u>	<u>51,709,708</u>	<u>135,787,185</u>	<u>130,174,384</u>	<u>188,862,686</u>	<u>181,884,092</u>
<b>Liabilities:</b>						
Long-term liabilities	7,527,458	6,529,162	32,133,887	28,158,057	39,661,345	34,687,219
Other liabilities	<u>2,082,679</u>	<u>1,835,338</u>	<u>7,408,220</u>	<u>7,659,341</u>	<u>9,490,899</u>	<u>9,494,679</u>
Total liabilities	<u>9,610,137</u>	<u>8,364,500</u>	<u>39,542,107</u>	<u>35,817,398</u>	<u>49,152,244</u>	<u>44,181,898</u>
<b>Deferred inflows of resources</b>						
	<u>472,799</u>	<u>2,493,882</u>	<u>134,960</u>	<u>711,623</u>	<u>607,759</u>	<u>3,205,505</u>
<b>Total liabilities and deferred inflows of resources</b>						
	<u>10,082,936</u>	<u>10,858,382</u>	<u>39,677,067</u>	<u>36,529,021</u>	<u>49,760,003</u>	<u>47,387,403</u>
<b>Net Position:</b>						
Net investment in capital assets	37,343,892	34,486,397	75,471,923	72,258,784	112,815,815	106,745,181
Restricted	5,566,251	5,448,437	-	-	5,566,251	5,448,437
Unrestricted	<u>82,422</u>	<u>916,492</u>	<u>20,638,195</u>	<u>21,386,579</u>	<u>20,720,617</u>	<u>22,303,071</u>
Total net position	<u>\$ 42,992,565</u>	<u>\$ 40,851,326</u>	<u>\$ 96,110,118</u>	<u>\$ 93,645,363</u>	<u>\$ 139,102,683</u>	<u>\$ 134,496,689</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Shelby exceeded liabilities and deferred inflows by \$139,102,683 as of June 30, 2016. The City's net position increased by \$4,605,994 for the fiscal year ended June 30, 2016. The City's net position also reflects the net investment in capital assets (e.g., land, buildings, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Shelby uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Shelby's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City's net position, \$5,566,251, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$20,720,617 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 98.16%.
- Increase in charges for services and grants and contributions increased revenues in the current year.

**City of Shelby’s Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 5,076,071	\$ 2,191,677	\$ 47,455,828	\$ 51,197,509	\$ 52,531,899	\$ 53,389,186
Operating grants and contributions	1,920,282	1,548,569	575,420	591,568	2,495,702	2,140,137
Capital grants and contributions	666,221	854,472	260,038	165,918	926,259	1,020,390
General revenues:						
Property taxes	8,262,664	8,315,510	-	-	8,262,664	8,315,510
Other taxes	5,168,336	4,912,103	-	-	5,168,336	4,912,103
Investment earnings	114,197	143,236	52,042	26,540	166,239	169,776
Total revenues	<u>21,207,771</u>	<u>17,965,567</u>	<u>48,343,328</u>	<u>51,981,535</u>	<u>69,551,099</u>	<u>69,947,102</u>
<b>Expenses:</b>						
General government	2,334,588	2,605,416	-	-	2,334,588	2,605,416
Public safety	10,467,314	10,075,143	-	-	10,467,314	10,075,143
Transportation	3,348,830	3,101,499	-	-	3,348,830	3,101,499
Environmental protection	1,501,959	1,639,802	-	-	1,501,959	1,639,802
Cultural and recreational	2,470,556	2,294,806	-	-	2,470,556	2,294,806
Housing and redevelopment	2,890,544	996,533	-	-	2,890,544	996,533
Interest on long-term debt	57,441	11,692	-	-	57,441	11,692
Water	-	-	4,097,340	3,895,959	4,097,340	3,895,959
Sewer	-	-	4,359,328	4,256,832	4,359,328	4,256,832
Electric	-	-	20,608,130	21,973,883	20,608,130	21,973,883
Gas	-	-	10,827,088	14,717,491	10,827,088	14,717,491
Stormwater	-	-	725,823	294,418	725,823	294,418
Housing assistance	-	-	1,256,164	1,221,394	1,256,164	1,221,394
Total expenses	<u>23,071,232</u>	<u>20,724,891</u>	<u>41,873,873</u>	<u>46,359,977</u>	<u>64,945,105</u>	<u>67,084,868</u>
Increase (decrease) in net position before transfers	(1,863,461)	(2,759,324)	6,469,455	5,621,558	4,605,994	2,862,234
Transfers in (out)	<u>4,004,700</u>	<u>5,583,553</u>	<u>(4,004,700)</u>	<u>(5,583,553)</u>	-	-
Increase (decrease) in net position	<u>2,141,239</u>	<u>2,824,229</u>	<u>2,464,755</u>	<u>38,005</u>	<u>4,605,994</u>	<u>2,862,234</u>
<b>Net Position:</b>						
Beginning of year - July 1	40,851,326	39,486,294	93,645,363	94,023,736	134,496,689	133,510,030
Prior period adjustment	-	(1,459,197)	-	(416,378)	-	(1,875,575)
Beginning of year - July 1, as restated	<u>40,851,326</u>	<u>38,027,097</u>	<u>93,645,363</u>	<u>93,607,358</u>	<u>134,496,689</u>	<u>131,634,455</u>
End of year -June 30	<u>\$ 42,992,565</u>	<u>\$ 40,851,326</u>	<u>\$ 96,110,118</u>	<u>\$ 93,645,363</u>	<u>\$ 139,102,683</u>	<u>\$ 134,496,689</u>



**Governmental Activities.** Governmental activities increased the City's net position by \$2,141,239. Key elements of this increase are as follows:

- Increase due to sale of economic development structure for proceeds of \$2,814,000 in the current year.
- Transfers from the Gas Fund and the Electric Fund for returns on the City's investment.

**Business-Type Activities.** Business-type activities increased the City of Shelby's net position by \$2,464,755. Key elements of this increase are as follows:

- Significant decrease in Gas Fund expenditures due to a much warmer winter than in previous years.
- Inflows of cash, in the approximate amount of \$1,000,000 in the Sewer Fund, were reimbursed through debt proceeds in fiscal year 2016.

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

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

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

The General Fund is the chief operating fund of the City of Shelby. At the end of the current fiscal year, fund balance available in the General Fund was \$3,577,084, while total fund balance reached \$7,635,671. As a measure of the General Fund's liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 27.63% of total General Fund expenditures and transfers to other funds, while total fund balance represents 34.92% of that same amount.

At June 30, 2016, the governmental funds of the City of Shelby reported a combined fund balance of \$10,818,115, a decrease of \$506,867 from last year. The primary reason for this decrease is due to increased Fire Department expenditures related to capital purchase of a ladder truck in the current 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. Total amendments to the General Fund increased revenues by approximately \$35,052 (.21%). Amendments were necessary due to conservatism used in compiling the original budget and economic changes.

**Proprietary Funds.** The City of Shelby’s proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position for the major enterprise funds at the fiscal year-end in the Water Fund was \$4,461,406; in the Sewer Fund was \$1,667,739; in the Electric Fund was \$6,460,121; and in the Gas Fund was \$5,691,532. Factors of these funds have already been addressed in the discussion of the City of Shelby’s business-type activities.

**Capital Asset and Debt Administration**

**Capital Assets.** The City of Shelby’s capital assets for its governmental and business–type activities as of June 30, 2016 totaled \$148,099,941 (net of accumulated depreciation). These assets include buildings, land, improvements, and equipment.

Major capital asset transactions during the year include:

- Fire Department purchase of a ladder truck for \$834,879
- Construction in progress of the Foothills Commerce Center of \$1,275,610
- Construction in progress of the Eastside Water Tank of \$1,346,180
- Construction in progress of the First Broad Wastewater Treatment Plant Improvements of \$2,231,847

**City of Shelby’s Capital Assets  
Figure 4**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 5,461,172	\$ 5,014,681	\$ 521,983	\$ 521,983	\$ 5,983,155	\$ 5,536,664
Buildings and systems	16,698,147	16,698,147	146,921,333	142,874,671	163,619,480	159,572,818
Improvements other than buildings	11,980,437	11,885,309	724,838	724,838	12,705,275	12,610,147
Machinery and equipment	8,355,830	7,790,274	6,106,725	6,069,403	14,462,555	13,859,677
Infrastructure	11,484,875	11,484,875	-	-	11,484,875	11,484,875
Vehicles and motorized equipment	9,545,036	8,849,308	3,405,146	3,084,444	12,950,182	11,933,752
Construction in progress	<u>4,342,717</u>	<u>2,517,646</u>	<u>15,069,123</u>	<u>10,773,243</u>	<u>19,411,840</u>	<u>13,290,889</u>
Subtotal	67,868,214	64,240,240	172,749,148	164,048,582	240,617,362	228,288,822
Less: accumulated depreciation	<u>(27,317,491)</u>	<u>(26,441,539)</u>	<u>(65,199,930)</u>	<u>(61,744,700)</u>	<u>(92,517,421)</u>	<u>(88,186,239)</u>
Capital assets, net	<u>\$ 40,550,723</u>	<u>\$ 37,798,701</u>	<u>\$ 107,549,218</u>	<u>\$ 102,303,882</u>	<u>\$ 148,099,941</u>	<u>\$ 140,102,583</u>

Additional information on the City’s capital assets can be found in Note 2.A. of the basic financial statements located on pages 41-47.

**City of Shelby's Outstanding Debt  
Long-Term Debt  
Figure 5**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Installment purchase notes	\$ 3,206,831	\$ 3,312,304	\$ 14,302,441	\$ 10,164,600	\$ 17,509,272	\$ 13,476,904
Revenue bonds	-	-	20,045,542	20,462,373	20,045,542	20,462,373
Net pension liability-LGERS	744,273	-	212,375	-	956,648	-
Compensated absences	926,397	912,210	228,719	209,578	1,155,116	1,121,788
Net pension obligation	774,128	648,660	-	-	774,128	648,660
Other post-employment benefits	3,114,037	2,819,495	892,277	802,945	4,006,314	3,622,440
Total	<u>\$ 8,765,666</u>	<u>\$ 7,692,669</u>	<u>\$ 35,681,354</u>	<u>\$ 31,639,496</u>	<u>\$ 44,447,020</u>	<u>\$ 39,332,165</u>

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue up to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the City of Shelby is approximately \$112,386,000.

Additional information regarding the City of Shelby's long-term debt can be found in Note 2.B. on pages 50-58 of this audited financial report.

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

- The State of North Carolina unemployment numbers changed from 5.8% in June 2015 to 4.9% in June 2016. Cleveland County's numbers changed from 6.6% in June 2015 to 5.6% in June 2016.
- KSM Castings Group, a company that manufactures automotive components, has announced plans to expand its current 110,000 sq. foot facility with an additional \$80 million in net new investment. KSM currently employs approximately 120 employees and will add another 80 through this expansion. KSM has been annexed into the City and is being served by City utilities.
- The City of Shelby and Cleveland County have completed the sale of a 100,000 sq. foot shell building to Ivars Displays, which specializes in a variety of point of purchase displays, glass showcases, store fixtures, and retail counter units. They currently have approximately 50 employees.

**Budget Highlights for the Fiscal Year Ending June 30, 2017**

**Governmental Activities.** The City tax rate increased to 49.72 cents per one hundred dollars of valuation for FY 2017. Budgeted expenditures in the General Fund are expected to increase modestly to \$20,252,905 in FY 2017. This increase is largely due to the planned personnel adjustments and the purchase of various pieces of equipment, which will be financed over a period of 59 months.

**Business-Type Activities.** The City's water and sewer rates had increases of 5% for outside City customers for FY 2017. 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 2017.

### **Requests for Information**

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



## **BASIC FINANCIAL STATEMENTS**

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



## CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF NET POSITION  
JUNE 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 6,834,731	\$ 17,145,149	\$ 23,979,880	\$ 333,763
Taxes receivable, net	210,146	-	210,146	-
Accounts receivable, net	665,313	5,036,881	5,702,194	-
Loans receivable	51,505	-	51,505	-
Interest receivable	15,788	-	15,788	-
Due from other governments	2,392,275	1,236,195	3,628,470	-
Internal balances	61,734	(61,734)	-	-
Inventories	124,409	1,736,719	1,861,128	624,043
Prepaid items	318,673	62,554	381,227	6,393
Total current assets	<u>10,674,574</u>	<u>25,155,764</u>	<u>35,830,338</u>	<u>964,199</u>
Non-current assets:				
Cash and cash equivalents, restricted	1,184,416	2,351,864	3,536,280	-
Capital assets, non-depreciable	9,803,889	15,591,106	25,394,995	182,567
Capital assets, net	<u>30,746,834</u>	<u>91,958,112</u>	<u>122,704,946</u>	<u>143,538</u>
Total non-current assets	<u>41,735,139</u>	<u>109,901,082</u>	<u>151,636,221</u>	<u>326,105</u>
Total assets	<u>52,409,713</u>	<u>135,056,846</u>	<u>187,466,559</u>	<u>1,290,304</u>
<b>Deferred Outflows of Resources:</b>				
Contributions to pension plan in current fiscal year	665,788	190,026	855,814	32,366
Deferred charge on refunding	-	540,313	540,313	-
Total deferred outflows of resources	<u>665,788</u>	<u>730,339</u>	<u>1,396,127</u>	<u>32,366</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable and accrued liabilities	824,671	3,057,585	3,882,256	292,123
Accrued interest payable	13,743	181,679	195,422	-
Other liabilities	6,057	-	6,057	-
Liabilities to be paid from restricted assets	-	621,489	621,489	-
Current portion of long-term liabilities	<u>1,238,208</u>	<u>3,547,467</u>	<u>4,785,675</u>	<u>-</u>
Total current liabilities	<u>2,082,679</u>	<u>7,408,220</u>	<u>9,490,899</u>	<u>292,123</u>
Long-term liabilities:				
Net pension liability - LGERS	744,273	212,375	956,648	14,947
Due in more than one year	<u>6,783,185</u>	<u>31,921,512</u>	<u>38,704,697</u>	<u>-</u>
Total long-term liabilities	<u>7,527,458</u>	<u>32,133,887</u>	<u>39,661,345</u>	<u>14,947</u>
Total liabilities	<u>9,610,137</u>	<u>39,542,107</u>	<u>49,152,244</u>	<u>307,070</u>
<b>Deferred Inflows of Resources:</b>				
Pension deferrals	<u>472,799</u>	<u>134,960</u>	<u>607,759</u>	<u>7,768</u>
Total deferred inflows of resources	<u>472,799</u>	<u>134,960</u>	<u>607,759</u>	<u>7,768</u>
<b>Net Position:</b>				
Net investment in capital assets	37,343,892	75,471,923	112,815,815	326,105
Restricted for:				
Stabilization by State statute	4,211,049	-	4,211,049	-
Perpetual - non-expendable	818,011	-	818,011	-
Public safety	170,786	-	170,786	-
Streets - Powell Bill	366,405	-	366,405	-
Working capital	-	-	-	124,082
Unrestricted	<u>82,422</u>	<u>20,638,195</u>	<u>20,720,617</u>	<u>557,645</u>
Total net position	<u>\$ 42,992,565</u>	<u>\$ 96,110,118</u>	<u>\$ 139,102,683</u>	<u>\$ 1,007,832</u>

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

CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 2,334,588	\$ 3,371,471	\$ 54,687	\$ -
Public safety	10,467,314	22,653	1,167,477	-
Transportation	3,348,830	268,081	15,000	436,938
Environmental protection	1,501,959	1,141,836	-	-
Cultural and recreation	2,470,556	272,030	-	-
Housing and redevelopment	2,890,544	-	683,118	229,283
Interest on long-term debt	57,441	-	-	-
Total governmental activities	<u>23,071,232</u>	<u>5,076,071</u>	<u>1,920,282</u>	<u>666,221</u>
<b>Business-Type Activities:</b>				
Water Fund	4,097,340	4,721,618	79,209	-
Sewer Fund	4,359,328	5,229,833	32,382	-
Electric Fund	20,608,130	21,981,343	-	-
Gas Fund	10,827,088	14,163,868	9,192	-
Stormwater Fund	725,823	735,811	-	-
Housing Assistance Fund	1,256,164	623,355	454,637	260,038
Total business-type activities	<u>41,873,873</u>	<u>47,455,828</u>	<u>575,420</u>	<u>260,038</u>
Total primary government	<u>\$ 64,945,105</u>	<u>\$ 52,531,899</u>	<u>\$ 2,495,702</u>	<u>\$ 926,259</u>
<b>Component Unit:</b>				
City of Shelby ABC Board	<u>\$ 3,231,416</u>	<u>\$ 3,231,416</u>	<u>\$ -</u>	<u>\$ -</u>

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



CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs:	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 1,091,570	\$ -	\$ 1,091,570	\$ -
Public safety	(9,277,184)	-	(9,277,184)	-
Transportation	(2,628,811)	-	(2,628,811)	-
Environmental protection	(360,123)	-	(360,123)	-
Cultural and recreation	(2,198,526)	-	(2,198,526)	-
Housing and redevelopment	(1,978,143)	-	(1,978,143)	-
Interest on long-term debt	(57,441)	-	(57,441)	-
Total governmental activities	<u>(15,408,658)</u>	<u>-</u>	<u>(15,408,658)</u>	<u>-</u>
<b>Business-Type Activities:</b>				
Water Fund	-	703,487	703,487	-
Sewer Fund	-	902,887	902,887	-
Electric Fund	-	1,373,213	1,373,213	-
Gas Fund	-	3,345,972	3,345,972	-
Stormwater Fund	-	9,988	9,988	-
Housing Assistance Fund	-	81,866	81,866	-
Total business-type activities	<u>-</u>	<u>6,417,413</u>	<u>6,417,413</u>	<u>-</u>
Total primary government	<u>(15,408,658)</u>	<u>6,417,413</u>	<u>(8,991,245)</u>	<u>-</u>
<b>Component Unit:</b>				
City of Shelby ABC Board	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>General Revenues:</b>				
Taxes				
Property tax	8,262,664	-	8,262,664	-
Sales tax	3,061,136	-	3,061,136	-
Franchise tax	2,008,127	-	2,008,127	-
Other taxes	99,073	-	99,073	-
Investment earnings	114,197	52,042	166,239	238
Total general revenues, not including transfers	<u>13,545,197</u>	<u>52,042</u>	<u>13,597,239</u>	<u>238</u>
Transfers	<u>4,004,700</u>	<u>(4,004,700)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>17,549,897</u>	<u>(3,952,658)</u>	<u>13,597,239</u>	<u>238</u>
Change in net position	2,141,239	2,464,755	4,605,994	238
<b>Net Position:</b>				
Beginning of year - July 1	<u>40,851,326</u>	<u>93,645,363</u>	<u>134,496,689</u>	<u>1,007,594</u>
End of year - June 30	<u>\$ 42,992,565</u>	<u>\$ 96,110,118</u>	<u>\$ 139,102,683</u>	<u>\$ 1,007,832</u>

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

CITY OF SHELBY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 3,945,341	\$ 2,889,390	\$ 6,834,731
Receivables, net:			
Taxes	207,199	2,947	210,146
Accounts	643,811	21,502	665,313
Interest	14,543	1,245	15,788
Loans	-	51,505	51,505
Due from other funds	1,137,673	-	1,137,673
Due from other governments	1,828,478	563,797	2,392,275
Inventories	124,409	-	124,409
Prepaid items	309,673	9,000	318,673
Restricted cash and cash equivalents	366,405	818,011	1,184,416
	<u>8,577,532</u>	<u>4,357,397</u>	<u>12,934,929</u>
Total assets	\$ 8,577,532	\$ 4,357,397	\$ 12,934,929
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 728,605	\$ 96,066	\$ 824,671
Due to other funds	-	1,075,940	1,075,940
Other liabilities	6,057	-	6,057
Total liabilities	<u>734,662</u>	<u>1,172,006</u>	<u>1,906,668</u>
<b>Deferred Inflows of Resources:</b>			
Taxes receivable	207,199	2,947	210,146
Total deferred inflows of resources	<u>207,199</u>	<u>2,947</u>	<u>210,146</u>
<b>Fund Balances:</b>			
Non-spendable:			
Inventories	124,409	-	124,409
Prepays	309,673	9,000	318,673
Perpetual	-	818,011	818,011
Long-term portion of loans receivable	-	51,505	51,505
Restricted:			
Stabilization by State statute	3,624,505	586,544	4,211,049
Public safety	-	170,786	170,786
Streets - Powell Bill	366,405	-	366,405
Committed:			
Capital projects	-	199,475	199,475
Assigned:			
Subsequent year's expenditures	351,300	-	351,300
Economic development	-	2,013,345	2,013,345
Unassigned	2,859,379	(666,222)	2,193,157
Total fund balances	<u>7,635,671</u>	<u>3,182,444</u>	<u>10,818,115</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,577,532</u>	<u>\$ 4,357,397</u>	<u>\$ 12,934,929</u>

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

**CITY OF SHELBY, NORTH CAROLINA**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016**

	<b><u>Total Governmental Funds</u></b>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balances	\$ 10,818,115
Net pension liability	(744,273)
Contributions to pension plans in the current fiscal year are deferred outflows of resources on the Statement of Net Position:	665,788
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	40,550,723
Deferred inflows of resources in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end.	210,147
Pension related deferrals	(472,799)
Long-term liabilities, interest payable, and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(8,035,136)</u>
Net position of governmental activities per Exhibit A	<u>\$ 42,992,565</u>

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

## CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ 8,207,104	\$ 119,216	\$ 8,326,320
Other taxes and licenses	3,061,136	-	3,061,136
Unrestricted intergovernmental	2,220,604	-	2,220,604
Restricted intergovernmental	860,725	1,398,712	2,259,437
Permits and fees	327,337	-	327,337
Sales and services	1,698,161	-	1,698,161
Investment earnings	95,830	18,367	114,197
Donations	-	53,180	53,180
Miscellaneous	311,272	50,855	362,127
Total revenues	<u>16,782,169</u>	<u>1,640,330</u>	<u>18,422,499</u>
<b>Expenditures:</b>			
Current:			
General government	2,475,398	1,119	2,476,517
Public safety	10,975,900	89,493	11,065,393
Transportation	2,830,646	209,850	3,040,496
Environmental protection	1,910,531	-	1,910,531
Cultural and recreation	2,385,987	25,220	2,411,207
Housing and redevelopment	-	4,715,615	4,715,615
Debt service:			
Principal retirement	933,507	-	933,507
Interest and other charges	57,762	-	57,762
Total expenditures	<u>21,569,731</u>	<u>5,041,297</u>	<u>26,611,028</u>
Revenues over (under) expenditures	<u>(4,787,562)</u>	<u>(3,400,967)</u>	<u>(8,188,529)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	2,935,000	1,368,226	4,303,226
Transfers (to) other funds	(298,526)	-	(298,526)
Long-term debt issued	828,034	-	828,034
Proceeds from sale of assets	34,928	2,814,000	2,848,928
Total other financing sources (uses)	<u>3,499,436</u>	<u>4,182,226</u>	<u>7,681,662</u>
Net change in fund balances	(1,288,126)	781,259	(506,867)
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>8,923,797</u>	<u>2,401,185</u>	<u>11,324,982</u>
End of year - June 30	<u>\$ 7,635,671</u>	<u>\$ 3,182,444</u>	<u>\$ 10,818,115</u>

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

**CITY OF SHELBY, NORTH CAROLINA**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - TO THE STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

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

Net change in fund balances - total governmental funds (Exhibit D)	\$ (506,867)
<p>Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected, or is expected to be collected, within 90 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:</p>	
Property taxes	(63,656)
Expenses related to compensated absences, OPEB, and Law Enforcement Officers' Separation Allowance that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(434,197)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	4,128,463
Change in deferred outflows - pension	3,114
Change in deferred inflows - pension	2,021,047
Change in net pension asset and liability	(1,736,018)
The issuance of long-term debt is reported as revenue in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.	(828,034)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(1,376,441)
Change in accrued interest payable, governmental fund debt	321
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	<u>933,507</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 2,141,239</u>

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

## CITY OF SHELBY, NORTH CAROLINA

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
	Original	Final		
<b>Revenues:</b>				
Ad valorem taxes	\$ 8,055,000	\$ 8,055,000	\$ 8,207,104	\$ 152,104
Other taxes and licenses	3,106,000	3,106,000	3,061,136	(44,864)
Unrestricted intergovernmental	2,064,000	2,064,000	2,220,604	156,604
Restricted intergovernmental	806,850	833,202	860,725	27,523
Permits and fees	200,700	200,700	327,337	126,637
Sales and services	1,832,150	1,840,850	1,698,161	(142,689)
Investment earnings	60,000	60,000	95,830	35,830
Miscellaneous	306,500	306,500	311,272	4,772
Total revenues	<u>16,431,200</u>	<u>16,466,252</u>	<u>16,782,169</u>	<u>315,917</u>
<b>Expenditures:</b>				
Current:				
General government	2,527,213	2,608,714	2,475,398	133,316
Public safety	10,047,915	11,040,076	10,975,900	64,176
Transportation	2,609,520	3,291,012	2,830,646	460,366
Environmental protection	1,968,015	2,070,027	1,910,531	159,496
Cultural and recreation	2,389,180	2,406,460	2,385,987	20,473
Debt service:				
Principal retirement	1,079,000	1,079,000	933,507	145,493
Interest and other charges	61,800	61,800	57,762	4,038
Total expenditures	<u>20,682,643</u>	<u>22,557,089</u>	<u>21,569,731</u>	<u>987,358</u>
Revenues over (under) expenditures	<u>(4,251,443)</u>	<u>(6,090,837)</u>	<u>(4,787,562)</u>	<u>1,303,275</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	2,935,000	2,935,000	2,935,000	-
Transfers (to) other funds	(47,000)	(298,526)	(298,526)	-
Long-term debt issued	876,790	876,790	828,034	(48,756)
Proceeds from sale of capital assets	15,000	15,000	34,928	19,928
Appropriated fund balance	471,653	2,562,573	-	(2,562,573)
Total other financing sources (uses)	<u>4,251,443</u>	<u>6,090,837</u>	<u>3,499,436</u>	<u>(2,591,401)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(1,288,126)	<u>\$ (1,288,126)</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>8,923,797</u>	
End of year - June 30			<u>\$ 7,635,671</u>	

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

## CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2016

	Major Enterprise Funds				Nonmajor Funds	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 4,487,618	\$ 1,005,298	\$ 5,009,246	\$ 4,212,198	\$ 2,430,789	\$ 17,145,149
Accounts receivable, net	587,107	721,218	2,790,383	870,266	67,907	5,036,881
Due from other funds	-	-	-	930,000	-	930,000
Due from other governments	15,314	1,216,569	-	1,212	3,100	1,236,195
Inventories	344,648	102,993	815,726	465,143	8,209	1,736,719
Prepaid items	16,742	15,485	12,580	13,800	3,947	62,554
Total current assets	<u>5,451,429</u>	<u>3,061,563</u>	<u>8,627,935</u>	<u>6,492,619</u>	<u>2,513,952</u>	<u>26,147,498</u>
Non-current assets:						
Restricted cash and cash equivalents	1,775,307	45,102	281,927	209,680	39,848	2,351,864
Capital assets, non-depreciable	1,741,838	13,414,490	87,089	64,665	283,024	15,591,106
Capital assets, net	<u>22,423,637</u>	<u>29,810,594</u>	<u>17,828,807</u>	<u>16,864,787</u>	<u>5,030,287</u>	<u>91,958,112</u>
Total non-current assets	<u>25,940,782</u>	<u>43,270,186</u>	<u>18,197,823</u>	<u>17,139,132</u>	<u>5,353,159</u>	<u>109,901,082</u>
Total assets	<u>31,392,211</u>	<u>46,331,749</u>	<u>26,825,758</u>	<u>23,631,751</u>	<u>7,867,111</u>	<u>136,048,580</u>
<b>Deferred Outflows of Resources:</b>						
Contributions to pension plan in current fiscal year						
	43,682	47,070	34,232	47,070	17,972	190,026
Advance refunding bond issue	<u>225,214</u>	<u>71,332</u>	<u>183,307</u>	<u>60,460</u>	<u>-</u>	<u>540,313</u>
Total deferred outflows of resources	<u>268,896</u>	<u>118,402</u>	<u>217,539</u>	<u>107,530</u>	<u>17,972</u>	<u>730,339</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable and accrued liabilities	601,689	52,680	1,897,928	472,868	32,420	3,057,585
Accrued interest payable	82,876	46,811	29,323	22,669	-	181,679
Due to other funds	1,851	987,314	590	1,979	-	991,734
Compensated absences payable	15,000	12,000	12,000	11,000	5,800	55,800
Current portion of long-term debt	971,904	1,182,844	573,499	742,527	20,893	3,491,667
Liabilities payable from restricted assets:						
Customer deposits	<u>44,932</u>	<u>45,102</u>	<u>281,927</u>	<u>209,680</u>	<u>39,848</u>	<u>621,489</u>
Total current liabilities	<u>1,718,252</u>	<u>2,326,751</u>	<u>2,795,267</u>	<u>1,460,723</u>	<u>98,961</u>	<u>8,399,954</u>
Non-current liabilities:						
Compensated absences payable	46,369	35,393	37,698	35,451	18,008	172,919
Other long-term debt	9,057,717	16,860,685	2,850,169	2,013,933	73,812	30,856,316
Net pension liability	48,789	52,615	38,266	52,615	20,090	212,375
Other post-employment benefits	<u>206,099</u>	<u>220,654</u>	<u>161,930</u>	<u>218,148</u>	<u>85,446</u>	<u>892,277</u>
Total non-current liabilities	<u>9,358,974</u>	<u>17,169,347</u>	<u>3,088,063</u>	<u>2,320,147</u>	<u>197,356</u>	<u>32,133,887</u>
Total liabilities	<u>11,077,226</u>	<u>19,496,098</u>	<u>5,883,330</u>	<u>3,780,870</u>	<u>296,317</u>	<u>40,533,841</u>
<b>Deferred Inflows of Resources:</b>						
Pension deferrals	<u>31,032</u>	<u>33,427</u>	<u>24,311</u>	<u>33,427</u>	<u>12,763</u>	<u>134,960</u>
<b>Net Position:</b>						
Net investment in capital assets	16,091,443	25,252,887	14,675,535	14,233,452	5,218,606	75,471,923
Unrestricted	<u>4,461,406</u>	<u>1,667,739</u>	<u>6,460,121</u>	<u>5,691,532</u>	<u>2,357,397</u>	<u>20,638,195</u>
Total net position	<u>\$ 20,552,849</u>	<u>\$ 26,920,626</u>	<u>\$ 21,135,656</u>	<u>\$ 19,924,984</u>	<u>\$ 7,576,003</u>	<u>\$ 96,110,118</u>

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

## CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	Major Enterprise Funds				Nonmajor Funds	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Operating Revenues:</b>						
Charges for services	\$ 4,530,019	\$ 5,141,257	\$ 21,789,200	\$ 14,040,743	\$ 1,354,146	\$ 46,855,365
Other fees	72,671	39,964	-	33,719	1,300	147,654
Other operating revenues	118,928	48,612	192,143	89,406	4,999	454,088
Total operating revenues	<u>4,721,618</u>	<u>5,229,833</u>	<u>21,981,343</u>	<u>14,163,868</u>	<u>1,360,445</u>	<u>47,457,107</u>
<b>Operating Expenses:</b>						
Administration	747,239	738,211	1,088,142	1,192,900	1,061,746	4,828,238
Operations and maintenance	710,447	955,181	18,712,761	8,884,126	663,580	29,926,095
Treatment plant	1,341,869	1,338,505	-	-	-	2,680,374
Depreciation	866,102	1,087,430	686,140	646,227	256,661	3,542,560
Amortization	17,325	5,489	14,100	4,650	-	41,564
Total operating expenses	<u>3,682,982</u>	<u>4,124,816</u>	<u>20,501,143</u>	<u>10,727,903</u>	<u>1,981,987</u>	<u>41,018,831</u>
Operating income (loss)	<u>1,038,636</u>	<u>1,105,017</u>	<u>1,480,200</u>	<u>3,435,965</u>	<u>(621,542)</u>	<u>6,438,276</u>
<b>Non-Operating Revenues (Expenses):</b>						
Operating grants	-	-	-	-	454,637	454,637
Refund of interest expense	79,209	32,382	-	9,192	-	120,783
Investment earnings	9,040	189	17,402	11,778	13,633	52,042
Interest expense and fiscal charges	(414,358)	(234,512)	(106,987)	(99,185)	(1,279)	(856,321)
Total non-operating revenues (expenses)	<u>(326,109)</u>	<u>(201,941)</u>	<u>(89,585)</u>	<u>(78,215)</u>	<u>466,991</u>	<u>(228,859)</u>
Income (loss) before capital contributions and transfers	712,527	903,076	1,390,615	3,357,750	(154,551)	6,209,417
Capital contributions	-	-	-	-	260,038	260,038
Transfers to other funds	(56,250)	(5,000)	(596,250)	(3,347,200)	-	(4,004,700)
Change in net position	656,277	898,076	794,365	10,550	105,487	2,464,755
<b>Net Position:</b>						
Beginning year - July 1	<u>19,896,572</u>	<u>26,022,550</u>	<u>20,341,291</u>	<u>19,914,434</u>	<u>7,470,516</u>	<u>93,645,363</u>
End of year - June 30	<u>\$ 20,552,849</u>	<u>\$ 26,920,626</u>	<u>\$ 21,135,656</u>	<u>\$ 19,924,984</u>	<u>\$ 7,576,003</u>	<u>\$ 96,110,118</u>

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



CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	Major Enterprise Funds				Nonmajor Funds	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Cash Flows from Operating Activities:</b>						
Cash received from customers	\$ 4,906,638	\$ 5,381,527	\$ 22,550,155	\$ 14,007,123	\$ 1,375,901	\$ 48,221,344
Cash paid for goods and services	(1,659,754)	(3,097,169)	(18,746,389)	(8,799,836)	(1,337,313)	(33,640,461)
Cash paid to employees	(742,345)	(731,765)	(1,076,357)	(1,193,004)	(380,573)	(4,124,044)
Net cash provided (used) by operating activities	<u>2,504,539</u>	<u>1,552,593</u>	<u>2,727,409</u>	<u>4,014,283</u>	<u>(341,985)</u>	<u>10,456,839</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>						
Proceeds from operating grants	-	-	-	-	454,637	454,637
Increase (decrease) in due from other funds	(6,498)	(922,628)	-	17,023	(2,615)	(914,718)
Transfers from (to) other funds	(56,250)	(5,000)	(596,250)	(3,347,200)	-	(4,004,700)
Net cash provided (used) by non-capital financing activities	<u>(62,748)</u>	<u>(927,628)</u>	<u>(596,250)</u>	<u>(3,330,177)</u>	<u>452,022</u>	<u>(4,464,781)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Acquisition and construction of capital assets	(2,013,765)	(3,499,030)	(426,898)	(2,451,558)	(396,645)	(8,787,896)
Capital contributions - grants	-	-	-	-	260,038	260,038
Proceeds from issuance of long-term debt	2,533,988	4,337,847	214,377	71,072	54,400	7,211,684
Principal paid on long-term debt	(853,436)	(1,364,841)	(526,608)	(736,094)	(9,695)	(3,490,674)
Interest paid on long-term debt	(318,597)	(198,295)	(95,885)	(87,960)	(1,279)	(702,016)
Net cash provided (used) for capital and related financing activities	<u>(651,810)</u>	<u>(724,319)</u>	<u>(835,014)</u>	<u>(3,204,540)</u>	<u>(93,181)</u>	<u>(5,508,864)</u>
<b>Cash Flows from Investing Activities:</b>						
Interest received from investments	9,040	189	17,402	11,778	13,633	52,042
Net cash provided (used) by investing activities	<u>9,040</u>	<u>189</u>	<u>17,402</u>	<u>11,778</u>	<u>13,633</u>	<u>52,042</u>
Net increase (decrease) in cash and cash equivalents	1,799,021	(99,165)	1,313,547	(2,508,656)	30,489	535,236
<b>Cash and Cash Equivalents:</b>						
Beginning of year - July 1	<u>4,463,904</u>	<u>1,149,565</u>	<u>3,977,626</u>	<u>6,930,534</u>	<u>2,440,148</u>	<u>18,961,777</u>
End of year - June 30	<u>\$ 6,262,925</u>	<u>\$ 1,050,400</u>	<u>\$ 5,291,173</u>	<u>\$ 4,421,878</u>	<u>\$ 2,470,637</u>	<u>\$ 19,497,013</u>

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

CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	Major Enterprise Funds				Nonmajor Funds	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>						
Operating income (loss)	\$ 1,038,636	\$ 1,105,017	\$ 1,480,200	\$ 3,435,965	\$ (621,542)	\$ 6,438,276
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Amortization	17,325	5,489	14,100	4,650	-	41,564
Depreciation	866,102	1,087,430	686,140	646,227	256,661	3,542,560
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	185,020	151,694	564,365	(146,149)	17,736	772,666
(Increase) decrease in inventories	(18,294)	3,643	24,398	8,135	(6,952)	10,930
(Increase) decrease in prepaids	(6,320)	(5,530)	(7,330)	(3,194)	(2,365)	(24,739)
Increase (decrease) in accounts payable and accrued liabilities	417,176	(801,596)	(50,696)	79,349	13,525	(342,242)
Increase (decrease) in unearned revenues	-	-	-	(10,596)	(2,349)	(12,945)
Increase (decrease) in customer deposits	-	-	4,447	-	69	4,516
Increase (decrease) in compensated absences	3,285	4,278	7,956	1,408	2,214	19,141
(Increase) decrease in deferred outflows of resources for pensions	(240)	(220)	(160)	(220)	(84)	(924)
(Increase) decrease in net pension asset	65,012	70,111	50,989	70,111	26,769	282,992
Increase (decrease) in net pension liability	48,789	52,615	38,266	52,615	20,090	212,375
Increase (decrease) in deferred inflows of resources for pensions	(132,449)	(142,876)	(103,909)	(142,876)	(54,553)	(576,663)
Increase (decrease) in other post-employment benefits	20,497	22,538	18,643	18,858	8,796	89,332
Net cash provided (used) by operating activities	<u>\$ 2,504,539</u>	<u>\$ 1,552,593</u>	<u>\$ 2,727,409</u>	<u>\$ 4,014,283</u>	<u>\$ (341,985)</u>	<u>\$ 10,456,839</u>
<b>Noncash Investing, Capital, and Financing Activities:</b>						
Refund of interest expense	<u>\$ 79,209</u>	<u>\$ 32,382</u>	<u>\$ -</u>	<u>\$ 9,192</u>	<u>\$ -</u>	<u>\$ 120,783</u>

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

##### City of Shelby ABC Board

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

#### B. Basis of Presentation

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

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

The City reports the following major governmental funds:

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

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

The City reports the following nonmajor governmental funds:

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

**Capital Project Funds.** The capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The capital projects maintained by the City are the Capital Projects Fund, the Economic Development Project Fund, and the Economic Development Reserve Fund.

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The City reports the following major enterprise funds:

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

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

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

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

The City reports the following nonmajor enterprise funds:

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

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

### C. Measurement Focus and Basis of Accounting

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

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

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, 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, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates, are shown as a receivable in these financial statements and offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Shelby because the tax is levied by Cleveland County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because, generally, they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

### **D. Management Estimates**

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

### **E. Budgetary Data**

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

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### F. Assets, Liabilities, Deferred Outflows/Inflows, and Fund Equity

#### Deposits and Investments

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

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"). The City's and the ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT - Cash Portfolio, an SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT - Term Portfolio's securities are valued at fair value.

#### Cash and Investments

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

#### Restricted Assets

Donations for redevelopment, revitalization, and beautification of downtown Shelby and for perpetual care of the municipal cemetery are restricted by donors. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected. The unexpended debt proceeds of enterprise fund long-term debt issued are classified as restricted assets because their use is completely restricted for the purpose of which the debt was originally issued.



# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

### City of Shelby Restricted Cash

#### **Governmental Activities:**

General Fund:

Streets \$ 366,405

Raper Roark Trust Fund:

Downtown redevelopment 338,680

Cemetery Fund:

Perpetual care of cemetery 479,331

Total governmental activities \$ 1,184,416

#### **Business-Type Activities:**

Water Fund:

Customer deposits \$ 44,932

Unspent debt proceeds 1,730,375

Sewer Fund:

Customer deposits 45,102

Electric Fund:

Customer deposits 281,927

Gas Fund:

Customer deposits 209,680

Housing Fund:

Customer deposits 39,848

Total business-type activities \$ 2,351,864

### **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, 2015. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### **Allowance for Doubtful Accounts**

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

### **Inventory and Prepaid Items**

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

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

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

### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded), and an estimated useful life in excess of two years. Such assets are recorded at historical cost, or estimated historical cost, if purchased or constructed. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2002 consist of the road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

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

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has two items that meet this criteria in the current year – contributions made to the pension plan (LGERS) in the current fiscal year and deferred charge on refunding. In addition to liabilities, the Statement of Net Position can also report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet this criteria, taxes receivable and deferrals of pension expense, that result from the implementation of GASB Statement 68.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### **Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

### **Compensated Absences**

The vacation policy of the City provides for the accumulation of up to 288 hours for general employees. Employees in the Fire Department can earn up to 382 hours, and employees of the police department can earn up to 308 hours of earned vacation leave, with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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, 2016.

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

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

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Net Position/Fund Balances**

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

**Fund Balances**

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

The governmental fund types classify fund balances as follows:

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

	<b>General Fund</b>	<b>Nonmajor Funds</b>
<i>Inventories</i> - portion of fund balance that is not an available resource, because it represents the year-end balance of ending inventories, which are not spendable resources.	\$ 124,409	\$ -
<i>Prepays</i> - portion of fund balance that is not an available resource, because it represents the year-end balance of prepaids, which are not spendable resources.	309,673	9,000
<i>Perpetual</i> - portion of fund balance that consists of donations received, which the earnings are to be used for the redevelopment, revitalization, and beautification of downtown Shelby, and for the perpetual care of the municipal cemetery. The donations are to be invested in perpetuity.	-	818,011
<i>Long-Term Portion of Loans Receivable</i> - portion of fund balance that is not an available resource, because it represents amounts that have not yet been collected.	-	51,505
<b>Total</b>	\$ 434,082	\$ 878,516

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

	<u>General Fund</u>	<u>Nonmajor Capital Project Funds</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Permanent Fund</u>
<i>Restricted for Stabilization of State Statute</i> - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].	\$ 3,624,505	\$ 50,480	\$ 524,782	\$ 11,282
<i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures.	-	170,786	-	-
<i>Restricted for Streets - Powell Bill</i> - portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the total unexpended Powell Bill funds.	<u>366,405</u>	-	-	-
Total	<u>\$ 3,990,910</u>	<u>\$ 221,266</u>	<u>\$ 524,782</u>	<u>\$ 11,282</u>

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

	<u>General Fund</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Nonmajor Capital Project Funds</u>
<i>Committed for Capital Projects</i> - portion of fund balance that is committed for future capital activities.	\$ -	\$ -	\$ 199,475
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199,475</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

	<b>General Fund</b>	<b>Nonmajor Special Revenue Funds</b>	<b>Nonmajor Capital Project Funds</b>
<i>Assigned for Subsequent Year's Expenditures</i> - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.	\$ 351,300	\$ -	\$ -
<i>Assigned for Economic Development</i> - portion of fund balance that is assigned for economic development.	-	2,013,345	-
<b>Total</b>	<b>\$ 351,300</b>	<b>\$ 2,013,345</b>	<b>\$ -</b>

**Unassigned Fund Balance.** Unassigned fund balance represents the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The General Fund is the only fund that reports a positive unassigned fund balance amount.

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

The City has not adopted a formal fund balance policy. The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance - General Fund (Exhibit C)	\$ 7,635,671
<b>Less:</b>	
Non-spendable	(434,082)
Stabilization by State statute	(3,624,505)
Available for appropriation	<b>\$ 3,577,084</b>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The City of Shelby's employer contributions are recognized when due and the City of Shelby has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

## **2. Detail Notes On All Funds**

### **A. Assets**

#### **Deposits**

All deposits of the City and its component unit are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's or its component unit's agents in their unit's names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and its component unit, these deposits are considered to be held by the City's and the component unit's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or its component unit under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City and its component unit have no policy regarding custodial credit risks for deposits. The City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the City's deposits had a carrying amount of \$6,444,290 and a bank balance of \$6,547,984. The ABC Board's deposits had a carrying amount of \$326,683 and a bank balance of \$321,996.

Of the City's bank balance, \$750,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the Pooling Method.

The City had petty cash of \$4,745 at June 30, 2016, and the ABC Board had petty cash of \$7,080.



# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### Investments

At June 30, 2016, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/2016</u>	<u>Less Than Six Months</u>	<u>Six Months to Five Years</u>
US government agencies	Fair Value-Level 1	\$ 9,508,867	\$ 4,260,225	\$ 9,508,867
NCCMT - Term Portfolio	Fair Value-Level 1	11,558,258	11,558,258	-
Total		<u>\$ 21,067,125</u>	<u>\$ 15,818,483</u>	<u>\$ 9,508,867</u>

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. Level of fair value hierarchy: Level 1: debt securities values using directly observable, quoted prices (unadjusted) in active markets for identical assets.

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

*Credit Risk.* The City has no formal policy regarding credit risk, but has internal management procedures that limit the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City's investments in US agencies (Federal Home Loan Bank, Federal Farm Credit Bank, Freddie Mac) are rated AA+ by Standard and Poors and Aaa by Moody's Investors Service. The City's investment in the North Carolina Capital Management Trust cash portfolio carried a credit rating of AAAM by Standard and Poors as of June 30, 2016. 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.

*Concentration of Credit Risk.* The City will diversify its investments by security type and institution. With the exception of US treasuries securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type and no more than 33% with a single financial institution. More than 5% of the City's investments are in US government agencies; Federal Farm Credit Bank and Fannie Mae, 4% and 15%, respectively.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Receivables – Allowances for Doubtful Accounts**

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Taxes receivable	\$ 188,000	\$ -	\$ 188,000
Accounts receivable	114,746	2,290,516	2,405,262
Total	<u>\$ 302,746</u>	<u>\$ 2,290,516</u>	<u>\$ 2,593,262</u>

**Capital Assets**

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 5,014,681	\$ 446,491	\$ -	\$ 5,461,172
Construction in progress	2,517,646	1,825,071	-	4,342,717
Total non-depreciable capital assets	<u>7,532,327</u>	<u>2,271,562</u>	<u>-</u>	<u>9,803,889</u>
<b>Depreciable Capital Assets:</b>				
Buildings	16,698,147	-	-	16,698,147
Other improvements	11,885,309	95,128	-	11,980,437
Machinery and equipment	7,790,274	617,561	(52,005)	8,355,830
Vehicles	8,849,308	1,144,212	(448,484)	9,545,036
Infrastructure	11,484,875	-	-	11,484,875
Total depreciable capital assets	<u>56,707,913</u>	<u>1,856,901</u>	<u>(500,489)</u>	<u>58,064,325</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	6,483,146	393,908	-	6,877,054
Other improvements	2,472,622	301,288	-	2,773,910
Machinery and equipment	5,883,042	14,733	(52,005)	5,845,770
Vehicles	7,374,525	513,189	(448,484)	7,439,230
Infrastructure	4,228,204	153,323	-	4,381,527
Total accumulated depreciation	<u>26,441,539</u>	<u>\$ 1,376,441</u>	<u>\$ (500,489)</u>	<u>27,317,491</u>
Total depreciable capital assets, net	<u>30,266,374</u>			<u>30,746,834</u>
Governmental activities capital assets, net	<u>\$ 37,798,701</u>			<u>\$ 40,550,723</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

**Governmental Activities:**

General government	\$ 281,749
Public safety	350,025
Transportation	489,834
Cultural and recreation	<u>254,833</u>
Total depreciation expense - governmental activities	<u>\$ 1,376,441</u>

	<b>Beginning Balances</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balances</b>
<b>Water Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 56,236	\$ -	\$ -	\$ 56,236
Construction in progress	<u>167,832</u>	<u>1,517,770</u>	-	<u>1,685,602</u>
Total non-depreciable capital assets	<u>224,068</u>	<u>1,517,770</u>	-	<u>1,741,838</u>
<b>Depreciable Capital Assets:</b>				
Buildings and system	13,075,229	258,452	-	13,333,681
Water extensions	23,458,170	160,079	-	23,618,249
Machinery and equipment	1,349,062	-	-	1,349,062
Vehicles	<u>341,384</u>	<u>77,464</u>	<u>(21,373)</u>	<u>397,475</u>
Total depreciable capital assets	<u>38,223,845</u>	<u>495,995</u>	<u>(21,373)</u>	<u>38,698,467</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and system	7,131,004	206,828		7,337,832
Water extensions	6,977,692	567,843		7,545,535
Machinery and equipment	1,086,598	54,932		1,141,530
Vehicles	<u>234,807</u>	<u>36,499</u>	<u>(21,373)</u>	<u>249,933</u>
Total accumulated depreciation	<u>15,430,101</u>	<u>\$ 866,102</u>	<u>\$ (21,373)</u>	<u>16,274,830</u>
Total depreciable capital assets, net	<u>22,793,744</u>			<u>22,423,637</u>
Water Fund capital assets, net	<u>\$ 23,017,812</u>			<u>\$ 24,165,475</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balances</u>
<b>Sewer Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 58,402	\$ -	\$ -	\$ 58,402
Construction in progress	<u>10,573,249</u>	<u>2,782,839</u>	-	<u>13,356,088</u>
Total non-depreciable capital assets	<u>10,631,651</u>	<u>2,782,839</u>	-	<u>13,414,490</u>
<b>Depreciable Capital Assets:</b>				
Buildings and system	16,764,887	55,694	-	16,820,581
Sewer extensions	27,879,976	607,677	-	28,487,653
Machinery and equipment	1,985,464	24,327	-	2,009,791
Vehicles	759,897	28,493	-	788,390
System improvements	<u>60,707</u>	-	-	<u>60,707</u>
Total depreciable capital assets	<u>47,450,931</u>	<u>716,191</u>	-	<u>48,167,122</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and system	7,034,798	300,411	-	7,335,209
Sewer extensions	7,878,438	632,841	-	8,511,279
Machinery and equipment	1,731,373	103,767	-	1,835,140
Vehicles	618,292	50,411	-	668,703
System improvements	<u>6,197</u>	-	-	<u>6,197</u>
Total accumulated depreciation	<u>17,269,098</u>	<u>\$ 1,087,430</u>	<u>\$ -</u>	<u>18,356,528</u>
Total depreciable capital assets, net	<u>30,181,833</u>			<u>29,810,594</u>
Sewer Fund capital assets, net	<u>\$ 40,813,484</u>			<u>\$ 43,225,084</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
<b>Electric Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 75,683	\$ -	\$ -	\$ 75,683
Construction in progress	<u>11,406</u>	<u>-</u>	<u>-</u>	<u>11,406</u>
Total non-depreciable capital assets	<u>87,089</u>	<u>-</u>	<u>-</u>	<u>87,089</u>
<b>Depreciable Capital Assets:</b>				
Buildings and system	4,158,645	-	-	4,158,645
Electric extensions	23,033,991	244,017	-	23,278,008
Machinery and equipment	1,124,268	-	(46,144)	1,078,124
Vehicles	<u>1,130,136</u>	<u>182,881</u>	<u>-</u>	<u>1,313,017</u>
Total depreciable capital assets	<u>29,447,040</u>	<u>426,898</u>	<u>(46,144)</u>	<u>29,827,794</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and system	1,976,638	65,316	-	2,041,954
Electric extensions	7,271,660	544,583	-	7,816,243
Machinery and equipment	1,048,230	37,833	(46,144)	1,039,919
Vehicles	<u>1,062,463</u>	<u>38,408</u>	<u>-</u>	<u>1,100,871</u>
Total accumulated depreciation	<u>11,358,991</u>	<u>\$ 686,140</u>	<u>\$ (46,144)</u>	<u>11,998,987</u>
Total depreciable capital assets, net	<u>18,088,049</u>			<u>17,828,807</u>
Electric Fund capital assets, net	<u>\$ 18,175,138</u>			<u>\$ 17,915,896</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
<b>Gas Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 53,489	\$ -	\$ -	\$ 53,489
Construction in progress	<u>11,176</u>	<u>-</u>	<u>-</u>	<u>11,176</u>
Total non-depreciable capital assets	<u>64,665</u>	<u>-</u>	<u>-</u>	<u>64,665</u>
<b>Depreciable Capital Assets:</b>				
Buildings and system	475,462	2,212,446	-	2,687,908
Gas extensions	24,957,746	166,062	-	25,123,808
Machinery and equipment	1,215,042	-	-	1,215,042
Vehicles	<u>665,958</u>	<u>73,050</u>	<u>(19,813)</u>	<u>719,195</u>
Total depreciable capital assets	<u>27,314,208</u>	<u>2,451,558</u>	<u>(19,813)</u>	<u>29,745,953</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and system	450,581	873		451,454
Sewer extensions	10,344,327	494,364		10,838,691
Machinery and equipment	953,205	101,776		1,054,981
Vehicles	<u>506,639</u>	<u>49,214</u>	<u>(19,813)</u>	<u>536,040</u>
Total accumulated depreciation	<u>12,254,752</u>	<u>\$ 646,227</u>	<u>\$ (19,813)</u>	<u>12,881,166</u>
Total depreciable capital assets, net	<u>15,059,456</u>			<u>16,864,787</u>
Gas Fund capital assets, net	<u>\$ 15,124,121</u>			<u>\$ 16,929,452</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balances</u>
<b>Stormwater Fund:</b>				
<b>Depreciable Capital Assets:</b>				
Machinery and equipment	\$ 225,355	\$ 59,139	\$ -	\$ 284,494
Vehicles	<u>53,859</u>	<u>-</u>	<u>-</u>	<u>53,859</u>
Total depreciable capital assets	<u>279,214</u>	<u>59,139</u>	<u>-</u>	<u>338,353</u>
<b>Less Accumulated Depreciation:</b>				
Machinery and equipment	2,683	35,150	-	37,833
Vehicles	<u>897</u>	<u>10,772</u>	<u>-</u>	<u>11,669</u>
Total accumulated depreciation	<u>3,580</u>	<u>\$ 45,922</u>	<u>\$ -</u>	<u>49,502</u>
Total depreciable capital assets, net	<u>275,634</u>			<u>288,851</u>
Stormwater Fund capital assets, net	<u>\$ 275,634</u>			<u>\$ 288,851</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balances</u>
<b>Housing Assistance Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 278,173	\$ -	\$ -	\$ 278,173
Construction in progress	<u>9,580</u>	<u>115,364</u>	<u>(120,093)</u>	<u>4,851</u>
Total non-depreciable capital assets	<u>287,753</u>	<u>115,364</u>	<u>(120,093)</u>	<u>283,024</u>
<b>Depreciable Capital Assets:</b>				
Buildings and system	9,070,565	342,235	-	9,412,800
Other improvements	664,131	-	-	664,131
Machinery and equipment	170,212	-	-	170,212
Vehicles	<u>133,210</u>	<u>-</u>	<u>-</u>	<u>133,210</u>
Total depreciable capital assets	<u>10,038,118</u>	<u>342,235</u>	<u>-</u>	<u>10,380,353</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and system	4,516,508	189,671	-	4,706,179
Other improvements	608,248	21,068	-	629,316
Machinery and equipment	170,212	-	-	170,212
Vehicles	<u>133,210</u>	<u>-</u>	<u>-</u>	<u>133,210</u>
Total accumulated depreciation	<u>5,428,178</u>	<u>\$ 210,739</u>	<u>\$ -</u>	<u>5,638,917</u>
Total depreciable capital assets, net	<u>4,609,940</u>			<u>4,741,436</u>
Housing Assistance Fund capital assets, net	<u>\$ 4,897,693</u>			<u>\$ 5,024,460</u>



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Construction Commitments**

The City has active construction projects as of June 30, 2016. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Land acquisition & easement	\$ 85,629
Foothills Commerce Center Mass Grading	186,714
Washburn Switch Business Park Roadway	44,352
Carolina Thread Trail	2,760
Logan Street	10,065
East water tank	853,872
Grover Street water	54,000
Outfall improvements	150,560
Brushy Creek	110,893
Heusker Sewer	15,788
Total	<u>\$ 1,514,633</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

Capital Asset activity for the ABC Board for the year ended June 30, 2016 was as follows:

<u>Component Unit</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 182,567	\$ -	\$ -	\$ 182,567
<b>Depreciable Capital Assets:</b>				
Buildings	742,864	-	-	742,864
Office and store equipment	330,667	48,850	-	379,517
Land improvements	-	1,950	-	1,950
Vehicle	24,250	-	-	24,250
Total depreciable capital assets	<u>1,097,781</u>	<u>50,800</u>	<u>-</u>	<u>1,148,581</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	673,048	17,602	-	690,650
Office and store equipment	289,381	10,050	-	299,431
Land improvements	-	8	-	8
Vehicle	12,529	2,425	-	14,954
Total accumulated depreciation	<u>974,958</u>	<u>30,085</u>	<u>-</u>	<u>1,005,043</u>
Total ABC depreciable capital assets	<u>122,823</u>	<u>20,715</u>	<u>-</u>	<u>143,538</u>
ABC capital assets, net	<u>\$ 305,390</u>	<u>\$ 20,715</u>	<u>\$ -</u>	<u>\$ 326,105</u>

**B. Liabilities and Net Position**

**Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at the fund and government-wide level at June 30, 2016 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable	\$ 438,797	\$ 960,624
Accrued gas and electric purchases	-	1,980,501
Accrued payroll liabilities	<u>385,874</u>	<u>116,460</u>
Total accounts payable and accrued liabilities	<u>\$ 824,671</u>	<u>\$ 3,057,585</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

### Long-Term Obligations

All financing arrangements that have an outstanding balance at June 30, 2016 are summarized as follows:

Financing Agreements	Interest Rate	Date Debt Matures	Amount of Original Debt	Balance Outstanding at June 30, 2016						
				Governmental Activities	Business-Type Activities					Total Business-Type
					Water Fund	Sewer Fund	Electric Fund	Gas Fund	Stormwater Fund	
Cleveland County	1.68%	03/2022	\$ 183,526	\$ -	\$ -	\$ 110,116	\$ -	\$ -	\$ -	\$ 110,116
Powell Bill 2012	1.43%	05/2017	158,000	32,479	-	-	-	-	-	-
Powell Bill 2013	1.18%	11/2017	31,890	14,535	-	-	-	-	-	-
Powell Bill 2014	1.55%	2021	280,000	225,718	-	-	-	-	-	-
Powell Bill 2015	1.49%	2022	17,254	17,254	-	-	-	-	-	-
Capital projects	3.64%	06/2019	1,250,000	375,000	-	-	-	-	-	-
2012 Purchase of equipment	1.43%	05/2017	1,250,000	134,590	3,848	26,332	23,141	27,420	-	80,741
2013 Purchase of equipment	1.18%	11/2017	986,960	260,140	44,761	62,563	-	32,724	-	140,048
2014 Purchase of equipment	1.42%	2/2019	930,900	340,768	80,925	41,997	19,718	83,077	-	225,717
2014 DENR	0.00%	5/2034	726,000	-	-	653,400	-	-	-	653,400
2015 Purchase of equipment	1.55%	2021	1,859,433	995,566	95,932	68,920	-	72,555	40,304	277,711
2015 DENR	0.00%	2029	3,130,438	-	-	2,963,838	-	-	-	2,963,838
2015DENR	0.00%	2029	9,396,658	-	-	9,396,658	-	-	-	9,396,658
2016 Purchase of equipment	1.49%	2022	<u>1,333,790</u>	<u>810,781</u>	<u>73,988</u>	<u>40,374</u>	<u>214,377</u>	<u>71,072</u>	<u>54,401</u>	<u>454,212</u>
<b>Total</b>			<u>\$ 21,534,849</u>	<u>\$ 3,206,831</u>	<u>\$ 299,454</u>	<u>\$ 13,364,198</u>	<u>\$ 257,236</u>	<u>\$ 286,848</u>	<u>\$ 94,705</u>	<u>\$ 14,302,441</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Governmental Activities Long-Term Debt**

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2016 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,006,608	\$ 49,115	\$ 1,055,723
2018	849,380	34,543	883,923
2019	719,769	25,631	745,400
2020	487,211	8,830	496,041
2021	143,863	2,542	146,405
Total	<u>\$ 3,206,831</u>	<u>\$ 120,661</u>	<u>\$ 3,327,492</u>

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

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

<u>Year Ending June 30</u>	<u>Water Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 90,547	\$ 3,934	\$ 94,481
2018	89,015	2,874	91,889
2019	66,885	1,714	68,599
2020	40,148	824	40,972
2021	12,859	232	13,091
Total	<u>\$ 299,454</u>	<u>\$ 9,578</u>	<u>\$ 309,032</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>Year Ending June 30</b>	<b>Sewer Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 767,534	\$ 3,357	\$ 770,891
2018	751,481	2,089	753,570
2019	720,980	1,108	722,088
2020	707,139	510	707,649
2021	688,010	127	688,137
2022-2026	3,331,627	-	3,331,627
2027-2031	3,313,274	-	3,313,274
2032-2035	3,084,153	-	3,084,153
Total	<u>\$ 13,364,198</u>	<u>\$ 7,191</u>	<u>\$ 13,371,389</u>

<b>Year Ending June 30</b>	<b>Electric Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 73,179	\$ 665	\$ 73,844
2018	50,443	188	50,631
2019	51,202	87	51,289
2020	45,169	87	45,256
2021	37,243	-	37,243
Total	<u>\$ 257,236</u>	<u>\$ 1,027</u>	<u>\$ 258,263</u>

<b>Year Ending June 30</b>	<b>Gas Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 103,819	\$ 3,659	\$ 107,478
2018	75,954	2,384	78,338
2019	61,148	1,446	62,594
2020	33,546	720	34,266
2021	12,381	223	12,604
Total	<u>\$ 286,848</u>	<u>\$ 8,432</u>	<u>\$ 295,280</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>Year Ending June 30</b>	<b>Stormwater Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 20,893	\$ 1,382	\$ 22,275
2018	21,125	1,150	22,275
2019	21,445	830	22,275
2020	21,760	496	22,256
2021	9,482	170	9,652
<b>Total</b>	<b>\$ 94,705</b>	<b>\$ 4,028</b>	<b>\$ 98,733</b>

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

The outstanding balances on these bonds at June 30, 2016 are as follows:

	<b>Interest Rates</b>	<b>Date Series Matures</b>	<b>Amount of Original Issue</b>	<b>Balance Outstanding June 30, 2016</b>
Combined Enterprise System, Series 2004A	4.62%	2029	\$ 18,465,000	\$ 400,000
Combined Enterprise System, Series 2010	6.20%	2025	\$ 8,346,400	5,591,175
Combined Enterprise System, Series 2013A	2.78%	2029	\$ 9,645,000	8,405,000
Combined Enterprise System, Series 2013B	1.56%	2017	\$ 2,540,000	640,000
Combined Enterprise System, Series 2013C	2.69%	2028	\$ 3,185,000	2,615,000
Combined Enterprise System, Series 2015	2.50%	2031	\$ 2,460,000	2,394,367
<b>Total</b>				<b>\$ 20,045,542</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

Revenue bond debt service requirements to maturity are as follows:

<b>Year Ending June 30</b>	<b>Water Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 881,357	\$ 385,019	\$ 1,266,376
2018	735,054	346,866	1,081,920
2019	759,516	314,287	1,073,803
2020	786,745	280,528	1,067,273
2021	810,524	245,491	1,056,015
2022-2026	3,997,691	663,710	4,661,401
2027-2029	1,759,280	104,971	1,864,251
<b>Total</b>	<b>\$ 9,730,167</b>	<b>\$ 2,340,872</b>	<b>\$ 12,071,039</b>

<b>Year Ending June 30</b>	<b>Sewer Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 415,310	\$ 178,330	\$ 593,640
2018	367,036	161,410	528,446
2019	382,695	146,190	528,885
2020	395,406	130,332	525,738
2021	407,053	113,906	520,959
2022-2026	2,038,965	305,843	2,344,808
2027-2029	672,866	31,930	704,796
<b>Total</b>	<b>\$ 4,679,331</b>	<b>\$ 1,067,941</b>	<b>\$ 5,747,272</b>

<b>Year Ending June 30</b>	<b>Electric Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 500,320	\$ 87,507	\$ 587,827
2018	189,952	74,118	264,070
2019	195,040	68,837	263,877
2020	201,824	63,415	265,239
2021	205,216	57,804	263,020
2022-2026	1,122,752	199,817	1,322,569
2027-2029	751,328	42,198	793,526
<b>Total</b>	<b>\$ 3,166,432</b>	<b>\$ 593,696</b>	<b>\$ 3,760,128</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>Year Ending June 30</b>	<b>Gas Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 638,708	\$ 77,283	\$ 715,991
2018	148,589	63,048	211,637
2019	154,280	57,495	211,775
2020	159,453	51,726	211,179
2021	163,571	45,753	209,324
2022-2026	841,312	133,076	974,388
2027-2029	363,699	18,676	382,375
Total	<u>\$ 2,469,612</u>	<u>\$ 447,057</u>	<u>\$ 2,916,669</u>

The City has pledged future water, sewer, electric, and gas customer revenues, net of specified operating expenses, to repay \$20,045,542 revenue bonds issued in 2004, 2010, 2013, and 2015. 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 2031. 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 \$24,495,108. Principal and interest paid for the current year and total customer net revenues were \$3,667,908 and \$10,387,281, 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, 2016 was as follows:

Operating revenues	\$ 46,096,662
Operating expenses*	<u>35,709,381</u>
Income available for debt service	<u>\$ 10,387,281</u>
Debt service, principal, and interest paid (Revenue bond only)	<u>\$ 3,667,908</u>
Debt service coverage ratio	<u>283.19%</u>

\*Per rate covenants, this does not include depreciation and amortization expense of \$3,327,463.



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Changes in Long-Term Liabilities.** Long-term liability activity for the fiscal year ended June 30, 2016 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Installment debt	\$ 3,312,304	\$ 828,034	\$ (933,507)	\$ 3,206,831	\$ 1,006,608
Net pension obligations (LEO)	648,660	170,985	(45,517)	774,128	-
Compensated absences	912,210	213,405	(199,218)	926,397	231,600
Net pension liability - LGERS	-	744,273	-	744,273	-
Other post-employment benefits	<u>2,819,495</u>	<u>927,722</u>	<u>(633,180)</u>	<u>3,114,037</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 7,692,669</u>	<u>\$ 2,884,419</u>	<u>\$ (1,811,422)</u>	<u>\$ 8,765,666</u>	<u>\$ 1,238,208</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
<b>Business-Type Activities:</b>					
<b>Water Fund:</b>					
Revenue bonds	\$ 8,048,067	\$ 2,460,000	\$ (777,900)	\$ 9,730,167	\$ 881,357
Installment debt	301,002	73,988	(75,536)	299,454	90,547
Compensated absences	58,084	13,459	(10,174)	61,369	15,000
Net pension liability - LGERS	-	48,789	-	48,789	-
Other post-employment benefits	<u>185,602</u>	<u>64,561</u>	<u>(44,064)</u>	<u>206,099</u>	<u>-</u>
Water Fund long-term liabilities	<u>\$ 8,592,755</u>	<u>\$ 2,660,797</u>	<u>\$ (907,674)</u>	<u>\$ 10,345,878</u>	<u>\$ 986,904</u>
<b>Sewer Fund:</b>					
Revenue bonds	\$ 5,664,945	\$ -	\$ (985,614)	\$ 4,679,331	\$ 415,310
Other debt	9,405,578	4,337,847	(379,227)	13,364,198	767,534
Compensated absences	43,115	11,172	(6,894)	47,393	12,000
Net pension liability - LGERS	-	52,615	-	52,615	-
Other post-employment benefits	<u>198,116</u>	<u>70,989</u>	<u>(48,451)</u>	<u>220,654</u>	<u>-</u>
Sewer Fund long-term liabilities	<u>\$ 15,311,754</u>	<u>\$ 4,472,623</u>	<u>\$ (1,420,186)</u>	<u>\$ 18,364,191</u>	<u>\$ 1,194,844</u>
<b>Electric Fund:</b>					
Revenue bonds	\$ 3,651,781	\$ -	\$ (485,349)	\$ 3,166,432	\$ 500,320
Installment debt	84,118	214,377	(41,259)	257,236	73,179
Compensated absences	41,742	13,430	(5,474)	49,698	12,000
Net pension liability - LGERS	-	38,266	-	38,266	-
Other post-employment benefits	<u>143,287</u>	<u>58,721</u>	<u>(40,078)</u>	<u>161,930</u>	<u>-</u>
Electric Fund long-term liabilities	<u>\$ 3,920,928</u>	<u>\$ 324,794</u>	<u>\$ (572,160)</u>	<u>\$ 3,673,562</u>	<u>\$ 585,499</u>
<b>Gas Fund:</b>					
Revenue bonds	\$ 3,097,580	\$ -	\$ (627,968)	\$ 2,469,612	\$ 638,708
Installment debt	323,902	71,072	(108,126)	286,848	103,819
Compensated absences	45,043	13,340	(11,932)	46,451	11,000
Net pension liability - LGERS	-	52,615	-	52,615	-
Other post-employment benefits	<u>199,290</u>	<u>59,396</u>	<u>(40,538)</u>	<u>218,148</u>	<u>-</u>
Gas Fund long-term liabilities	<u>\$ 3,665,815</u>	<u>\$ 196,423</u>	<u>\$ (788,564)</u>	<u>\$ 3,073,674</u>	<u>\$ 753,527</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
<b>Housing Assistance Fund:</b>					
Compensated absences	\$ 20,152	\$ 5,106	\$ (4,852)	\$ 20,406	\$ 5,000
Net pension liability - LGERS	-	20,090	-	20,090	-
Other post-employment benefits	<u>76,650</u>	<u>27,701</u>	<u>(18,905)</u>	<u>85,446</u>	<u>-</u>
Housing Assistance					
long-term liabilities	<u>\$ 96,802</u>	<u>\$ 52,897</u>	<u>\$ (23,757)</u>	<u>\$ 125,942</u>	<u>\$ 5,000</u>
<b>Stormwater Fund:</b>					
Installment debt	\$ 50,000	\$ 54,400	\$ (9,695)	\$ 94,705	\$ 20,893
Compensated absences	<u>1,442</u>	<u>2,293</u>	<u>(333)</u>	<u>3,402</u>	<u>800</u>
Stormwater Fund					
long-term liabilities	<u>\$ 51,442</u>	<u>\$ 56,693</u>	<u>\$ (10,028)</u>	<u>\$ 98,107</u>	<u>\$ 21,693</u>
<b>Total Business-Type Activities:</b>					
Revenue bonds	\$ 20,462,373	\$ 2,460,000	\$ (2,876,831)	\$ 20,045,542	\$ 2,435,695
Installment debt	10,164,600	4,751,684	(613,843)	14,302,441	1,055,972
Compensated absences	209,578	58,800	(39,659)	228,719	55,800
Net pension liability - LGERS	-	212,375	-	212,375	-
Other post-employment benefits	<u>802,945</u>	<u>281,368</u>	<u>(192,036)</u>	<u>892,277</u>	<u>-</u>
Business-type activities					
long-term liabilities	<u>\$ 31,639,496</u>	<u>\$ 7,764,227</u>	<u>\$ (3,722,369)</u>	<u>\$ 35,681,354</u>	<u>\$ 3,547,467</u>

The LGERS plan had a net pension liability as of June 30, 2016; however, the plan had a net pension asset at the beginning of the fiscal year.

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

At June 30, 2016, the City has a legal debt margin of approximately \$112,386,000.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

**Governmental Activities:**

Capital assets, net of accumulated depreciation	\$ 40,550,723	
Outstanding balance on related debt	(3,206,831)	<u>                    </u>
Total governmental activities	\$ 37,343,892	<u>                    </u>

**Business-Type Activities:**

**Water:**

Capital assets, net of accumulated depreciation	\$ 24,165,475	
Outstanding balance on related debt	(10,029,621)	<u>                    </u>
Unspent debt proceeds	1,730,375	<u>                    </u>
Deferred charge on refunding	225,214	<u>                    </u>
Total water	16,091,443	<u>                    </u>

**Sewer:**

Capital assets, net of accumulated depreciation	43,225,084	
Outstanding balance on related debt	(18,043,529)	<u>                    </u>
Deferred charge on refunding	71,332	<u>                    </u>
Total sewer	25,252,887	<u>                    </u>

**Electric:**

Capital assets, net of accumulated depreciation	17,915,896	
Outstanding balance on related debt	(3,423,668)	<u>                    </u>
Deferred charge on refunding	183,307	<u>                    </u>
Total electric	14,675,535	<u>                    </u>

**Gas:**

Capital assets, net of accumulated depreciation	16,929,452	
Outstanding balance on related debt	(2,756,460)	<u>                    </u>
Deferred charge on refunding	60,460	<u>                    </u>
Total gas	14,233,452	<u>                    </u>

**Stormwater:**

Capital assets, net of accumulated depreciation	288,851	
Outstanding balance on related debt	(94,705)	<u>                    </u>
Total stormwater	194,146	<u>                    </u>

**Housing:**

Capital assets, net of accumulated depreciation	5,024,460	
Total housing assistance	5,024,460	<u>                    </u>
Total business-type activities	\$ 75,471,923	<u>                    </u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

##### *1. Description*

The City of Shelby and the ABC Board are participating employers in the State-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer, defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, one appointed by the State Treasurer, and one appointed by the State Superintendent, who serve as ex-officio members. 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. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

##### *2. Benefits Provided*

LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

### *3. Contributions*

Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Shelby's contractually required contribution rate for the year ended June 30, 2016 was 7.15% of compensation for law enforcement officers and 6.77% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Shelby were \$855,814 for the year ended June 30, 2016. The ABC Board's contributions to LGERS for the year ended June 30, 2016 were \$32,366.

### *4. Refunds of Contributions*

City employees who have terminated service as a contributing member of LGERS may file an application for a refund of their contributions. By State law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2016, the City reported a liability of \$956,648 for its proportionate share of the net pension liability and the ABC Board reported \$14,947. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the City's proportion was 0.213%, which was a decrease of 0.003% from its proportion measured as of June 30, 2014.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

For the year ended June 30, 2016, the City recognized pension expense of \$485,455. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 224,867
Net difference between projected and actual earnings on pension plan investments	-	272,355
Changes in proportion and differences between City contributions and proportionate share of contributions	-	110,537
City contributions subsequent to the measurement date	<u>855,814</u>	<u>-</u>
Total	<u>\$ 855,814</u>	<u>\$ 607,759</u>

\$855,814 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date, will be recognized as a decrease of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$ (351,650)
2018	(351,650)
2019	(351,059)
2020	446,600
2021	-
Thereafter	<u>-</u>
Total	<u>\$ (607,759)</u>

*5. Actuarial Assumptions*

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increase	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are, therefore, not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple-year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis.

These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	29.0%	2.2%
Global equity	42.0%	5.8%
Real estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation protection	<u>6.0%</u>	3.4%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

6. *Discount Rate*

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. *Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the City’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	<b>1% Decrease (6.25%)</b>	<b>Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
City's proportionate share of the net pension liability (asset)	<u>\$ 6,670,847</u>	<u>\$ 956,648</u>	<u>\$ (3,857,436)</u>

8. *Pension Plan Fiduciary Net Position*

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**Law Enforcement Officers’ Special Separation Allowance**

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits and terminated plan members entitled to, but not yet receiving, benefits	4
Active plan members	<u>78</u>
Total	<u><u>82</u></u>

A separate report was not issued for the plan.

### 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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meet the following criteria, which are outlined in GASB Statements 67 and 68:

- Contributions to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing benefits to plan members.
- Pension plan assets are legally protected from the creditors or employers, non-employer contributing entities, the plan administrator, and plan members.

*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.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

The annual required contribution for the current year was determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level dollar of projected unit credit on a closed basis. The remaining amortization period at December 31, 2014 was 16 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	\$ 195,554
Interest on net pension obligation	32,433
Adjustment to annual required contribution	<u>(57,002)</u>
Annual pension cost	170,985
Contributions made	<u>45,517</u>
Increase (decrease) in net pension obligation	125,468
Net pension obligation:	
Beginning of year - July 1	<u>648,660</u>
End of year - June 30	<u><u>\$ 774,128</u></u>

**Three-Year Trend Information**

<b>Year Ended June 30</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2016	\$ 170,985	26.62%	\$ 774,128
2015	157,565	25.04%	648,660
2014	128,182	30.78%	530,551

**Funding Status and Funding Progress.** As of December 31, 2015, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$2,215,455, and the unfunded actuarial accrued liability (UAAL) was \$2,215,455. The covered payroll (annual payroll of active employees covered by the plan) was \$3,526,429, and the ratio of the UAAL to the covered payroll was 62.82%.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. The City has elected to include all other City employees in the Plan at the same contribution rate. All amounts contributed are vested immediately. Also, the other City employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2016 were \$810,073, which consisted of \$622,920 from the City and \$187,153 from the covered employees.

### **Other Post-Employment Benefits – Healthcare Benefits**

**Plan Description.** Under the terms of a City resolution, the City administers a single-employer, defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides post-employment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees’ Retirement System (System) and have at least 22 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. Retirees who qualify for coverage receive the same benefits as active employees. Coverage for all retirees who are eligible for Medicare will be transferred to a Medicare Supplemental plan after qualifying for Medicare. The City Council may amend the benefit provisions. A separate report was not issued for the Plan.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

Membership of the HCB Plan consisted of the following at December 31, 2015, the date of the latest actuarial valuation:

	<b>General Employees</b>	<b>Law Enforcement Officers</b>	<b>Firefighters</b>
Active plan members	<u>173</u>	<u>74</u>	<u>47</u>

The City has 50 retirees receiving benefits.

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

The current ARC rate is 10% of annual covered payroll. The City’s contributions totaled \$825,216, or 7.08% of annual covered payroll, including \$469,932 for general employees, \$70,056 for law enforcement officers, and \$285,228 for firefighters. The City obtains healthcare coverage through private insurers. There were no contributions made by employees, except for dependent coverage. The City’s obligation to contribute to HCB Plan is established and may be amended by the City Council.

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

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Annual OPEB Cost and Net Obligation.** The City’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) 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	\$ 1,202,614
Valuation discount rate	4.00%
Interest on net OPEB obligation	144,898
Adjustments to annual required contribution	<u>(138,422)</u>
Annual OPEB cost (expense)	1,209,090
Contributions made	<u>(825,216)</u>
Increase (decrease) in net OPEB obligation	383,874
Net OPEB obligation:	
Beginning of year - July 1	<u>3,622,440</u>
End of year - June 30	<u>\$ 4,006,314</u>

The City’s net OPEB obligation is comprised of \$3,114,037 and \$892,277 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 2016 were as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2016	\$ 1,209,090	68.25%	\$ 4,006,314
2015	1,173,238	60.62%	3,622,440
2014	1,026,390	54.30%	3,160,389

**Fund Status and Funding Progress.** As of December 31, 2015, 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 \$15,207,498. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

In the December 31, 2015 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 pre-Medicare cost trend increase of 7.5% to 5% annually. Both rates included a 3.00% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2015 was 30 years.

### **Other Employment Benefit**

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

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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. Because all death benefit payments are made from the Death Benefit Plan and not by the ABC Board, the Board does not determine the number of eligible participants. The Board has no liability beyond payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. The ABC Board considers these contributions to be immaterial.

**Deferred Outflows and Inflows of Resources.** Deferred outflows and inflows of resources are comprised of the following:

	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Contributions to pension plan in current fiscal year	\$ 855,814	\$ -
Deferred charge on refunding	540,313	-
Taxes receivable (General Fund)	-	207,199
Taxes receivable (nonmajor funds)	-	2,947
Pension deferrals	-	607,759
Total	\$ 1,396,127	\$ 817,905

**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 three 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 \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers’ compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request.



# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

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

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

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

At June 30, 2016, 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.

### **Summary Disclosure of Significant Contingencies**

The City has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**3. Interfund Balances and Activity**

The composition of interfund balances as of June 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds:		
General Fund	Capital Projects Fund	\$ 1,075,940
General Fund	Water Fund	1,851
General Fund	Sewer Fund	57,314
General Fund	Electric Fund	590
General Fund	Gas Fund	1,979
Gas Fund	Sewer Fund	<u>930,000</u>
Total		<u>\$ 2,067,674</u>

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

The \$1 million loan between the Gas Fund and the Sewer Fund will be repaid over 20 years. The balance as of June 30, 2016 was \$930,000.

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 535,000
General Fund	Gas Fund	2,400,000
Economic Development Commission Fund	General Fund	289,526
Economic Development Commission Fund	Water Fund	56,250
Economic Development Commission Fund	Sewer Fund	5,000
Economic Development Commission Fund	Electric Fund	61,250
Economic Development Commission Fund	Gas Fund	412,500
Capital Projects Fund	Gas Fund	534,700
Capital Projects Fund	General Fund	<u>9,000</u>
Total		<u>\$ 4,303,226</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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

#### **4. Jointly Governed Organizations**

The City, in conjunction with 20 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 21 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, 2016 were \$16,176,338.

The City is a member of the Isothermal Planning and Development Commission, one of eighteen regional Councils of Government in North Carolina. Four counties and 29 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 \$6,458 to the Commission during the year ended June 30, 2016.

#### **5. Stewardship, Compliance, and Accountability**

##### **Deficit Fund Balance or Net Position of Individual Funds:**

For the fiscal year ended June 30, 2016, the Economic Development Project Fund had a deficit fund balance of \$410,976. The City will transfer funds in Fiscal Year 2017 to cover the deficit fund balance.





## **REQUIRED SUPPLEMENTARY INFORMATION**

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

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Funding Progress for the Other Post-Employment Benefits
- Schedule of Employer Contributions for the Other Post-Employment Benefits
- Notes to the Required Schedules for the Other Post-Employment Benefits
- Schedule of Proportionate Share of Net Pension Liability (Asset)
- Schedule of Contributions to the Local Government Employees' Retirement System



## CITY OF SHELBY, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016

## Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability (AAL)- Projected Unit Credit B	Unfunded AAL (UAAL) B - A	Funded Ratio A / B	Covered Payroll C	UAAL as a Percentage Covered Payroll (B - A) / C
12/31/2015	\$ -	\$ 2,215,455	\$ 2,215,455	0.00%	\$ 3,526,429	62.82%
12/31/2014	-	1,415,342	1,415,342	0.00%	3,216,095	44.01%
12/31/2013	-	1,288,470	1,288,470	0.00%	2,902,613	44.39%
12/31/2012	-	1,157,832	1,157,832	0.00%	2,998,021	38.62%
12/31/2011	-	1,093,380	1,093,380	0.00%	2,946,990	37.10%
12/31/2010	-	1,055,843	1,055,843	0.00%	2,922,018	36.13%
12/31/2009	-	1,186,468	1,186,468	0.00%	2,994,601	39.62%
12/31/2008	-	941,730	941,730	0.00%	3,133,929	30.05%
12/31/2007	-	864,994	864,994	0.00%	2,775,946	31.16%

## Notes to the Required Schedules:

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

Valuation date	12/31/2015
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar closed
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	3.57%
Projected salary increases*	3.50% to 7.35%
Cost-of-living adjustments	N/A
*Includes inflation at 3.00%	

## CITY OF SHELBY, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS  
 RETIREE HEALTH PLAN  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2016

## Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability (AAL)- Projected Unit Credit		Unfunded AAL (UAAL) B - A	Funded Ratio A / B	Covered Payroll C	UAAL as a Percentage Covered Payroll (B - A) / C
		B					
12/31/2015	\$ -	\$ 15,207,498		\$ 15,207,498	0.00%	\$ 11,649,989	130.54%
12/31/2013	-	13,897,998		13,897,998	0.00%	11,658,087	119.21%
12/31/2011	-	11,727,758		11,727,758	0.00%	11,602,746	101.08%
12/31/2009	-	10,875,002		10,875,002	0.00%	11,399,038	95.40%
12/31/2008	-	12,186,718		12,186,718	0.00%	12,197,685	99.91%

## Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)		Amount Contributed By Employer	Percentage of ARC Contributed
2016	\$	1,202,614	\$ 825,216	68.62%
2015		1,167,586	711,187	60.91%
2014		1,021,579	557,246	54.55%
2013		991,824	508,800	51.30%
2012		936,437	429,819	45.90%
2011		902,590	449,119	49.76%

## Notes to the Required Schedules:

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

Valuation date	12/31/2015
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Amortization factor	26.1695
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Pre-Medicare cost trend rate	7.75%-5.00%
Year of ultimate trend rate	2022
* Includes inflation at 3.00%	



## CITY OF SHELBY, NORTH CAROLINA

CITY OF SHELBY'S PROPORTIONATE SHARE  
OF NET PENSION LIABILITY (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST THREE FISCAL YEARS\*

<b>Local Government Employees' Retirement System</b>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Shelby's proportion of the net pension liability (asset) (%)	0.21316%	0.21615%	0.25200%
Shelby's proportion of the net pension liability (asset) (\$)	\$ 956,648	\$ (1,274,737)	\$ 2,714,525
Shelby's covered-employee payroll	\$ 11,891,524	\$ 11,775,999	\$ 11,242,846
Shelby's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.04%	( 10.82%)	24.14%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

\*The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

\*\*This will be the same percentage for all participant employers in the LGERS plan.

## CITY OF SHELBY, NORTH CAROLINA

CITY OF SHELBY'S CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST THREE FISCAL YEARSLocal Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 855,814	\$ 851,812	\$ 838,951
Contributions in relation to the contractually required contribution	<u>855,814</u>	<u>851,812</u>	<u>838,951</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Shelby's covered-employee payroll	\$ 12,458,381	\$ 11,891,524	\$ 11,775,999
Contributions as a percentage of covered-employee payroll	6.87%	7.16%	7.12%



## **GENERAL FUND**

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



CITY OF SHELBY, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
<b>Ad Valorem Taxes:</b>				
Current year	\$ 7,775,000	\$ 8,047,116	\$ 272,116	\$ 7,834,402
Prior years	250,000	143,161	(106,839)	305,723
Tax discounts	(20,000)	(19,221)	779	(19,102)
Interest and penalties	50,000	36,048	(13,952)	72,967
Total	<u>8,055,000</u>	<u>8,207,104</u>	<u>152,104</u>	<u>8,193,990</u>
<b>Other Taxes and Licenses:</b>				
Local option sales tax	3,100,000	3,053,826	(46,174)	2,972,202
Privilege licenses	6,000	7,310	1,310	7,675
Total	<u>3,106,000</u>	<u>3,061,136</u>	<u>(44,864)</u>	<u>2,979,877</u>
<b>Unrestricted Intergovernmental Revenues:</b>				
Payment in lieu of taxes	9,000	9,000	-	-
Utility franchise tax	1,900,000	2,008,127	108,127	1,834,935
Beer and wine tax	95,000	90,073	(4,927)	97,291
ABC revenue	60,000	113,404	53,404	74,551
Total	<u>2,064,000</u>	<u>2,220,604</u>	<u>156,604</u>	<u>2,006,777</u>
<b>Restricted Intergovernmental Revenues:</b>				
Powell Bill allocation	611,150	614,291	3,141	618,172
Federal and State grants	192,052	187,146	(4,906)	185,012
ABC law enforcement revenue	5,000	13,009	8,009	4,569
Rental vehicle gross receivable tax	25,000	46,279	21,279	39,819
Total	<u>833,202</u>	<u>860,725</u>	<u>27,523</u>	<u>847,572</u>
<b>Permits and Fees:</b>				
Building permits/inspection fees	170,000	231,979	61,979	199,882
Other permits	30,700	94,798	64,098	31,255
Filing fees	-	560	560	580
Total	<u>200,700</u>	<u>327,337</u>	<u>126,637</u>	<u>231,717</u>
<b>Sales and Services:</b>				
Court costs and fees	8,000	8,856	856	8,360
Fire protection	-	295	295	313
Cemetery revenue	-	-	-	(1,950)
Golf cart rentals	55,600	39,770	(15,830)	40,548
Recreation revenue	276,250	232,260	(43,990)	261,941
Garbage disposal fees	753,000	733,126	(19,874)	747,734
Recycling fees	270,000	256,010	(13,990)	268,123
Utility late fees	155,000	152,700	(2,300)	168,600
Airport fuel sales	310,000	244,696	(65,304)	277,072
Other rent	13,000	30,448	17,448	12,688
Total	<u>1,840,850</u>	<u>1,698,161</u>	<u>(142,689)</u>	<u>1,783,429</u>

CITY OF SHELBY, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Budget	Actual	Variance Over/Under	Actual
<b>Investment Earnings</b>	60,000	95,830	35,830	128,840
<b>Miscellaneous:</b>				
Student resource officer	221,500	221,500	-	221,572
Public nuisance	55,000	37,965	(17,035)	71,510
Donations	-	-	-	5,000
Other	30,000	51,807	21,807	58,646
Total	306,500	311,272	4,772	356,728
Total revenues	16,466,252	16,782,169	315,917	16,528,930
<b>Expenditures:</b>				
<b>General Government:</b>				
Mayor and council	69,440	69,382	58	60,231
Administration and general	275,851	258,886	16,965	1,054,674
Finance	385,522	384,026	1,496	349,036
Purchasing	36,710	33,560	3,150	30,131
Legal	12,200	11,783	417	10,217
Human resources	151,079	125,557	25,522	139,201
City hall	62,070	61,627	443	107,502
Building and zoning	300,865	269,131	31,734	277,679
Community development	486,650	461,688	24,962	478,196
Special appropriations	828,327	799,758	28,569	797,289
Total	2,608,714	2,475,398	133,316	3,304,156
<b>Public Safety:</b>				
Police department	6,545,509	6,545,475	34	6,242,491
Fire department	4,494,567	4,430,425	64,142	3,413,110
Total	11,040,076	10,975,900	64,176	9,655,601
<b>Transportation:</b>				
Streets and highways	1,123,775	945,789	177,986	983,840
Street maintenance and repairs - Powell Bill	312,113	266,054	46,059	382,573
Street construction and improvement - Powell Bill	922,495	791,542	130,953	638,757
Garage	417,430	413,534	3,896	430,611
Airport	515,199	413,727	101,472	420,205
Total	3,291,012	2,830,646	460,366	2,855,986
<b>Environmental Protection:</b>				
Sanitation	1,824,627	1,674,767	149,860	1,468,936
Recycling	245,400	235,764	9,636	261,284
Total	2,070,027	1,910,531	159,496	1,730,220

CITY OF SHELBY, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016		Variance Over/Under	2015
	Budget	Actual		Actual
<b>Cultural and Recreational:</b>				
Parks and recreation	2,406,460	2,385,987	20,473	2,158,460
<b>Debt Service:</b>				
Principal retirement	1,079,000	933,507	145,493	958,869
Interest	61,800	57,762	4,038	13,106
Total	1,140,800	991,269	149,531	971,975
Total expenditures	22,557,089	21,569,731	987,358	20,676,398
Revenue over (under) expenditures	(6,090,837)	(4,787,562)	1,303,275	(4,147,468)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	2,935,000	2,935,000	-	3,885,000
Transfers (to) other funds	(298,526)	(298,526)	-	(263,467)
Long-term debt issued	876,790	828,034	(48,756)	1,514,933
Proceeds from the sale of capital assets	15,000	34,928	19,928	11,261
Appropriated fund balance	2,562,573	-	(2,562,573)	-
Total other financing sources (uses)	6,090,837	3,499,436	(2,591,401)	5,147,727
Net change in fund balance	\$ -	(1,288,126)	\$ (1,288,126)	1,000,259
<b>Fund Balance:</b>				
Beginning of year - July 1		8,923,797		7,923,538
End of year - June 30		\$ 7,635,671		\$ 8,923,797







## NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENTS AND SCHEDULES

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

### *Special Revenue Funds*

- **Emergency Telephone System Fund** – This fund accounts for collection of monies to provide enhanced 911 services.
- **Economic Development Commission Fund** – This fund is used to account for specific revenues that are restricted to fund continuing rehabilitation of redevelopment projects with certain targeted areas of the City and downtown revitalization.

### *Capital Project Funds*

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

### *Permanent Funds*

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



## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2016

	<b>Nonmajor Special Revenue Funds</b>	<b>Nonmajor Capital Project Funds</b>	<b>Nonmajor Permanent Funds</b>	<b>Total</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,213,896	\$ 675,494	\$ -	\$ 2,889,390
Receivables, net:				
Taxes	2,947	-	-	2,947
Accounts	8,852	1,368	11,282	21,502
Interest	1,193	52	-	1,245
Loans	51,505	-	-	51,505
Due from other governments	40,435	523,362	-	563,797
Prepays	9,000	-	-	9,000
Cash and cash equivalents - restricted	-	-	818,011	818,011
<b>Total assets</b>	<b>\$ 2,327,828</b>	<b>\$ 1,200,276</b>	<b>\$ 829,293</b>	<b>\$ 4,357,397</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 29,765	\$ 66,301	\$ -	\$ 96,066
Due to other funds	-	1,075,940	-	1,075,940
<b>Total liabilities</b>	<b>29,765</b>	<b>1,142,241</b>	<b>-</b>	<b>1,172,006</b>
<b>Deferred Inflows of Resources:</b>				
Taxes receivable	2,947	-	-	2,947
<b>Fund Balances:</b>				
Non-spendable:				
Perpetual	-	-	818,011	818,011
Long-term portion of loans receivable	51,505	-	-	51,505
Prepays	9,000	-	-	9,000
Restricted:				
Stabilization by State statute	50,480	524,782	11,282	586,544
Public safety	170,786	-	-	170,786
Committed:				
Capital projects	-	199,475	-	199,475
Assigned:				
Economic development	2,013,345	-	-	2,013,345
Unassigned	-	(666,222)	-	(666,222)
<b>Total fund balances</b>	<b>2,295,116</b>	<b>58,035</b>	<b>829,293</b>	<b>3,182,444</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 2,327,828</b>	<b>\$ 1,200,276</b>	<b>\$ 829,293</b>	<b>\$ 4,357,397</b>

## CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Nonmajor Special Revenue Funds</b>	<b>Nonmajor Capital Project Fund</b>	<b>Nonmajor Permanent Funds</b>	<b>Total</b>
<b>Revenues:</b>				
Ad valorem taxes	\$ 119,216	\$ -	\$ -	\$ 119,216
Restricted intergovernmental	732,491	666,221	-	1,398,712
Investment earnings	7,204	9,236	1,927	18,367
Miscellaneous	50,855	-	-	50,855
Donations	-	-	53,180	53,180
Total revenues	<u>909,766</u>	<u>675,457</u>	<u>55,107</u>	<u>1,640,330</u>
<b>Expenditures:</b>				
General government	-	-	1,119	1,119
Public safety	89,493	-	-	89,493
Transportation	-	209,850	-	209,850
Cultural and recreation	-	25,220	-	25,220
Housing and redevelopment	2,829,198	1,886,417	-	4,715,615
Total expenditures	<u>2,918,691</u>	<u>2,121,487</u>	<u>1,119</u>	<u>5,041,297</u>
Revenues over (under) expenditures	<u>(2,008,925)</u>	<u>(1,446,030)</u>	<u>53,988</u>	<u>(3,400,967)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	824,526	543,700	-	1,368,226
Proceeds from sale of assets	2,814,000	-	-	2,814,000
Total other financing sources (uses)	<u>3,638,526</u>	<u>543,700</u>	<u>-</u>	<u>4,182,226</u>
Net change in fund balances	1,629,601	(902,330)	53,988	781,259
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>665,515</u>	<u>960,365</u>	<u>775,305</u>	<u>2,401,185</u>
End of year - June 30	<u>\$ 2,295,116</u>	<u>\$ 58,035</u>	<u>\$ 829,293</u>	<u>\$ 3,182,444</u>

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2016

	<b>Emergency Telephone System Fund</b>	<b>Economic Development Commission Fund</b>	<b>Total Nonmajor Special Revenue Funds</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 188,524	\$ 2,025,372	\$ 2,213,896
Receivables, net:			
Taxes	-	2,947	2,947
Accounts	8,352	500	8,852
Interest	-	1,193	1,193
Loans	-	51,505	51,505
Prepaid items	-	9,000	9,000
Due from other governments	-	40,435	40,435
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 196,876</u>	<u>\$ 2,130,952</u>	<u>\$ 2,327,828</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	<u>\$ 17,738</u>	<u>\$ 12,027</u>	<u>\$ 29,765</u>
<b>Deferred Inflows of Resources:</b>			
Taxes receivable	<u>          -</u>	<u>          2,947</u>	<u>          2,947</u>
<b>Fund Balances:</b>			
Non-spendable:			
Long-term portion of loans receivable	-	51,505	51,505
Prepays	-	9,000	9,000
Restricted:			
Stabilization by State statute	8,352	42,128	50,480
Public safety	170,786	-	170,786
Assigned:			
Economic development	<u>          -</u>	<u>          2,013,345</u>	<u>          2,013,345</u>
Total fund balances	<u>          179,138</u>	<u>          2,115,978</u>	<u>          2,295,116</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 196,876</u>	<u>\$ 2,130,952</u>	<u>\$ 2,327,828</u>

## CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR SPECIAL REVENUE FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Emergency Telephone System Fund</b>	<b>Economic Development Commission Fund</b>	<b>Total Nonmajor Special Revenue Funds</b>
<b>Revenues:</b>			
Ad valorem taxes	\$ -	\$ 119,216	\$ 119,216
Restricted intergovernmental	100,228	632,263	732,491
Investment earnings	-	7,204	7,204
Miscellaneous income	-	50,855	50,855
Total revenues	<u>100,228</u>	<u>809,538</u>	<u>909,766</u>
<b>Expenditures:</b>			
Public safety	89,493	-	89,493
Housing and redevelopment	-	2,829,198	2,829,198
Total expenditures	<u>89,493</u>	<u>2,829,198</u>	<u>2,918,691</u>
Revenues over (under) expenditures	<u>10,735</u>	<u>(2,019,660)</u>	<u>(2,008,925)</u>
<b>Other Financing Sources (Uses):</b>			
Proceeds from sale of assets	-	2,814,000	2,814,000
Transfers from other funds	-	824,526	824,526
Total other financing sources (uses)	<u>-</u>	<u>3,638,526</u>	<u>3,638,526</u>
Net change in fund balances	10,735	1,618,866	1,629,601
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>168,403</u>	<u>497,112</u>	<u>665,515</u>
End of year - June 30	<u>\$ 179,138</u>	<u>\$ 2,115,978</u>	<u>\$ 2,295,116</u>

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUND  
 EMERGENCY TELEPHONE SYSTEM FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Restricted intergovernmental	\$ 100,373	\$ 100,228	\$ (145)
Total revenues	<u>100,373</u>	<u>100,228</u>	<u>(145)</u>
<b>Expenditures:</b>			
Public safety:			
Software	20,000	17,240	2,760
Furniture	500	-	500
Travel and Training	3,000	420	2,580
Hardware	23,873	24,448	(575)
Phone system	53,000	47,385	5,615
Total expenditures	<u>100,373</u>	<u>89,493</u>	<u>10,880</u>
Net change in fund balance	<u>\$ -</u>	10,735	<u>\$ 10,735</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>168,403</u>	
End of year - June 30		<u><u>\$ 179,138</u></u>	

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUND  
 ECONOMIC DEVELOPMENT COMMISSION FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2016

	<b>2016</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>
<b>Revenues:</b>			
Ad valorem taxes	\$ 109,700	\$ 119,216	\$ 9,516
Restricted intergovernmental	623,907	632,263	8,356
Investment earnings	1,000	7,204	6,204
Miscellaneous income	-	50,855	50,855
Total revenues	<u>734,607</u>	<u>809,538</u>	<u>74,931</u>
<b>Expenditures:</b>			
Housing and redevelopment	<u>2,976,133</u>	<u>2,829,198</u>	<u>146,935</u>
Revenues over (under) expenditures	<u>(2,241,526)</u>	<u>(2,019,660)</u>	<u>221,866</u>
<b>Other Financing Sources (Uses):</b>			
Proceeds from sale of assets	1,406,500	2,814,000	1,407,500
Transfers from other funds	824,526	824,526	-
Appropriated fund balance	<u>10,500</u>	<u>-</u>	<u>(10,500)</u>
Total other financing sources (uses)	<u>2,241,526</u>	<u>3,638,526</u>	<u>1,397,000</u>
Net change in fund balance	<u>\$ -</u>	<u>1,618,866</u>	<u>\$ 1,618,866</u>
<b>Reconciliation of Budgetary Basis with Modified Accrual Basis:</b>			
Payment received on notes receivable		<u>(7,299)</u>	
Net change in fund balance (deficit), modified accrual basis		1,611,567	
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>497,112</u>	
End of year - June 30		<u>\$ 2,108,679</u>	



## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2016

	<b>Capital Projects Fund</b>	<b>Economic Development Project Fund</b>	<b>Economic Development Reserve Fund</b>	<b>Total Nonmajor Capital Project Funds</b>
<b>Assets:</b>				
Cash and cash equivalents	\$ 476,019	\$ -	\$ 199,475	\$ 675,494
Receivables, net	1,368	-	-	1,368
Interest	-	52	-	52
Due from other governments	318,808	204,554	-	523,362
Total assets	<u>\$ 796,195</u>	<u>\$ 204,606</u>	<u>\$ 199,475</u>	<u>\$ 1,200,276</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 56,528	\$ 9,773	\$ -	\$ 66,301
Due to other funds	470,131	605,809	-	1,075,940
Total liabilities	<u>526,659</u>	<u>615,582</u>	<u>-</u>	<u>1,142,241</u>
<b>Fund Balances:</b>				
Restricted:				
Stabilization by State statute	320,176	204,606	-	524,782
Committed	-	-	199,475	199,475
Unassigned	(50,640)	(615,582)	-	(666,222)
Total fund balances	<u>269,536</u>	<u>(410,976)</u>	<u>199,475</u>	<u>58,035</u>
Total liabilities and fund balances	<u>\$ 796,195</u>	<u>\$ 204,606</u>	<u>\$ 199,475</u>	<u>\$ 1,200,276</u>

## CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR CAPITAL PROJECT FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2016**

	<b>Capital Projects Fund</b>	<b>Economic Development Project Fund</b>	<b>Economic Development Reserve Fund</b>	<b>Total Nonmajor Capital Project Funds</b>
<b>Revenues:</b>				
Restricted intergovernmental	\$ 436,938	\$ 229,283	\$ -	\$ 666,221
Investment earnings	8,896	340	-	9,236
Total revenues	<u>445,834</u>	<u>229,623</u>	<u>-</u>	<u>675,457</u>
<b>Expenditures:</b>				
Transportation	209,850	-	-	209,850
Cultural and recreation	25,220	-	-	25,220
Redevelopment	<u>407,049</u>	<u>1,479,368</u>	<u>-</u>	<u>1,886,417</u>
Total expenditures	<u>642,119</u>	<u>1,479,368</u>	<u>-</u>	<u>2,121,487</u>
Revenues over (under) expenditures	(196,285)	(1,249,745)	-	(1,446,030)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>543,700</u>	<u>-</u>	<u>-</u>	<u>543,700</u>
Net change in fund balances	347,415	(1,249,745)	-	(902,330)
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>(77,879)</u>	<u>838,769</u>	<u>199,475</u>	<u>960,365</u>
End of year - June 30	<u>\$ 269,536</u>	<u>\$ (410,976)</u>	<u>\$ 199,475</u>	<u>\$ 58,035</u>

## CITY OF SHELBY, NORTH CAROLINA

**CAPITAL PROJECTS FUND - NONMAJOR CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016**

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Trail Grant	\$ 224,500	\$ 139,500	\$ 85,000	\$ 224,500
Airport Grant 2011	158,333	141,186	6,676	147,862
Rural Center building reuse	799,500	799,500	-	799,500
Airport land easement	768,075	274,915	51,279	326,194
CDBG Catalyst Grant 2011	500,000	269,086	227,267	496,353
Airport Grant 2012-13	158,333	156,285	2,066	158,351
Airport Grant 2013-14	158,333	95,792	-	95,792
CDBG Carolina Suttle	-	-	1,200	1,200
Hanna Property Multi-Purpose Recreation Complex		-	63,450	63,450
Airport Runway Overlay	171,000			
Investment earnings	-	86,868	8,896	95,764
Total revenues	<u>2,938,074</u>	<u>1,963,132</u>	<u>445,834</u>	<u>2,408,966</u>
<b>Expenditures:</b>				
Carolina Thread Trail	315,320	121,000	168,963	289,963
Airport Grant 2011	166,667	166,667	-	166,667
Rural Center building reuse	819,000	819,000	-	819,000
Airport land easement	808,500	289,385	53,978	343,363
CDBG Catalyst Grant 2011	500,000	269,086	238,086	507,172
Police department roof	170,500	176,701	-	176,701
FCC Roads Phase II	408,700	451,020	9,190	460,210
Airport Grant 2012-13	166,667	166,122	909	167,031
Airport Grant 2013-14 (AP131)	166,667	87,173	2,638	89,811
Airport Runway Overlay	180,000			
Hanna Property Multi-Purpose Recreation Complex	502,500	-	25,220	25,220
East Gateway Enhancement Project	32,200	-	143,135	143,135
Total expenditures	<u>4,236,721</u>	<u>2,546,154</u>	<u>642,119</u>	<u>3,188,273</u>
Revenues over (under) expenditures	(1,298,647)	(583,022)	(196,285)	(779,307)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>1,298,647</u>	<u>505,143</u>	<u>543,700</u>	<u>1,048,843</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ (77,879)</u>	<u>\$ 347,415</u>	<u>\$ 269,536</u>

## CITY OF SHELBY, NORTH CAROLINA

**ECONOMIC DEVELOPMENT PROJECT - NONMAJOR CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>
<b>Revenues:</b>				
County, local grants	\$ 2,514,657	\$ 1,913,319	\$ 229,283	\$ 2,142,602
Investment earnings	-	115	340	455
Total revenues	<u>2,514,657</u>	<u>1,913,434</u>	<u>229,623</u>	<u>2,143,057</u>
<b>Expenditures:</b>				
Payment to Cleveland County	349,738	349,738	-	349,738
Foothills Farmers Market	860,000	834,736	224,623	1,059,359
Foothills Commerce Center Mass Grading	1,275,000	-	1,046,636	1,046,636
Washburn Switch Business Park Roadway	438,210	-	203,758	203,758
FCC job ready shell building #2	<u>3,000,000</u>	<u>2,948,744</u>	<u>4,351</u>	<u>2,953,095</u>
Total expenditures	<u>5,922,948</u>	<u>4,133,218</u>	<u>1,479,368</u>	<u>5,612,586</u>
Revenues over (under) expenditures	(3,408,291)	(2,219,784)	(1,249,745)	(3,469,529)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>3,408,291</u>	<u>3,058,553</u>	<u>-</u>	<u>3,058,553</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ 838,769</u>	<u>\$ (1,249,745)</u>	<u>\$ (410,976)</u>

## CITY OF SHELBY, NORTH CAROLINA

**ECONOMIC DEVELOPMENT RESERVE - NONMAJOR CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016**

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

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR PERMANENT FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2016

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
<b>Assets:</b>			
Accounts receivable, net	\$ 11,282	\$ -	\$ 11,282
Cash and cash equivalents - restricted	<u>338,680</u>	<u>479,331</u>	<u>818,011</u>
Total assets	<u>\$ 349,962</u>	<u>\$ 479,331</u>	<u>\$ 829,293</u>
<b>Fund Balances:</b>			
Non-spendable:			
Perpetual	\$ 338,680	\$ 479,331	\$ 818,011
Restricted for Stabilization by State Statute	<u>11,282</u>	<u>-</u>	<u>11,282</u>
Total fund balances	<u>349,962</u>	<u>479,331</u>	<u>829,293</u>
Total fund balances	<u>\$ 349,962</u>	<u>\$ 479,331</u>	<u>\$ 829,293</u>

## CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR PERMANENT FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
<b>Revenues:</b>			
Investment earnings	\$ 1,927	\$ -	\$ 1,927
Donations	4,760	48,420	53,180
Total revenues	<u>6,687</u>	<u>48,420</u>	<u>55,107</u>
<b>Expenditures:</b>			
General government	<u>1,119</u>	<u>-</u>	<u>1,119</u>
Net change in fund balances	5,568	48,420	53,988
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>344,394</u>	<u>430,911</u>	<u>775,305</u>
End of year - June 30	<u>\$ 349,962</u>	<u>\$ 479,331</u>	<u>\$ 829,293</u>







## **PROPRIETARY FUNDS ENTERPRISE FUNDS**

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

### *Major Enterprise Funds*

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

### *Nonmajor Enterprise Fund*

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



CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - WATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for sales and services:			
Water charges	\$ 4,477,400	\$ 4,530,019	\$ 52,619
Water taps	40,000	67,991	27,991
Water cutoffs	2,500	4,680	2,180
Other	<u>183,000</u>	<u>118,928</u>	<u>(64,072)</u>
Total operating revenues	<u>4,702,900</u>	<u>4,721,618</u>	<u>18,718</u>
Non-operating revenues:			
Grant - refund of interest expense	-	79,209	79,209
Investment earnings	<u>5,000</u>	<u>458</u>	<u>(4,542)</u>
Total non-operating revenues	<u>5,000</u>	<u>79,667</u>	<u>74,667</u>
Total revenues	<u>4,707,900</u>	<u>4,801,285</u>	<u>93,385</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	760,593	742,340	18,253
Operations	641,580	595,325	46,255
Maintenance and repairs	135,076	115,122	19,954
Treatment plant	1,419,329	1,341,869	77,460
Capital outlay	<u>874,613</u>	<u>495,995</u>	<u>378,618</u>
Total costs of sales and services	<u>3,831,191</u>	<u>3,290,651</u>	<u>540,540</u>
Debt service:			
Principal retirement	857,000	853,436	3,564
Interest	<u>398,000</u>	<u>414,363</u>	<u>(16,363)</u>
Total debt service	<u>1,255,000</u>	<u>1,267,799</u>	<u>(12,799)</u>
Total operating expenditures	<u>5,086,191</u>	<u>4,558,450</u>	<u>527,741</u>
Revenue over (under) expenditures	<u>(378,291)</u>	<u>242,835</u>	<u>621,126</u>

**CITY OF SHELBY, NORTH CAROLINA**

**ENTERPRISE FUND - WATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Other Financing Sources (Uses):</b>			
Transfers (to) other funds	(106,250)	(106,250)	-
Long-term debt issued	75,000	73,988	(1,012)
Appropriated fund balance	<u>409,541</u>	<u>-</u>	<u>(409,541)</u>
Total other financing sources (uses)	<u>378,291</u>	<u>(32,262)</u>	<u>(410,553)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>210,573</u>	<u>\$ 210,573</u>

**Reconciliation of Modified Accrual Basis  
with Accrual Basis:**

Reconciling items:	
Debt principal	853,436
Long-term debt issued	(73,988)
Capital outlay	495,995
Decrease (increase) in compensated absences	(3,285)
Decrease (increase) in other post-employment benefits	(20,497)
Decrease in net pension asset	(65,012)
Increase in net pension liability	(48,789)
Change in deferred outflows of resources - pension	240
Change in deferred inflows of resources - pension	132,449
Depreciation	(866,102)
Amortization	(17,325)
Water Capital Projects Fund activity	8,582
Water Capital Projects Fund intrafund transfer	<u>50,000</u>
Total reconciling items	<u>445,704</u>
Change in net position	<u>\$ 656,277</u>

## CITY OF SHELBY, NORTH CAROLINA

## ENTERPRISE FUND

## WATER CAPITAL PROJECTS FUND

## SCHEDULE OF REVENUES, EXPENDITURES, AND

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

## FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
<b>Capital Grants:</b>				
Project #830 - Artee Washburn Rd Water Line	\$ 419,900	\$ 360,111	\$ -	\$ 360,111
Project #831 - KSM Water Line	146,320	104,810	-	104,810
Investment earnings	-	69,485	8,582	78,067
Total revenues	<u>566,220</u>	<u>534,406</u>	<u>8,582</u>	<u>542,988</u>
<b>Expenditures:</b>				
Project #822 - Eastside Water Tank	2,463,000	115,651	1,346,180	1,461,831
Project #829 - Plato Lee Water Line Relocation	358,731	5,700	-	5,700
Project #830 Artee Washburn Rd Water Line	419,900	360,416	-	360,416
Project #831 KSM Water Line	182,920	109,022	-	109,022
Project #832 FCC Waterline Phase 2	98,400	97,330	-	97,330
Project #833 Grover-Morgan Waterline Project	225,000	46,400	125,190	171,590
Project # 834 Farmville Road Water Project	50,000	-	46,400	46,400
Total expenditures	<u>3,797,951</u>	<u>734,519</u>	<u>1,517,770</u>	<u>2,252,289</u>
Revenues over (under) expenditures	<u>(3,231,731)</u>	<u>(200,113)</u>	<u>(1,509,188)</u>	<u>(1,709,301)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	915,731	612,700	50,000	662,700
Long-term debt issued	<u>2,316,000</u>	<u>-</u>	<u>2,460,000</u>	<u>2,460,000</u>
Total other financing sources (uses)	<u>3,231,731</u>	<u>612,700</u>	<u>2,510,000</u>	<u>3,122,700</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 412,587</u>	<u>\$ 1,000,812</u>	<u>\$ 1,413,399</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 5,315,000	\$ 5,141,257	\$ (173,743)
Other fees	35,000	39,964	4,964
Other operating revenues	139,000	48,612	(90,388)
Total operating revenue	<u>5,489,000</u>	<u>5,229,833</u>	<u>(259,167)</u>
Non-operating revenues:			
Grant - refund of interest expense	34,000	32,382	(1,618)
Investment earnings	5,000	185	(4,815)
Total non-operating revenues	<u>39,000</u>	<u>32,567</u>	<u>(6,433)</u>
Total revenues	<u>5,528,000</u>	<u>5,262,400</u>	<u>(265,600)</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	795,169	754,303	40,866
Line operation	815,903	607,942	207,961
Maintenance and repairs	399,154	324,699	74,455
Treatment plant	1,477,209	1,338,507	138,702
Capital outlay	1,239,409	716,191	523,218
Total costs of sales and services	<u>4,726,844</u>	<u>3,741,642</u>	<u>985,202</u>
Debt service:			
Principal retirement	1,460,000	1,364,841	95,159
Interest	224,000	234,512	(10,512)
Total debt service	<u>1,684,000</u>	<u>1,599,353</u>	<u>84,647</u>
Total operating expenditures	<u>6,410,844</u>	<u>5,340,995</u>	<u>1,069,849</u>
Revenues over (under) expenditures	<u>(882,844)</u>	<u>(78,595)</u>	<u>804,249</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Other Financing Sources (Uses):</b>			
Transfers (to) other funds	(92,800)	(92,800)	-
Long-term debt issued	55,000	40,374	(14,626)
Appropriated fund balance	920,644	-	(920,644)
Total other financing sources (uses)	<u>882,844</u>	<u>(52,426)</u>	<u>(935,270)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(131,021)</u>	<u>\$ (131,021)</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Long-term debt issued		(40,374)	
Debt principal		1,364,841	
Capital outlay		716,191	
(Increase) decrease in compensated absences		(4,278)	
(Increase) decrease in other post-employment benefits		(22,538)	
Decrease in net pension asset		(70,111)	
Increase in net pension liability		(52,615)	
Change in deferred outflows of resources - pension		220	
Change in deferred inflows of resources - pension		142,876	
Depreciation		(1,087,430)	
Amortization		(5,489)	
Net Sewer Capital Projects Fund activity		<u>87,804</u>	
Total reconciling items		<u>1,029,097</u>	
Change in net position		<u>\$ 898,076</u>	

## CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND  
 SEWER CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	Project Authorization	Actual		Total
		Prior Years*	Current Year	
<b>Revenues:</b>				
Project #868 - Brushy Creek sewer outfall	\$ 250,000	\$ 250,000	\$ -	\$ 250,000
Investment earnings	-	71,064	4	71,068
Total revenues	<u>250,000</u>	<u>321,064</u>	<u>4</u>	<u>321,068</u>
<b>Expenditures:</b>				
Project #861 - Artee Sewer Line Extension Project	206,000	176,010	-	176,010
Project #865 - First Broad Wastewater Treatment Plant improvements	10,200,000	7,408,108	2,321,847	9,729,955
Project #866 - Wastewater outfall line improvements	3,448,640	2,970,199	229,821	3,200,020
Project #868 - Brushy Creek sewer outfall	500,000	179,996	141,696	321,692
Project #869 - Compost facility improvements	4,022,952	9,008	68,657	77,665
Project #870 - Huesker Sewer Extension	37,800	-	20,818	20,818
Total expenditures	<u>18,415,392</u>	<u>10,743,321</u>	<u>2,782,839</u>	<u>13,526,160</u>
Revenues over (under) expenditures	<u>(18,165,392)</u>	<u>(10,422,257)</u>	<u>(2,782,835)</u>	<u>(13,205,092)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	679,440	516,640	-	516,640
Intrafund transfers to (from) other funds	-	75,000	87,800	162,800
Long-term debt issued	17,279,952	8,229,625	4,297,473	12,527,098
Appropriated fund balance	206,000	-	-	-
Total other financing sources (uses)	<u>18,165,392</u>	<u>8,821,265</u>	<u>4,385,273</u>	<u>13,206,538</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (1,600,992)</u>	<u>\$ 1,602,438</u>	<u>\$ 1,446</u>



CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - ELECTRIC FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 22,141,350	\$ 21,789,200	\$ (352,150)
Other operating revenues	116,000	192,143	76,143
Total operating revenue	<u>22,257,350</u>	<u>21,981,343</u>	<u>(276,007)</u>
<b>Non-Operating Revenues:</b>			
Investment earnings	<u>10,000</u>	<u>8,700</u>	<u>(1,300)</u>
Total revenues	<u>22,267,350</u>	<u>21,990,043</u>	<u>(277,307)</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	1,131,113	1,076,357	54,756
Line operation	19,734,821	18,690,404	1,044,417
Capital outlay	<u>742,332</u>	<u>449,255</u>	<u>293,077</u>
Total costs of sales and services	<u>21,608,266</u>	<u>20,216,016</u>	<u>1,392,250</u>
Debt service:			
Principal repayment	454,000	526,608	(72,608)
Interest and fees	<u>99,200</u>	<u>106,987</u>	<u>(7,787)</u>
Total debt service	<u>553,200</u>	<u>633,595</u>	<u>(80,395)</u>
Total expenditures	<u>22,161,466</u>	<u>20,849,611</u>	<u>1,311,855</u>
Revenues over (under) expenditures	<u>105,884</u>	<u>1,140,432</u>	<u>1,034,548</u>
<b>Other Financing Sources (Uses):</b>			
Transfers to other funds	(596,250)	(596,250)	-
Intrafund transfers	(160,000)	(160,000)	-
Long-term debt issued	200,000	214,377	14,377
Appropriated fund balance	<u>450,366</u>	<u>-</u>	<u>(450,366)</u>
Total other financing sources (uses)	<u>(105,884)</u>	<u>(541,873)</u>	<u>(435,989)</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - ELECTRIC FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	598,559	\$ 598,559

**Reconciliation of Modified Accrual Basis  
with Accrual Basis:**

Debt principal	526,608
Long-term debt issued	(214,377)
Capital outlay	426,898
(Increase) decrease in compensated absences	(7,956)
(Increase) decrease in other post-employment benefits	(18,643)
Decrease in net pension asset	(50,989)
Increase in net pension liability	(38,266)
Change in deferred outflows of resources - pension	160
Change in deferred inflows of resources - pension	103,909
Depreciation	(686,140)
Amortization	(14,100)
Electric Capital Projects Fund activity	4,171
Electric Capital Projects Fund intrafund transfer	160,000
Net Electric Reserve Fund activity	<u>4,531</u>
Total reconciling items	<u>195,806</u>
Change in net position	<u>\$ 794,365</u>

## CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND  
 ELECTRIC CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Project #860 - NC DOT Grant	\$ 39,100	\$ -	\$ -	\$ -
Investment earnings	-	125,467	4,171	129,638
Total revenues	<u>39,100</u>	<u>125,467</u>	<u>4,171</u>	<u>129,638</u>
<b>Expenditures:</b>				
Project #860 - Dekalb Street	39,100	-	-	-
Project #865 - Artee Road electric line relocation	114,000	3,285	-	3,285
Project #867 - Court Square Infrastructure	160,000	-	-	-
Total expenditures	<u>313,100</u>	<u>3,285</u>	<u>-</u>	<u>3,285</u>
Revenues over (under) expenditures	(274,000)	122,182	4,171	126,353
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>274,000</u>	<u>114,000</u>	<u>160,000</u>	<u>274,000</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 236,182</u>	<u>\$ 164,171</u>	<u>\$ 400,353</u>

## CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND  
 ELECTRIC CAPITAL RESERVE FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES -  
 BUDGET AND ACTUAL (NON-GAAP)  
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Non-operating revenues:			
Investment earnings	\$ -	\$ 4,531	\$ 4,531
Total non-operating revenues	<u>-</u>	<u>4,531</u>	<u>4,531</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 4,531</u>	<u>\$ 4,531</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - GAS FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 16,130,000	\$ 14,040,743	\$ (2,089,257)
Other fees	47,000	33,719	(13,281)
Other operating revenues	70,500	89,406	18,906
Total operating revenue	<u>16,247,500</u>	<u>14,163,868</u>	<u>(2,083,632)</u>
Non-operating revenues:			
Grant - refund of interest expense	9,500	9,192	(308)
Investment earnings	10,000	7,806	(2,194)
Total non-operating revenues	<u>19,500</u>	<u>16,998</u>	<u>(2,502)</u>
Total revenues	<u>16,267,000</u>	<u>14,180,866</u>	<u>(2,086,134)</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	1,414,390	1,193,003	221,387
Line operation	10,970,458	8,884,126	2,086,332
Capital outlay	3,194,128	2,451,558	742,570
Total costs of sales and services	<u>15,578,976</u>	<u>12,528,687</u>	<u>3,050,289</u>
Debt service:			
Principal repayment	744,000	736,094	7,906
Interest and fees	98,000	99,186	(1,186)
Total debt service	<u>842,000</u>	<u>835,280</u>	<u>6,720</u>
Total expenditures	<u>16,420,976</u>	<u>13,363,967</u>	<u>3,057,009</u>
Revenues over (under) expenditures	<u>(153,976)</u>	<u>816,899</u>	<u>970,875</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - GAS FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Other Financing Sources (Uses):</b>			
Transfers to other funds	(3,347,200)	(3,347,200)	-
Intrafund transfers	(250,000)	(250,000)	-
Long-term debt issued	72,000	71,072	(928)
Appropriated fund balance	3,679,176	-	(3,679,176)
Total other financing sources (uses)	<u>153,976</u>	<u>(3,526,128)</u>	<u>(3,680,104)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(2,709,229)</u>	<u>\$ (2,709,229)</u>

**Reconciliation of Modified Accrual Basis  
with Accrual Basis:**

Debt principal	736,094
Long-term debt issued	(71,072)
Capital outlay	2,451,558
(Increase) decrease in compensated absences	(1,408)
(Increase) decrease in other post-employment benefits	(18,858)
Decrease in net pension asset	(70,111)
Increase in net pension liability	(52,615)
Change in deferred outflows of resources - pension	220
Change in deferred inflows of resources - pension	142,876
Depreciation	(646,227)
Amortization	(4,650)
Gas Capital Project Fund interest	3,972
Gas Capital Reserve Fund intrafund transfer	<u>250,000</u>
Total reconciling items	<u>2,719,779</u>
Change in net position	<u>\$ 10,550</u>

## CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND  
 GAS CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL (NON-GAAP)  
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Project #879 - Artee Washburn				
Road gas line relocation	\$ 492,500	\$ 261,738	\$ -	\$ 261,738
Investment earnings	-	50,645	3,972	54,617
Total revenues	<u>492,500</u>	<u>312,383</u>	<u>3,972</u>	<u>316,355</u>
<b>Expenditures:</b>				
Project #878 - Plato Lee gas line relocation	138,045	11,176	-	11,176
Project #879 - Artee/Washburn Road gas line relocation	492,500	266,982	-	266,982
Project #880 - NC226 Polkville Road gas line relocation	241,000	225,339	-	225,339
Project #881 - R2707AA US 74 gas line relocation	<u>337,510</u>	<u>204,474</u>	-	<u>204,474</u>
Total expenditures	<u>1,209,055</u>	<u>707,971</u>	-	<u>707,971</u>
Revenues over (under) expenditures	(716,555)	(395,588)	3,972	(391,616)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>716,555</u>	<u>716,555</u>	-	<u>716,555</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 320,967</u>	<u>\$ 3,972</u>	<u>\$ 324,939</u>

## CITY OF SHELBY, NORTH CAROLINA

## ENTERPRISE FUND

## GAS CAPITAL RESERVE FUND

## SCHEDULE OF REVENUES AND EXPENDITURES -

## BUDGET AND ACTUAL (NON-GAAP)

## FOR THE YEAR ENDED JUNE 30, 2016

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



## CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF NET POSITION  
NONMAJOR ENTERPRISE FUNDS  
JUNE 30, 2016

	<u>Stormwater Fund</u>	<u>Housing Assistance Fund</u>	<u>Total Nonmajor Funds</u>
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 253,195	\$ 2,177,594	\$ 2,430,789
Accounts receivable, net	65,835	2,072	67,907
Due from other governments	1,754	1,346	3,100
Inventories	8,209	-	8,209
Prepaid items	2,270	1,677	3,947
Total current assets	<u>331,263</u>	<u>2,182,689</u>	<u>2,513,952</u>
Non-current assets:			
Restricted cash and cash equivalents	-	39,848	39,848
Capital assets, non-depreciable	-	283,024	283,024
Capital assets, net	288,851	4,741,436	5,030,287
Total non-current assets	<u>288,851</u>	<u>5,064,308</u>	<u>5,353,159</u>
Total assets	<u>620,114</u>	<u>7,246,997</u>	<u>7,867,111</u>
<b>Deferred Outflows of Resources:</b>			
Contributions to pension plan in current fiscal year	-	17,972	17,972
Total deferred outflows of resources	<u>-</u>	<u>17,972</u>	<u>17,972</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable and accrued liabilities	10,445	21,975	32,420
Compensated absences payable	800	5,000	5,800
Current portion of long-term debt	20,893	-	20,893
Liabilities payable from restricted assets:			
Customer deposits	-	39,848	39,848
Total current liabilities	<u>32,138</u>	<u>66,823</u>	<u>98,961</u>
Non-current liabilities:			
Compensated absences payable	2,602	15,406	18,008
Other long-term debt	73,812	-	73,812
Net pension liability	-	20,090	20,090
Other post-employment benefits	-	85,446	85,446
Total non-current liabilities	<u>76,414</u>	<u>120,942</u>	<u>197,356</u>
Total liabilities	<u>108,552</u>	<u>187,765</u>	<u>296,317</u>
<b>Deferred Inflows of Resources:</b>			
Pension deferrals	-	12,763	12,763
<b>Net Position:</b>			
Net investment in capital assets	194,146	5,024,460	5,218,606
Unrestricted	317,416	2,039,981	2,357,397
Total net position	<u>\$ 511,562</u>	<u>\$ 7,064,441</u>	<u>\$ 7,576,003</u>

## CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN FUND NET POSITION  
 NONMAJOR ENTERPRISE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Stormwater Fund</u>	<u>Housing Assistance Fund</u>	<u>Nonmajor Funds</u>
<b>Operating Revenues:</b>			
Charges for services	\$ 735,790	\$ 618,356	\$ 1,354,146
Other fees	1,300	-	1,300
Other operating revenues	<u>-</u>	<u>4,999</u>	<u>4,999</u>
Total operating revenues	<u>737,090</u>	<u>623,355</u>	<u>1,360,445</u>
<b>Operating Expenses:</b>			
Administration	679,901	381,845	1,061,746
Operations and maintenance	-	663,580	663,580
Depreciation and amortization	<u>45,922</u>	<u>210,739</u>	<u>256,661</u>
Total operating expenses	<u>725,823</u>	<u>1,256,164</u>	<u>1,981,987</u>
Operating income (loss)	<u>11,267</u>	<u>(632,809)</u>	<u>(621,542)</u>
<b>Non-Operating Revenues (Expenses):</b>			
Operating grants	-	454,637	454,637
Investment earnings	156	13,477	13,633
Interest expense and fiscal charges	<u>(1,279)</u>	<u>-</u>	<u>(1,279)</u>
Total non-operating revenues (expenses)	<u>(1,123)</u>	<u>468,114</u>	<u>466,991</u>
Income (loss) before capital contributions	10,144	(164,695)	(154,551)
Capital contributions	<u>-</u>	<u>260,038</u>	<u>260,038</u>
Change in net position	10,144	95,343	105,487
<b>Net Position:</b>			
Beginning year - July 1	<u>501,418</u>	<u>6,969,098</u>	<u>7,470,516</u>
End of year - June 30	<u>\$ 511,562</u>	<u>\$ 7,064,441</u>	<u>\$ 7,576,003</u>

CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Stormwater Fund</u>	<u>Housing Assistance Fund</u>	<u>Nonmajor Funds</u>
<b>Cash Flows from Operating Activities:</b>			
Cash received from customers	\$ 754,327	\$ 621,574	\$ 1,375,901
Cash paid for goods and services	(678,206)	(659,107)	(1,337,313)
Cash paid to employees	<u>-</u>	<u>(380,573)</u>	<u>(380,573)</u>
Net cash provided (used) by operating activities	<u>76,121</u>	<u>(418,106)</u>	<u>(341,985)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Proceeds from operating grants	-	454,637	454,637
Increase (decrease) in due from other funds	<u>(883)</u>	<u>(1,732)</u>	<u>(2,615)</u>
Net cash provided (used) by non-capital financing activities	<u>(883)</u>	<u>452,905</u>	<u>452,022</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Acquisition and construction of capital assets	(59,139)	(337,506)	(396,645)
Capital contributions - grants	-	260,038	260,038
Proceeds from issuance of long-term debt	54,400	-	54,400
Principal paid on long-term debt	(9,695)	-	(9,695)
Interest paid on long-term debt	<u>(1,279)</u>	<u>-</u>	<u>(1,279)</u>
Net cash provided (used) for capital and related financing activities	<u>(15,713)</u>	<u>(77,468)</u>	<u>(93,181)</u>
<b>Cash Flows from Investing Activities:</b>			
Interest received from investments	<u>156</u>	<u>13,477</u>	<u>13,633</u>
Net increase (decrease) in cash and cash equivalents	59,681	(29,192)	30,489
<b>Cash and Cash Equivalents:</b>			
Beginning of year - July 1	<u>193,514</u>	<u>2,246,634</u>	<u>2,440,148</u>
End of year - June 30	<u>\$ 253,195</u>	<u>\$ 2,217,442</u>	<u>\$ 2,470,637</u>

CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Stormwater Fund</u>	<u>Housing Assistance Fund</u>	<u>Nonmajor Funds</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating income (loss)	\$ 11,267	\$ (632,809)	\$ (621,542)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	45,922	210,739	256,661
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	17,237	499	17,736
(Increase) decrease in inventories	(6,952)	-	(6,952)
(Increase) decrease in prepaids	(2,270)	(95)	(2,365)
Increase (decrease) in accounts payable and accrued liabilities	8,957	4,568	13,525
Increase (decrease) in unearned revenues	-	(2,349)	(2,349)
Increase (decrease) in customer deposits	-	69	69
Increase (decrease) in compensated absences	1,960	254	2,214
(Increase) decrease in deferred outflows of resources for pensions	-	(84)	(84)
(Increase) decrease in net pension asset	-	26,769	26,769
Increase (decrease) in net pension liability	-	20,090	20,090
Increase (decrease) in deferred inflows of resources for pensions	-	(54,553)	(54,553)
Increase (decrease) in other post-employment benefits	-	8,796	8,796
	<u>76,121</u>	<u>(418,106)</u>	<u>(341,985)</u>
Net cash provided (used) by operating activities	\$ <u>76,121</u>	\$ <u>(418,106)</u>	\$ <u>(341,985)</u>

## CITY OF SHELBY, NORTH CAROLINA

**ENTERPRISE FUND - STORMWATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 756,000	\$ 735,790	\$ (20,210)
Other fees	-	1,300	1,300
Total operating revenue	<u>756,000</u>	<u>737,090</u>	<u>(18,910)</u>
Non-operating revenues:			
Investment earnings	-	156	156
Total revenues	<u>756,000</u>	<u>737,246</u>	<u>(18,754)</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	922,215	677,941	244,274
Capital outlay	59,140	59,139	1
Total costs of sales and services	<u>981,355</u>	<u>737,080</u>	<u>244,275</u>
Debt service:			
Principal repayment	9,610	9,695	(85)
Interest and fees	861	1,279	(418)
Total debt service	<u>10,471</u>	<u>10,974</u>	<u>(503)</u>
Total expenditures	<u>991,826</u>	<u>748,054</u>	<u>243,772</u>
Revenues over (under) expenditures	<u>(235,826)</u>	<u>(10,808)</u>	<u>225,018</u>
<b>Other Financing Sources (Uses):</b>			
Long-term debt issued	55,000	54,400	(600)
Appropriated fund balance	180,826	-	(180,826)
Total other financing sources (uses)	<u>235,826</u>	<u>54,400</u>	<u>(181,426)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>43,592</u>	<u>\$ 43,592</u>

**CITY OF SHELBY, NORTH CAROLINA**

**ENTERPRISE FUND - STORMWATER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Debt principal		9,695	
Long-term debt issued		(54,400)	
Capital outlay		59,139	
(Increase) decrease in compensated absences		(1,960)	
Depreciation and amortization		<u>(45,922)</u>	
Total reconciling items		<u>(33,448)</u>	
 Change in net position		 <u>\$ 10,144</u>	

## CITY OF SHELBY, NORTH CAROLINA

**ENTERPRISE FUND - HOUSING ASSISTANCE FUND  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 588,100	\$ 618,356	\$ 30,256
Other operating revenues	3,500	4,999	1,499
Total operating revenue	<u>591,600</u>	<u>623,355</u>	<u>31,755</u>
Non-operating revenues:			
Operating and capital grants	729,975	714,675	(15,300)
Investment earnings	<u>1,000</u>	<u>13,477</u>	<u>12,477</u>
Total non-operating revenues	<u>730,975</u>	<u>728,152</u>	<u>(2,823)</u>
Total revenues	<u>1,322,575</u>	<u>1,351,507</u>	<u>28,932</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	379,220	381,591	(2,371)
Operating and maintenance	681,135	662,562	18,573
Capital outlay	<u>276,638</u>	<u>222,142</u>	<u>54,496</u>
Total expenditures	<u>1,336,993</u>	<u>1,266,295</u>	<u>70,698</u>
Revenues over (under) expenditures	(14,418)	85,212	99,630
<b>Other Financing Sources (Uses):</b>			
Appropriated fund balance	<u>14,418</u>	<u>-</u>	<u>(14,418)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>85,212</u>	<u>\$ 85,212</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Capital outlay		222,142	
Decrease (increase) in compensated absences		(254)	
Decrease (increase) in other post-employment benefits		(8,796)	
Decrease in net pension asset		(26,769)	
Increase in net pension liability		(20,090)	
Change in deferred outflows of resources - pension		84	
Change in deferred oinflows of resources - pension		54,553	
Depreciation		<u>(210,739)</u>	
Total reconciling items		<u>10,131</u>	
Change in net position		<u>\$ 95,343</u>	

## CITY OF SHELBY, NORTH CAROLINA

## ENTERPRISE FUND

## HOUSING CAPITAL PROJECTS FUND

## SCHEDULE OF REVENUES AND EXPENDITURES

## BUDGET AND ACTUAL (NON-GAAP)

## FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2016

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Expenditures:</b>				
Logan Street Land	\$ 44,500	\$ 43,762	\$ -	\$ 43,762
Construction	195,250	9,580	115,364	124,944
Total expenditures	<u>239,750</u>	<u>53,342</u>	<u>115,364</u>	<u>168,706</u>
Revenues over (under) expenditures	(239,750)	(53,342)	(115,364)	(168,706)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>239,750</u>	<u>239,750</u>	<u>-</u>	<u>239,750</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 186,408</u>	<u>\$ (115,364)</u>	<u>\$ 71,044</u>





## **OTHER SUPPLEMENTAL INFORMATION**

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



**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF AD VALOREM TAXES RECEIVABLE\*  
JUNE 30, 2016**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2015</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2016</u>
2015-2016	\$ -	\$ 8,254,762	\$ 8,102,696	\$ 152,066
2014-2015	163,116	-	105,712	57,404
2013-2014	81,708	-	34,552	47,156
2012-2013	48,558	-	11,272	37,286
2011-2012	28,628	-	5,378	23,250
2010-2011	19,709	-	1,245	18,464
2009-2010	21,223	-	1,487	19,736
2008-2009	15,404	-	210	15,194
2007-2008	13,746	-	224	13,522
2006-2007	14,359	-	291	14,068
2005-2006	14,351	-	14,351	-
<b>Total</b>	<u>\$ 420,802</u>	<u>\$ 8,254,762</u>	<u>\$ 8,277,418</u>	398,146

Less: allowance for uncollectible ad valorem taxes receivable (188,000)

Ad valorem taxes receivable, net \$ 210,146

**Reconciliation with Revenues:**

Ad valorem taxes - General Fund	\$ 8,207,104
Ad valorem taxes - Special Revenue Fund	119,216
Interest and penalties collected	(38,455)
Discounts allowed	19,744
Discoveries of prior years' taxes	
Miscellaneous adjustments	(44,542)
Arrears written off for tax year 2005-2006 per Statute of Limitations	<u>14,351</u>
<b>Total collections and credits</b>	<u>\$ 8,277,418</u>

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

## CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY  
ALL DISTRICTS  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Total</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 1,794,424,828	\$ 0.435	\$ 7,805,748	\$ 7,253,341	\$ 552,407
Municipal service district taxed at current year's rate	<u>50,769,466</u>	0.655	<u>332,540</u>	<u>321,485</u>	<u>11,055</u>
Total original levy	<u>1,845,194,294</u>		<u>8,138,288</u>	<u>7,574,826</u>	<u>563,462</u>
<b>Discoveries:</b>					
Property taxed at current year's rate	44,734,943	0.435	194,597	194,597	-
Municipal service district taxed at current year's rate	<u>460,763</u>	0.655	<u>3,018</u>	<u>3,018</u>	<u>-</u>
Total discoveries	<u>45,195,706</u>		<u>197,615</u>	<u>197,615</u>	<u>-</u>
<b>Releases:</b>					
Property taxed at current year's rate	15,226,667	0.435	66,236	66,236	-
Municipal service district taxed at current year's rate	<u>2,275,573</u>	0.655	<u>14,905</u>	<u>14,905</u>	<u>-</u>
Total abatements	<u>17,502,240</u>		<u>81,141</u>	<u>81,141</u>	<u>-</u>
Total property valuation	<u>\$ 1,872,887,760</u>				
<b>Net Levy</b>			8,254,762	7,691,300	563,462
Uncollected taxes at June 30, 2016			<u>152,066</u>	<u>152,066</u>	<u>-</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 8,102,696</u>	<u>\$ 7,539,234</u>	<u>\$ 563,462</u>
<b>Current Levy Collection Percentage</b>			<u>98.16%</u>	<u>98.02%</u>	<u>100.00%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>97.96%</u>	<u>97.82%</u>	<u>100.00%</u>

## CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY  
CITY-WIDE LEVY  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>City-Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 1,794,424,828	0.435	\$ 7,805,748	\$ 7,253,341	\$ 552,407
<b>Discoveries:</b>					
Property taxed at current year's rate	44,734,943	0.435	194,597	194,597	-
<b>Releases:</b>					
Property taxed at current year's rate	<u>15,226,667</u>	0.435	<u>66,236</u>	<u>66,236</u>	<u>-</u>
Total property valuation	<u>\$ 1,823,933,103</u>				
<b>Net Levy</b>			7,934,109	7,381,702	552,407
Uncollected taxes at June 30, 2016			<u>147,001</u>	<u>147,001</u>	<u>-</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 7,787,108</u>	<u>\$ 7,234,701</u>	<u>\$ 552,407</u>
<b>Current Levy Collection Percentage</b>			<u>98.15%</u>	<u>98.01%</u>	<u>100.00%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>98.05%</u>	<u>97.91%</u>	<u>100.00%</u>

## CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY  
MUNICIPAL SERVICE DISTRICT LEVY  
FOR THE YEAR ENDED JUNE 30, 2016

	Municipal Service District			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 50,769,466	\$ 0.655	\$ 332,540	\$ 321,485	\$ 11,055
<b>Discoveries:</b>					
Property taxed at current year's rate	460,763	0.655	3,018	3,018	-
<b>Releases:</b>					
Property taxed at current year's rate	<u>2,275,573</u>	0.655	<u>14,905</u>	<u>14,905</u>	<u>-</u>
Total property valuation	<u>\$ 48,954,656</u>				
<b>Net Levy</b>			320,653	309,598	11,055
Uncollected taxes at June 30, 2016			<u>5,065</u>	<u>5,065</u>	<u>-</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 315,588</u>	<u>\$ 304,533</u>	<u>\$ 11,055</u>
<b>Current Levy Collection Percentage</b>			<u>98.42%</u>	<u>98.36%</u>	<u>100.00%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>95.73%</u>	<u>95.61%</u>	<u>100.00%</u>

## CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - BALANCE SHEET  
FOR THE YEAR ENDED JUNE 30, 2016

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
	<b>Assets:</b>			
	Current assets:			
	Cash:			
111	Cash - unrestricted	\$ 181,403	\$ 192	\$ 181,595
114	Cash - tenant security deposits	39,848	-	39,848
100	Total cash	<u>221,251</u>	<u>192</u>	<u>221,443</u>
	Accounts and notes receivables:			
124	Accounts receivable - other governments	1,157	-	1,157
129	Accrued interest receivable	2,072	-	2,072
120	Total receivables, net allowances for uncollectibles	<u>3,421</u>	<u>-</u>	<u>3,421</u>
131	Investments - unrestricted	1,996,002	-	1,996,002
142	Prepaid expenses and other assets	1,677	-	1,677
150	Total current assets	<u>2,222,351</u>	<u>192</u>	<u>2,222,543</u>
	Fixed assets:			
161	Land	283,023	-	283,023
162	Buildings	9,816,894	260,038	10,076,932
163	Furniture, equipment, and machinery - dwellings	303,422	-	303,422
166	Accumulated depreciation	(5,890,841)	-	(5,890,841)
160	Total fixed assets, net of accumulated depreciation	<u>4,512,498</u>	<u>260,038</u>	<u>4,772,536</u>
180	Total non-current assets	<u>4,512,498</u>	<u>260,038</u>	<u>4,772,536</u>
190	Total assets	<u>6,734,849</u>	<u>260,230</u>	<u>6,995,079</u>
	<b>Deferred Outflows of Resources:</b>			
	Contributions to pension plan in current fiscal year	17,972	-	17,972
200	Total deferred outflows of resources	<u>17,972</u>	<u>-</u>	<u>17,972</u>
290	Total assets and deferred outflows of resources	<u>\$ 6,752,821</u>	<u>\$ 260,230</u>	<u>\$ 7,013,051</u>
	<b>Liabilities and Net Position</b>			
	Liabilities:			
	Current liabilities:			
312	Accounts payable < 90 days	\$ 7,780	\$ -	\$ 7,780
321	Accrued wages/payroll taxes payable	14,195	-	14,195
322	Accrued compensated absences	5,000	-	5,000
341	Tenant security deposits	39,848	-	39,848
310	Total current liabilities	<u>66,823</u>	<u>192</u>	<u>67,015</u>
	Non-current liabilities:			
354	Accrued compensated absences - non-current	15,406	-	15,406
	Other post-employment benefit & pension liabilities	105,536	-	105,536
350	Total non-current liabilities	<u>120,942</u>	<u>-</u>	<u>120,942</u>
300	Total liabilities	<u>187,765</u>	<u>192</u>	<u>187,957</u>
	<b>Deferred Inflows of Resources</b>			
400	Pension deferrals	<u>12,763</u>	<u>-</u>	<u>12,763</u>
	Net position:			
508.1	Net investment in capital assets	4,512,498	260,038	4,772,536
512.1	Unrestricted net position	<u>2,039,795</u>	<u>-</u>	<u>2,039,795</u>
513	Total net position	<u>6,552,293</u>	<u>260,038</u>	<u>6,812,331</u>
600	Total liabilities, deferred inflows of resources, and net position	<u>\$ 6,752,821</u>	<u>\$ 260,230</u>	<u>\$ 7,013,051</u>

## CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - REVENUES AND EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2016

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
<b>Revenue:</b>				
703	Net tenant rental revenue	\$ 618,356	\$ -	\$ 618,356
705	Total tenant revenue	<u>618,356</u>	<u>-</u>	<u>618,356</u>
706	HUD PHA operating grants	454,637	-	454,637
706.1	HUD PHA capital grants	-	260,038	260,038
711	Investment income - unrestricted	13,477	-	13,477
715	Other revenues	<u>4,999</u>	<u>-</u>	<u>4,999</u>
700	Total revenues	<u>1,091,469</u>	<u>260,038</u>	<u>1,351,507</u>
<b>Expenses:</b>				
Administrative:				
911	Administrative salaries	279,407	-	279,407
912	Audit services	6,558	-	6,558
915	Employee benefit contributions - administrative	121,230	-	121,230
Tenant services:				
924	Tenant services - other	2,226	-	2,226
Utilities:				
931	Water	126,012	-	126,012
932	Electricity	145,778	-	145,778
933	Gas	106,155	-	106,155
942	Ordinary maintenance and operation - materials and other	81,496	-	81,496
943	Ordinary maintenance and operation - contract costs	54,319	-	54,319
General expenses:				
961	Insurance premiums	58,085	-	58,085
962	Other general expenses	28,637	-	28,637
962.1	Compensated absences	20,406	-	20,406
963	Payments in lieu of taxes	14,663	-	14,663
964	Bad debt - tenant rents	<u>758</u>	<u>-</u>	<u>758</u>
969	Total operating expenses	<u>1,045,730</u>	<u>-</u>	<u>1,045,730</u>
970	Excess operating revenue over operating expenses	<u>45,739</u>	<u>260,038</u>	<u>305,777</u>
974	Depreciation expense	<u>210,739</u>	<u>-</u>	<u>210,739</u>
900	Total expenses	<u>1,256,469</u>	<u>-</u>	<u>1,256,469</u>
1000	Excess (deficiency) of revenue over expenses	<u>\$ (165,000)</u>	<u>\$ 260,038</u>	<u>\$ 95,038</u>
MEMO Account Information:				
1103	Beginning equity	\$ 6,551,375	\$ 165,918	\$ 6,717,293
1104	Prior period adjustments, equity transfers and corrections of errors	165,918	(165,918)	-
1120	Unit months available	2,064	-	2,064
1121	Number of unit months leased	2,064	-	2,064



**CITY OF SHELBY, NORTH CAROLINA**

**STATEMENT OF PROGRAM COSTS - COMPLETED  
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Program Name</u>	<u>CFDA #</u>	<u>Funds Approved</u>	<u>Funds Advanced</u>			<u>Funds Expended</u>			<u>Excess (Deficiency)</u>	
			<u>Ending Balance</u>	<u>Prior Audit</u>	<u>Current Year</u>	<u>Ending Balance</u>	<u>Prior Audit</u>	<u>Current Year</u>	<u>Funds Approved</u>	<u>Funds Advanced</u>
Capital Fund Program (CFP): NC19PO345015	14.872	\$ 239,330	\$ 172,701	\$ -	\$ 172,701	\$ 172,701	\$ -	\$ 172,701	\$ 66,629	\$ -
Capital Fund Program (CFP): NC1980345014	14.872	\$ 215,708	\$ 215,708	\$ 128,371	\$ 87,337	\$ 211,067	\$ 123,730	\$ 87,337	\$ -	\$ 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 (Page 124-128)

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

### Revenue Capacity (Page 129-133)

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

### Debt Capacity (Page 134-139)

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

### Demographic and Economic Information (Page 140-142)

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

### Operating Information (Page 143-144)

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

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



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

	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Governmental Activities</b>										
Net investment in capital assets	\$ 24,599	\$ 25,834	\$ 26,977	\$ 29,009	\$ 32,852	\$ 30,598	\$ 31,063	\$ 33,394	\$ 34,486	\$ 37,344
Restricted	1,035	1,183	1,465	1,571	5,639	4,687	5,882	5,077	5,448	5,566
Unrestricted	<u>5,576</u>	<u>5,490</u>	<u>6,281</u>	<u>4,906</u>	<u>(1,565)</u>	<u>1,360</u>	<u>2,207</u>	<u>1,015</u>	<u>916</u>	<u>82</u>
Total governmental activities net position	<u>\$ 31,210</u>	<u>\$ 32,507</u>	<u>\$ 34,723</u>	<u>\$ 35,486</u>	<u>\$ 36,926</u>	<u>\$ 36,645</u>	<u>\$ 39,152</u>	<u>\$ 39,486</u>	<u>\$ 40,851</u>	<u>\$ 42,993</u>
<b>Business-Type Activities</b>										
Net investment in capital assets	\$ 44,008	\$ 46,892	\$ 56,416	\$ 53,425	\$ 60,461	\$ 63,276	\$ 65,346	\$ 68,475	\$ 72,259	\$ 75,472
Unrestricted	<u>23,828</u>	<u>23,064</u>	<u>18,436</u>	<u>24,731</u>	<u>22,245</u>	<u>22,427</u>	<u>23,260</u>	<u>25,549</u>	<u>21,387</u>	<u>20,638</u>
Total business-type activities net position	<u>\$ 67,836</u>	<u>\$ 69,956</u>	<u>\$ 74,852</u>	<u>\$ 78,156</u>	<u>\$ 82,706</u>	<u>\$ 85,703</u>	<u>\$ 88,606</u>	<u>\$ 94,024</u>	<u>\$ 93,645</u>	<u>\$ 96,110</u>
<b>Primary Government</b>										
Net investment in capital assets	\$ 68,607	\$ 72,726	\$ 83,393	\$ 82,434	\$ 93,313	\$ 93,874	\$ 96,409	\$ 101,869	\$ 106,745	\$ 112,816
Restricted	1,035	1,183	1,465	1,571	5,639	4,687	5,882	5,077	5,448	5,566
Unrestricted	<u>29,404</u>	<u>28,554</u>	<u>24,717</u>	<u>29,637</u>	<u>20,680</u>	<u>23,787</u>	<u>25,467</u>	<u>26,564</u>	<u>22,303</u>	<u>20,638</u>
Total primary government net position	<u>\$ 99,046</u>	<u>\$ 102,463</u>	<u>\$ 109,575</u>	<u>\$ 113,642</u>	<u>\$ 119,632</u>	<u>\$ 122,348</u>	<u>\$ 127,758</u>	<u>\$ 133,510</u>	<u>\$ 134,497</u>	<u>\$ 139,103</u>

**Notes:**

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

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

	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Expenses</b>										
Governmental activities:										
General government	\$ 2,208	\$ 2,403	\$ 2,403	\$ 2,312	\$ 3,258	\$ 2,344	\$ 1,492	\$ 2,584	\$ 2,605	\$ 2,335
Public safety	8,683	8,899	9,565	9,669	9,701	10,054	9,402	10,101	10,075	10,467
Transportation	1,677	2,160	2,108	2,532	2,481	2,638	3,960	3,193	3,101	3,349
Environmental protection	1,390	1,427	1,563	1,444	1,479	1,876	1,570	1,700	1,640	1,502
Cultural and recreational	1,982	2,039	2,140	1,967	939	2,151	2,106	2,354	2,295	2,471
Housing and redevelopment	856	103	192	209	267	321	222	1,133	997	2,891
Interest on long-term debt	144	130	75	95	73	68	79	41	12	57
Total governmental activities expenses	16,940	17,161	18,046	18,228	18,198	19,452	18,831	21,106	20,725	23,071
Business-type activities:										
Water	2,970	3,334	3,605	3,321	3,693	3,761	3,851	3,932	3,896	4,097
Sewer	2,852	2,976	3,522	3,407	3,687	3,716	3,936	4,441	4,257	4,359
Electric	14,897	15,814	15,980	16,999	17,888	18,519	19,168	19,892	21,974	20,608
Gas	15,780	18,404	16,222	12,806	11,453	8,408	10,294	14,512	14,717	10,827
Stormwater	-	-	-	-	-	-	-	-	294	726
Housing assistance	1,140	1,030	1,119	1,083	1,163	1,138	1,195	1,207	1,221	1,256
Total business-type activities expenses	37,639	41,558	40,448	37,616	37,884	35,542	38,444	43,984	46,360	41,874
Total primary governmental expenses	\$ 54,579	\$ 58,719	\$ 58,494	\$ 55,844	\$ 56,082	\$ 54,994	\$ 57,275	\$ 65,090	\$ 67,085	\$ 64,945
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 19	\$ 15	\$ 2	\$ 4	\$ 365	\$ 441	\$ 406	\$ 377	\$ 402	\$ 3,371
Public safety	248	357	228	265	23	21	27	11	14	23
Transportation	1	110	195	209	261	377	329	346	289	268
Environmental protection	598	631	873	833	863	994	1,154	1,230	1,184	1,142
Cultural and recreational	280	309	320	338	318	294	327	356	302	272
Housing and redevelopment	-	-	-	-	127	141	139	133	-	-
Operating grants and contributions:										
General government	-	-	154	4	55	144	1,075	85	67	55
Public safety	524	252	268	476	1,098	1,048	1,050	1,014	1,143	1,167
Transportation	-	-	26	20	15	20	20	20	20	15
Environmental protection	-	-	-	-	-	-	-	-	-	-
Cultural and recreational	-	-	-	-	5	-	-	30	-	-
Housing and redevelopment	560	3	81	93	-	-	-	205	318	683
Capital grants and contributions										
General government	-	-	32	-	-	-	-	-	-	-
Public safety	-	-	250	112	242	6	32	27	-	-
Transportation	1,329	2,051	2,236	1,664	315	785	435	176	360	437
Cultural and recreational	821	-	-	44	456	-	-	-	-	-
Housing and redevelopment	-	-	194	-	-	-	-	1,527	494	229
Total governmental activities program revenues	4,380	3,728	4,859	4,062	4,143	4,271	4,994	5,537	4,595	7,662
Business-type activities:										
Charges for services										
Water	3,397	3,464	3,372	3,318	3,909	3,859	4,260	4,630	4,849	4,722
Sewer	3,735	3,763	4,030	3,983	4,485	4,388	4,926	5,088	5,082	5,230
Electric	16,907	17,333	17,398	17,591	18,659	18,924	20,259	21,468	22,286	21,981
Gas	18,758	20,017	18,517	15,676	14,486	9,555	13,142	18,547	17,591	14,164
Stormwater	-	-	-	-	-	-	-	-	796	736
Housing assistance	514	521	564	577	575	570	582	586	593	623
Operating grants and contributions										
Water	-	-	-	-	105	111	122	91	85	79
Sewer	-	-	-	-	43	46	43	37	35	32
Electric	214	-	-	-	-	-	-	-	-	-
Gas	-	-	-	-	12	13	12	11	10	9
Housing assistance	474	425	430	476	414	258	243	424	462	455
Capital grants and contributions										
Water	18	-	-	-	90	114	-	465	-	-
Sewer	112	-	1,670	955	1,589	833	95	624	-	-
Electric	-	-	696	242	1,036	1,779	34	-	-	-
Gas	-	-	-	-	-	-	-	261	-	-
Housing assistance	261	284	576	227	200	399	295	226	166	260
Total business-type activities program revenues	44,390	45,807	47,253	43,045	45,603	40,849	44,013	52,458	51,955	48,291
Total primary governmental program revenues	\$ 48,770	\$ 49,535	\$ 52,112	\$ 47,107	\$ 49,746	\$ 45,120	\$ 49,007	\$ 57,995	\$ 56,550	\$ 55,953
Net (expense)/revenue										
Governmental activities	\$ (12,560)	\$ (13,433)	\$ (13,187)	\$ (14,166)	\$ (14,055)	\$ (15,181)	\$ (13,837)	\$ (15,569)	\$ (16,130)	\$ (15,409)
Business-type activities	6,751	4,249	6,805	5,429	7,719	5,307	5,569	8,474	5,595	6,417
Total primary governmental net expenses (revenues)	\$ (5,809)	\$ (9,184)	\$ (6,382)	\$ (8,737)	\$ (6,336)	\$ (9,874)	\$ (8,268)	\$ (7,095)	\$ (10,535)	\$ (8,992)

City of Shelby, North Carolina  
 Changes in Net Position by Component  
 Last Ten Fiscal Years

(accrual basis of accounting - in thousands of dollars)

	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes										
Property taxes, levied for general purpose	\$ 7,144	\$ 7,277	\$ 7,856	\$ 7,587	\$ 7,663	\$ 7,719	\$ 7,732	\$ 8,017	\$ 8,316	\$ 8,263
Sales tax	2,972	2,967	2,831	2,669	2,732	2,866	2,862	2,809	2,980	3,061
Franchise tax	1,385	1,503	1,551	1,540	1,582	1,560	1,572	1,586	1,835	2,008
Other taxes	230	298	303	237	95	109	12	90	97	99
Miscellaneous	454	264	270	261	-	-	1,721	-	-	-
Unrestricted investment earnings	300	304	197	173	143	212	(115)	186	143	114
Contributions to permanent fund principal	59	25	42	108	-	-	-	-	-	-
Transfers	2,110	2,091	2,351	2,350	3,280	2,434	2,560	3,215	5,584	4,005
Total governmental activities	14,654	14,729	15,401	14,925	15,495	14,900	16,344	15,903	18,954	17,550
Business-type activities										
Unrestricted investment earnings	1,004	996	441	225	111	123	(106)	159	27	52
Miscellaneous	106	-	-	-	-	-	-	-	-	-
Transfers	(2,110)	(2,091)	(2,351)	(2,350)	(3,280)	(2,434)	(2,560)	(3,215)	(5,584)	(4,005)
Total business-type activities	(1,000)	(1,095)	(1,910)	(2,125)	(3,169)	(2,311)	(2,666)	(3,056)	(5,557)	3,953
Total primary government	\$ 13,654	\$ 13,634	\$ 13,491	\$ 12,800	\$ 12,326	\$ 12,589	\$ 13,678	\$ 12,847	\$ 13,397	\$ 13,597
<b>Change in Net Position</b>										
Governmental activities	\$ 2,094	\$ 1,296	\$ 2,214	\$ 759	\$ 1,440	\$ (281)	\$ 2,508	\$ 334	\$ 2,824	\$ 2,141
Business-type activities	5,751	3,154	4,895	3,304	4,550	2,996	2,903	5,418	38	2,465
Total primary government	\$ 7,845	\$ 4,450	\$ 7,109	\$ 4,063	\$ 5,990	\$ 2,715	\$ 5,411	\$ 5,752	\$ 2,862	\$ 4,606

**Notes:**

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

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

	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Fund										
Reserved	\$ 3,003	\$ 3,127	\$ 3,493	\$ 5,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	3,189	3,424	3,851	2,987	-	-	-	-	-	-
Non-spendable	-	-	-	-	521	437	436	422	372	434
Restricted	-	-	-	-	6,732	3,955	4,101	4,163	3,813	3,991
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	88	64	465	334	472	351
Unassigned	-	-	-	-	580	3,246	3,020	3,005	4,267	2,859
Total General Fund	<u>\$ 6,192</u>	<u>\$ 6,551</u>	<u>\$ 7,344</u>	<u>\$ 8,075</u>	<u>\$ 7,921</u>	<u>\$ 7,702</u>	<u>\$ 8,022</u>	<u>\$ 7,924</u>	<u>\$ 8,924</u>	<u>\$ 7,636</u>
All other governmental funds										
Reserved	\$ 541	\$ 445	\$ 1,285	\$ 487	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in										
Special Revenue Fund	324	286	328	247	-	-	-	-	-	-
Capital Projects Fund	(88)	-	-	-	-	-	-	-	-	-
Non-spendable										
Special Revenue Fund	-	-	-	-	-	-	-	-	59	61
Permanent funds	-	-	-	-	522	584	639	712	764	818
Restricted										
Special Revenue Fund	-	-	-	-	90	745	424	185	191	221
Capital Projects Fund	-	-	-	-	762	122	254	17	669	525
Permanent funds	-	-	-	-	-	-	-	-	11	11
Committed										
Capital Projects Fund	-	-	-	-	-	-	-	460	804	199
Assigned										
Special Revenue Fund	-	-	-	-	164	-	1,582	435	416	2,013
Capital Projects Fund	-	-	-	-	-	-	309	-	-	-
Unassigned										
Capital Projects Fund	-	-	-	-	(730)	(272)	-	-	(513)	(666)
Total all other governmental funds	<u>\$ 777</u>	<u>\$ 731</u>	<u>\$ 1,613</u>	<u>\$ 734</u>	<u>\$ 808</u>	<u>\$ 1,179</u>	<u>\$ 3,208</u>	<u>\$ 1,809</u>	<u>\$ 2,401</u>	<u>\$ 3,182</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)

	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Revenues</b>										
Ad valorem taxes	\$ 6,729	\$ 7,692	\$ 7,951	\$ 7,755	\$ 7,686	\$ 7,731	\$ 7,721	\$ 8,020	\$ 8,298	\$ 8,326
Other taxes and licenses	2,976	2,969	2,858	2,682	2,733	2,866	2,863	2,808	2,980	3,061
Unrestricted intergovernmental revenues	1,686	1,864	1,887	1,793	1,837	1,733	1,761	1,741	2,007	2,221
Restricted intergovernmental revenues	2,415	2,328	3,172	2,338	1,933	2,006	2,390	2,746	1,933	2,259
Permits and fees	237	216	213	254	272	174	149	207	232	327
Sales and services	910	1,207	1,405	1,396	1,472	1,694	1,822	1,968	1,783	1,698
Investment earnings	300	304	197	173	143	212	(115)	186	143	114
Donations	69	25	42	108	47	58	62	74	61	53
Miscellaneous	319	167	187	189	206	260	400	455	500	362
Total revenues	<u>15,641</u>	<u>16,772</u>	<u>17,912</u>	<u>16,688</u>	<u>16,329</u>	<u>16,734</u>	<u>17,053</u>	<u>18,205</u>	<u>17,936</u>	<u>18,422</u>
<b>Expenditures</b>										
General government	2,094	2,280	2,222	2,067	3,034	2,141	2,077	2,282	3,304	2,477
Public safety	8,336	8,598	8,677	8,877	9,814	9,497	9,092	9,164	9,726	11,065
Transportation	1,362	1,872	1,763	2,034	2,490	3,205	3,771	2,502	3,572	3,040
Environmental protection	1,078	1,111	1,225	1,219	1,277	1,925	1,635	1,593	1,730	1,911
Cultural and recreational	1,731	1,794	1,826	1,703	2,083	1,979	1,944	2,062	2,158	2,411
Housing and redevelopment	855	103	192	209	267	321	222	1,134	2,057	4,716
Capital outlay	1,240	1,788	3,216	3,356	-	-	-	3,822	-	-
Debt service										
Principal	1,147	1,124	1,004	869	716	713	822	923	959	934
Interest and other charges	168	136	79	95	82	68	79	25	13	58
Total expenditures	<u>18,011</u>	<u>18,806</u>	<u>20,204</u>	<u>20,429</u>	<u>19,763</u>	<u>19,849</u>	<u>19,642</u>	<u>23,507</u>	<u>23,520</u>	<u>26,611</u>
Excess of revenues over (under) expenditures	<u>(2,370)</u>	<u>(2,034)</u>	<u>(2,292)</u>	<u>(3,741)</u>	<u>(3,434)</u>	<u>(3,115)</u>	<u>(2,589)</u>	<u>(5,302)</u>	<u>(5,302)</u>	<u>(8,189)</u>
<b>Other financing sources (uses)</b>										
Transfers from other funds	2,381	2,155	2,695	2,886	3,685	3,367	4,375	3,727	6,983	4,303
Transfers to other funds	(271)	(64)	(344)	(536)	(404)	(933)	(1,815)	(512)	(1,399)	(299)
Installment debt issued	172	246	1,616	707	510	812	658	560	1,515	828
Proceeds from sale of assets	47	11	13	28	54	21	1,721	29	11	2,849
Total other financing sources (uses)	<u>2,329</u>	<u>2,348</u>	<u>3,980</u>	<u>3,085</u>	<u>3,845</u>	<u>3,267</u>	<u>4,939</u>	<u>3,804</u>	<u>7,110</u>	<u>4,682</u>
Net change in fund balance	<u>\$ (41)</u>	<u>\$ 314</u>	<u>\$ 1,688</u>	<u>\$ (656)</u>	<u>\$ 411</u>	<u>\$ 152</u>	<u>\$ 2,350</u>	<u>\$ (1,498)</u>	<u>\$ 1,526</u>	<u>\$ (507)</u>
Debt services as a percentage of non-capital expenditures	<u>7.84%</u>	<u>7.40%</u>	<u>6.38%</u>	<u>5.65%</u>	<u>4.04%</u>	<u>3.93%</u>	<u>4.59%</u>	<u>4.03%</u>	<u>4.13%</u>	<u>3.73%</u>

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

<u>Year Ended June 30</u>	<u>Ad Valorem</u>	<u>Sales</u>	<u>Intangibles</u>	<u>Utility Franchise</u>	<u>Beer and Wine</u>	<u>Inventory</u>	<u>Food Stamp</u>	<u>Licenses and CATV Franchise</u>	<u>Total</u>
2007	6,729,415	2,971,686	-	1,263,696	94,331	-	-	121,166	11,180,294
2008	7,691,627	2,966,596	-	1,503,349	96,103	-	-	-	12,257,675
2009	7,950,913	2,830,915	-	1,550,877	93,190	-	-	-	12,425,895
2010	7,754,894	2,669,105	-	1,540,052	31,178	-	-	-	11,995,229
2011	7,685,528	2,732,493	-	1,581,881	93,593	-	-	-	12,093,495
2012	7,730,801	2,865,854	-	1,559,642	89,706	-	-	-	12,246,003
2013	7,692,762	2,862,052	-	1,571,869	84,396	-	-	-	12,211,079
2014	7,991,528	2,789,957	-	1,586,083	88,147	-	-	-	12,455,715
2015	8,242,626	2,972,202	-	1,834,935	96,241	-	-	-	13,146,004
2016	8,307,608	3,053,826	-	2,008,127	88,688	-	-	-	13,458,249

\* Includes General and Special Revenue Funds.

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

<u>Year Ended June 30</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Service Companies</u>	<u>Total Assessed Value*</u>	<u>Total Direct Tax Rate</u>
2007	1,191,948	427,287	46,759	1,665,994	0.420
2008	1,198,940	410,032	45,676	1,654,648	0.435
2009**	1,285,067	434,154	46,856	1,766,077	0.435
2010	1,214,457	469,579	47,324	1,731,360	0.435
2011	1,346,266	351,316	32,284	1,729,866	0.435
2012	1,353,708	350,630	36,011	1,740,349	0.435
2013	1,366,296	356,518	36,057	1,758,871	0.435
2014	1,378,377	402,035	40,898	1,821,310	0.435
2015	1,339,357	394,320	42,347	1,776,024	0.435
2016	1,376,734	357,508	45,619	1,779,861	0.435

**Source:** Cleveland County Tax Collector's 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.

**Notes:** Includes Municipal Service District

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

<b>Year Ended June 30</b>	<b>City of Shelby</b>	<b>Uptown Shelby Municipal Service District</b>	<b>Cleveland County</b>	<b>County School District</b>
2007	\$ 0.420	\$ 0.270	\$ 0.580	\$ 0.150
2008	\$ 0.435	\$ 0.220	\$ 0.580	\$ 0.150
2009	\$ 0.435	\$ 0.220	\$ 0.580	\$ 0.150
2010	\$ 0.435	\$ 0.220	\$ 0.570	\$ 0.150
2011	\$ 0.435	\$ 0.220	\$ 0.570	\$ 0.150
2012	\$ 0.435	\$ 0.220	\$ 0.570	\$ 0.150
2013	\$ 0.435	\$ 0.220	\$ 0.570	\$ 0.150
2014	\$ 0.435	\$ 0.220	\$ 0.570	\$ 0.150
2015	\$ 0.435	\$ 0.220	\$ 0.570	\$ 0.150
2016	\$ 0.435	\$ 0.220	\$ 0.570	\$ 0.150

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

Taxpayer	2016			2007		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
PPG Industries Inc.	\$ 103,450	1	5.81%	\$ 103,226	1	6.22%
Wal-Mart Stores	78,732	2	4.42%	94,101	2	5.67%
KSM Castings NC Inc.	38,648	3	2.17%	-		0.00%
Cleveland Yutaka Corporation	27,276	4	1.53%	-		0.00%
Curtis Wright Controls, Inc.	20,507	5	1.15%	11,208	6	0.68%
Greenheck Fan Corp & Real Estate Holdings	19,199	6	1.08%	-		0.00%
Shelby Mall LLC	16,440	7	0.92%	12,759	4	0.77%
Baldor Electric Company	14,948	8	0.84%	-		0.00%
Duke Energy Carolina	14,062	9	0.79%	10,522	7	0.63%
Wal-Mart Real Estate Business	10,352	10	0.58%	-		0.00%
Copeland Corp	-		0.00%	26,586	3	1.60%
Bell South Telephone Company	-		0.00%	11,408	5	0.69%
Lowe's Home Centers, Inc.	-		0.00%	9,824	8	0.59%
Honeywell International	-		0.00%	8,278	9	0.50%
Roger Harmon Development	-		0.00%	6,970	10	0.42%
Totals	<u>\$ 343,614</u>		<u>19.31%</u>	<u>\$ 294,882</u>		<u>17.76%</u>
Total Taxable Assessed Value	<u>\$ 1,779,861</u>			<u>\$ 1,660,348</u>		

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

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

Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Current Outstanding Balance	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2007	7,148	6,489	90.78%	15	655	6,714	99.78%
2008	7,300	7,033	96.34%	14	261	7,695	99.81%
2009	7,791	7,474	95.93%	16	310	7,772	99.79%
2010	7,641	7,398	96.82%	23	229	7,616	99.70%
2011	7,635	7,403	96.96%	24	217	7,610	99.68%
2012	7,688	7,460	97.03%	35	206	7,651	99.54%
2013	7,759	7,486	96.48%	91	181	7,666	98.83%
2014	7,670	7,437	96.96%	234	-	7,437	96.96%
2015	7,543	7,385	97.91%	163	-	7,385	97.84%
2016	7,756	7,604	98.04%	152	-	7,604	98.04%

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

Year Ended June 30	Governmental Activities	Business-Type Activities				Total Primary Government	(County) Personal Income (amounts expressed in thousands)	Percentage of Personal Income	(County) Per Capita Personal Income	Per Capita
	Installment Purchase Obligations	General Obligation Bonds	Revenue Bonds	State Revolving Loans	Installment Purchase Obligations					
2007	\$ 3,819	\$ 310	\$ 22,055	\$ 5,268	\$ 760	\$ 32,212	\$ 2,845,959	1.13%	\$ 28,151	\$ 1,544
2008	2,942	-	24,546	4,683	967	33,138	2,932,307	1.13%	27,466	1,597
2009	3,553	-	22,773	4,098	1,004	31,428	2,947,603	1.07%	30,205	1,510
2010	3,391	-	29,282	3,512	925	37,110	3,026,601	1.23%	N/A	1,785
2011	3,185	-	27,299	2,927	1,117	34,528	N/A	N/A	N/A	1,699
2012	3,283	-	25,449	2,341	1,406	32,479	N/A	N/A	N/A	1,608
2013	3,119	-	25,921	-	1,301	30,341	N/A	N/A	N/A	1,502
2014	2,756	-	23,224	-	2,022	28,002	N/A	N/A	N/A	1,378
2015	3,312	-	20,462	-	11,165	34,939	N/A	N/A	N/A	1,697
2016	3,207	-	20,046	-	14,302	37,555	N/A	N/A	N/A	1,852

N/A - information not available.

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

<b>Year Ended June 30</b>	<b>General Obligation Bonds</b>	<b>Percentage of Actual Taxable Value of Property</b>	<b>Per Capita</b>
2007	\$ 310	0.02%	\$ 15
2008	-	0.00%	N/A
2009	-	0.00%	N/A
2010	-	0.00%	N/A
2011	-	0.00%	N/A
2012	-	0.00%	N/A
2013	-	0.00%	N/A
2014	-	0.00%	N/A
2015	-	0.00%	N/A
2016	-	0.00%	N/A



**City of Shelby, North Carolina**  
**Direct and Overlapping Governmental Activities Debt**  
**As of June 30, 2016**

	<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>437,140</u>	25.19%	<u>110,115</u>
Total direct and overlapping debt	<u>\$ 437,140</u>		<u>\$ 110,115</u>

\*General obligation bonds only

\*\*Percentage of direct and overlapping debt is based on 2012 assessed valuation of Cleveland County as compared to the 2012 assessed valuation of the City of Shelby.

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

<b>Year Ended June 30</b>	<b>Debt Limits 8% of Assessed Value</b>	<b>Total Net Debt Applicable to Limit</b>	<b>Legal Debt Margin</b>	<b>Total Net Debt Applicable to Limit as a Percentage of Debt Limit</b>
2007	133,280	4,889	128,391	3.67%
2008	132,372	3,877	128,495	2.93%
2009	141,286	4,557	136,729	3.23%
2010	138,508	4,316	134,192	3.12%
2011	138,389	4,302	134,087	3.11%
2012	132,489	1,947	130,542	1.47%
2013	140,710	4,436	136,274	3.15%
2014	145,705	4,778	117,703	4.06%
2015	145,123	33,939	111,184	30.53%
2016	149,831	37,445	112,386	33.32%

**City of Shelby, North Carolina**  
**Computation of Legal Debt Margin**  
**June 30, 2015**

Assessed value of taxable property					\$	<u>1,872,888</u>
Debt limit - eight percent (8%) of assessed value					\$	149,831
Gross debt						
Revenue bonds	\$	20,046				
Other financing agreements/notes payable		17,399	\$	37,445		
Total amount of debt applicable to debt limitation						<u>37,445</u>
Legal debt margin					\$	<u>112,386</u>

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

Year Ended June 30	Gross Revenues*	Operating Expenses**	Net Revenue Available For Debt Service	Debt Service Requirements***			Coverage
				Principal	Interest	Total	
2007	\$ 42,797,066	\$ 33,504,075	\$ 9,292,991	\$ 1,325,000	\$ 931,264	\$ 2,256,264	412%
2008	44,577,279	37,208,269	7,369,010	1,345,000	1,097,683	2,442,683	302%
2009	43,317,051	35,794,720	7,522,331	1,772,387	1,175,118	2,947,505	255%
2010	40,568,116	32,886,694	7,681,422	1,838,028	910,078	2,748,106	280%
2011	41,539,114	32,635,437	8,903,677	1,982,814	1,283,712	3,266,526	273%
2012	36,726,720	30,290,507	6,436,213	1,850,024	1,263,076	3,113,100	207%
2013	43,169,216	34,043,599	9,125,617	2,198,610	868,377	3,066,987	298%
2014	50,319,644	39,613,948	10,705,696	2,021,676	56,389	2,078,065	515%
2015	51,197,509	41,830,970	9,366,539	2,761,394	908,417	3,669,811	255%
2016	47,457,107	37,476,271	9,980,836	3,490,674	856,321	4,346,995	230%

\* Total operating revenues

\*\* Total operating expenses exclusive of depreciation

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

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

<b>Year Ended June 30</b>	<b>(1) Population</b>	<b>(2) Per Capita Income</b>	<b>(2) Median Age</b>	<b>(3) School Enrollment</b>	<b>(4) Unemployment Rate</b>	<b>(5) Personal Income</b>
2007	20,863	28,151	38.7	17,060	7.1%	2,845,959
2008	20,745	27,466	38.2	16,580	7.9%	2,932,307
2009	20,808	29,692	39.2	16,738	15.4%	2,947,603
2010	20,793	29,990	N/A	15,997	13.2%	2,939,629
2011	20,323	31,046	39.0	15,721	12.1%	3,026,601
2012	20,202	20,003	40.5	15,374	10.9%	3,202,220
2013	20,270	21,036	40.8	15,259	10.5%	3,268,534
2014	20,325	N/A	41.4	16,420	7.40%	N/A
2015	20,586	20,504	41.7	14,916	6.90%	N/A
2016	20,283	20,003	40.3	14,822	6.50%	N/A

(1) NC Department of Commerce/Office of State Planning, [www.citypopulation.de/usanorthcarolina](http://www.citypopulation.de/usanorthcarolina)

(2) U.S. Bureau of Economic Analysis for Cleveland County, NC Department of Commerce for Shelby

(3) Cleveland County/Shelby City Schools Administrative Offices, NC Department of Commerce.

The two school systems merged in 2005.

(4) Employment Security Commission

(5) Amounts for Cleveland County expressed in thousands of dollars taken from [www.fedstats.gov](http://www.fedstats.gov).

Amounts for Shelby, NC from [www.bea.gov](http://www.bea.gov)

N/A - information not available.

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

<b>Employer</b>	<b>Industry</b>	<b>2016</b>		<b>2012</b>	
		<b>Rank</b>	<b>Employment Range</b>	<b>Rank</b>	<b>Employment Range</b>
Cleveland County School District	Education	1	1000+	1	1000+
Cleveland Regional Medical Center	Health services	2	1000+	2	1000+
Wal-Mart Distribution Center	Retail distribution	3	1000+	4	500-999
Cleveland County Government	Public administration	4	500-999	3	500-999
Gardner-Webb University	Education	5	500-999		
PPG Fiber Glass Products	Industrial supplies	6	500-999	5	250-499
Baldor Electric Company	Manufacturing	7	500-999		
Cleveland Community College	Education	8	500-999	6	250-499
Ingles Markets	Trade/Transportation/Utilities	9	500-999		
Eaton Corp	Manufacturing	10	250-499		
City of Shelby	Public administration			7	250-499
Curtiss-Wright Flight Systems, Inc.	Transportation equipment			8	250-499
Ultra Manufacturing	Machine shop			9	250-499
White Oak Manor, Inc.	Education and health services			10	250-499

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

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

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

Function	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government	30.0	38.0	38.0	38.0	38.0	39.0	40.0	35.0	35.0	34.0
Public safety										
Police	86.0	87.0	87.0	87.0	86.0	86.0	86.0	97.0	97.0	95.0
Fire	54.0	53.0	53.0	53.0	53.0	58.0	57.0	58.0	58.0	56.0
Transportation	18.0	19.0	19.0	19.0	19.0	17.0	22.0	21.0	21.0	24.0
Environmental protection	17.0	17.0	17.0	17.0	17.0	19.0	16.0	17.0	17.0	16.0
Cultural and recreation	19.0	19.0	19.0	19.0	19.0	22.0	32.0	30.0	30.0	32.0
Housing and redevelopment	8.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Business-type activities										
Water	18.5	17.5	17.5	17.5	17.5	19.0	17.0	18.0	16.0	16.5
Sewer	21.0	18.5	18.5	18.5	18.3	21.0	19.0	21.0	21.0	23.0
Electric	11.5	10.5	10.5	10.5	10.4	14.0	12.0	12.0	12.0	14.0
Gas	20.5	18.5	18.5	18.5	18.7	18.0	17.0	18.0	18.0	19.0
Stormwater	-	-	-	-	-	-	-	-	2.0	2.0
Housing	6.0	6.0	6.0	6.0	6.0	7.0	7.0	7.0	7.0	7.5
<b>Total</b>	<b>309.5</b>	<b>313.0</b>	<b>313.0</b>	<b>313.0</b>	<b>312.0</b>	<b>329.0</b>	<b>334.0</b>	<b>343.0</b>	<b>343.0</b>	<b>348.0</b>

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

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

Function	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public safety										
Police:										
Number of calls for service	43,246	43,310	40,251	39,741	37,303	39,068	35,877	35,877	36,173	36,186
Uniform Crime Report Part I crimes reported	1,348	1,489	1,149	1,149	1,039	1,025	887	761	861	771
Uniform Crime Report Part II crimes reported	712	649	625	625	529	554	475	453	525	517
Fire										
Number of responses	1,848	1,883	1,913	1,976	2,179	1,945	1,984	1,935	2,112	2,250
Number of inspections	1,169	1,355	707	1,426	1,502	1,530	1,365	1,185	1,258	1,355
Transportation										
Miles of street repaved	1.20	-	3.00	-	1.60	1.61	1.83	2.38	2.57	4.13
Environmental protection										
Tons of solid waste collected	9,928	9,925	10,608	7,937	7,233	6,930	6,354	4,884	6,632	7,045
Tons of recycling collected							728	710	955	996
Cultural and recreational										
Number of youth sport program participants	2,019	2,276	2,247	3,566	2,309	3,130	3,385	3,881	4,009	4,114
Number of adult sport program participants	1,106	1,044	622	758	944	1,026	1,141	1,230	1,351	1,762
Number of golf rounds played	10,936	12,341	11,818	11,240	10,283	10,491	9,761	8,704	7,529	6,506
Housing and redevelopment										
Building inspections										
Number of permits issued	994	1,072	1,057	919	1,076	1,261	1,167	1,007	1,138	1,066
Number of inspections	4,067	4,621	4,343	4,205	4,376	5,437	3,634	3,395	3,935	4,384
Business-type activities										
Water system										
Customers at June 30	10,090	10,048	9,554	9,601	9,587	9,691	9,746	9,739	9,874	9,927
Average of daily consumption **	4.68	4.33	4.97	4.06	4.41	3.87	4.73	5.57	5.84	5.67
Peak daily consumption **	6.32	7.02	7.09	5.78	6.10	7.64	7.65	8.15	8.45	8.45
Sewer system										
Customers at June 30	8,362	8,282	7,826	7,866	7,840	7,952	8,031	8,016	8,136	8,201
Average of daily treatment **	2.77	2.42	2.72	2.26	2.25	2.41	2.95	3.57	3.07	3.47
Peak daily treatment **	3.20	5.29	7.55	9.98	6.61	5.86	12.86	10.59	10.25	11.77
Electric system										
Customers at June 30	8,245	8,268	8,290	7,432	7,409	7,414	7,504	7,505	7,605	7,671
Natural gas system										
Customers at June 30	10,437	10,404	9,755	9,793	9,649	9,615	9,582	9,588	9,643	9,617

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

\*\* Numbers in millions of gallons

Source: Various City Departments



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

Function	Fiscal Year Ended June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Public safety</b>										
Police										
Number of stations	1	1	1	1	1	1	1	1	1	2
Number of patrol units	31	32	43	43	47	47	47	50	50	50
Fire										
Number of stations	3	3	3	3	3	3	3	3	3	3
<b>Transportation</b>										
Number of airports	1	1	1	1	1	1	1	1	1	1
Miles of paved roads	121.14	121.33	121.52	122.41	122.34	122.72	122.72	123.55	123.87	124.06
Miles of unpaved roads	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Miles of sidewalks	27.8	27.8	27.8	27.8	27.8	28.0	28.0	28.0	28.8	29.6
<b>Cultural and recreation</b>										
Number of parks	12	12	12	12	12	12	12	12	12	12
Acres of parks land ***	169	169	169	169	169	169	340	340	340	340
Swimming pools	1	1	1	1	1	1	1	1	1	1
Gymnasiums	2	2	2	2	2	2	2	2	2	2
Golf course (nine holes)	1	1	1	1	1	1	1	1	1	1
<b>Business-type activities</b>										
Water system										
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Plant capacity *	12	12	12	12	12	12	12	12	12	12
Miles of water mains	206	206	215	214	219	218	221	222	223	221
Number of fire hydrants	1,305	1,301	1,305	1,343	1,271	1,241	1,358	1,376	1,389	1,394
Sewer system										
Plant capacity *	6	6	6	6	6	6	6	6	6	6
Miles of sanitary sewers	181	191	202	204	203	195	190	190	191	191
Miles of storm sewers	6.5	6.5	6.5	6.5	6.5	-	10.0	10.0	25.3	25.9
Electric system										
Number of sub-stations	4	4	4	4	4	4	4	4	4	4
System capacity **	65	65	65	65	65	65	65	65	65	65
Miles of primary lines	133	134	135	141	141	141	146	147	148	148
Miles of secondary lines	222	222	202	203	204	163	210	211	211	211
Natural gas system										
Miles of gas mains	463	465	496	473	506	479	482	504	501	501

\* In millions of gallons

\*\* In mega-watts

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

**Source:** Various City Departments





## COMPLIANCE SECTION

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

Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With Uniform Guidance; And The State Single Audit Implementation Act

Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance With Uniform Guidance; And The State Single Audit Implementation Act

Schedule of Findings and Questioned Costs

Summary Schedule of Prior Year's Audit Findings

Schedule of Expenditures of Federal and State Awards



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

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

### **Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 31, 2016. Our report includes a reference to other auditors who audited the financial statements of the City of Shelby ABC Board, as described in our report on the City of Shelby's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the City of Shelby ABC Board were not audited in accordance with *Government Auditing Standards*.

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting, 2016-001, that we consider to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Shelby's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and; accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs, as item 2016-001.

### **City of Shelby's Response to Finding**

The City of Shelby's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

### **Purpose of this Report**

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

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 31, 2016

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## **Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance with Uniform Guidance and the State Single Audit Implementation Act**

### **Independent Auditor's Report**

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

#### **Report on Compliance for Each Major Federal Program**

We have audited the City of Shelby, North Carolina's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the City of Shelby's major federal programs for the year ended June 30, 2016. The City of Shelby's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Shelby's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shelby's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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### ***Opinion on Each Major Federal Program***

In our opinion, the City of Shelby complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the City of Shelby is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Shelby's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 31, 2016



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

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

## **Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In Accordance with Uniform Guidance; And the State Single Audit Implementation Act**

### **Independent Auditor's Report**

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

#### **Report on Compliance for Each Major State Program**

We have audited the City of Shelby, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Shelby's major State programs for the year ended June 30, 2016. The City of Shelby's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Shelby's major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Shelby's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

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

### ***Opinion on Each Major State Program***

In our opinion, the City of Shelby complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the City of Shelby is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Shelby's internal control over compliance with the types of requirements that could have a direct and material effect on each major State program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Shelby's internal control over compliance.

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

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

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 31, 2016

**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

**1. Summary of Auditor's Results**

***Financial Statements***

Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

- Material weakness identified? Yes
- Significant deficiency identified? None reported

Non-compliance material to financial statements noted? Yes

***Federal Awards***

Internal control over major Federal programs:

- Material weakness identified? No
- Significant deficiency identified? None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

<u><b>Program Name</b></u>	<u><b>CFDA#</b></u>
Clean Water State Revolving Fund Cluster	66.458

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? No

**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

*State Awards*

Internal control over major State programs:

- Material weakness identified? No
- Significant deficiency identified? None reported

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

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

Identification of major State programs:

**Program Name**

Powell Bill

**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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

**Material Weakness**

**Finding 2016-001 Deficit Fund Equity**

**Criteria:** North Carolina General Statutes preclude units from having funds that operate in a deficit.

**Condition:** There was a violation of the General Statutes regarding deficit fund equity in a capital project fund.

**Context:** While reviewing the financial statements, we noted the condition described above.

**Effect:** The City was in violation of North Carolina General Statutes.

**Cause:** The City adopted a balanced budget; however, one fund is currently at deficit balance until revenue sources and transfers make up the deficit.

**Recommendation:** The City should transfer funds to this project fund to cover the deficit.

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

None reported

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

None reported

# CITY OF SHELBY, NORTH CAROLINA

## CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2016

### 2. Financial Statement Findings

#### Material Weakness

#### Finding 2016-001 Deficit Fund Equity

**Contact Person:** Justin Merritt, Finance Director

**Views of Responsible Officials and Planned Corrective Actions:** The City will transfer funds in Fiscal Year 2017 to cover the deficit fund balance.

**Proposed Completion Date:** The City will implement the above procedure in Fiscal Year 2017.

### 3. Federal Award Findings and Questioned Costs

None reported

### 4. State Awards Findings and Questioned Costs

None reported

**CITY OF SHELBY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

None

**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Fed. (Direct & Pass-through) Expenditures	State Expenditures	Pass-through to Subrecipients
<b>Federal Grants:</b>					
<u>U.S. Dept. of Housing and Urban Development</u>					
Direct Program:					
Low Rent Housing Program:					
Public and Indian Housing	14.850	NC034-00000111D	\$ 1,037,622	\$ -	\$ -
Public Housing Capital Fund Program (CFP)--2014	14.872	NC19P034501-14	49,322	-	-
Public Housing Capital Fund Program (CFP)--2015	14.872	NC19P034501-15	172,700	-	-
Total U.S. Dept. of Housing and Urban Development			<u>1,259,644</u>	<u>-</u>	<u>-</u>
<u>U.S. Dept. of Justice</u>					
Direct Program:					
Traditional Housing Assistance for Victims of Domestic Violence					
Dating Violence, Stalking, or Sexual Assault	16.736	N/A	112	-	-
Edward Byrne Memorial - Justice Assistance Grant Program	16.738	N/A	8,749	-	-
Edward Byrne Memorial - Governor's Crime Commission	16.738	N/A	14,220	-	-
Bulletproof Vest Partnership Program	16.607	N/A	2,790	-	-
Equitable Sharing Program	16.922	N/A	6,791	-	-
Total U.S. Dept. of Justice			<u>32,662</u>	<u>-</u>	<u>-</u>
<u>U.S. Dept. of Transportation</u>					
Passed-through the N.C. Department of Transportation					
Airport Improvement Program	20.106	36237.16.13.1	9,758	-	-
Airport Improvement Program	20.106	36237.16.12.1	2,520	-	-
Airport Improvement Program	20.106	36237.16.11.1	18,050	-	-
Total U.S. Dept. of Transportation			<u>30,328</u>	<u>-</u>	<u>-</u>
<u>U.S. Environmental Protection Agency</u>					
<u>Clean Water State Revolving Fund Cluster</u>					
Passed-through the N.C. Department of Environmental Quality					
Capitalization Grants for Clean Water State Revolving Fund (SRF) - WWT	66.458	<sup>1</sup> E-SRF-T-13-0349	9,396,658	-	-
Capitalization Grants for Clean Water State Revolving Fund (SRF) - Outfall	66.458	<sup>2</sup> E-SRF-T-13-0352	3,130,573	-	-
Total Clean Water State Revolving Fund Cluster			<u>12,527,231</u>	<u>-</u>	<u>-</u>
<u>U.S. Department of Agriculture</u>					
Passed-through NC Rural Development:					
Rural Business Enterprise Grants - Community Facilities Grant	10.769	7 C.F.R. part 3570, subpart B	224,623	-	-
Total assistance - federal programs			<u>14,074,488</u>	<u>-</u>	<u>-</u>
<b>State Grants:</b>					
<u>NC Department of Transportation</u>					
State Aid to Airports Program	N/A	36244.23.11.1	-	53,978	-
Powell Bill	N/A	32570	-	1,110,582	-
Total N.C. Department of Transportation			<u>-</u>	<u>1,164,560</u>	<u>-</u>
<u>NC Department of Commerce</u>					
Main Street Solutions Fund Grant	MSSF_Shelby2014	N/A	-	125,000	-
<u>NC Catalyst Grant</u>					
Community Development Block Grant	N/A	11-C-2381	-	238,086	-
<u>NC State Office of Management and Budget</u>					
State Allocation	N/A	N/A	-	96,107	-
<u>NC E911 Board</u>					
E-911 PSAP Grant	N/A	N/A	-	100,228	-
Total assistance - State programs			<u>-</u>	<u>1,723,981</u>	<u>-</u>
Total assistance			<u>\$ 14,074,488</u>	<u>\$ 1,723,981</u>	<u>\$ -</u>

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

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and State grant activity of the City of Shelby under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act. Because the SEFSA presents only a selected portion of the operations of the City of Shelby, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Shelby.

**2. Summary of Significant Accounting Principles**

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

**3. Loans Outstanding**

The City of Shelby had the following loan balances outstanding at June 30, 2016 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2016 consist of:

Program Title	CFDA Number	Pass-through Grantor's Number	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Fund (SRF) - WWT	66.458	<sup>1</sup> E-SRF-T-13-0349	\$ 9,396,658
Capitalization Grants for Clean Water State Revolving Fund (SRF) - Outfa	66.458	<sup>2</sup> E-SRF-T-13-0352	\$ 3,130,438