

**CITY OF SHELBY  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2017**

**PREPARED BY:**

**CITY OF SHELBY FINANCE DEPARTMENT**



**CITY OF SHELBY, NORTH CAROLINA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR YEAR ENDED JUNE 30, 2017**

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## **INTRODUCTORY SECTION**





November 7, 2017

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, 2017.

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, 2017, 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, 2017, 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.

Clearwater Paper Corporation, a company that manufactures private brand paper products, has announced plans to expand its current 990,000 sq. foot facility with an additional \$330 million in net new investment. Clearwater Paper Corporation currently employs approximately 264 employees and will add another 180 through this expansion. Clearwater Paper Corporation has been annexed into the City and is being served by City utilities.

MAFIC, SA, a company that manufactures basalt fiber material, has announced plans to invest \$15 million in net new investment. MAFIC, SA will employ 113 employees at this facility. MAFIC SA is located within the City and will be served by City utilities.

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

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

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

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

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

budgetary control. Encumbrance amounts lapse at year-end but are re-appropriated as part of the following year's budget.

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

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

### **Budget Highlights for FY 2018**

The City tax rate will remain at 49.72 cents per one hundred dollars of valuation for FY 2018. Budgeted expenditures in the General Fund are expected to increase modestly to \$22,455,466 in FY 2018. The City's water and sewer rates had increases of 5% for outside City customers for FY 2018 as well as upward adjustments to the base rates for all customers. The City electric rates were not increased in FY 2018. 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 2018.

### **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, 2016. This was the nineteenth 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, 2016**

Executive Director/CEO

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City of Shelby, North Carolina

List of Principal Officials

June 30, 2017

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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*

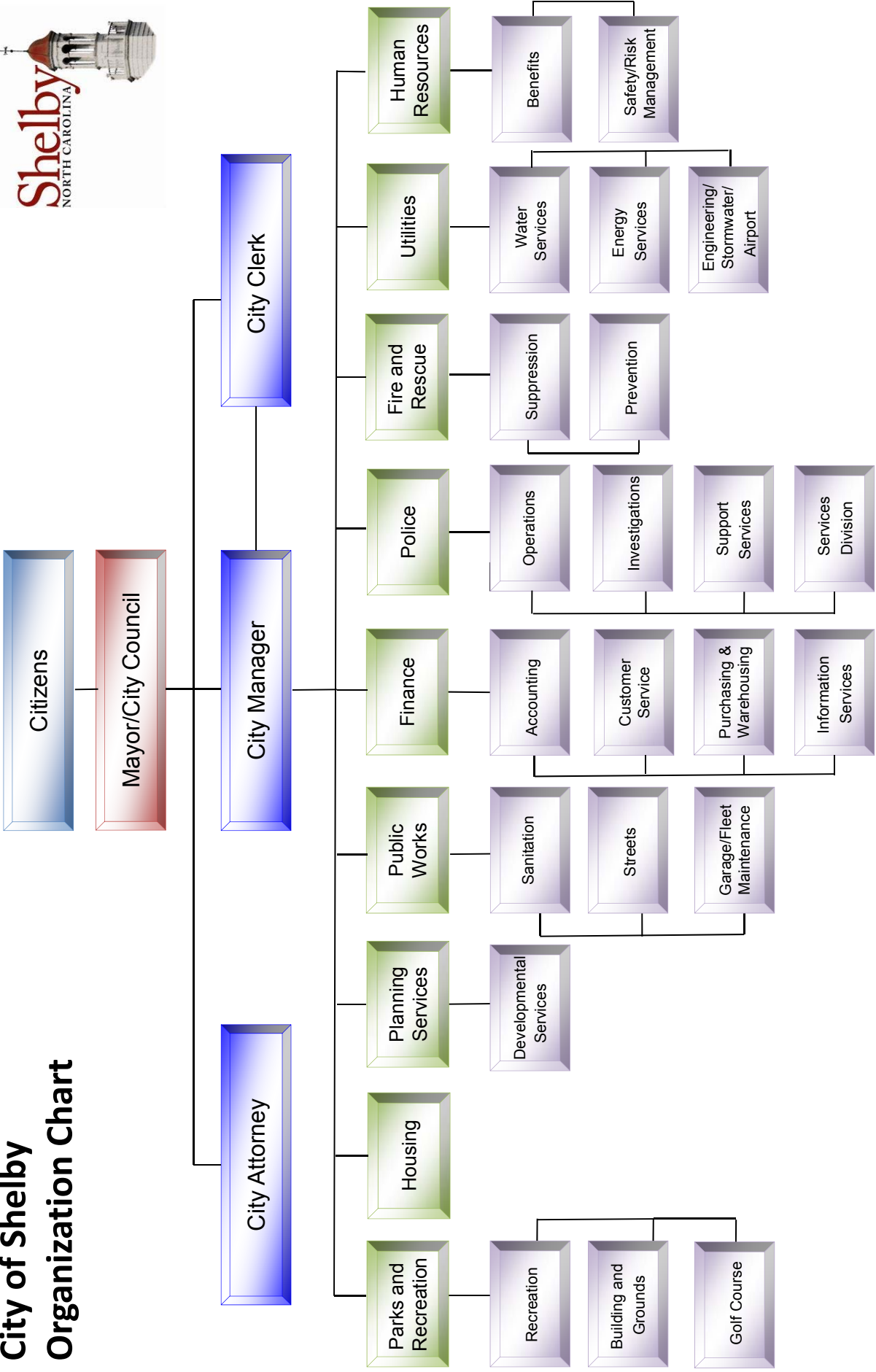
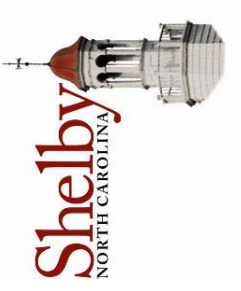
Walter Scharer, AICP  
*Director of Planning & Development Services*

Ben Yarborough  
*Director of Engineering Services*

David Hux  
*Water Resources Director*

Robert W. (Bob) Yelton  
*City Attorney*

# City of Shelby Organization Chart







# FINANCIAL SECTION



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

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

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Shelby  
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, 2017, 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, 2017, 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.

### ***Change in Accounting Principle***

As discussed in Note 7 to the financial statements, for fiscal year ended June 30, 2017, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Post-Employment Benefits Schedule of Funding Progress and Schedule of Employer Contributions, the Local Government Employees' Retirement System Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, and the Law Enforcement Officers' Special Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Payroll, 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 the 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 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 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 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 November 7, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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  
November 7, 2017



## 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, 2017. 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

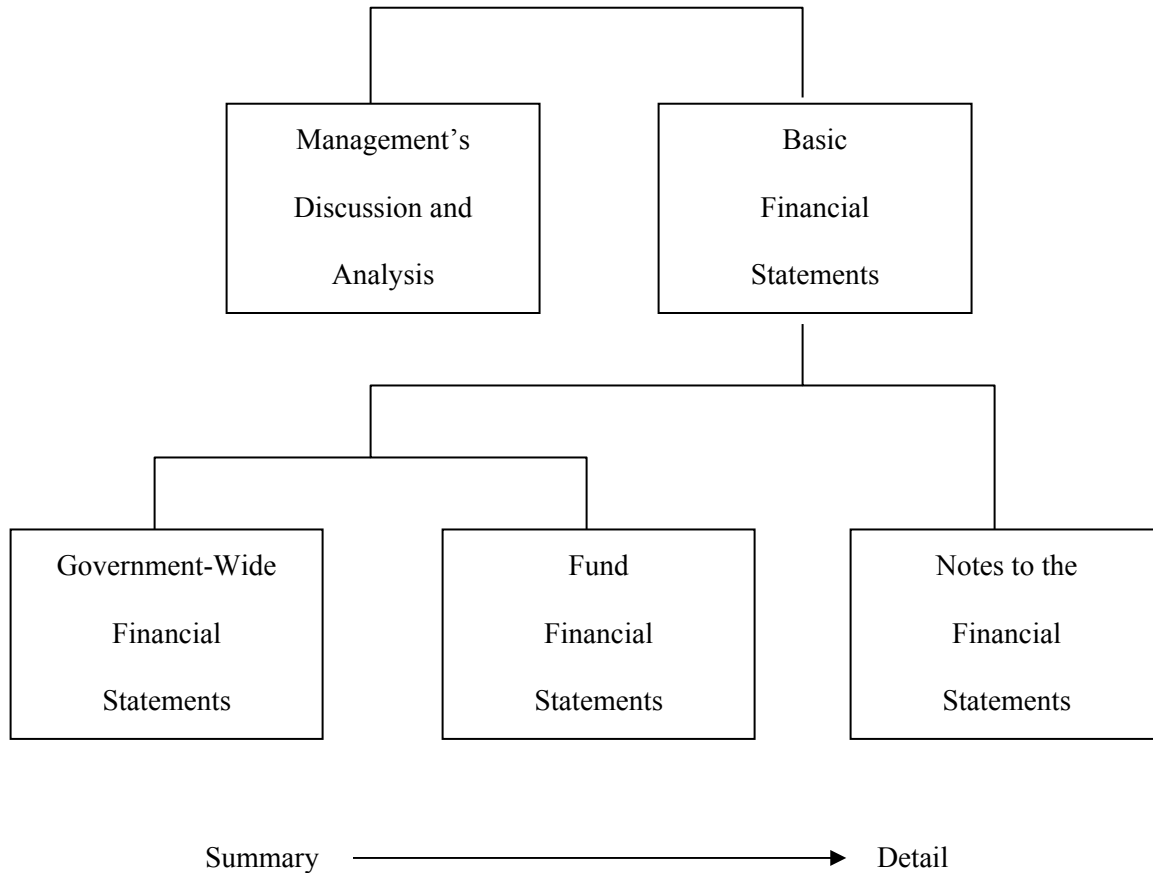
- The assets and deferred outflows of resources of the City of Shelby exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$139,836,477 (*net position*).
- The government's total net position increased by \$2,518,856, due to a decrease of \$(32,564) in governmental activities' net position and an increase of \$2,551,420 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 \$19,231,161, with a net increase in fund balance of \$8,413,046. Approximately 65.7 percent of this total amount, or \$12,628,936, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,697,096, or 17.4 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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Assets:</b>						
Current/other assets	\$ 20,356,344	\$ 11,858,990	\$ 26,634,563	\$ 27,507,628	\$ 46,990,907	\$ 39,366,618
Capital assets	<u>39,429,764</u>	<u>40,550,723</u>	<u>111,905,974</u>	<u>107,549,218</u>	<u>151,335,738</u>	<u>148,099,941</u>
Total assets	<u>59,786,108</u>	<u>52,409,713</u>	<u>138,540,537</u>	<u>135,056,846</u>	<u>198,326,645</u>	<u>187,466,559</u>
<b>Deferred Outflows of Resources</b>						
	<u>3,116,788</u>	<u>665,788</u>	<u>1,381,008</u>	<u>730,339</u>	<u>4,497,796</u>	<u>1,396,127</u>
<b>Liabilities:</b>						
Long-term liabilities	19,204,555	7,527,458	33,779,116	32,133,887	52,983,671	39,661,345
Other liabilities	<u>2,696,398</u>	<u>2,082,679</u>	<u>7,006,857</u>	<u>7,408,220</u>	<u>9,703,255</u>	<u>9,490,899</u>
Total liabilities	<u>21,900,953</u>	<u>9,610,137</u>	<u>40,785,973</u>	<u>39,542,107</u>	<u>62,686,926</u>	<u>49,152,244</u>
<b>Deferred Inflows of Resources</b>						
	<u>244,299</u>	<u>472,799</u>	<u>56,739</u>	<u>134,960</u>	<u>301,038</u>	<u>607,759</u>
<b>Net Position:</b>						
Net investment in capital assets	36,664,382	37,343,892	80,074,444	75,471,923	116,738,826	112,815,815
Restricted	4,324,617	5,566,251	-	-	4,324,617	5,566,251
Unrestricted	<u>(231,355)</u>	<u>82,422</u>	<u>19,004,389</u>	<u>20,638,195</u>	<u>18,773,034</u>	<u>20,720,617</u>
Total net position	<u>\$40,757,644</u>	<u>\$42,992,565</u>	<u>\$99,078,833</u>	<u>\$96,110,118</u>	<u>\$139,836,477</u>	<u>\$139,102,683</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 \$139,836,477 as of June 30, 2017. The City's net position increased by \$2,518,856 for the fiscal year ended June 30, 2017. 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, \$4,324,617, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$18,773,034 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 98.31%.
- 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**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 2,468,735	\$ 5,076,071	\$ 49,793,874	\$ 47,455,828	\$ 52,262,609	\$ 52,531,899
Operating grants and contributions	1,706,687	1,920,282	560,761	575,420	2,267,448	2,495,702
Capital grants and contributions	377,462	666,221	82,496	260,038	459,958	926,259
General revenues:						
Property taxes	9,015,563	8,262,664	-	-	9,015,563	8,262,664
Other taxes	5,535,149	5,168,336	-	-	5,535,149	5,168,336
Investment earnings	(3,543)	114,197	(10,653)	52,042	(14,196)	166,239
Total revenues	<u>19,100,053</u>	<u>21,207,771</u>	<u>50,426,478</u>	<u>48,343,328</u>	<u>69,526,531</u>	<u>69,551,099</u>
<b>Expenses:</b>						
General government	3,041,400	2,334,588	-	-	3,041,400	2,334,588
Public safety	11,631,275	10,467,314	-	-	11,631,275	10,467,314
Transportation	2,891,063	3,348,830	-	-	2,891,063	3,348,830
Environmental protection	1,707,329	1,501,959	-	-	1,707,329	1,501,959
Cultural and recreational	2,589,506	2,470,556	-	-	2,589,506	2,470,556
Housing and redevelopment	1,151,101	2,890,544	-	-	1,151,101	2,890,544
Interest on long-term debt	95,693	57,441	-	-	95,693	57,441
Water	-	-	4,334,316	4,097,340	4,334,316	4,097,340
Sewer	-	-	4,447,873	4,359,328	4,447,873	4,359,328
Electric	-	-	21,271,737	20,608,130	21,271,737	20,608,130
Gas	-	-	11,542,563	10,827,088	11,542,563	10,827,088
Stormwater	-	-	833,371	725,823	833,371	725,823
Housing assistance	-	-	1,470,448	1,256,164	1,470,448	1,256,164
Total expenses	<u>23,107,367</u>	<u>23,071,232</u>	<u>43,900,308</u>	<u>41,873,873</u>	<u>67,007,675</u>	<u>64,945,105</u>
Change in net position before transfers	(4,007,314)	(1,863,461)	6,526,170	6,469,455	2,518,856	4,605,994
Transfers in (out)	<u>3,974,750</u>	<u>4,004,700</u>	<u>(3,974,750)</u>	<u>(4,004,700)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>(32,564)</u>	<u>2,141,239</u>	<u>2,551,420</u>	<u>2,464,755</u>	<u>2,518,856</u>	<u>4,605,994</u>
<b>Net Position:</b>						
Beginning of year - July 1	42,992,565	40,851,326	96,110,118	93,645,363	139,102,683	134,496,689
Prior period adjustment	(2,202,357)	-	417,295	-	(1,785,062)	-
Beginning of year - July 1, as restated	<u>40,790,208</u>	<u>40,851,326</u>	<u>96,527,413</u>	<u>93,645,363</u>	<u>137,317,621</u>	<u>134,496,689</u>
End of year - June 30	<u>\$ 40,757,644</u>	<u>\$ 42,992,565</u>	<u>\$ 99,078,833</u>	<u>\$ 96,110,118</u>	<u>\$ 139,836,477</u>	<u>\$ 139,102,683</u>



**Governmental Activities.** Governmental activities decreased the City's net position by \$(32,564). Key elements of this decrease are as follows:

- Planned investment in capital assets such as greenway development, Police Communications Center Addition and Streetscape Design

**Business-Type Activities.** Business-type activities increased the City of Shelby's net position by \$2,551,420. Key elements of this increase are as follows:

- Significant decrease in Gas Fund expenditures due to a much warmer winter than in a typical year.
- Inflows of cash, primarily through increased revenues from water, sewer and electric sales to customers.

### **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 \$5,034,154, while total fund balance reached \$8,057,947. As a measure of the General Fund's liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 23.62% of total General Fund expenditures and transfers to other funds, while total fund balance represents 37.82% of that same amount.

At June 30, 2017, the governmental funds of the City of Shelby reported a combined fund balance of \$19,231,161, an increase of \$8,413,046 from last year. The primary reason for this increase is due to debt proceeds received in the Capital Projects Fund during the current year.

The Capital Projects Fund is used by the City to house and track multi-year construction projects that are undertaken by the City. These projects are often funded by various revenue streams including debt issues, grant funds or transfers from other City funds.

**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 \$70,200 (.41%). 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 were as follows: the Water Fund was \$4,800,005; the Sewer Fund was \$562,711; the Electric Fund was \$6,097,929; and the Gas Fund was \$5,262,217. 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, 2017 totaled \$151,335,738 (net of accumulated depreciation). These assets include buildings, land, improvements, and equipment.

Major capital asset transactions during the year include:

- Purchase and renovation of a City Building in the amount of \$2,518,017
- Construction in progress of the Eastside Water Tank of \$939,545
- Construction in progress of the First Broad Wastewater Treatment Plant Improvements of \$7,498,108

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 5,664,090	\$ 5,461,172	\$ 650,346	\$ 521,983	\$ 6,314,436	\$ 5,983,155
Buildings and systems	17,753,144	16,698,147	165,254,062	146,921,333	183,007,206	163,619,480
Improvements other than buildings	12,062,065	11,980,437	724,838	724,838	12,786,903	12,705,275
Machinery and equipment	8,443,773	8,355,830	6,261,129	6,106,725	14,704,902	14,462,555
Infrastructure	11,484,875	11,484,875	-	-	11,484,875	11,484,875
Vehicles and motorized equipment	9,639,168	9,545,036	3,561,632	3,405,146	13,200,800	12,950,182
Construction in progress	<u>3,786,821</u>	<u>4,342,717</u>	<u>4,087,413</u>	<u>15,069,123</u>	<u>7,874,234</u>	<u>19,411,840</u>
Subtotal	68,833,936	67,868,214	180,539,420	172,749,148	249,373,356	240,617,362
Less: accumulated depreciation	<u>(29,404,172)</u>	<u>(27,317,491)</u>	<u>(68,633,446)</u>	<u>(65,199,930)</u>	<u>(98,037,618)</u>	<u>(92,517,421)</u>
Capital assets, net	<u>\$ 39,429,764</u>	<u>\$ 40,550,723</u>	<u>\$ 111,905,974</u>	<u>\$ 107,549,218</u>	<u>\$ 151,335,738</u>	<u>\$ 148,099,941</u>

Additional information on the City’s capital assets can be found in Note 2.A. of the basic financial statements located on pages 41-48.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Installment purchase notes	\$ 10,605,057	\$ 3,206,831	\$ 13,723,243	\$ 14,302,441	\$ 24,328,300	\$ 17,509,272
Revenue bonds	-	-	20,545,373	20,045,542	20,545,373	20,045,542
Net pension liability-LGERS	3,608,977	744,273	1,029,811	212,375	4,638,788	956,648
Total pension liability-LEOSSA	2,277,534	774,128	-	-	2,277,534	774,128
Compensated absences	980,323	926,397	220,875	228,719	1,201,198	1,155,116
Other post-employment benefits	<u>3,470,552</u>	<u>3,114,037</u>	<u>1,007,837</u>	<u>892,277</u>	<u>4,478,389</u>	<u>4,006,314</u>
Total	<u>\$ 20,942,443</u>	<u>\$ 8,765,666</u>	<u>\$ 36,527,139</u>	<u>\$ 35,681,354</u>	<u>\$ 57,469,582</u>	<u>\$ 44,447,020</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 \$98,301,000.

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 4.9% in June 2016 to 4.2% in June 2017. Cleveland County's numbers changed from 5.6% in June 2016 to 4.4% in June 2017.
- Clearwater Paper Corporation, a company that manufactures private brand paper products, has announced plans to expand its current 990,000 sq. foot facility with an additional \$330 million in net new investment. Clearwater Paper Corporation currently employs approximately 264 employees and will add another 180 through this expansion. Clearwater Paper Corporation has been annexed into the City and is being served by City utilities.
- MAFIC, SA, a company that manufactures basalt fiber material, has announced plans to invest \$15 million in net new investment. MAFIC, SA will employ 113 employees at this facility. MAFIC SA is located within the City and will be served by City utilities.

**Budget Highlights for the Fiscal Year Ending June 30, 2018**

**Governmental Activities.** The City tax rate remained at 49.72 cents per one hundred dollars of valuation for FY 2018. Budgeted expenditures in the General Fund are expected to increase modestly to \$22,455,466 in FY 2018. This increase is largely due to the planned personnel adjustments and the purchase of various pieces of equipment, including a Fire Rescue Truck, 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 2018 as well as upward adjustments to the base rates for all customers. 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 2018.

## **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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 7,676,691	\$ 16,109,855	\$ 23,786,546	\$ 445,618
Taxes receivable, net	210,558	-	210,558	-
Accounts receivable, net	745,162	5,678,387	6,423,549	-
Loans receivable	44,005	-	44,005	-
Interest receivable	19,743	-	19,743	-
Due from other governments	2,128,028	68,699	2,196,727	-
Inventories	146,823	1,781,388	1,928,211	710,686
Prepaid items	317,821	61,697	379,518	15,142
Total current assets	<u>11,288,831</u>	<u>23,700,026</u>	<u>34,988,857</u>	<u>1,171,446</u>
Non-current assets:				
Cash and cash equivalents, restricted	9,067,513	2,538,658	11,606,171	-
Long-term notes receivable	-	395,879	395,879	-
Capital assets, non-depreciable	9,450,911	4,737,759	14,188,670	182,567
Capital assets, net	<u>29,978,853</u>	<u>107,168,215</u>	<u>137,147,068</u>	<u>132,675</u>
Total non-current assets	<u>48,497,277</u>	<u>114,840,511</u>	<u>163,337,788</u>	<u>315,242</u>
Total assets	<u>59,786,108</u>	<u>138,540,537</u>	<u>198,326,645</u>	<u>1,486,688</u>
<b>Deferred Outflows of Resources:</b>				
Contributions to pension plan in current fiscal year	806,488	223,020	1,029,508	23,283
Pension deferrals	2,310,300	659,237	2,969,537	52,960
Deferred charge on refunding	-	498,751	498,751	-
Total deferred outflows of resources	<u>3,116,788</u>	<u>1,381,008</u>	<u>4,497,796</u>	<u>76,243</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable and accrued liabilities	908,175	3,531,431	4,439,606	489,949
Accrued interest payable	43,885	124,263	168,148	-
Unearned revenue	-	2,817	2,817	-
Other liabilities	6,450	-	6,450	-
Liabilities to be paid from restricted assets	-	600,323	600,323	-
Current portion of long-term liabilities	1,737,888	2,748,023	4,485,911	-
Total current liabilities	<u>2,696,398</u>	<u>7,006,857</u>	<u>9,703,255</u>	<u>489,949</u>
Long-term liabilities:				
Net pension liability - LGERS	3,608,977	1,029,811	4,638,788	62,823
Total pension liability - LEOSSA	2,277,534	-	2,277,534	-
Due in more than one year	13,318,044	32,749,305	46,067,349	-
Total long-term liabilities	<u>19,204,555</u>	<u>33,779,116</u>	<u>52,983,671</u>	<u>62,823</u>
Total liabilities	<u>21,900,953</u>	<u>40,785,973</u>	<u>62,686,926</u>	<u>552,772</u>
<b>Deferred Inflows of Resources:</b>				
Pension deferrals	244,299	56,739	301,038	2,201
<b>Net Position:</b>				
Net investment in capital assets	36,664,382	80,074,444	116,738,826	315,242
Restricted for:				
Stabilization by State statute	2,936,938	-	2,936,938	-
Perpetual - non-expendable	878,545	-	878,545	-
Public safety	160,291	-	160,291	-
Streets - Powell Bill	348,843	-	348,843	-
Working capital	-	-	-	131,642
Unrestricted	<u>(231,355)</u>	<u>19,004,389</u>	<u>18,773,034</u>	<u>561,074</u>
Total net position	<u>\$ 40,757,644</u>	<u>\$ 99,078,833</u>	<u>\$ 139,836,477</u>	<u>\$ 1,007,958</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, 2017

Functions/Programs:	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 3,041,400	\$ 572,062	\$ 83,004	\$ -
Public safety	11,631,275	22,471	1,191,536	-
Transportation	2,891,063	228,081	15,000	328,462
Environmental protection	1,707,329	1,351,055	-	-
Cultural and recreational	2,589,506	295,066	-	800
Housing and redevelopment	1,151,101	-	417,147	48,200
Interest on long-term debt	95,693	-	-	-
Total governmental activities	<u>23,107,367</u>	<u>2,468,735</u>	<u>1,706,687</u>	<u>377,462</u>
<b>Business-Type Activities:</b>				
Water Fund	4,334,316	5,151,335	72,394	5,867
Sewer Fund	4,447,873	5,603,600	29,592	-
Electric Fund	21,271,737	22,641,006	-	-
Gas Fund	11,542,563	14,955,087	8,398	-
Stormwater Fund	833,371	809,834	-	-
Housing Assistance Fund	1,470,448	633,012	450,377	76,629
Total business-type activities	<u>43,900,308</u>	<u>49,793,874</u>	<u>560,761</u>	<u>82,496</u>
Total primary government	<u>\$ 67,007,675</u>	<u>\$ 52,262,609</u>	<u>\$ 2,267,448</u>	<u>\$ 459,958</u>
<b>Component Unit:</b>				
City of Shelby ABC Board	<u>\$ 3,428,791</u>	<u>\$ 3,428,791</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, 2017

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	\$ (2,386,334)	\$ -	\$ (2,386,334)	\$ -
Public safety	(10,417,268)	-	(10,417,268)	-
Transportation	(2,319,520)	-	(2,319,520)	-
Environmental protection	(356,274)	-	(356,274)	-
Cultural and recreational	(2,293,640)	-	(2,293,640)	-
Housing and redevelopment	(685,754)	-	(685,754)	-
Interest on long-term debt	(95,693)	-	(95,693)	-
Total governmental activities	(18,554,483)	-	(18,554,483)	-
<b>Business-Type Activities:</b>				
Water Fund	-	895,280	895,280	-
Sewer Fund	-	1,185,319	1,185,319	-
Electric Fund	-	1,369,269	1,369,269	-
Gas Fund	-	3,420,922	3,420,922	-
Stormwater Fund	-	(23,537)	(23,537)	-
Housing Assistance Fund	-	(310,430)	(310,430)	-
Total business-type activities	-	6,536,823	6,536,823	-
Total primary government	(18,554,483)	6,536,823	(12,017,660)	-
<b>Component Unit:</b>				
City of Shelby ABC Board	-	-	-	-
<b>General Revenues:</b>				
Taxes				
Property tax	9,015,563	-	9,015,563	-
Sales tax	3,501,010	-	3,501,010	-
Franchise tax	1,929,904	-	1,929,904	-
Other taxes	104,235	-	104,235	-
Investment earnings	(3,543)	(10,653)	(14,196)	126
Total general revenues, not including transfers	14,547,169	(10,653)	14,536,516	126
Transfers	3,974,750	(3,974,750)	-	-
Total general revenues and transfers	18,521,919	(3,985,403)	14,536,516	126
Change in net position	(32,564)	2,551,420	2,518,856	126
<b>Net Position:</b>				
Beginning of year - July 1	42,992,565	96,110,118	139,102,683	1,007,832
Prior period adjustment	(2,202,357)	417,295	(1,785,062)	-
Beginning year - July 1, as restated	40,790,208	96,527,413	137,317,621	1,007,832
End of year - June 30	\$ 40,757,644	\$ 99,078,833	\$ 139,836,477	\$ 1,007,958

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

CITY OF SHELBY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2017

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	
<b>Assets:</b>				
Cash and cash equivalents	\$ 5,012,928	\$ 482,370	\$ 2,181,393	\$ 7,676,691
Receivables, net:				
Taxes	210,358	-	200	210,558
Accounts	720,268	-	24,894	745,162
Interest	11,993	6,588	1,162	19,743
Loans	-	-	44,005	44,005
Due from other governments	1,839,388	264,624	24,016	2,128,028
Inventories	146,823	-	-	146,823
Prepaid items	305,321	-	12,500	317,821
Restricted cash and cash equivalents	606,669	7,581,849	878,995	9,067,513
	<u>8,853,748</u>	<u>8,335,431</u>	<u>3,167,165</u>	<u>20,356,344</u>
Total assets	\$ 8,853,748	\$ 8,335,431	\$ 3,167,165	\$ 20,356,344
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 578,993	\$ 308,483	\$ 20,699	\$ 908,175
Other liabilities	6,450	-	-	6,450
Total liabilities	<u>585,443</u>	<u>308,483</u>	<u>20,699</u>	<u>914,625</u>
<b>Deferred Inflows of Resources:</b>				
Taxes receivable	<u>210,358</u>	<u>-</u>	<u>200</u>	<u>210,558</u>
<b>Fund Balances:</b>				
Non-spendable:				
Inventories	146,823	-	-	146,823
Prepays	305,321	-	12,500	317,821
Perpetual	-	-	878,545	878,545
Restricted:				
Stabilization by State statute	2,571,649	271,212	94,077	2,936,938
Public safety	-	-	160,291	160,291
Streets - Powell Bill	348,843	-	-	348,843
Unspent debt proceeds	257,826	7,581,849	-	7,839,675
Committed:				
Capital projects	-	173,887	271,129	445,016
Assigned:				
Subsequent year's expenditures	730,389	-	-	730,389
Economic development	-	-	1,729,724	1,729,724
Unassigned	3,697,096	-	-	3,697,096
Total fund balances	<u>8,057,947</u>	<u>8,026,948</u>	<u>3,146,266</u>	<u>19,231,161</u>
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,853,748	\$ 8,335,431	\$ 3,167,165	\$ 20,356,344

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

**CITY OF SHELBY, NORTH CAROLINA**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<u><b>Total Governmental Funds</b></u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balances	\$ 19,231,161
Net pension liability	(3,608,977)
Contributions to pension plans and benefit payments and pension administration costs for LEOSSA in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	806,488
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	39,429,764
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.	210,558
Total pension liability	(2,277,534)
Pension related deferrals	2,066,001
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>(15,099,817)</u>
Net position of governmental activities per Exhibit A	<u>\$ 40,757,644</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, 2017

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
<b>Revenues:</b>				
Ad valorem taxes	\$ 8,902,782	\$ -	\$ 112,369	\$ 9,015,151
Other taxes and licenses	3,501,010	-	-	3,501,010
Unrestricted intergovernmental	2,148,894	-	-	2,148,894
Restricted intergovernmental	835,425	377,462	524,367	1,737,254
Permits and fees	346,336	-	-	346,336
Sales and services	1,892,471	-	-	1,892,471
Investment earnings	(18,648)	9,412	5,693	(3,543)
Donations	-	-	60,890	60,890
Miscellaneous	312,473	-	44,800	357,273
Total revenues	<u>17,920,743</u>	<u>386,874</u>	<u>748,119</u>	<u>19,055,736</u>
<b>Expenditures:</b>				
Current:				
General government	2,482,297	-	2,285	2,484,582
Public safety	10,592,780	194,536	161,944	10,949,260
Transportation	2,530,499	839,049	-	3,369,548
Environmental protection	1,493,277	-	-	1,493,277
Cultural and recreation	2,335,292	28,241	-	2,363,533
Housing and redevelopment	-	291,473	1,042,347	1,333,820
Debt service:				
Principal retirement	973,220	-	-	973,220
Interest and other charges	65,551	-	-	65,551
Total expenditures	<u>20,472,916</u>	<u>1,353,299</u>	<u>1,206,576</u>	<u>23,032,791</u>
Revenues over (under) expenditures	<u>(2,552,173)</u>	<u>(966,425)</u>	<u>(458,457)</u>	<u>(3,977,055)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	3,095,000	1,023,837	1,258,315	5,377,152
Transfers (to) other funds	(835,902)	-	(566,500)	(1,402,402)
Long-term debt issued	671,446	7,700,000	-	8,371,446
Proceeds from sale of assets	43,905	-	-	43,905
Total other financing sources (uses)	<u>2,974,449</u>	<u>8,723,837</u>	<u>691,815</u>	<u>12,390,101</u>
Net change in fund balances	422,276	7,757,412	233,358	8,413,046
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>7,635,671</u>	<u>269,536</u>	<u>2,912,908</u>	<u>10,818,115</u>
End of year - June 30	<u>\$ 8,057,947</u>	<u>\$ 8,026,948</u>	<u>\$ 3,146,266</u>	<u>\$ 19,231,161</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 STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

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)	\$ 8,413,046
<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	412
Expenses related to compensated absences, other post-employment benefits, and pension expense that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(1,522,183)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	2,076,760
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	781,416
Benefit payments and pension administration costs for LEOSSA are deferred outflows of resources on the Statement of Net Position.	25,072
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.	(8,371,446)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(2,378,719)
Change in accrued interest payable, governmental fund debt	(30,142)
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>973,220</u>
Change in net position of governmental activities per Exhibit B	<u>\$ (32,564)</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, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/Under</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Ad valorem taxes	\$ 8,680,542	\$ 8,680,542	\$ 8,902,782	\$ 222,240
Other taxes and licenses	2,944,525	2,944,525	3,501,010	556,485
Unrestricted intergovernmental	2,164,000	2,164,000	2,148,894	(15,106)
Restricted intergovernmental	798,400	836,583	835,425	(1,158)
Permits and fees	270,350	270,350	346,336	75,986
Sales and services	1,894,000	1,902,000	1,892,471	(9,529)
Investment earnings	50,000	50,000	(18,648)	(68,648)
Miscellaneous	312,500	336,505	312,473	(24,032)
Total revenues	<u>17,114,317</u>	<u>17,184,505</u>	<u>17,920,743</u>	<u>736,238</u>
<b>Expenditures:</b>				
Current:				
General government	2,766,167	2,717,995	2,482,297	235,698
Public safety	10,371,690	10,653,145	10,592,780	60,365
Transportation	2,821,108	3,265,506	2,530,499	735,007
Environmental protection	1,609,240	1,579,290	1,493,277	86,013
Cultural and recreational	2,473,350	2,465,303	2,335,292	130,011
Debt service:				
Principal retirement	986,500	987,500	973,220	14,280
Interest and other charges	54,000	53,000	65,551	(12,551)
Total expenditures	<u>21,082,055</u>	<u>21,721,739</u>	<u>20,472,916</u>	<u>1,248,823</u>
Revenues over (under) expenditures	<u>(3,967,738)</u>	<u>(4,537,234)</u>	<u>(2,552,173)</u>	<u>1,985,061</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	2,935,000	3,095,000	3,095,000	-
Transfers (to) other funds	(47,000)	(835,952)	(835,902)	50
Long-term debt issued	718,438	718,438	671,446	(46,992)
Proceeds from sale of capital assets	10,000	10,000	43,905	33,905
Appropriated fund balance	351,300	1,549,748	-	(1,549,748)
Total other financing sources (uses)	<u>3,967,738</u>	<u>4,537,234</u>	<u>2,974,449</u>	<u>(1,562,785)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	422,276	<u>\$ 422,276</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>7,635,671</u>	
End of year - June 30			<u>\$ 8,057,947</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, 2017

	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	\$ 3,949,354	\$ 1,417,089	\$ 3,861,569	\$ 4,343,889	\$ 2,537,954	\$ 16,109,855
Accounts receivable, net	672,314	841,899	3,360,393	696,732	107,049	5,678,387
Due from other funds	-	-	-	10,000	-	10,000
Due from other governments	54,585	5,599	-	5,938	2,577	68,699
Inventories	407,929	121,218	792,961	451,567	7,713	1,781,388
Prepaid items	15,407	16,560	8,816	13,000	7,914	61,697
Total current assets	<u>5,099,589</u>	<u>2,402,365</u>	<u>8,023,739</u>	<u>5,521,126</u>	<u>2,663,207</u>	<u>23,710,026</u>
Non-current assets:						
Restricted cash and cash equivalents	1,938,335	-	560,573	-	39,750	2,538,658
Advance from other funds	-	-	-	910,000	-	910,000
Long-term notes receivable	395,879	-	-	-	-	395,879
Capital assets, non-depreciable	2,139,094	1,579,539	468,815	267,287	283,024	4,737,759
Capital assets, net	24,781,261	42,818,130	17,678,342	17,003,044	4,887,438	107,168,215
Total non-current assets	<u>29,254,569</u>	<u>44,397,669</u>	<u>18,707,730</u>	<u>18,180,331</u>	<u>5,210,212</u>	<u>115,750,511</u>
Total assets	<u>34,354,158</u>	<u>46,800,034</u>	<u>26,731,469</u>	<u>23,701,457</u>	<u>7,873,419</u>	<u>139,460,537</u>
<b>Deferred Outflows of Resources:</b>						
Contributions to pension plan in						
current fiscal year	51,262	55,244	40,177	55,244	21,093	223,020
Pension deferrals	151,446	163,325	118,781	163,325	62,360	659,237
Deferred charge on refunding	207,890	65,845	169,207	55,809	-	498,751
Total deferred outflows of resources	<u>410,598</u>	<u>284,414</u>	<u>328,165</u>	<u>274,378</u>	<u>83,453</u>	<u>1,381,008</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable and accrued liabilities	293,795	537,186	1,636,912	818,610	244,928	3,531,431
Accrued interest payable	69,228	29,740	13,572	11,723	-	124,263
Due to other funds	-	10,000	-	-	-	10,000
Unearned revenue	-	-	-	-	2,817	2,817
Compensated absences payable	13,000	13,000	12,000	11,000	4,500	53,500
Current portion of long-term debt	1,016,851	1,143,173	254,190	232,579	47,730	2,694,523
Liabilities payable from restricted assets:						
Customer deposits	-	-	560,573	-	39,750	600,323
Total current liabilities	<u>1,392,874</u>	<u>1,733,099</u>	<u>2,477,247</u>	<u>1,073,912</u>	<u>339,725</u>	<u>7,016,857</u>
Non-current liabilities:						
Advanced to other funds	-	910,000	-	-	-	910,000
Compensated absences payable	40,852	39,364	38,392	34,841	13,926	167,375
Other long-term debt	11,060,724	15,846,392	2,675,802	1,825,646	165,529	31,574,093
Net pension liability	236,578	255,133	185,552	255,133	97,415	1,029,811
Other post-employment benefits	231,656	249,752	188,123	242,123	96,183	1,007,837
Total non-current liabilities	<u>11,569,810</u>	<u>17,300,641</u>	<u>3,087,869</u>	<u>2,357,743</u>	<u>373,053</u>	<u>34,689,116</u>
Total liabilities	<u>12,962,684</u>	<u>19,033,740</u>	<u>5,565,116</u>	<u>3,431,655</u>	<u>712,778</u>	<u>41,705,973</u>
<b>Deferred Inflows of Resources:</b>						
Pension deferrals	13,062	14,048	10,217	14,048	5,364	56,739
<b>Net Position:</b>						
Net investment in capital assets	16,989,005	27,473,949	15,386,372	15,267,915	4,957,203	80,074,444
Unrestricted	4,800,005	562,711	6,097,929	5,262,217	2,281,527	19,004,389
Total net position	<u>\$ 21,789,010</u>	<u>\$ 28,036,660</u>	<u>\$ 21,484,301</u>	<u>\$ 20,530,132</u>	<u>\$ 7,238,730</u>	<u>\$ 99,078,833</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, 2017

	Major Enterprise Funds				Nonmajor Funds	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Operating Revenues:</b>						
Charges for services	\$ 4,989,951	\$ 5,512,716	\$ 22,418,300	\$ 14,847,386	\$ 1,436,307	\$ 49,204,660
Other fees	69,400	32,660	-	33,543	6,284	141,887
Other operating revenues	91,984	58,224	222,706	74,158	4,121	451,193
Total operating revenues	<u>5,151,335</u>	<u>5,603,600</u>	<u>22,641,006</u>	<u>14,955,087</u>	<u>1,446,712</u>	<u>49,797,740</u>
<b>Operating Expenses:</b>						
Administration	755,914	782,855	1,199,764	1,331,033	1,151,184	5,220,750
Operations and maintenance	889,227	918,618	19,288,716	9,517,884	844,230	31,458,675
Treatment plant	1,393,851	1,451,974	-	-	-	2,845,825
Depreciation	863,622	1,099,226	681,038	602,117	308,405	3,554,408
Amortization	17,324	5,486	14,100	4,651	-	41,561
Total operating expenses	<u>3,919,938</u>	<u>4,258,159</u>	<u>21,183,618</u>	<u>11,455,685</u>	<u>2,303,819</u>	<u>43,121,219</u>
Operating income (loss)	<u>1,231,397</u>	<u>1,345,441</u>	<u>1,457,388</u>	<u>3,499,402</u>	<u>(857,107)</u>	<u>6,676,521</u>
<b>Non-Operating Revenues (Expenses):</b>						
Operating grants	-	-	-	-	450,377	450,377
Refund of interest expense	72,394	29,592	-	8,398	-	110,384
Investment earnings	(7,224)	(95)	(939)	911	(3,306)	(10,653)
Interest expense and fiscal charges	(414,378)	(189,714)	(88,119)	(86,878)	(3,866)	(782,955)
Total non-operating revenues (expenses)	<u>(349,208)</u>	<u>(160,217)</u>	<u>(89,058)</u>	<u>(77,569)</u>	<u>443,205</u>	<u>(232,847)</u>
Income (loss) before capital contributions and transfers	882,189	1,185,224	1,368,330	3,421,833	(413,902)	6,443,674
Capital contributions	5,867	-	-	-	76,629	82,496
Transfers from other funds	220,000	-	-	-	-	220,000
Transfers to other funds	(289,190)	(69,190)	(1,019,685)	(2,816,685)	-	(4,194,750)
Change in net position	<u>818,866</u>	<u>1,116,034</u>	<u>348,645</u>	<u>605,148</u>	<u>(337,273)</u>	<u>2,551,420</u>
<b>Net Position:</b>						
Beginning year - July 1	20,552,849	26,920,626	21,135,656	19,924,984	7,576,003	96,110,118
Prior period adjustment	417,295	-	-	-	-	417,295
Beginning year - July 1, as restated	<u>20,970,144</u>	<u>26,920,626</u>	<u>21,135,656</u>	<u>19,924,984</u>	<u>7,576,003</u>	<u>96,527,413</u>
End of year - June 30	<u>\$ 21,789,010</u>	<u>\$ 28,036,660</u>	<u>\$ 21,484,301</u>	<u>\$ 20,530,132</u>	<u>\$ 7,238,730</u>	<u>\$ 99,078,833</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, 2017

	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	\$ 5,021,196	\$ 5,437,817	\$ 22,349,642	\$ 14,918,941	\$ 1,410,289	\$ 49,137,885
Cash paid for goods and services	(2,652,918)	(1,905,385)	(19,621,619)	(9,157,766)	(1,401,896)	(34,739,584)
Cash paid to employees	(727,081)	(737,146)	(1,066,585)	(1,296,028)	(374,681)	(4,201,521)
Net cash provided (used) by operating activities	<u>1,641,197</u>	<u>2,795,286</u>	<u>1,661,438</u>	<u>4,465,147</u>	<u>(366,288)</u>	<u>10,196,780</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>						
Proceeds from operating grants	-	-	-	-	450,377	450,377
Increase (decrease) in due from other funds	(41,122)	1,143,656	-	3,295	523	1,106,352
Transfers from (to) other funds	(69,190)	(69,190)	(1,019,685)	(2,816,685)	-	(3,974,750)
Net cash provided (used) by non-capital financing activities	<u>(110,312)</u>	<u>1,074,466</u>	<u>(1,019,685)</u>	<u>(2,813,390)</u>	<u>450,900</u>	<u>(2,418,021)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Acquisition and construction of capital assets	(3,618,502)	(2,271,811)	(912,299)	(942,996)	(165,556)	(7,911,164)
Capital contributions - grants	5,867	-	-	-	76,629	82,496
Proceeds from issuance of long-term debt	3,101,360	127,238	71,190	41,471	137,295	3,478,554
Payment on notes receivable	21,416	-	-	-	-	21,416
Principal paid on long-term debt	(1,053,406)	(1,181,202)	(564,866)	(739,706)	(18,741)	(3,557,921)
Interest paid on long-term debt	(355,632)	(177,193)	(103,870)	(89,426)	(3,866)	(729,987)
Net cash provided (used) for capital and related financing activities	<u>(1,898,897)</u>	<u>(3,502,968)</u>	<u>(1,509,845)</u>	<u>(1,730,657)</u>	<u>25,761</u>	<u>(8,616,606)</u>
<b>Cash Flows from Investing Activities:</b>						
Interest received from investments	(7,224)	(95)	(939)	911	(3,306)	(10,653)
Net increase (decrease) in cash and cash equivalents	<u>(375,236)</u>	<u>366,689</u>	<u>(869,031)</u>	<u>(77,989)</u>	<u>107,067</u>	<u>(848,500)</u>
<b>Cash and Cash Equivalents:</b>						
Beginning of year - July 1	<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>
End of year - June 30	<u>\$ 5,887,689</u>	<u>\$ 1,417,089</u>	<u>\$ 4,422,142</u>	<u>\$ 4,343,889</u>	<u>\$ 2,577,704</u>	<u>\$ 18,648,513</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, 2017

	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)	\$ 1,231,397	\$ 1,345,441	\$ 1,457,388	\$ 3,499,402	\$ (857,107)	\$ 6,676,521
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Amortization	17,324	5,486	14,100	4,651	-	41,561
Depreciation	863,622	1,099,226	681,038	602,117	308,405	3,554,408
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(85,207)	(120,680)	(570,010)	173,534	(39,142)	(641,505)
(Increase) decrease in inventories	(63,281)	(18,225)	22,765	13,576	496	(44,669)
(Increase) decrease in prepaids	1,335	(1,075)	3,764	800	(3,967)	857
Increase (decrease) in accounts payable and accrued liabilities	(307,894)	484,506	(261,606)	345,742	212,508	473,256
Increase (decrease) in unearned revenues	-	-	-	-	2,817	2,817
Increase (decrease) in customer deposits	(44,932)	(45,102)	278,646	(209,680)	(98)	(21,166)
Increase (decrease) in compensated absences	(7,517)	4,971	694	(610)	(5,382)	(7,844)
(Increase) decrease in deferred outflows of resources for pensions	(159,026)	(171,499)	(124,726)	(171,499)	(65,481)	(692,231)
Increase (decrease) in net pension liability	187,789	202,518	147,286	202,518	77,325	817,436
Increase (decrease) in deferred inflows of resources for pensions	(17,970)	(19,379)	(14,094)	(19,379)	(7,399)	(78,221)
Increase (decrease) in other post-employment benefits	25,557	29,098	26,193	23,975	10,737	115,560
Net cash provided (used) by operating activities	<u>\$ 1,641,197</u>	<u>\$ 2,795,286</u>	<u>\$ 1,661,438</u>	<u>\$ 4,465,147</u>	<u>\$ (366,288)</u>	<u>\$ 10,196,780</u>
<b>Noncash Investing, Capital, and Financing Activities:</b>						
Refund of interest expense	\$ 72,394	\$ 29,592	\$ -	\$ 8,398	\$ -	\$ 110,384

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, 2017

### 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 generally accepted accounting principles 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, 2017

*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, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The City reports the following major governmental funds:

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

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

**Capital Projects Fund.** The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital projects (other than those financed by proprietary funds) that benefit various functions of government within the City.

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 nonmajor capital projects maintained by the City are 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, 2017

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, 2017

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, 2017

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. Accounting 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 Fund, Special Revenue Funds, Enterprise Funds, and the Electric Capital Reserve Fund. 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, 2017

### 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 as required by State law [G.S. 159-31]. The City and its component unit may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and its component unit may establish time deposit accounts such as NOW and SuperNOW accounts, money 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 Government 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.

In accordance with State law, the City has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

#### 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 the General Fund, Capital Projects Fund, and Enterprise Water 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, 2017

Powell Bill funds, in the General Fund, are classified as restricted cash for Streets 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.

### Restricted Cash

#### Governmental Activities:

##### General Fund:

Streets	\$ 348,843
Unspent debt proceeds	257,826

##### Capital Projects Fund:

Unspent debt proceeds	7,581,849
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##### Raper Roark Trust Fund:

Downtown redevelopment	344,384
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##### Cemetery Fund:

Perpetual care of cemetery	534,611
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Total governmental activities	<u>\$ 9,067,513</u>
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#### Business-Type Activities:

##### Water Fund:

Unspent debt proceeds	\$ 1,938,335
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##### Electric Fund:

Customer deposits	560,573
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##### Housing Assistance Fund:

Customer deposits	39,750
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Total business-type activities	<u>\$ 2,538,658</u>
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### 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, 2016. 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, 2017

### **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. Donated capital assets received prior to June 30, 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, 2017

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 three items that meet this criteria in the current year – contributions made to the pension plan (LGERS and LEOSSA) in the current fiscal year, deferrals of pension expense (LGERS and LEOSSA), 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 (LGERS and LEOSSA).

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### **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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Compensated Absences**

The vacation policy of the City provides for the accumulation of up to 288 hours for general employees. Employees in the Fire Department can earn up to 382 hours, and employees of the police department can earn up to 308 hours of earned vacation leave, with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. 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, 2017.

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, 2017**

**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.	\$ 146,823	\$ -
<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.	305,321	12,500
<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.	-	878,545
<b>Total</b>	<b>\$ 452,144</b>	<b>\$ 891,045</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Nonmajor SRF/CPF Funds</u>	<u>Permanent Fund</u>
<i>Restricted for Stabilization by State Statute</i> - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].	\$ 2,571,649	\$ 271,212	\$ 79,044	\$ 15,033
<i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures.	-	-	160,291	-
<i>Restricted for Streets</i> - Powell Bill 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.	348,843	-	-	-
<i>Restricted for Unspent Debt Proceeds</i> - portion of fund balance that is restricted by revenue source for capital outlay expenditures.	<u>257,826</u>	<u>7,581,849</u>	-	-
Total	<u>\$ 3,178,318</u>	<u>\$ 7,853,061</u>	<u>\$ 239,335</u>	<u>\$ 15,033</u>

Restricted fund balance differs on Exhibit A from Exhibit C for unspent debt proceeds in the governmental funds of \$7,839,675.

**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>Capital Projects Fund</u>	<u>Nonmajor SRF/CPF Funds</u>
<i>Committed for Capital Projects</i> - portion of fund balance that is committed for future capital activities.	<u>\$ -</u>	<u>\$ 173,887</u>	<u>\$ 271,129</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

	<u>General Fund</u>	<u>Nonmajor Special Revenue Funds</u>
<i>Assigned for Subsequent Year's Expenditures</i> - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.	\$ 730,389	\$ -
<i>Assigned for Economic Development</i> - portion of fund balance that is assigned for economic development.	<u>-</u>	<u>1,729,724</u>
Total	<u>\$ 730,389</u>	<u>\$ 1,729,724</u>

**Unassigned Fund Balance.** Unassigned fund balance represents the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

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)	\$ 8,057,947
<b>Less:</b>	
Non-spendable	(452,144)
Stabilization by State statute	<u>(2,571,649)</u>
Available for appropriation	<u>\$ 5,034,154</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### Defined Benefit Cost-Sharing Plans

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 its component unit 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 formal policy regarding custodial credit risks for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. 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, 2017, the City's deposits had a carrying amount of \$15,329,544 and a bank balance of \$15,385,324. Of the City's bank balance, \$1,022,701 was covered by federal depository insurance, and the remainder was covered by collateral held under the Pooling Method. The ABC Board's deposits had a carrying amount of \$438,538 and a bank balance of \$425,779. Of the ABC Board's bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. The City had petty cash of \$4,546 at June 30, 2017, 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, 2017

### Investments

At June 30, 2017, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/2017</u>	<u>Less Than Six Months</u>	<u>Six Months to Five Years</u>
US Government Agencies	Fair Value - Level 2	\$ 5,008,698	\$ -	\$ 5,008,698
NCCMT Trust -Term Portfolio	Fair Value - Level 1	15,049,929	15,049,929	-
Total		<u>\$ 20,058,627</u>	<u>\$ 15,049,929</u>	<u>\$ 5,008,698</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 are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices.

*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 Poor's and Aaa by Moody's Investors Service. The City's investment in the North Carolina Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2017. The City's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. 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. Less than 14% of the City's investments are in US government agencies; Federal Home Loan Bank and Fannie Mae, 11.5% and 1.6%, respectively.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### 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:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Taxes receivable	\$ 176,000	\$ -	\$ 176,000
Accounts receivable	94,335	1,550,142	1,644,477
<b>Total</b>	<b>\$ 270,335</b>	<b>\$ 1,550,142</b>	<b>\$ 1,820,477</b>

### Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2017 was as follows:

	<b>Beginning Balances</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Ending Balances</b>
<b>Governmental Activities:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 5,461,172	\$ 202,918	\$ -	\$ -	\$ 5,664,090
Construction in progress	3,523,717	1,356,029	-	(1,092,925)	3,786,821
Total non-depreciable capital assets	8,984,889	1,558,947	-	(1,092,925)	9,450,911
<b>Depreciable Capital Assets:</b>					
Buildings	16,698,147	-	-	1,054,997	17,753,144
Other improvements	11,980,437	43,700	-	37,928	12,062,065
Machinery and equipment	8,355,830	143,508	(55,565)	-	8,443,773
Vehicles	9,545,036	330,605	(236,473)	-	9,639,168
Infrastructure	11,484,875	-	-	-	11,484,875
Total depreciable capital assets	58,064,325	517,813	(292,038)	1,092,925	59,383,025
<b>Less Accumulated Depreciation:</b>					
Buildings	6,877,054	388,079	-	-	7,265,133
Other improvements	2,773,910	299,831	-	-	3,073,741
Machinery and equipment	5,845,770	1,005,000	(55,565)	-	6,795,205
Vehicles	7,439,230	532,783	(236,473)	-	7,735,540
Infrastructure	4,381,527	153,026	-	-	4,534,553
Total accumulated depreciation	27,317,491	\$ 2,378,719	\$ (292,038)	\$ -	29,404,172
Total depreciable capital assets, net	30,746,834				29,978,853
Governmental activities capital assets, net	\$ 39,731,723				\$ 39,429,764

See footnote disclosure regarding prior period adjustment in note 6.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

**Governmental Activities:**

General government	\$ 720,231
Public safety	720,295
Transportation	429,529
Environmental protection	186,869
Cultural and recreational	<u>321,795</u>
Total depreciation expense - governmental activities	<u>\$ 2,378,719</u>

Capital asset activity for business-type activities for the year ended June 30, 2017 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
<b>Water Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 56,236	\$ 128,363	\$ -	\$ -	\$ 184,599
Construction in progress	<u>1,685,602</u>	<u>2,813,437</u>	<u>-</u>	<u>(2,544,544)</u>	<u>1,954,495</u>
Total non-depreciable capital assets	<u>1,741,838</u>	<u>2,941,800</u>	<u>-</u>	<u>(2,544,544)</u>	<u>2,139,094</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	13,333,681	237,839	-	-	13,571,520
Water extensions	23,618,249	370,113	-	2,544,544	26,532,906
Machinery and equipment	1,349,062	8,613	-	-	1,357,675
Vehicles	<u>397,475</u>	<u>60,137</u>	<u>(36,736)</u>	<u>-</u>	<u>420,876</u>
Total depreciable capital assets	<u>38,698,467</u>	<u>676,702</u>	<u>(36,736)</u>	<u>2,544,544</u>	<u>41,882,977</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	7,337,832	158,803	-	-	7,496,635
Water extensions	7,545,535	587,965	-	-	8,133,500
Machinery and equipment	1,141,530	67,453	-	-	1,208,983
Vehicles	<u>249,933</u>	<u>49,401</u>	<u>(36,736)</u>	<u>-</u>	<u>262,598</u>
Total accumulated depreciation	<u>16,274,830</u>	<u>\$ 863,622</u>	<u>\$ (36,736)</u>	<u>\$ -</u>	<u>17,101,716</u>
Total depreciable capital assets, net	<u>22,423,637</u>				<u>24,781,261</u>
Water Fund capital assets, net	<u>\$ 24,165,475</u>				<u>\$ 26,920,355</u>

## CITY OF SHELBY, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
<b>Sewer Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 58,402	\$ -	\$ -	\$ -	\$ 58,402
Construction in progress	<u>13,356,088</u>	<u>1,128,143</u>	<u>-</u>	<u>(12,963,094)</u>	<u>1,521,137</u>
Total non-depreciable capital assets	<u>13,414,490</u>	<u>1,128,143</u>	<u>-</u>	<u>(12,963,094)</u>	<u>1,579,539</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	16,820,581	6,246	-	-	16,826,827
Sewer extensions	28,487,653	1,033,350	-	12,963,094	42,484,097
Machinery and equipment	2,009,791	-	-	-	2,009,791
Vehicles	788,390	104,072	-	-	892,462
System improvements	<u>60,707</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,707</u>
Total depreciable capital assets	<u>48,167,122</u>	<u>1,143,668</u>	<u>-</u>	<u>12,963,094</u>	<u>62,273,884</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	7,335,209	200,264	-	-	7,535,473
Sewer extensions	8,511,279	681,898	-	-	9,193,177
Machinery and equipment	1,835,140	154,365	-	-	1,989,505
Vehicles	668,703	62,699	-	-	731,402
System improvements	<u>6,197</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,197</u>
Total accumulated depreciation	<u>18,356,528</u>	<u>\$ 1,099,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>19,455,754</u>
Total depreciable capital assets, net	<u>29,810,594</u>				<u>42,818,130</u>
Sewer Fund capital assets, net	<u>\$ 43,225,084</u>				<u>\$ 44,397,669</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Beginning</u>				<u>Ending</u>
	<u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>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>389,847</u>	<u>-</u>	<u>(8,121)</u>	<u>393,132</u>
Total non-depreciable capital assets	<u>87,089</u>	<u>389,847</u>	<u>-</u>	<u>(8,121)</u>	<u>468,815</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	4,158,645	-	-	-	4,158,645
Electric extensions	23,278,008	458,408	-	8,121	23,744,537
Machinery and equipment	1,078,124	30,988	-	-	1,109,112
Vehicles	<u>1,313,017</u>	<u>33,056</u>	<u>(46,921)</u>	<u>-</u>	<u>1,299,152</u>
Total depreciable capital assets	<u>29,827,794</u>	<u>522,452</u>	<u>(46,921)</u>	<u>8,121</u>	<u>30,311,446</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	2,041,954	65,316	-	-	2,107,270
Electric extensions	7,816,243	475,591	-	-	8,291,834
Machinery and equipment	1,039,919	65,021	-	-	1,104,940
Vehicles	<u>1,100,871</u>	<u>75,110</u>	<u>(46,921)</u>	<u>-</u>	<u>1,129,060</u>
Total accumulated depreciation	<u>11,998,987</u>	<u>\$ 681,038</u>	<u>\$ (46,921)</u>	<u>\$ -</u>	<u>12,633,104</u>
Total depreciable capital assets, net	<u>17,828,807</u>				<u>17,678,342</u>
Electric Fund capital assets, net	<u>\$ 17,915,896</u>				<u>\$ 18,147,157</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balances</u>
<b>Gas Fund:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 53,489	\$ -	\$ -	\$ 53,489
Construction in progress	11,176	202,622	-	213,798
Total non-depreciable capital assets	<u>64,665</u>	<u>202,622</u>	-	<u>267,287</u>
<b>Depreciable Capital Assets:</b>				
Buildings and system	2,687,908	305,571	-	2,993,479
Gas extensions	25,123,808	405,443	-	25,529,251
Machinery and equipment	1,215,042	-	-	1,215,042
Vehicles	719,195	29,360	(16,802)	731,753
Total depreciable capital assets	<u>29,745,953</u>	<u>740,374</u>	<u>(16,802)</u>	<u>30,469,525</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and system	451,454	49,686	-	501,140
Sewer extensions	10,838,691	374,904	-	11,213,595
Machinery and equipment	1,054,981	114,820	-	1,169,801
Vehicles	536,040	62,707	(16,802)	581,945
Total accumulated depreciation	<u>12,881,166</u>	<u>\$ 602,117</u>	<u>\$ (16,802)</u>	<u>13,466,481</u>
Total depreciable capital assets, net	<u>16,864,787</u>			<u>17,003,044</u>
Gas Fund capital assets, net	<u>\$ 16,929,452</u>			<u>\$ 17,270,331</u>

	<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	\$ 284,494	\$ 114,803	\$ -	\$ 399,297
Vehicles	53,859	-	-	53,859
Total depreciable capital assets	<u>338,353</u>	<u>114,803</u>	-	<u>453,156</u>
<b>Less Accumulated Depreciation:</b>				
Machinery and equipment	37,833	55,502	-	93,335
Vehicles	11,669	10,772	-	22,441
Total accumulated depreciation	<u>49,502</u>	<u>\$ 66,274</u>	<u>\$ -</u>	<u>115,776</u>
Total depreciable capital assets, net	<u>288,851</u>			<u>337,380</u>
Stormwater Fund capital assets, net	<u>\$ 288,851</u>			<u>\$ 337,380</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

	<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>4,851</u>	<u>-</u>	<u>-</u>	<u>4,851</u>
Total non-depreciable capital assets	<u>283,024</u>	<u>-</u>	<u>-</u>	<u>283,024</u>
<b>Depreciable Capital Assets:</b>				
Buildings and system	9,412,800	-	-	9,412,800
Other improvements	664,131	-	-	664,131
Machinery and equipment	170,212	-	-	170,212
Vehicles	<u>133,210</u>	<u>50,753</u>	<u>(20,433)</u>	<u>163,530</u>
Total depreciable capital assets	<u>10,380,353</u>	<u>50,753</u>	<u>(20,433)</u>	<u>10,410,673</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and system	4,706,179	209,202	-	4,915,381
Other improvements	629,316	23,695	-	653,011
Machinery and equipment	170,212	-	-	170,212
Vehicles	<u>133,210</u>	<u>9,234</u>	<u>(20,433)</u>	<u>122,011</u>
Total accumulated depreciation	<u>5,638,917</u>	<u>\$ 242,131</u>	<u>\$ (20,433)</u>	<u>5,860,615</u>
Total depreciable capital assets, net	<u>4,741,436</u>			<u>4,550,058</u>
Housing Assistance Fund capital assets, net	<u>\$ 5,024,460</u>			<u>\$ 4,833,082</u>
Total business-type assets	<u>\$ 107,549,218</u>			<u>\$ 111,905,974</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Construction Commitments**

The City has active construction projects as of June 30, 2017. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Project Authorizations</u>	<u>Remaining Commitment</u>
<b>Governmental:</b>		
Carolina Thread Trail	\$ 413,450	\$ 3,499
East Gateway Enhancement Project	418,500	323,763
Uptown Streetscape/Ped Improvements	290,300	178,736
PSAP Communication Addition	1,473,000	1,246,744
Urgent Repair Program	500,000	168,982
Hanna Property Multi-Purpose Recreation Complex	8,220,800	7,300,104
Airport Land Easement	808,500	107,240
Airport Runway Overlay	180,000	25,580
Foothills Commerce Center Mass Grading	1,275,000	106,842
Washburn Switch Business Park Roadway	438,210	44,352
NS Rail Trail Corridor	71,500	66,766
Total	<u>14,089,260</u>	<u>9,572,608</u>
<b>Business-Type:</b>		
<i>Water Fund:</i>		
Grover-Morgan Waterline Project	3,257,000	1,414,231
Farmville Road Water Project	10,050,000	563,366
Uptown Water Improvements	220,000	39,950
Water Treatment Plant Upgrade	35,000	30,000
Total	<u>13,562,000</u>	<u>2,047,547</u>
<i>Sewer Fund:</i>		
Brushy Creek Sewer Outfall	500,000	24,198
Compost Facility Improvements	10,710,000	261,890
Westside Sewer Improvements	9,000,000	118,234
First Broad WWTP Influent Project	5,000,000	212,392
Total	<u>25,210,000</u>	<u>616,714</u>
<i>Electric Fund:</i>		
Hanna Park Electric Line Extension	192,000	117,662
Uptown Electric Utility Upgrade Project	1,725,000	686,371
Total	<u>1,917,000</u>	<u>804,033</u>



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Project</u>	<u>Project Authorizations</u>	<u>Remaining Commitment</u>
<i>Gas Fund:</i>		
Highway 74 Bypass Section "C" Gas Line Relocation	777,864	714,864
Farmville Road Gasline Loop	<u>5,938,500</u>	<u>163,270</u>
Total	<u>6,716,364</u>	<u>878,134</u>
<i>Housing Fund:</i>		
Logan Street	<u>239,750</u>	<u>10,065</u>
Total	<u>\$ 61,734,374</u>	<u>\$ 13,929,101</u>

Capital Asset activity for the ABC Board for the year ended June 30, 2017 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	8,824	-	751,688
Office and store equipment	379,517	-	-	379,517
Land improvements	1,950	-	-	1,950
Vehicle	<u>24,250</u>	<u>-</u>	<u>-</u>	<u>24,250</u>
Total depreciable capital assets	<u>1,148,581</u>	<u>8,824</u>	<u>-</u>	<u>1,157,405</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	690,650	5,299	-	695,949
Office and store equipment	299,431	11,865	-	311,296
Land improvements	8	98	-	106
Vehicle	<u>14,954</u>	<u>2,425</u>	<u>-</u>	<u>17,379</u>
Total accumulated depreciation	<u>1,005,043</u>	<u>19,687</u>	<u>-</u>	<u>1,024,730</u>
Total ABC depreciable capital assets	<u>143,538</u>	<u>(10,863)</u>	<u>-</u>	<u>132,675</u>
ABC capital assets, net	<u>\$ 326,105</u>	<u>\$ (10,863)</u>	<u>\$ -</u>	<u>\$ 315,242</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**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, 2017 were as follows:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Accounts payable	\$ 523,515	\$ 1,378,660
Accrued gas and electric purchases	-	2,034,780
Accrued payroll liabilities	384,660	117,991
Total accounts payable and accrued liabilities	<u>\$ 908,175</u>	<u>\$ 3,531,431</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### Long-Term Obligations

All financing arrangements that have an outstanding balance at June 30, 2017 are summarized as follows:

Financing Agreements	Interest Rate	Date Debt Matures	Amount of Original Debt	Balance Outstanding at June 30, 2017						
				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	\$ -	\$ -	\$ 91,763	\$ -	\$ -	\$ -	\$ 91,763
Powell Bill 2013	1.18%	11/2017	31,890	8,081	-	-	-	-	-	-
Powell Bill 2015	1.55%	2021	280,000	170,595	-	-	-	-	-	-
Powell Bill 2016	1.49%	2022	18,006	14,489	-	-	-	-	-	-
Powell Bill 2017	2.83%	2022	159,104	159,104	-	-	-	-	-	-
Capital projects 2013 Purchase	3.64%	06/2019	1,250,000	250,000	-	-	-	-	-	-
of equipment	1.18%	11/2017	986,960	130,528	23,114	31,124	-	15,758	-	69,996
2014 Purchase of equipment	1.42%	2/2019	930,900	228,811	54,332	28,207	13,242	55,795	-	151,576
2014 DENR	0.00%	5/2034	726,000	-	-	617,102	-	-	-	617,102
2015 Purchase of equipment	1.55%	2021	1,859,433	752,490	72,506	52,083	-	54,839	30,458	209,886
2015 DENR	0.00%	2029	3,130,438	-	-	2,817,394	-	-	-	2,817,394
2015DENR	0.00%	2029	9,396,658	-	-	8,926,825	-	-	-	8,926,825
2016 Purchase of equipment	1.49%	2022	1,333,790	678,617	61,927	33,808	179,448	59,458	45,506	380,147
2017 Purchase of equipment	1.89%	2022	1,130,000	512,342	81,360	127,238	71,190	41,471	137,295	458,554
Capital projects	2.83%	2032	7,700,000	7,700,000	-	-	-	-	-	-
<b>Total</b>			<u>\$ 29,116,705</u>	<u>\$ 10,605,057</u>	<u>\$ 293,239</u>	<u>\$ 12,725,544</u>	<u>\$ 263,880</u>	<u>\$ 227,321</u>	<u>\$ 213,259</u>	<u>\$ 13,723,243</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Governmental Activities Long-Term Debt**

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2017 are as follows:

<b>Year Ending June 30</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 1,492,888	\$ 261,409	\$ 1,756,315
2019	1,364,621	231,655	1,598,295
2020	1,134,573	203,543	1,340,136
2021	827,114	180,887	1,010,022
2022	652,528	161,828	816,378
2023-2027	2,566,667	581,093	3,147,760
2028-2032	2,566,666	217,910	2,784,576
Total	<u>\$ 10,605,057</u>	<u>\$ 1,838,325</u>	<u>\$ 12,453,482</u>

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

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

<b>Year Ending June 30</b>	<b>Water Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 104,781	\$ 4,501	\$ 109,282
2019	82,821	3,061	85,882
2020	56,389	1,772	58,161
2021	32,382	870	33,252
2022	16,866	322	17,188
Total	<u>\$ 293,239</u>	<u>\$ 10,526</u>	<u>\$ 303,765</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>Year Ending June 30</b>	<b>Sewer Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 776,137	\$ 7,396	\$ 753,570
2019	745,904	5,532	722,088
2020	732,538	3,842	707,649
2021	715,534	2,357	688,137
2022	707,385	1,120	708,505
2023-2027	3,313,274	-	3,313,274
2028-2032	3,313,274	-	3,313,274
2033-2035	2,421,498	-	2,421,498
Total	<u>\$ 12,725,544</u>	<u>\$ 20,247</u>	<u>\$ 12,627,995</u>

<b>Year Ending June 30</b>	<b>Electric Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 64,238	\$ 4,106	\$ 68,344
2019	65,147	3,202	68,349
2020	59,380	2,208	61,588
2021	60,358	1,230	61,588
2022	14,757	282	15,039
Total	<u>\$ 263,880</u>	<u>\$ 11,028</u>	<u>\$ 274,908</u>

<b>Year Ending June 30</b>	<b>Gas Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 83,990	\$ 3,456	\$ 87,446
2019	69,272	2,244	71,516
2020	41,825	1,203	43,028
2021	23,637	548	24,185
2022	8,597	164	8,761
Total	<u>\$ 227,321</u>	<u>\$ 7,615</u>	<u>\$ 234,936</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>Year Ending June 30</b>	<b>Stormwater Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 47,730	\$ 1,150	\$ 48,880
2019	48,338	830	49,168
2020	49,166	496	49,662
2021	39,563	170	39,733
2022	28,462	170	28,632
<b>Total</b>	<b>\$ 213,259</b>	<b>\$ 2,816</b>	<b>\$ 216,075</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, 2017 are as follows:

	<b>Interest Rates</b>	<b>Date Series Matures</b>	<b>Amount of Original Issue</b>	<b>Balance Outstanding June 30, 2017</b>
Combined Enterprise System, Series 2010	6.20%	2025	\$ 8,346,400	5,064,374
Combined Enterprise System, Series 2013A	2.78%	2029	9,645,000	7,860,000
Combined Enterprise System, Series 2013C	2.69%	2028	3,185,000	2,430,000
Combined Enterprise System, Series 2015	2.50%	2031	2,460,000	2,255,474
Combined Enterprise System, Series 2016	1.95%	2032	3,020,000	2,935,525
<b>Total</b>				<b>\$ 20,545,373</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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>
2018	\$ 912,070	\$ 403,250	\$ 1,315,320
2019	940,001	367,202	1,307,203
2020	970,767	329,906	1,300,673
2021	998,151	291,264	1,289,415
2022	1,030,509	251,347	1,281,856
2023-2027	4,648,445	652,678	5,301,123
2028-2032	2,284,393	108,935	2,393,328
Total	<u>\$ 11,784,336</u>	<u>\$ 2,404,582</u>	<u>\$ 14,188,918</u>

<b>Year Ending June 30</b>	<b>Sewer Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	420,281	96,934	517,215
2023-2027	1,901,500	227,348	2,128,848
2028-2029	390,050	13,491	403,541
Total	<u>\$ 4,264,021</u>	<u>\$ 889,611</u>	<u>\$ 5,153,632</u>

<b>Year Ending June 30</b>	<b>Electric Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	212,000	52,099	264,099
2023-2027	1,153,280	168,604	1,321,884
2028-2029	508,800	21,311	530,111
Total	<u>\$ 2,666,112</u>	<u>\$ 506,188</u>	<u>\$ 3,172,300</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>Year Ending June 30</b>	<b>Gas Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	168,891	39,602	208,493
2023-2027	809,423	103,506	912,929
2028-2029	226,697	8,645	235,342
<b>Total</b>	<b>\$ 1,830,904</b>	<b>\$ 369,775</b>	<b>\$ 2,200,679</b>

The City has pledged future water, sewer, electric, and gas customer revenues, net of specified operating expenses, to repay \$47,661,400 revenue bonds series 2004, 2010, 2013, 2015, and 2016. 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 \$24,715,529. Principal and interest paid for the current year and total customer net revenues were \$3,280,534 and \$10,821,192, 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, 2017 was as follows:

Operating revenues	\$ 48,351,028
Operating expenses*	<u>37,529,836</u>
Net income available for debt service	<u>\$ 10,821,192</u>
Debt service, principal, and interest paid (Revenue bond only)	<u>\$ 3,280,534</u>
Debt service coverage ratio	<u>329.86%</u>

\*Per rate covenants, this does not include depreciation and amortization expense of \$3,287,564.



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Changes in Long-Term Liabilities.** Long-term liability activity for the fiscal year ended June 30, 2017 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	\$ 3,206,831	\$ 8,371,446	\$ (973,220)	\$ 10,605,057	\$ 1,492,888
Total pension liabilities (LEO)	774,128	1,503,406	-	2,277,534	-
Compensated absences	926,397	320,803	(266,877)	980,323	245,000
Net pension liability - LGERS	744,273	2,864,704	-	3,608,977	-
Other post-employment benefits	<u>3,114,037</u>	<u>938,499</u>	<u>(581,984)</u>	<u>3,470,552</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 8,765,666</u>	<u>\$ 13,998,858</u>	<u>\$ (1,822,081)</u>	<u>\$ 20,942,443</u>	<u>\$ 1,737,888</u>

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Within One Year</u>
<b>Business-Type Activities:</b>					
<b>Water Fund:</b>					
Revenue bonds	\$ 9,730,167	\$ 3,020,000	\$ (965,831)	\$ 11,784,336	\$ 912,070
Installment debt	299,454	81,360	(87,575)	293,239	104,781
Compensated absences	61,369	39,757	(47,274)	53,852	13,000
Net pension liability - LGERS	48,789	187,789	-	236,578	-
Other post-employment benefits	<u>206,099</u>	<u>66,253</u>	<u>(40,696)</u>	<u>231,656</u>	<u>-</u>
Water Fund long-term liabilities	<u>\$ 10,345,878</u>	<u>\$ 3,395,159</u>	<u>\$ (1,141,376)</u>	<u>\$ 12,599,661</u>	<u>\$ 1,029,851</u>

<b>Sewer Fund:</b>					
Revenue bonds	\$ 4,679,331	\$ -	\$ (415,310)	\$ 4,264,021	\$ 367,036
Other debt	13,364,198	127,238	(765,892)	12,725,544	776,137
Compensated absences	47,393	39,300	(34,329)	52,364	13,000
Net pension liability - LGERS	52,615	202,518	-	255,133	-
Other post-employment benefits	<u>220,654</u>	<u>75,484</u>	<u>(46,386)</u>	<u>249,752</u>	<u>-</u>
Sewer Fund long-term liabilities	<u>\$ 18,364,191</u>	<u>\$ 444,540</u>	<u>\$ (1,261,917)</u>	<u>\$ 17,546,814</u>	<u>\$ 1,156,173</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

	Beginning Balances	Additions	Reductions	Ending Balances	Due Within One Year
<b>Electric Fund:</b>					
Revenue bonds	\$ 3,166,432	\$ -	\$ (500,320)	\$ 2,666,112	\$ 189,952
Installment debt	257,236	71,190	(64,546)	263,880	64,238
Compensated absences	49,698	31,815	(31,121)	50,392	12,000
Net pension liability - LGERS	38,266	147,286	-	185,552	-
Other post-employment benefits	161,930	68,117	(41,924)	188,123	-
Electric Fund long-term liabilities	\$ 3,673,562	\$ 318,408	\$ (637,911)	\$ 3,354,059	\$ 266,190
<b>Gas Fund:</b>					
Revenue bonds	\$ 2,469,612	\$ -	\$ (638,708)	\$ 1,830,904	\$ 148,589
Installment debt	286,848	41,471	(100,998)	227,321	83,990
Compensated absences	46,451	29,981	(30,591)	45,841	11,000
Net pension liability - LGERS	52,615	202,518	-	255,133	-
Other post-employment benefits	218,148	62,007	(38,032)	242,123	-
Gas Fund long-term liabilities	\$ 3,073,674	\$ 335,977	\$ (808,329)	\$ 2,601,322	\$ 243,579
<b>Housing Assistance Fund:</b>					
Compensated absences	\$ 20,406	\$ 14,371	\$ (20,147)	\$ 14,630	\$ 3,600
Net pension liability - LGERS	20,090	77,325	-	97,415	-
Other post-employment benefits	85,446	27,847	(17,110)	96,183	-
Housing Assistance long-term liabilities	\$ 125,942	\$ 119,543	\$ (37,257)	\$ 208,228	\$ 3,600
<b>Stormwater Fund:</b>					
Installment debt	\$ 94,705	\$ 137,295	\$ (18,741)	\$ 213,259	\$ 47,730
Compensated absences	3,402	3,915	(3,521)	3,796	900
Stormwater Fund long-term liabilities	\$ 98,107	\$ 141,210	\$ (22,262)	\$ 217,055	\$ 48,630
<b>Total Business-Type Activities:</b>					
Revenue bonds	\$ 20,045,542	\$ 3,020,000	\$ (2,520,169)	\$ 20,545,373	\$ 1,617,647
Installment debt	14,302,441	458,554	(1,037,752)	13,723,243	1,076,876
Compensated absences	228,719	159,139	(166,983)	220,875	53,500
Net pension liability - LGERS	212,375	817,436	-	1,029,811	-
Other post-employment benefits	892,277	299,708	(184,148)	1,007,837	-
Business-type activities long-term liabilities	\$ 35,681,354	\$ 4,754,837	\$ (3,909,052)	\$ 36,527,139	\$ 2,748,023

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

At June 30, 2017, the City has a legal debt margin of approximately \$98,301,000.

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

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

##### *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).

##### *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.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 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.

### *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, 2017 was 8.00% of compensation for law enforcement officers and 7.34% 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 \$1,004,436 for the year ended June 30, 2017. The ABC Board's contributions to LGERS for the year ended June 30, 2017 were \$23,283.

### *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, 2017, the City reported a liability of \$4,638,788 for its proportionate share of the net pension liability and the ABC Board reported \$62,823. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the City's proportion was 0.219%, which was an increase of 0.006% from its proportion measured as of June 30, 2015.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

For the year ended June 30, 2017, the City recognized pension expense of \$1,216,069. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 87,155	\$ 162,548
Changes of assumptions	317,716	-
Net difference between projected and actual earnings on pension plan investments	2,564,666	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	92,864
City contributions subsequent to the measurement date	<u>1,004,436</u>	<u>-</u>
Total	<u>\$ 3,973,973</u>	<u>\$ 255,412</u>

\$1,004,436 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b><u>Year Ending June 30</u></b>	<b><u>Amount</u></b>
2018	\$ 387,517
2019	388,117
2020	1,205,355
2021	733,136
2022	-
Thereafter	<u>-</u>
Total	<u>\$ 2,714,125</u>

*Actuarial Assumptions*

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 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, 2017

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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 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%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	<u>6.0%</u>	4.0%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 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, 2017**

*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.

***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>\$ 11,010,007</u>	<u>\$ 4,638,788</u>	<u>\$ (682,929)</u>

*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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2016, the Separation Allowance’s membership consisted of:

Inactive members currently receiving benefits	4
Active members	78
Total	82

**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 73.

**Actuarial Assumptions**

The entry age normal actuarial cost method was used in the December 31, 2015 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate used to measure the TPL is the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

**Deaths After Retirement (Healthy):** RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

**Deaths Before Retirement:** RP-2014 Employee base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

**Deaths After Retirement (Beneficiary):** RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 123% for males and females.

**Deaths After Retirement (Disabled):** RP-2014 Disabled Retiree base rates projected to the valuation date using MP-20 15, projected forward generationally from the valuation date using MP-20 15. Rates are adjusted by 103% for males and 99% for females.



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Contributions.** The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operation budget. There were no contributions made by the employees. The City’s obligation to contribute to this Plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$57,676 as benefits came due.

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

At June 30, 2017, the City reported a total pension liability of \$2,277,534. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was rolled forward to December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the City recognized pension expense of \$165,675.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions and other inputs	\$ -	\$ 45,626
City benefit payments and administrative expenses subsequent to the measurement date	<u>25,072</u>	<u>-</u>
Total	<u>\$ 25,072</u>	<u>\$ 45,626</u>

\$25,072 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. 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>
2018	\$ (8,593)
2019	(8,593)
2020	(8,593)
2021	(8,593)
2022	(8,593)
Thereafter	<u>(2,661)</u>
Total	<u>\$ (45,626)</u>

\$25,072 paid as benefits came due subsequent to the measurement date are reported as deferred outflows of resources.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

*Sensitivity of the City's Total Pension Liability to Changes in the Discount Rate.* The following presents the City's total pension liability calculated using the discount rate of 3.86 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	<b>1% Decrease (2.86%)</b>	<b>Current Discount Rate (3.86%)</b>	<b>1% Increase (4.86%)</b>
Total pension liability	<u>\$ 2,470,224</u>	<u>\$ 2,277,534</u>	<u>\$ 2,100,644</u>

**Schedule of Changes in Total Pension Liability  
Law Enforcement Officers' Special Separation Allowance**

	<u><b>2017</b></u>
Beginning balance	\$ 2,215,455
Service cost	95,912
Interest on the total pension liability	78,062
Changes of assumptions or other inputs	(54,219)
Benefit payments	<u>(57,676)</u>
Ending balance of the total pension liability	<u>\$ 2,277,534</u>

The plan currently uses mortality tables that vary by age, 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**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 contributed \$668,274 for the reporting year. No amounts were forfeited.

**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.

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

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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 10.57% of annual covered payroll. The City's contributions totaled \$766,132, or 6.58% of annual covered payroll, including \$419,599 for general employees, \$67,726 for law enforcement officers, and \$278,807 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.

**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	\$ 1,231,045
Valuation discount rate	4.00%
Interest on net OPEB obligation	160,253
Adjustment to annual required contribution	<u>(153,091)</u>
Annual OPEB cost (expense)	1,238,207
Contributions made	<u>(766,132)</u>
Increase (decrease) in net OPEB obligation	472,075
Net OPEB obligation:	
Beginning of year - July 1	<u>4,006,314</u>
End of year - June 30	<u>\$ 4,478,389</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

The City’s net OPEB obligation is comprised of \$3,470,552 and \$1,007,837 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 2017 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>
2017	\$ 1,238,207	61.87%	\$ 4,478,389
2016	1,209,090	68.25%	4,006,314
2015	1,173,238	60.62%	3,622,440

**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. The covered payroll (annual payroll of active employees covered by the plan) was \$11,649,989, and the ratio of the UAAL to the covered payroll was 130.5%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents 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 7.75% 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.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### **Other Employment Benefit**

The City and ABC Board have 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 and ABC Board, the City and ABC Board do not determine the number of eligible participants. The City and ABC Board have 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 and ABC Board consider these contributions to be immaterial.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Deferred Outflows and Inflows of Resources**

The City has several deferred outflows and inflows of resources. They are comprised of the following:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Contributions to pension plan in current fiscal year (LGERS)	\$ 1,004,436	\$ -
Benefit payments/administration costs paid subsequent to the measurement date (LEOSSA)	25,072	-
Differences between expected and actual experience (LGERS):		
LGERS	87,155	162,548
Changes in assumptions:		
LGERS	317,716	-
LEOSSA	-	45,626
Net difference between projected and actual:		
LGERS	2,564,666	-
Changes in proportion and differences between employer contributions and proportionate share:		
LGERS	-	92,864
Deferred charge on refunding	498,751	-
Taxes receivable (General Fund)	-	210,358
Taxes receivable (nonmajor funds)	-	200
Total	<u>\$ 4,497,796</u>	<u>\$ 511,596</u>

**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, 2017

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, 2017, 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, 2017**

**3. Interfund Balances and Activity**

The composition of interfund balances as of June 30, 2017 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances and due to/from other funds:		
Gas Fund	Sewer Fund	<u>\$ 920,000</u>

The \$1 million loan between the Gas Fund and the Sewer Fund will be repaid over 20 years. The amounts due in more than a year is shown as advances to/from other funds. The balance as of June 30, 2017 was \$920,000.

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Electric Fund	\$ 575,000	City's transfer policy - return investment
	Gas Fund	2,440,000	
	Water Fund	40,000	
	Sewer Fund	40,000	
	Capital Projects Fund	474,087	
Capital Projects Fund	General Fund	24,190	Capital purposes - grant match
	Water Fund	24,190	
	Sewer Fund	24,190	
	Electric Fund	434,685	
	Gas Fund	66,685	
Economic Development Commission Fund	General Fund	361,815	Economic development purposes - grant match
	Water Fund	5,000	
	Sewer Fund	5,000	
	Electric Fund	10,000	
	Gas Fund	310,000	
	Capital Reserve Fund	Economic Development Commission Fund	
Total		<u>\$ 5,377,152</u>	

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### 4. Net Investment in Capital Assets

Net investment in capital assets is comprised of the following:

#### Governmental Activities:

Capital assets, net of accumulated depreciation	\$ 39,429,764
Outstanding balance on related debt	(10,605,057)
Unspent debt proceeds	<u>7,839,675</u>
Total governmental activities	<u>\$ 36,664,382</u>

#### Business-Type Activities:

##### Water Fund:

Capital assets, net of accumulated depreciation	\$ 26,920,355
Outstanding balance on related debt	(12,077,575)
Unspent debt proceeds	1,938,335
Deferred charge on refunding	<u>207,890</u>
Total Water	<u>16,989,005</u>

##### Sewer Fund:

Capital assets, net of accumulated depreciation	44,397,669
Outstanding balance on related debt	(16,989,565)
Deferred charge on refunding	<u>65,845</u>
Total Sewer	<u>27,473,949</u>

##### Electric Fund:

Capital assets, net of accumulated depreciation	18,147,157
Outstanding balance on related debt	(2,929,992)
Deferred charge on refunding	<u>169,207</u>
Total Electric	<u>15,386,372</u>

##### Gas Fund:

Capital assets, net of accumulated depreciation	17,270,331
Outstanding balance on related debt	(2,058,225)
Deferred charge on refunding	<u>55,809</u>
Total Gas	<u>15,267,915</u>

##### Stormwater Fund:

Capital assets, net of accumulated depreciation	337,380
Outstanding balance on related debt	<u>(213,259)</u>
Total Stormwater	<u>124,121</u>

##### Housing Assistance Fund:

Capital assets, net of accumulated depreciation	<u>4,833,082</u>
Total Housing Assistance	<u>4,833,082</u>

Total business-type activities	<u>\$ 80,074,444</u>
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# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### 5. **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, 2017 were \$16,207,000.

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 \$7,749 to the Commission during the year ended June 30, 2017.

### 6. **Prior Period Adjustment**

During fiscal year ended June 30, 2017, the City discovered that expenditures in the Capital Projects Fund for the Schletter Building Reuse Project had been recorded in construction in progress. The capital asset does not belong to the City and, therefore, a restatement in net position has been made for \$819,000, which decreases governmental activities' total net position.

The City restated net position in the Water Fund during the current year to adjust for a long-term notes receivable that was previously not recorded on the balance sheet. The restatement increased net position for business-type activities by \$417,295.

### 7. **Change in Accounting Principles/Restatement**

The City implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the City to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the City to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for governmental activities decreased \$1,383,357.

# **CITY OF SHELBY, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017**

### **8. Subsequent Events**

In July 2017, the City entered into an inter-local agreement with Cleveland County to participate in the financing of public infrastructure associated with an economic development project. Cleveland County loaned the City \$11,064,000 to be repaid over a fifteen-year term. The payment is due in annual installments of \$790,286 plus 3.25% interest. This will be reported as a long term liability by the City. For fiscal year 2018, the only portion due to the County will be interest payments of \$359,581.



## **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 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) to the Local Government Employees' Retirement System
- Schedule of Contributions to the Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Law Enforcement Officers' Special Separation Allowance



## CITY OF SHELBY, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS  
 RETIREE HEALTH PLAN  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2017

## 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	\$ -	\$ 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
2017	\$ 1,231,045	\$ 766,132	62.23%
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%

## 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 FOUR FISCAL YEARS\*

<b>Local Government Employees' Retirement System</b>				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Shelby's proportion of the net pension liability (asset) (%)	0.21857%	0.21316%	0.21615%	0.25200%
Shelby's proportion of the net pension liability (asset) (\$)	\$ 4,638,788	\$ 956,648	\$ (1,274,737)	\$ 2,714,525
Shelby's covered-employee payroll	\$ 12,458,381	\$ 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	37.23%	8.04%	( 10.82%)	24.14%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	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.

Note: This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.



## CITY OF SHELBY, NORTH CAROLINA

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,004,436	\$ 855,814	\$ 851,812	\$ 838,951
Contributions in relation to the contractually required contribution	<u>1,004,436</u>	<u>855,814</u>	<u>851,812</u>	<u>838,951</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Shelby's covered-employee payroll	\$ 13,368,109	\$ 12,458,381	\$ 11,891,524	\$ 11,775,999
Contributions as a percentage of covered-employee payroll	7.51%	6.87%	7.16%	7.12%

Note: This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

## CITY OF SHELBY, NORTH CAROLINA

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY  
 LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
 JUNE 30, 2017

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**Law Enforcement Officers' Special Separation Allowance**

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	<b>2017</b>
Beginning balance	\$ 2,215,455
Service cost	95,912
Interest on the total pension liability	78,062
Changes of assumptions or other inputs	(54,219)
Benefit payments	(57,676)
Ending balance of the total pension liability	\$ 2,277,534

**Notes to the Schedule:**

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

## CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL  
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
JUNE 30, 2017**

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**Law Enforcement Officers' Special Separation Allowance**

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	<b>2017</b>
Total pension liability	\$ 2,277,534
Covered payroll	\$ 3,526,429
Total pension liability as a percentage of covered payroll	64.58%

**Notes to the Schedule:**

City of Shelby has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.





## **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, 2017  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017			2016
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
<b>Ad Valorem Taxes:</b>				
Current year	\$ 8,400,542	\$ 8,749,615	\$ 349,073	\$ 8,047,116
Prior years	250,000	139,157	(110,843)	143,161
Tax discounts	(20,000)	(21,776)	(1,776)	(19,221)
Interest and penalties	50,000	35,786	(14,214)	36,048
Total	<u>8,680,542</u>	<u>8,902,782</u>	<u>222,240</u>	<u>8,207,104</u>
<b>Other Taxes and Licenses:</b>				
Local option sales tax	2,938,525	3,494,500	555,975	3,053,826
Privilege licenses	6,000	6,510	510	7,310
Total	<u>2,944,525</u>	<u>3,501,010</u>	<u>556,485</u>	<u>3,061,136</u>
<b>Unrestricted Intergovernmental Revenues:</b>				
Payment in lieu of taxes	9,000	11,659	2,659	9,000
Utility franchise tax	2,000,000	1,929,904	(70,096)	2,008,127
Beer and wine tax	95,000	92,576	(2,424)	90,073
ABC revenue	60,000	114,755	54,755	113,404
Total	<u>2,164,000</u>	<u>2,148,894</u>	<u>(15,106)</u>	<u>2,220,604</u>
<b>Restricted Intergovernmental Revenues:</b>				
Powell Bill allocation	605,700	604,231	(1,469)	614,291
Federal and State grants	193,883	186,732	(7,151)	187,146
ABC law enforcement revenue	7,000	13,359	6,359	13,009
Rental vehicle gross receivable tax	30,000	31,103	1,103	46,279
Total	<u>836,583</u>	<u>835,425</u>	<u>(1,158)</u>	<u>860,725</u>
<b>Permits and Fees:</b>				
Building permits/inspection fees	200,000	192,574	(7,426)	231,979
Other permits	70,350	153,122	82,772	94,798
Filing fees	-	640	640	560
Total	<u>270,350</u>	<u>346,336</u>	<u>75,986</u>	<u>327,337</u>
<b>Sales and Services:</b>				
Court costs and fees	8,000	9,112	1,112	8,856
Fire protection	-	-	-	295
Golf cart rentals	45,200	46,790	1,590	39,770
Recreation revenue	295,500	248,276	(47,224)	232,260
Garbage disposal fees	850,000	922,627	72,627	733,126
Recycling fees	270,000	282,078	12,078	256,010
Utility late fees	155,000	146,350	(8,650)	152,700
Airport fuel sales	250,000	201,631	(48,369)	244,696
Other rent	28,300	35,607	7,307	30,448
Total	<u>1,902,000</u>	<u>1,892,471</u>	<u>(9,529)</u>	<u>1,698,161</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, 2017  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017			2016
	Budget	Actual	Variance Over/Under	Actual
<b>Investment Earnings</b>	50,000	(18,648)	(68,648)	95,830
<b>Miscellaneous:</b>				
Student resource officer	221,500	221,500	-	221,500
Public nuisance	60,000	13,479	(46,521)	37,965
Donations	24,005	32,481	8,476	-
Other	31,000	45,013	14,013	51,807
Total	336,505	312,473	(24,032)	311,272
Total revenues	17,184,505	17,920,743	736,238	16,782,169
<b>Expenditures:</b>				
<b>General Government:</b>				
Mayor and council	74,732	69,552	5,180	69,382
Administration and general	201,611	187,194	14,417	258,886
Finance	445,817	437,723	8,094	384,026
Purchasing	44,905	24,298	20,607	33,560
Legal	12,200	9,500	2,700	11,783
Human resources	199,296	137,352	61,944	125,557
City hall	70,175	67,107	3,068	61,627
Building and zoning	353,160	335,901	17,259	269,131
Community development	456,920	427,644	29,276	461,688
Special appropriations	859,179	786,026	73,153	799,758
Total	2,717,995	2,482,297	235,698	2,475,398
<b>Public Safety:</b>				
Police department	6,829,667	6,803,543	26,124	6,545,475
Fire department	3,823,478	3,789,237	34,241	4,430,425
Total	10,653,145	10,592,780	60,365	10,975,900
<b>Transportation:</b>				
Streets and highways	1,143,434	1,083,756	59,678	945,789
Street maintenance and repairs - Powell Bill	427,350	161,737	265,613	266,054
Street construction and improvement - Powell Bill	653,887	277,505	376,382	791,542
Garage	657,380	648,782	8,598	413,534
Airport	383,455	358,719	24,736	413,727
Total	3,265,506	2,530,499	735,007	2,830,646
<b>Environmental Protection:</b>				
Sanitation	1,323,890	1,248,311	75,579	1,674,767
Recycling	255,400	244,966	10,434	235,764
Total	1,579,290	1,493,277	86,013	1,910,531



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, 2017  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017			2016
	Budget	Actual	Variance Over/Under	Actual
<b>Cultural and Recreational:</b>				
Parks and recreation	2,465,303	2,335,292	130,011	2,385,987
<b>Debt Service:</b>				
Principal retirement	987,500	973,220	14,280	933,507
Interest	53,000	65,551	(12,551)	57,762
Total	1,040,500	1,038,771	1,729	991,269
Total expenditures	21,721,739	20,472,916	1,248,823	21,569,731
Revenue over (under) expenditures	(4,537,234)	(2,552,173)	1,985,061	(4,787,562)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	3,095,000	3,095,000	-	2,935,000
Transfers (to) other funds	(835,952)	(835,902)	50	(298,526)
Long-term debt issued	718,438	671,446	(46,992)	828,034
Proceeds from the sale of capital assets	10,000	43,905	33,905	34,928
Appropriated fund balance	1,549,748	-	(1,549,748)	-
Total other financing sources (uses)	4,537,234	2,974,449	(1,562,785)	3,499,436
Net change in fund balance	\$ -	422,276	\$ 422,276	(1,288,126)
<b>Fund Balance:</b>				
Beginning of year - July 1		7,635,671		8,923,797
End of year - June 30		\$ 8,057,947		\$ 7,635,671





## MAJOR GOVERNMENTAL FUND

### *Capital Project Funds*

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



## CITY OF SHELBY, NORTH CAROLINA

**CAPITAL PROJECTS FUND - MAJOR CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2017**

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Trail Grant	\$ 258,200	\$ 224,500	\$ 48,200	\$ 272,700
Airport Grant 2011	158,333	147,862	-	147,862
Rural Center building reuse	799,500	799,500	-	799,500
Airport land easement	768,075	326,194	201,195	527,389
CDBG Catalyst Grant 2011	500,000	496,353	-	496,353
Airport Grant 2012-13	158,333	158,351	-	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	800	64,250
Airport Runway Overlay	171,000	-	127,267	127,267
PSAP Communication addition	1,280,993	-	-	-
All Aboard! Parks & Rec 2017 NC Connect Grant	250,000	-	-	-
Urgent repair program	500,000	-	-	-
Investment earnings	-	95,764	9,412	105,176
Total revenues	<u>5,002,767</u>	<u>2,408,966</u>	<u>386,874</u>	<u>2,795,840</u>
<b>Expenditures:</b>				
Carolina Thread Trail	413,450	289,963	98,970	388,933
Airport Grant 2011	166,667	166,667	-	166,667
Rural Center building reuse	819,000	819,000	-	819,000
Airport land easement	808,500	343,363	211,785	555,148
CDBG Catalyst Grant 2011	500,000	507,172	-	507,172
Police department roof	170,500	176,701	-	176,701
FCC Roads Phase II	408,700	460,210	-	460,210
Airport Grant 2012-13	166,667	167,031	-	167,031
Airport Grant 2013-14 (AP131)	166,667	89,811	-	89,811
Airport Runway Overlay	180,000	-	147,990	147,990
East Gateway Enhancement Project	418,500	25,220	18,215	43,435
Hanna Property Multi-Purpose Recreation Complex	8,220,800	143,135	479,274	622,409
PSAP Communication addition	1,473,000	-	194,536	194,536
All Aboard! Parks & Rec 2017 NC Connect Grant	322,500	-	10,026	10,026
Uptown Streetscape/Ped Improvements	290,300	-	111,485	111,485
Urgent repair program	500,000	-	81,018	81,018
Total expenditures	<u>15,025,251</u>	<u>3,188,273</u>	<u>1,353,299</u>	<u>4,541,572</u>
Revenues over (under) expenditures	<u>(10,022,484)</u>	<u>(779,307)</u>	<u>(966,425)</u>	<u>(1,745,732)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	2,322,484	1,048,843	1,023,837	2,072,680
Long-term debt issued	<u>7,700,000</u>	-	<u>7,700,000</u>	<u>7,700,000</u>
Total other financing sources (uses)	<u>10,022,484</u>	<u>1,048,843</u>	<u>8,723,837</u>	<u>9,772,680</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ 269,536</u>	<u>\$ 7,757,412</u>	<u>\$ 8,026,948</u>





## 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*

- **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, 2017

	<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	\$ 1,894,363	\$ 287,030	\$ -	\$ 2,181,393
Receivables, net:				
Taxes	200	-	-	200
Accounts	9,861	-	15,033	24,894
Interest	1,125	37	-	1,162
Loans	44,005	-	-	44,005
Due from other governments	24,016	-	-	24,016
Prepays	12,500	-	-	12,500
Cash and cash equivalents - restricted	-	-	878,995	878,995
<b>Total assets</b>	<b>\$ 1,986,070</b>	<b>\$ 287,067</b>	<b>\$ 894,028</b>	<b>\$ 3,167,165</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 4,348	\$ 15,901	\$ 450	\$ 20,699
<b>Deferred Inflows of Resources:</b>				
Taxes receivable	200	-	-	200
<b>Fund Balances:</b>				
Non-spendable:				
Perpetual	-	-	878,545	878,545
Prepays	12,500	-	-	12,500
Restricted:				
Stabilization by State statute	79,007	37	15,033	94,077
Public safety	160,291	-	-	160,291
Committed:				
Capital projects	-	271,129	-	271,129
Assigned:				
Economic development	1,729,724	-	-	1,729,724
<b>Total fund balances</b>	<b>1,981,522</b>	<b>271,166</b>	<b>893,578</b>	<b>3,146,266</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,986,070</b>	<b>\$ 287,067</b>	<b>\$ 894,028</b>	<b>\$ 3,167,165</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, 2017**

	<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	\$ 112,369	\$ -	\$ -	\$ 112,369
Restricted intergovernmental	524,367	-	-	524,367
Investment earnings	97	(84)	5,680	5,693
Miscellaneous	44,800	-	-	44,800
Donations	-	-	60,890	60,890
Total revenues	<u>681,633</u>	<u>(84)</u>	<u>66,570</u>	<u>748,119</u>
<b>Expenditures:</b>				
General government	-	-	2,285	2,285
Public safety	161,944	-	-	161,944
Housing and redevelopment	958,598	83,749	-	1,042,347
Total expenditures	<u>1,120,542</u>	<u>83,749</u>	<u>2,285</u>	<u>1,206,576</u>
Revenues over (under) expenditures	<u>(438,909)</u>	<u>(83,833)</u>	<u>64,285</u>	<u>(458,457)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	691,815	566,500	-	1,258,315
Transfers (to) other funds	<u>(566,500)</u>	<u>-</u>	<u>-</u>	<u>(566,500)</u>
Total other financing sources (uses)	<u>125,315</u>	<u>566,500</u>	<u>-</u>	<u>691,815</u>
Net change in fund balances	(313,594)	482,667	64,285	233,358
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>2,295,116</u>	<u>(211,501)</u>	<u>829,293</u>	<u>2,912,908</u>
End of year - June 30	<u>\$ 1,981,522</u>	<u>\$ 271,166</u>	<u>\$ 893,578</u>	<u>\$ 3,146,266</u>

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2017

	<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	\$ 160,451	\$ 1,733,912	\$ 1,894,363
Receivables, net:			
Taxes	-	200	200
Accounts	8,923	938	9,861
Interest	-	1,125	1,125
Loans	-	44,005	44,005
Prepaid items	-	12,500	12,500
Due from other governments	-	24,016	24,016
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 169,374</u>	<u>\$ 1,816,696</u>	<u>\$ 1,986,070</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	<u>\$ 160</u>	<u>\$ 4,188</u>	<u>\$ 4,348</u>
<b>Deferred Inflows of Resources:</b>			
Taxes receivable	<u>-</u>	<u>200</u>	<u>200</u>
<b>Fund Balances:</b>			
Non-spendable:			
Prepays	-	12,500	12,500
Restricted:			
Stabilization by State statute	8,923	70,084	79,007
Public safety	160,291	-	160,291
Assigned:			
Economic development	-	1,729,724	1,729,724
Total fund balances	<u>169,214</u>	<u>1,812,308</u>	<u>1,981,522</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 169,374</u>	<u>\$ 1,816,696</u>	<u>\$ 1,986,070</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, 2017**

	<u>Emergency Telephone System Fund</u>	<u>Economic Development Commission Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ -	\$ 112,369	\$ 112,369
Restricted intergovernmental	152,020	372,347	524,367
Investment earnings	-	97	97
Miscellaneous income	-	44,800	44,800
Total revenues	<u>152,020</u>	<u>529,613</u>	<u>681,633</u>
<b>Expenditures:</b>			
Public safety	161,944	-	161,944
Housing and redevelopment	-	958,598	958,598
Total expenditures	<u>161,944</u>	<u>958,598</u>	<u>1,120,542</u>
Revenues over (under) expenditures	<u>(9,924)</u>	<u>(428,985)</u>	<u>(438,909)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	-	691,815	691,815
Transfers (to) other funds	-	(566,500)	(566,500)
Total other financing sources (uses)	<u>-</u>	<u>125,315</u>	<u>125,315</u>
Net change in fund balances	(9,924)	(303,670)	(313,594)
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>179,138</u>	<u>2,115,978</u>	<u>2,295,116</u>
End of year - June 30	<u>\$ 169,214</u>	<u>\$ 1,812,308</u>	<u>\$ 1,981,522</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, 2017**

	<u>2017</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Restricted intergovernmental	\$ 151,944	\$ 152,020	\$ 76
<b>Expenditures:</b>			
Public safety:			
Software	20,000	18,057	1,943
Furniture	500	-	500
Travel and training	3,000	2,244	756
Hardware	120,388	91,307	29,081
Phone system	53,000	50,336	2,664
Total expenditures	<u>196,888</u>	<u>161,944</u>	<u>34,944</u>
Revenues over (under) expenditures	(44,944)	(9,924)	35,020
<b>Other Financing Sources (Uses):</b>			
Appropriated fund balance	<u>44,944</u>	<u>-</u>	<u>(44,944)</u>
Net change in fund balance	<u>\$ -</u>	<u>(9,924)</u>	<u>\$ (9,924)</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>179,138</u>	
End of year - June 30		<u>\$ 169,214</u>	
<b>PSAP Reconciliation:</b>			
Amounts reported on the Emergency Telephone System Fund budget and actual are different from the PSAP Revenue - Expenditure Report because:			
Ending fund balance, reported on budget and actual		\$ 169,214	
Cumulative prior ineligible expenditures recorded in the fund from prior years		<u>17,517</u>	
Ending fund balance, PSAP report		<u>\$ 186,731</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, 2017

	<b>2017</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>
<b>Revenues:</b>			
Ad valorem taxes	\$ 108,300	\$ 112,369	\$ 4,069
Restricted intergovernmental	341,140	372,347	31,207
Investment earnings	2,000	97	(1,903)
Miscellaneous income	2,400	52,300	49,900
Total revenues	<u>453,840</u>	<u>537,113</u>	<u>83,273</u>
<b>Expenditures:</b>			
Housing and redevelopment	<u>1,150,505</u>	<u>958,598</u>	<u>191,907</u>
Revenues over (under) expenditures	<u>(696,665)</u>	<u>(421,485)</u>	<u>275,180</u>
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	691,815	691,815	-
Transfers (to) other funds	(566,500)	(566,500)	-
Appropriated fund balance	<u>571,350</u>	<u>-</u>	<u>(571,350)</u>
Total other financing sources (uses)	<u>696,665</u>	<u>125,315</u>	<u>(571,350)</u>
Net change in fund balance	<u>\$ -</u>	<u>(296,170)</u>	<u>\$ (296,170)</u>
<b>Reconciliation of Budgetary Basis with Modified Accrual Basis:</b>			
Payment received on notes receivable		<u>(7,500)</u>	
Net change in fund balance (deficit), modified accrual basis		(303,670)	
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>2,115,978</u>	
End of year - June 30		<u>\$ 1,812,308</u>	

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2017

	<u>Economic Development Project Fund</u>	<u>Economic Development Reserve Fund</u>	<u>Total Nonmajor Capital Project Funds</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 87,555	\$ 199,475	\$ 287,030
Interest receivable	<u>37</u>	<u>-</u>	<u>37</u>
Total assets	<u>\$ 87,592</u>	<u>\$ 199,475</u>	<u>\$ 287,067</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	<u>\$ 15,901</u>	<u>\$ -</u>	<u>\$ 15,901</u>
<b>Fund Balances:</b>			
Restricted:			
Stabilization by State statute	37	-	37
Committed	<u>71,654</u>	<u>199,475</u>	<u>271,129</u>
Total fund balances	<u>71,691</u>	<u>199,475</u>	<u>271,166</u>
Total liabilities and fund balances	<u>\$ 87,592</u>	<u>\$ 199,475</u>	<u>\$ 287,067</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, 2017**

	<u>Economic Development Project Fund</u>	<u>Economic Development Reserve Fund</u>	<u>Total Nonmajor Capital Project Funds</u>
<b>Revenues:</b>			
Investment earnings	\$ (84)	\$ -	\$ (84)
<b>Expenditures:</b>			
Redevelopment	83,749	-	83,749
Revenues over (under) expenditures	(83,833)	-	(83,833)
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	566,500	-	566,500
Net change in fund balances	482,667	-	482,667
<b>Fund Balances:</b>			
Beginning of year - July 1	(410,976)	199,475	(211,501)
End of year - June 30	<u>\$ 71,691</u>	<u>\$ 199,475</u>	<u>\$ 271,166</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, 2017

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
County, local grants	\$ 2,306,657	\$ 2,142,602	\$ -	\$ 2,142,602
Restricted intergovernmental	263,000	-	-	-
Investment earnings	-	455	(84)	371
Total revenues	<u>2,569,657</u>	<u>2,143,057</u>	<u>(84)</u>	<u>2,142,973</u>
<b>Expenditures:</b>				
Payment to Cleveland County	350,000	349,738	-	349,738
Foothills Farmers Market	1,060,000	1,059,359	-	1,059,359
Foothills Commerce Center Mass Grading	1,275,000	1,046,636	79,015	1,125,651
Washburn Switch Business Park Roadway	438,210	203,758	-	203,758
FCC job ready shell building #2	3,000,000	2,953,095	-	2,953,095
NS Rail Trail Corridor	71,500	-	4,734	4,734
Total expenditures	<u>6,194,710</u>	<u>5,612,586</u>	<u>83,749</u>	<u>5,696,335</u>
Revenues over (under) expenditures	(3,625,053)	(3,469,529)	(83,833)	(3,553,362)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>3,625,053</u>	<u>3,058,553</u>	<u>566,500</u>	<u>3,625,053</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ (410,976)</u>	<u>\$ 482,667</u>	<u>\$ 71,691</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, 2017**

	<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>
Total other financing sources (uses)	<u>-</u>	<u>199,475</u>	<u>-</u>	<u>199,475</u>
Net change in fund balance	<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, 2017

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
<b>Assets:</b>			
Accounts receivable, net	\$ 15,033	\$ -	\$ 15,033
Cash and cash equivalents - restricted	<u>344,384</u>	<u>534,611</u>	<u>878,995</u>
Total assets	<u>\$ 359,417</u>	<u>\$ 534,611</u>	<u>\$ 894,028</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	<u>\$ 450</u>	<u>\$ -</u>	<u>\$ 450</u>
<b>Fund Balances:</b>			
Non-spendable:			
Perpetual	343,934	534,611	878,545
Restricted for Stabilization by State Statute	<u>15,033</u>	<u>-</u>	<u>15,033</u>
Total fund balances	<u>358,967</u>	<u>534,611</u>	<u>893,578</u>
Total liabilities and fund balances	<u>\$ 359,417</u>	<u>\$ 534,611</u>	<u>\$ 894,028</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, 2017**

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
<b>Revenues:</b>			
Investment earnings	\$ 5,680	\$ -	\$ 5,680
Donations	<u>5,610</u>	<u>55,280</u>	<u>60,890</u>
Total revenues	<u>11,290</u>	<u>55,280</u>	<u>66,570</u>
<b>Expenditures:</b>			
General government	<u>2,285</u>	<u>-</u>	<u>2,285</u>
Net change in fund balances	9,005	55,280	64,285
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>349,962</u>	<u>479,331</u>	<u>829,293</u>
End of year - June 30	<u>\$ 358,967</u>	<u>\$ 534,611</u>	<u>\$ 893,578</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for sales and services:			
Water charges	\$ 4,700,000	\$ 4,989,951	\$ 289,951
Water taps	50,000	65,132	15,132
Water cutoffs	3,500	4,268	768
Other	112,800	113,401	601
Total operating revenues	<u>4,866,300</u>	<u>5,172,752</u>	<u>306,452</u>
Non-operating revenues:			
Grant - refund of interest expense	-	72,394	72,394
Investment earnings	4,000	(226)	(4,226)
Total non-operating revenues	<u>4,000</u>	<u>72,168</u>	<u>68,168</u>
Total revenues	<u>4,870,300</u>	<u>5,244,920</u>	<u>374,620</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	736,038	727,082	8,956
Operations	742,923	689,997	52,926
Maintenance and repairs	210,750	199,190	11,560
Treatment plant	1,424,522	1,393,851	30,671
Capital outlay	1,090,624	805,105	285,519
Total costs of sales and services	<u>4,204,857</u>	<u>3,815,225</u>	<u>389,632</u>
Debt service:			
Principal retirement	1,060,000	1,053,406	6,594
Interest	422,000	414,378	7,622
Total debt service	<u>1,482,000</u>	<u>1,467,784</u>	<u>14,216</u>
Total operating expenditures	<u>5,686,857</u>	<u>5,283,009</u>	<u>403,848</u>
Revenue over (under) expenditures	<u>(816,557)</u>	<u>(38,089)</u>	<u>778,468</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Other Financing Sources (Uses):</b>			
Transfers (to) other funds	(500,366)	(500,366)	-
Long-term debt issued	82,500	81,360	(1,140)
Appropriated fund balance	<u>1,234,423</u>	<u>-</u>	<u>(1,234,423)</u>
Total other financing sources (uses)	<u>816,557</u>	<u>(419,006)</u>	<u>(1,235,563)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(457,095)</u>	<u>\$ (457,095)</u>

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

Reconciling items:

Debt principal	1,053,406
Long-term debt issued	(81,360)
Capital outlay	805,065
Decrease (increase) in compensated absences	7,517
Decrease (increase) in other post-employment benefits	(25,557)
Increase (decrease) in net pension liability	(187,789)
Change in deferred outflows of resources - pension	159,026
Change in deferred inflows of resources - pension	17,970
Payment on notes receivable	(21,416)
Depreciation	(863,622)
Amortization	(17,324)
Water Capital Projects Fund activity	(1,131)
Water Capital Projects Fund intrafund transfer	<u>431,176</u>
Total reconciling items	<u>1,275,961</u>
Change in net position	<u>\$ 818,866</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, 2017

	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
Project #834 - Farmville Road Water Project	10,000,000	-	-	-
Project #822 - Eastside Water Tank	-	-	5,867	5,867
Investment earnings	-	78,067	(6,998)	71,069
Total revenues	<u>10,566,220</u>	<u>542,988</u>	<u>(1,131)</u>	<u>541,857</u>
<b>Expenditures:</b>				
Project #822 - Eastside Water Tank	2,607,000	1,461,831	823,895	2,285,726
Project #829 - Plato Lee Water Line Relocation	358,731	5,700	253,039	258,739
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	3,257,000	171,590	1,472,597	1,644,187
Project #834 - Farmville Road Water Project	10,050,000	46,400	98,706	145,106
Project #835 - Uptown Water Improvements	220,000	-	165,200	165,200
Project #836 - Water Treatment Plant Upgrade	35,000	-	-	-
Project #837 - Metcalf & Fallston Relocate	176,176	-	-	-
Total expenditures	<u>17,405,127</u>	<u>2,252,289</u>	<u>2,813,437</u>	<u>5,065,726</u>
Revenues over (under) expenditures	<u>(6,838,907)</u>	<u>(1,709,301)</u>	<u>(2,814,568)</u>	<u>(4,523,869)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	1,346,907	662,700	431,176	1,093,876
Long-term debt issued	<u>5,492,000</u>	<u>2,460,000</u>	<u>3,020,000</u>	<u>5,480,000</u>
Total other financing sources (uses)	<u>6,838,907</u>	<u>3,122,700</u>	<u>3,451,176</u>	<u>6,573,876</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,413,399</u>	<u>\$ 636,608</u>	<u>\$ 2,050,007</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 5,368,000	\$ 5,512,716	\$ 144,716
Other fees	35,000	32,660	(2,340)
Other operating revenues	<u>62,000</u>	<u>58,224</u>	<u>(3,776)</u>
Total operating revenue	<u>5,465,000</u>	<u>5,603,600</u>	<u>138,600</u>
Non-operating revenues:			
Grant - refund of interest expense	30,000	29,592	(408)
Investment earnings	<u>4,000</u>	<u>(94)</u>	<u>(4,094)</u>
Total non-operating revenues	<u>34,000</u>	<u>29,498</u>	<u>(4,502)</u>
Total revenues	<u>5,499,000</u>	<u>5,633,098</u>	<u>134,098</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	785,485	766,244	19,241
Line operation	632,520	520,860	111,660
Maintenance and repairs	457,464	331,119	126,345
Treatment plant	1,541,339	1,451,974	89,365
Capital outlay	<u>1,357,380</u>	<u>1,181,209</u>	<u>176,171</u>
Total costs of sales and services	<u>4,774,188</u>	<u>4,251,406</u>	<u>522,782</u>
Debt service:			
Principal retirement	1,336,000	1,181,202	154,798
Interest	<u>190,000</u>	<u>189,714</u>	<u>286</u>
Total debt service	<u>1,526,000</u>	<u>1,370,916</u>	<u>155,084</u>
Total operating expenditures	<u>6,300,188</u>	<u>5,622,322</u>	<u>677,866</u>
Revenues over (under) expenditures	<u>(801,188)</u>	<u>10,776</u>	<u>811,964</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Other Financing Sources (Uses):</b>			
Transfers (to) other funds	(564,996)	(564,996)	-
Long-term debt issued	127,000	127,238	238
Appropriated fund balance	1,239,184	-	(1,239,184)
Total other financing sources (uses)	<u>801,188</u>	<u>(437,758)</u>	<u>(1,238,946)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(426,982)</u>	<u>\$ (426,982)</u>

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

Long-term debt issued	(127,238)
Debt principal	1,181,202
Capital outlay	1,143,668
(Increase) decrease in compensated absences	(4,971)
(Increase) decrease in other post-employment benefits	(29,098)
Increase (decrease) in net pension liability	(202,518)
Change in deferred outflows of resources - pension	171,499
Change in deferred inflows of resources - pension	19,379
Depreciation	(1,099,226)
Amortization	(5,486)
Net Sewer Capital Projects Fund activity	<u>495,805</u>
Total reconciling items	<u>1,543,016</u>
Change in net position	<u>\$ 1,116,034</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, 2017

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Project #868 - Brushy Creek sewer outfall	\$ 250,000	\$ 250,000	\$ -	\$ 250,000
Project #871 - Westside sewer improvements	9,000,000	-	-	-
Project #872 - First Broad WWTP influent project	5,000,000	-	-	-
Project #874 - Sewer Asset Inventory & Assessment	150,000	-	-	-
Investment earnings	-	71,068	(1)	71,067
Total revenues	<u>14,400,000</u>	<u>321,068</u>	<u>(1)</u>	<u>321,067</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	9,729,955	-	9,729,955
Project #866 - Wastewater outfall line improvements	3,448,640	3,200,020	-	3,200,020
Project #868 - Brushy Creek sewer outfall	500,000	321,692	86,695	408,387
Project #869 - Compost facility improvements	10,710,000	77,665	468,510	546,175
Project #870 - Huesker Sewer Extension	37,800	20,818	6,363	27,181
Project #871 - Westside sewer improvements	9,000,000	-	344,327	344,327
Project #872 - First Broad WWTP influent project	5,000,000	-	219,998	219,998
Project #873 - Fallston Road sewer relocation	358,556	-	-	-
Project #874 - Sewer Asset Inventory & Assessment	152,250	-	2,250	2,250
Total expenditures	<u>39,613,246</u>	<u>13,526,160</u>	<u>1,128,143</u>	<u>14,654,303</u>
Revenues over (under) expenditures	<u>(25,213,246)</u>	<u>(13,205,092)</u>	<u>(1,128,144)</u>	<u>(14,333,236)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	250,000	516,640	-	516,640
Intrafund transfers to (from) other funds	925,246	162,800	495,806	658,606
Long-term debt issued	23,832,000	12,527,098	-	12,527,098
Appropriated fund balance	206,000	-	-	-
Total other financing sources (uses)	<u>25,213,246</u>	<u>13,206,538</u>	<u>495,806</u>	<u>13,702,344</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,446</u>	<u>\$ (632,338)</u>	<u>\$ (630,892)</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 22,100,000	\$ 22,418,300	\$ 318,300
Other operating revenues	<u>231,000</u>	<u>222,706</u>	<u>(8,294)</u>
Total operating revenue	<u>22,331,000</u>	<u>22,641,006</u>	<u>310,006</u>
<b>Non-Operating Revenues:</b>			
Investment earnings	<u>8,000</u>	<u>(120)</u>	<u>(8,120)</u>
Total revenues	<u>22,339,000</u>	<u>22,640,886</u>	<u>301,886</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	1,234,836	1,164,412	70,424
Line operation	19,295,219	19,177,481	117,738
Capital outlay	<u>674,117</u>	<u>633,687</u>	<u>40,430</u>
Total costs of sales and services	<u>21,204,172</u>	<u>20,975,580</u>	<u>228,592</u>
Debt service:			
Principal repayment	577,500	564,866	12,634
Interest and fees	<u>91,500</u>	<u>88,118</u>	<u>3,382</u>
Total debt service	<u>669,000</u>	<u>652,984</u>	<u>16,016</u>
Total expenditures	<u>21,873,172</u>	<u>21,628,564</u>	<u>244,608</u>
Revenues over (under) expenditures	<u>465,828</u>	<u>1,012,322</u>	<u>546,494</u>
<b>Other Financing Sources (Uses):</b>			
Transfers to other funds	(1,438,990)	(1,019,685)	419,305
Intrafund transfers	(1,917,000)	(1,917,000)	-
Long-term debt issued	79,500	71,190	(8,310)
Appropriated fund balance	<u>2,810,662</u>	<u>-</u>	<u>(2,810,662)</u>
Total other financing sources (uses)	<u>(465,828)</u>	<u>(2,865,495)</u>	<u>(2,399,667)</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	(1,853,173)	\$ (1,853,173)

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

Debt principal	564,866
Long-term debt issued	(71,190)
Capital outlay	522,452
(Increase) decrease in compensated absences	(694)
(Increase) decrease in other post-employment benefits	(26,193)
Increase (decrease) in net pension liability	(147,286)
Change in deferred outflows of resources - pension	124,726
Change in deferred inflows of resources - pension	14,094
Depreciation	(681,038)
Amortization	(14,100)
Electric Capital Projects Fund activity	(819)
Electric Capital Projects Fund intrafund transfer	<u>1,917,000</u>
Total reconciling items	<u>2,201,818</u>
Change in net position	<u>\$ 348,645</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, 2017

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Project #860 - NC DOT Grant	\$ 39,100	\$ -	\$ -	\$ -
Investment earnings	-	129,638	(819)	128,819
Total revenues	<u>39,100</u>	<u>129,638</u>	<u>(819)</u>	<u>128,819</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	-	155,740	155,740
Project #868 - Hanna Park Electric Line Extension	192,000	-	90,083	90,083
Project #869 - Uptown electric utility upgrade project	1,725,000	-	144,024	144,024
Total expenditures	<u>2,230,100</u>	<u>3,285</u>	<u>389,847</u>	<u>393,132</u>
Revenues over (under) expenditures	(2,191,000)	126,353	(390,666)	(264,313)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>2,191,000</u>	<u>274,000</u>	<u>1,917,000</u>	<u>2,191,000</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 400,353</u>	<u>\$ 1,526,334</u>	<u>\$ 1,926,687</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 15,522,800	\$ 14,847,386	\$ (675,414)
Other fees	40,000	33,543	(6,457)
Other operating revenues	<u>78,600</u>	<u>74,158</u>	<u>(4,442)</u>
Total operating revenue	<u>15,641,400</u>	<u>14,955,087</u>	<u>(686,313)</u>
Non-operating revenues:			
Grant - refund of interest expense	7,600	8,398	798
Investment earnings	<u>8,000</u>	<u>1,254</u>	<u>(6,746)</u>
Total non-operating revenues	<u>15,600</u>	<u>9,652</u>	<u>(5,948)</u>
Total revenues	<u>15,657,000</u>	<u>14,964,739</u>	<u>(692,261)</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	1,378,789	1,296,027	82,762
Line operation	10,335,814	9,517,884	817,930
Capital outlay	<u>1,281,535</u>	<u>729,878</u>	<u>551,657</u>
Total costs of sales and services	<u>12,996,138</u>	<u>11,543,789</u>	<u>1,452,349</u>
Debt service:			
Principal repayment	756,000	739,706	16,294
Interest and fees	<u>83,000</u>	<u>86,880</u>	<u>(3,880)</u>
Total debt service	<u>839,000</u>	<u>826,586</u>	<u>12,414</u>
Total expenditures	<u>13,835,138</u>	<u>12,370,375</u>	<u>1,464,763</u>
Revenues over (under) expenditures	<u>1,821,862</u>	<u>2,594,364</u>	<u>772,502</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Other Financing Sources (Uses):</b>			
Transfers to other funds	(2,816,685)	(2,816,685)	-
Intrafund transfers	(1,216,364)	(966,364)	250,000
Long-term debt issued	42,000	41,471	(529)
Appropriated fund balance	<u>2,169,187</u>	<u>-</u>	<u>(2,169,187)</u>
Total other financing sources (uses)	<u>(1,821,862)</u>	<u>(3,741,578)</u>	<u>(1,919,716)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(1,147,214)</u>	<u>\$ (1,147,214)</u>

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

Debt principal	739,706
Long-term debt issued	(41,471)
Capital outlay	729,878
(Increase) decrease in compensated absences	610
(Increase) decrease in other post-employment benefits	(23,975)
Increase (decrease) in net pension liability	(202,518)
Change in deferred outflows of resources - pension	171,499
Change in deferred inflows of resources - pension	19,379
Depreciation	(602,117)
Amortization	(4,651)
Gas Capital Project Fund interest	(342)
Gas Capital Project Fund intrafund transfer	<u>966,364</u>
Total reconciling items	<u>1,752,362</u>
Change in net position	<u>\$ 605,148</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, 2017

	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
Project #883 - Farmville Road Gasoline Loop	5,750,000	-	-	-
Investment earnings	-	54,617	(342)	54,275
Total revenues	<u>6,242,500</u>	<u>316,355</u>	<u>(342)</u>	<u>316,013</u>
<b>Expenditures:</b>				
Project #878 - Plato Lee gas line relocation	138,045	11,176	96,771	107,947
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	10,496	235,835
Project #881 - R2707AA US 74 gas line relocation	337,510	204,474	-	204,474
Project #882 - Highway 74 bypass section "C" gas line relocation	777,864	-	65,621	65,621
Project #883 - Farmville Road Gasoline Loop	<u>5,938,500</u>	<u>-</u>	<u>40,230</u>	<u>40,230</u>
Total expenditures	<u>7,925,419</u>	<u>707,971</u>	<u>213,118</u>	<u>921,089</u>
Revenues over (under) expenditures	(1,682,919)	(391,616)	(213,460)	(605,076)
<b>Other Financing Sources (Uses):</b>				
Intrafund transfers	<u>1,682,919</u>	<u>716,555</u>	<u>966,364</u>	<u>1,682,919</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 324,939</u>	<u>\$ 752,904</u>	<u>\$ 1,077,843</u>

## CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF NET POSITION  
NONMAJOR ENTERPRISE FUNDS  
JUNE 30, 2017

	<u>Stormwater Fund</u>	<u>Housing Assistance Fund</u>	<u>Total Nonmajor Funds</u>
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 480,288	\$ 2,057,666	\$ 2,537,954
Accounts receivable, net	105,574	1,475	107,049
Due from other governments	2,577	-	2,577
Inventories	7,713	-	7,713
Prepaid items	2,824	5,090	7,914
Total current assets	<u>598,976</u>	<u>2,064,231</u>	<u>2,663,207</u>
Non-current assets:			
Restricted cash and cash equivalents	-	39,750	39,750
Capital assets, non-depreciable	-	283,024	283,024
Capital assets, net	337,380	4,550,058	4,887,438
Total non-current assets	<u>337,380</u>	<u>4,872,832</u>	<u>5,210,212</u>
Total assets	<u>936,356</u>	<u>6,937,063</u>	<u>7,873,419</u>
<b>Deferred Outflows of Resources:</b>			
Contributions to pension plan in current fiscal year	-	21,093	21,093
Pension deferrals	-	62,360	62,360
Total deferred outflows of resources	<u>-</u>	<u>83,453</u>	<u>83,453</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable and accrued liabilities	231,231	13,697	244,928
Unearned revenue	-	2,817	2,817
Compensated absences payable	900	3,600	4,500
Current portion of long-term debt	47,730	-	47,730
Liabilities payable from restricted assets:			
Customer deposits	-	39,750	39,750
Total current liabilities	<u>279,861</u>	<u>59,864</u>	<u>339,725</u>
Non-current liabilities:			
Compensated absences payable	2,896	11,030	13,926
Other long-term debt	165,529	-	165,529
Net pension liability	-	97,415	97,415
Other post-employment benefits	-	96,183	96,183
Total non-current liabilities	<u>168,425</u>	<u>204,628</u>	<u>373,053</u>
Total liabilities	<u>448,286</u>	<u>264,492</u>	<u>712,778</u>
<b>Deferred Inflows of Resources:</b>			
Pension deferrals	-	5,364	5,364
<b>Net Position:</b>			
Net investment in capital assets	124,121	4,833,082	4,957,203
Unrestricted	363,949	1,917,578	2,281,527
Total net position	<u>\$ 488,070</u>	<u>\$ 6,750,660</u>	<u>\$ 7,238,730</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, 2017

	<b>Stormwater Fund</b>	<b>Housing Assistance Fund</b>	<b>Nonmajor Funds</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Operating Revenues:</b>			
Charges for services	\$ 807,416	\$ 628,891	\$ 1,436,307
Other fees	6,284	-	6,284
Other operating revenues	-	4,121	4,121
Total operating revenues	<u>813,700</u>	<u>633,012</u>	<u>1,446,712</u>
<b>Operating Expenses:</b>			
Administration	767,097	384,087	1,151,184
Operations and maintenance	-	844,230	844,230
Depreciation and amortization	66,274	242,131	308,405
Total operating expenses	<u>833,371</u>	<u>1,470,448</u>	<u>2,303,819</u>
Operating income (loss)	<u>(19,671)</u>	<u>(837,436)</u>	<u>(857,107)</u>
<b>Non-Operating Revenues (Expenses):</b>			
Operating grants	-	450,377	450,377
Investment earnings	45	(3,351)	(3,306)
Interest expense and fiscal charges	(3,866)	-	(3,866)
Total non-operating revenues (expenses)	<u>(3,821)</u>	<u>447,026</u>	<u>443,205</u>
Income (loss) before capital contributions	(23,492)	(390,410)	(413,902)
Capital contributions	<u>-</u>	<u>76,629</u>	<u>76,629</u>
Change in net position	(23,492)	(313,781)	(337,273)
<b>Net Position:</b>			
Beginning year - July 1	<u>511,562</u>	<u>7,064,441</u>	<u>7,576,003</u>
End of year - June 30	<u>\$ 488,070</u>	<u>\$ 6,750,660</u>	<u>\$ 7,238,730</u>

CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	<b>Stormwater Fund</b>	<b>Housing Assistance Fund</b>	<b>Nonmajor Funds</b>
<b>Cash Flows from Operating Activities:</b>			
Cash received from customers	\$ 773,961	\$ 636,328	\$ 1,410,289
Cash paid for goods and services	(545,975)	(855,921)	(1,401,896)
Cash paid to employees	-	(374,681)	(374,681)
Net cash provided (used) by operating activities	<u>227,986</u>	<u>(594,274)</u>	<u>(366,288)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Proceeds from operating grants	-	450,377	450,377
Increase (decrease) in due from other funds	(823)	1,346	523
Net cash provided (used) by non-capital financing activities	<u>(823)</u>	<u>451,723</u>	<u>450,900</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Acquisition and construction of capital assets	(114,803)	(50,753)	(165,556)
Capital contributions - grants	-	76,629	76,629
Proceeds from issuance of long-term debt	137,295	-	137,295
Principal paid on long-term debt	(18,741)	-	(18,741)
Interest paid on long-term debt	(3,866)	-	(3,866)
Net cash provided (used) for capital and related financing activities	<u>(115)</u>	<u>25,876</u>	<u>25,761</u>
<b>Cash Flows from Investing Activities:</b>			
Interest received from investments	<u>45</u>	<u>(3,351)</u>	<u>(3,306)</u>
Net increase (decrease) in cash and cash equivalents	227,093	(120,026)	107,067
<b>Cash and Cash Equivalents:</b>			
Beginning of year - July 1	<u>253,195</u>	<u>2,217,442</u>	<u>2,470,637</u>
End of year - June 30	<u>\$ 480,288</u>	<u>\$ 2,097,416</u>	<u>\$ 2,577,704</u>

CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	<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)	\$ (19,671)	\$ (837,436)	\$ (857,107)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	66,274	242,131	308,405
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(39,739)	597	(39,142)
(Increase) decrease in inventories	496	-	496
(Increase) decrease in prepaids	(554)	(3,413)	(3,967)
Increase (decrease) in accounts payable and accrued liabilities	220,786	(8,278)	212,508
Increase (decrease) in unearned revenues	-	2,817	2,817
Increase (decrease) in customer deposits	-	(98)	(98)
Increase (decrease) in compensated absences	394	(5,776)	(5,382)
(Increase) decrease in deferred outflows of resources for pensions	-	(65,481)	(65,481)
Increase (decrease) in net pension liability	-	77,325	77,325
Increase (decrease) in deferred inflows of resources for pensions	-	(7,399)	(7,399)
Increase (decrease) in other post-employment benefits	-	10,737	10,737
	<u>227,986</u>	<u>(594,274)</u>	<u>(366,288)</u>
Net cash provided (used) by operating activities	<u>\$ 227,986</u>	<u>\$ (594,274)</u>	<u>\$ (366,288)</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, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 760,000	\$ 807,416	\$ 47,416
Other fees	1,000	6,284	5,284
Total operating revenue	<u>761,000</u>	<u>813,700</u>	<u>52,700</u>
Non-operating revenues:			
Investment earnings	-	45	45
Total revenues	<u>761,000</u>	<u>813,745</u>	<u>52,745</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	972,190	766,703	205,487
Capital outlay	142,000	114,803	27,197
Total costs of sales and services	<u>1,114,190</u>	<u>881,506</u>	<u>232,684</u>
Debt service:			
Principal repayment	20,600	18,741	1,859
Interest and fees	1,500	3,866	(2,366)
Total debt service	<u>22,100</u>	<u>22,607</u>	<u>(507)</u>
Total expenditures	<u>1,136,290</u>	<u>904,113</u>	<u>232,177</u>
Revenues over (under) expenditures	<u>(375,290)</u>	<u>(90,368)</u>	<u>284,922</u>
<b>Other Financing Sources (Uses):</b>			
Long-term debt issued	142,000	137,295	(4,705)
Appropriated fund balance	233,290	-	(233,290)
Total other financing sources (uses)	<u>375,290</u>	<u>137,295</u>	<u>(237,995)</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>46,927</u>	<u>\$ 46,927</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Debt principal		18,741	
Long-term debt issued		(137,295)	
Capital outlay		114,803	
(Increase) decrease in compensated absences		(394)	
Depreciation and amortization		<u>(66,274)</u>	
Total reconciling items		<u>(70,419)</u>	
Change in net position		<u>\$ (23,492)</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, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 591,100	\$ 628,891	\$ 37,791
Other operating revenues	<u>-</u>	<u>4,121</u>	<u>4,121</u>
Total operating revenue	<u>591,100</u>	<u>633,012</u>	<u>41,912</u>
Non-operating revenues:			
Operating and capital grants	767,556	527,006	(240,550)
Investment earnings	<u>1,000</u>	<u>(3,351)</u>	<u>(4,351)</u>
Total non-operating revenues	<u>768,556</u>	<u>523,655</u>	<u>(244,901)</u>
Total revenues	<u>1,359,656</u>	<u>1,156,667</u>	<u>(202,989)</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	390,500	389,863	637
Operating and maintenance	951,426	732,324	219,102
Capital outlay	<u>150,330</u>	<u>147,477</u>	<u>2,853</u>
Total expenditures	<u>1,492,256</u>	<u>1,269,664</u>	<u>222,592</u>
Revenues over (under) expenditures	(132,600)	(112,997)	19,603
<b>Other Financing Sources (Uses):</b>			
Appropriated fund balance	<u>132,600</u>	<u>-</u>	<u>(132,600)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(112,997)</u>	<u>\$ (112,997)</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Capital outlay		50,753	
Decrease (increase) in compensated absences		5,776	
Decrease (increase) in other post-employment benefits		(10,737)	
Increase in net pension liability		(77,325)	
Change in deferred outflows of resources - pension		65,481	
Change in deferred inflows of resources - pension		7,399	
Depreciation		<u>(242,131)</u>	
Total reconciling items		<u>(200,784)</u>	
Change in net position		<u>\$ (313,781)</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, 2017

	<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	124,944	-	124,944
Total expenditures	<u>239,750</u>	<u>168,706</u>	<u>-</u>	<u>168,706</u>
Revenues over (under) expenditures	(239,750)	(168,706)	-	(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>\$ 71,044</u>	<u>\$ -</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, 2017

<b>Fiscal Year</b>	<b>Uncollected Balance July 1, 2016</b>	<b>Additions</b>	<b>Collections and Credits</b>	<b>Uncollected Balance June 30, 2017</b>
2016-2017	\$ -	\$ 9,009,239	\$ 8,857,059	\$ 152,180
2015-2016	152,066	-	101,122	50,944
2014-2015	57,404	-	22,333	35,071
2013-2014	47,156	-	10,078	37,078
2012-2013	37,286	-	6,804	30,482
2011-2012	23,250	-	5,466	17,784
2010-2011	18,464	-	1,596	16,868
2009-2010	19,736	-	956	18,780
2008-2009	15,194	-	657	14,537
2007-2008	13,522	-	688	12,834
2006-2007	14,068	-	14,068	-
<b>Total</b>	<b>\$ 398,146</b>	<b>\$ 9,009,239</b>	<b>\$ 9,020,827</b>	<b>386,558</b>
Less: allowance for uncollectible ad valorem taxes receivable				<u>(176,000)</u>
Ad valorem taxes receivable, net				<u>\$ 210,558</u>
<b>Reconciliation with Revenues:</b>				
Ad valorem taxes - General Fund				\$ 8,902,782
Ad valorem taxes - Special Revenue Fund				112,369
Interest and penalties collected				(37,382)
Discounts allowed				22,414
Miscellaneous adjustments				6,576
Arrears written off for tax year 2006-2007 per Statute of Limitations				<u>14,068</u>
Total collections and credits				<u>\$ 9,020,827</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, 2017

	<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	\$ 1,709,772,526	\$ 0.4972	\$ 8,500,989	\$ 7,849,957	\$ 651,032
Municipal service district taxed at current year's rate	<u>44,382,495</u>	0.7472	<u>331,626</u>	<u>320,120</u>	<u>11,506</u>
Total original levy	<u>1,754,155,021</u>		<u>8,832,615</u>	<u>8,170,077</u>	<u>662,538</u>
<b>Discoveries:</b>					
Property taxed at current year's rate	93,767,498	0.4972	466,212	466,212	-
Municipal service district taxed at current year's rate	<u>73,073</u>	0.7472	<u>546</u>	<u>546</u>	<u>-</u>
Total discoveries	<u>93,840,571</u>		<u>466,758</u>	<u>466,758</u>	<u>-</u>
<b>Releases:</b>					
Property taxed at current year's rate	58,236,323	0.4972	289,551	289,551	-
Municipal service district taxed at current year's rate	<u>78,025</u>	0.7472	<u>583</u>	<u>583</u>	<u>-</u>
Total abatements	<u>58,314,348</u>		<u>290,134</u>	<u>290,134</u>	<u>-</u>
Total property valuation	<u>\$ 1,789,681,243</u>				
<b>Net Levy</b>			9,009,239	8,346,701	662,538
Uncollected taxes at June 30, 2017			<u>152,180</u>	<u>152,180</u>	<u>-</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 8,857,059</u>	<u>\$ 8,194,521</u>	<u>\$ 662,538</u>
<b>Current Levy Collection Percentage</b>			<u>98.31%</u>	<u>98.18%</u>	<u>100.00%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>98.16%</u>	<u>98.02%</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, 2017

	City-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 1,709,772,526	\$ 0.4972	\$ 8,500,989	\$ 7,849,957	\$ 651,032
<b>Discoveries:</b>					
Property taxed at current year's rate	93,767,498	0.4972	466,212	466,212	-
<b>Releases:</b>					
Property taxed at current year's rate	<u>58,236,323</u>	0.4972	<u>289,551</u>	<u>289,551</u>	<u>-</u>
Total property valuation	<u>\$ 1,745,303,701</u>				
<b>Net Levy</b>			8,677,650	8,026,618	651,032
Uncollected taxes at June 30, 2017			<u>149,554</u>	<u>149,554</u>	<u>-</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 8,528,096</u>	<u>\$ 7,877,064</u>	<u>\$ 651,032</u>
<b>Current Levy Collection Percentage</b>			<u>98.28%</u>	<u>98.14%</u>	<u>100.00%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>98.15%</u>	<u>98.01%</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, 2017

	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	\$ 44,382,495	\$ 0.7472	\$ 331,626	\$ 320,120	\$ 11,506
<b>Discoveries:</b>					
Property taxed at current year's rate	73,073	0.7472	546	546	-
<b>Releases:</b>					
Property taxed at current year's rate	<u>78,025</u>	0.7472	<u>583</u>	<u>583</u>	<u>-</u>
Total property valuation	<u>\$ 44,377,543</u>				
<b>Net Levy</b>			331,589	320,083	11,506
Uncollected taxes at June 30, 2017			<u>2,626</u>	<u>2,626</u>	<u>-</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 328,963</u>	<u>\$ 317,457</u>	<u>\$ 11,506</u>
<b>Current Levy Collection Percentage</b>			<u>99.21%</u>	<u>99.18%</u>	<u>100.00%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>98.42%</u>	<u>98.36%</u>	<u>100.00%</u>



## CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - BALANCE SHEET  
FOR THE YEAR ENDED JUNE 30, 2017

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
	<b>Assets:</b>			
	Current assets:			
	Cash:			
111	Cash - unrestricted	\$ 64,421	\$ -	\$ 64,421
114	Cash - tenant security deposits	39,750	-	39,750
100	Total cash	<u>104,171</u>	<u>-</u>	<u>104,171</u>
	Accounts and notes receivables:			
129	Accrued interest receivable	1,475	-	1,475
120	Total receivables, net allowances for uncollectibles	<u>1,475</u>	<u>-</u>	<u>1,475</u>
131	Investments - unrestricted	1,993,248	-	1,993,248
142	Prepaid expenses and other assets	5,090	-	5,090
150	Total current assets	<u>2,103,984</u>	<u>-</u>	<u>2,103,984</u>
	Fixed assets:			
161	Land	283,023	-	283,023
162	Buildings	10,000,303	76,629	10,076,932
163	Furniture, equipment, and machinery - dwellings	333,742	-	333,742
166	Accumulated depreciation	(6,112,540)	-	(6,112,540)
180	Total non-current assets	<u>4,504,528</u>	<u>76,629</u>	<u>4,581,157</u>
190	Total assets	<u>6,608,512</u>	<u>76,629</u>	<u>6,685,141</u>
	<b>Deferred Outflows of Resources:</b>			
	Contributions to pension plan in current fiscal year	21,093	-	21,093
	Pension deferrals	62,360	-	62,360
200	Total deferred outflows of resources	<u>83,453</u>	<u>-</u>	<u>83,453</u>
290	Total assets and deferred outflows of resources	<u>\$ 6,691,965</u>	<u>\$ 76,629</u>	<u>\$ 6,768,594</u>
	<b>Liabilities, Deferred Inflows of Resources, and Net Position:</b>			
	Liabilities:			
	Current liabilities:			
312	Accounts payable < 90 days	\$ 2,094	\$ -	\$ 2,094
321	Accrued wages/payroll taxes payable	11,603	-	11,603
322	Accrued compensated absences	3,600	-	3,600
341	Tenant security deposits	39,750	-	39,750
342	Deferred revenues	2,817	-	2,817
310	Total current liabilities	<u>59,864</u>	<u>-</u>	<u>59,864</u>
	Non-current liabilities:			
354	Accrued compensated absences - non-current	11,030	-	11,030
	Other post-employment benefit & pension liabilities	193,598	-	193,598
350	Total non-current liabilities	<u>204,628</u>	<u>-</u>	<u>204,628</u>
300	Total liabilities	<u>264,492</u>	<u>-</u>	<u>264,492</u>
	<b>Deferred Inflows of Resources:</b>			
400	Pension deferrals	5,364	-	5,364
	<b>Net Position:</b>			
508.1	Net investment in capital assets	4,504,528	76,629	4,581,157
512.1	Unrestricted net position	1,917,581	-	1,917,581
513	Total net position	<u>6,422,109</u>	<u>76,629</u>	<u>6,498,738</u>
600	Total liabilities, deferred inflows of resources, and net position	<u>\$ 6,691,965</u>	<u>\$ 76,629</u>	<u>\$ 6,768,594</u>

## CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - REVENUES AND EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2017

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
<b>Revenue:</b>				
703	Net tenant rental revenue	\$ 628,891	\$ -	\$ 628,891
705	Total tenant revenue	<u>628,891</u>	<u>-</u>	<u>628,891</u>
706	HUD PHA operating grants	450,377	-	450,377
706.1	HUD PHA capital grants	-	76,629	76,629
711	Investment income - unrestricted	(3,351)	-	(3,351)
715	Other revenues	<u>4,121</u>	<u>-</u>	<u>4,121</u>
700	Total revenues	<u>1,080,038</u>	<u>76,629</u>	<u>1,156,667</u>
<b>Expenses:</b>				
Administrative:				
911	Administrative salaries	315,925	-	315,925
912	Audit services	8,175	-	8,175
915	Employee benefit contributions - administrative	120,607	-	120,607
Tenant services:				
924	Tenant services - other	3,648	-	3,648
Utilities:				
931	Water	125,754	-	125,754
932	Electricity	148,943	-	148,943
933	Gas	105,490	-	105,490
942	Ordinary maintenance and operation - materials and other	86,079	-	86,079
943	Ordinary maintenance and operation - contract costs	53,242	-	53,242
General expenses:				
961	Insurance premiums	61,228	-	61,228
962	Other general expenses	47,736	-	47,736
962.1	Compensated absences	14,630	-	14,630
963	Payments in lieu of taxes	11,659	-	11,659
964	Bad debt - tenant rents	<u>11,444</u>	<u>-</u>	<u>11,444</u>
969	Total operating expenses	<u>1,114,560</u>	<u>-</u>	<u>1,114,560</u>
970	Excess operating revenue over operating expenses	<u>(34,522)</u>	<u>76,629</u>	<u>42,107</u>
971	Extraordinary maintenance	1,855	-	1,855
974	Depreciation expense	242,131	-	242,131
976	Capital outlay	<u>111,714</u>	<u>-</u>	<u>111,714</u>
900	Total expenses	<u>1,470,260</u>	<u>-</u>	<u>1,470,260</u>
1000	Excess (deficiency) of revenue over expenses	<u>\$ (390,222)</u>	<u>\$ 76,629</u>	<u>\$ (313,593)</u>
MEMO Account Information:				
1103	Beginning equity	\$ 6,552,293	\$ 260,038	\$ 6,812,331
1104	Prior period adjustments, equity transfers and corrections of errors	260,038	(260,038)	-
1120	Unit months available	2,064	-	2,064
1121	Number of unit months leased	2,058	-	2,058

**CITY OF SHELBY, NORTH CAROLINA**  
**STATEMENT OF PROGRAM COSTS - COMPLETED**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Program Name	CFDA #	Funds Approved			Funds Advanced			Funds Expended			Excess (Deficiency)	
		Funds Approved	Ending Balance	Prior Audit	Current Year	Ending Balance	Prior Audit	Current Year	Funds Approved	Funds Advanced		
Capital Fund Program (CFP) NC19PO34501-16	14.872	\$ 258,926	\$ 10,000	\$ -	\$ 10,000	\$ 1,682	\$ -	\$ 1,682	\$ 248,926	\$ 8,318		
Capital Fund Program (CFP): NC19PO34501-15	14.872	\$ 239,330	\$ 239,330	\$ 172,701	\$ 66,629	\$ 239,330	\$ 172,701	\$ 66,629	\$ -	\$ -		
Capital Fund Program (CFP): NC19PO34501-14	14.872	\$ 215,708	\$ 215,708	\$ 215,708	\$ -	\$ 215,708	\$ 211,067	\$ 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 124-129)

*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 130-134)

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

### Debt Capacity (Page 135-140)

*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 141-143)

*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 144-145)

*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.



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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Governmental Activities</b>										
Net investment in capital assets	\$ 25,834	\$ 26,977	\$ 29,009	\$ 32,852	\$ 30,598	\$ 31,063	\$ 33,394	\$ 34,486	\$ 37,344	\$ 36,664
Restricted	1,183	1,465	1,571	5,639	4,687	5,882	5,077	5,448	5,566	4,325
Unrestricted	5,490	6,281	4,906	(1,565)	1,360	2,207	1,015	916	82	(231)
Total governmental activities net position	\$ 32,507	\$ 34,723	\$ 35,486	\$ 36,926	\$ 36,645	\$ 39,152	\$ 39,486	\$ 40,850	\$ 42,992	\$ 40,758
<b>Business-Type Activities</b>										
Net investment in capital assets	\$ 46,892	\$ 56,416	\$ 53,425	\$ 60,461	\$ 63,276	\$ 65,346	\$ 68,475	\$ 72,259	\$ 75,472	\$ 80,074
Unrestricted	23,064	18,436	24,731	22,245	22,427	23,260	25,549	21,387	20,638	19,004
Total business-type activities net position	\$ 69,956	\$ 74,852	\$ 78,156	\$ 82,706	\$ 85,703	\$ 88,606	\$ 94,024	\$ 93,646	\$ 96,110	\$ 99,078
<b>Primary Government</b>										
Net investment in capital assets	\$ 72,726	\$ 83,393	\$ 82,434	\$ 93,313	\$ 93,874	\$ 96,409	\$ 101,869	\$ 106,745	\$ 112,816	\$ 116,738
Restricted	1,183	1,465	1,571	5,639	4,687	5,882	5,077	5,448	5,566	4,325
Unrestricted	28,554	24,717	29,637	20,680	23,787	25,467	26,564	22,303	20,638	18,773
Total primary government net position	\$ 102,463	\$ 109,575	\$ 113,642	\$ 119,632	\$ 122,348	\$ 127,758	\$ 133,510	\$ 134,496	\$ 139,020	\$ 139,836

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Expenses</b>										
Governmental activities:										
General government	\$ 2,403	\$ 2,403	\$ 2,312	\$ 3,258	\$ 2,344	\$ 1,492	\$ 2,584	\$ 2,605	\$ 2,335	\$ 3,041
Public safety	8,899	9,565	9,669	9,701	10,054	9,402	10,101	10,075	10,467	11,631
Transportation	2,160	2,108	2,532	2,481	2,638	3,960	3,193	3,101	3,349	2,891
Environmental protection	1,427	1,563	1,444	1,479	1,876	1,570	1,700	1,640	1,502	1,707
Cultural and recreational	2,039	2,140	1,967	939	2,151	2,106	2,354	2,295	2,471	2,590
Housing and redevelopment	103	192	209	267	321	222	1,133	997	2,891	1,151
Interest on long-term debt	130	75	95	73	68	79	41	12	57	96
Total governmental activities expenses	<u>17,161</u>	<u>18,046</u>	<u>18,228</u>	<u>18,198</u>	<u>19,452</u>	<u>18,831</u>	<u>21,106</u>	<u>20,725</u>	<u>23,072</u>	<u>23,107</u>
Business-type activities:										
Water	3,334	3,605	3,321	3,693	3,761	3,851	3,932	3,896	4,097	4,334
Sewer	2,976	3,522	3,407	3,687	3,716	3,936	4,441	4,257	4,359	4,448
Electric	15,814	15,980	16,999	17,888	18,519	19,168	19,892	21,974	20,608	21,272
Gas	18,404	16,222	12,806	11,453	8,408	10,294	14,512	14,717	10,827	11,543
Stormwater	-	-	-	-	-	-	-	294	726	833
Housing assistance	1,030	1,119	1,083	1,163	1,138	1,195	1,207	1,221	1,256	1,470
Total business-type activities expenses	<u>41,558</u>	<u>40,448</u>	<u>37,616</u>	<u>37,884</u>	<u>35,542</u>	<u>38,444</u>	<u>43,984</u>	<u>46,359</u>	<u>41,873</u>	<u>43,900</u>
Total primary governmental expenses	<u>\$ 58,719</u>	<u>\$ 58,494</u>	<u>\$ 55,844</u>	<u>\$ 56,082</u>	<u>\$ 54,994</u>	<u>\$ 57,275</u>	<u>\$ 65,090</u>	<u>\$ 67,084</u>	<u>\$ 64,945</u>	<u>\$ 67,007</u>

<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 15	\$ 2	\$ 4	\$ 365	\$ 441	\$ 406	\$ 377	\$ 402	\$ 3,371	\$ 572
Public safety	357	228	265	23	21	27	11	14	23	23
Transportation	110	195	209	261	377	329	346	289	268	228
Environmental protection	631	873	833	863	994	1,154	1,230	1,184	1,142	1,351
Cultural and recreational	309	320	338	318	294	327	356	302	272	295
Housing and redevelopment	-	-	-	127	141	139	133	-	-	-
Operating grants and contributions:										
General government	-	154	4	55	144	1,075	85	67	55	83
Public safety	252	268	476	1,098	1,048	1,050	1,014	1,143	1,167	1,192
Transportation	-	26	20	15	20	20	20	20	15	15
Environmental protection	-	-	-	-	-	-	-	-	-	-
Cultural and recreational	-	-	-	5	-	-	30	-	-	-
Housing and redevelopment	3	81	93	-	-	-	205	318	683	417



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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government	-	32	-	-	-	-	-	-	-	-
Public safety	-	250	112	242	6	32	27	-	-	-
Transportation	2,051	2,236	1,664	315	785	435	176	360	437	328
Cultural and recreational	-	-	44	456	-	-	-	-	-	1
Housing and redevelopment	-	194	-	-	-	-	1,527	494	229	48
Total governmental activities program revenues	3,728	4,859	4,062	4,143	4,271	4,994	5,537	4,593	7,662	4,553
Business-type activities:										
Charges for services:										
Water	3,464	3,372	3,318	3,909	3,859	4,260	4,630	4,849	4,722	5,151
Sewer	3,763	4,030	3,983	4,485	4,388	4,926	5,088	5,082	5,230	5,604
Electric	17,333	17,398	17,591	18,659	18,924	20,259	21,468	22,286	21,981	22,641
Gas	20,017	18,517	15,676	14,486	9,555	13,142	18,547	17,591	14,164	14,955
Stormwater	-	-	-	-	-	-	-	796	736	810
Housing assistance	521	564	577	575	570	582	586	593	623	633
Operating grants and contributions										
Water	-	-	-	105	111	122	91	85	79	72
Sewer	-	-	-	43	46	43	37	35	32	30
Electric	-	-	-	-	-	-	-	-	-	-
Gas	-	-	-	12	13	12	11	10	9	8
Housing assistance	425	430	476	414	258	243	424	462	455	450
Capital grants and contributions										
Water	-	-	-	90	114	-	465	-	-	6
Sewer	-	1,670	955	1,589	833	95	624	-	-	-
Electric	-	696	242	1,036	1,779	34	-	-	-	-
Gas	-	-	-	-	-	-	261	-	-	-
Housing assistance	284	576	227	200	399	295	226	166	260	77
Total business-type activities program revenues	45,807	47,253	43,045	45,603	40,849	44,013	52,458	51,955	48,291	50,437
Total primary governmental program revenues	\$ 45,807	\$ 47,253	\$ 43,045	\$ 45,603	\$ 40,849	\$ 44,013	\$ 52,458	\$ 51,955	\$ 48,291	\$ 50,437
Net (expense)/revenue	\$ (13,433)	\$ (13,187)	\$ (14,166)	\$ (14,055)	\$ (15,181)	\$ (13,837)	\$ (15,569)	\$ (16,130)	\$ (15,409)	\$ (18,554)
Governmental activities	4,249	6,605	5,429	7,719	5,307	5,569	8,474	5,595	6,417	6,537
Business-type activities	\$ (9,184)	\$ (6,582)	\$ (8,737)	\$ (6,336)	\$ (9,874)	\$ (8,268)	\$ (7,095)	\$ (10,535)	\$ (8,992)	\$ (12,017)
Total primary governmental net expenses (revenues)										

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes										
Property taxes, levied for general purpose	\$ 7,277	\$ 7,856	\$ 7,587	\$ 7,663	\$ 7,719	\$ 7,732	\$ 8,017	\$ 8,316	\$ 8,263	\$ 9,016
Sales tax	2,967	2,831	2,669	2,732	2,866	2,862	2,809	2,980	3,061	3,501
Franchise tax	1,503	1,551	1,540	1,582	1,560	1,572	1,586	1,835	2,008	1,930
Other taxes	298	303	237	95	109	12	90	97	99	104
Miscellaneous	264	270	261	-	-	1,721	-	-	-	-
Unrestricted investment earnings	304	197	173	143	212	(115)	186	143	114	(4)
Contributions to permanent fund principal	25	42	108	-	-	-	-	-	-	-
Transfers	2,091	2,351	2,350	3,280	2,434	2,560	3,215	5,584	4,005	-
Total governmental activities	14,729	15,401	14,925	15,495	14,900	16,344	15,903	18,954	17,550	14,547
Business-type activities										
Unrestricted investment earnings	996	441	225	111	123	(106)	159	27	52	(11)
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Transfers	(2,091)	(2,351)	(2,350)	(3,280)	(2,434)	(2,560)	(3,215)	(5,584)	(4,005)	-
Total business-type activities	(1,095)	(1,910)	(2,125)	(3,169)	(2,311)	(2,666)	(3,056)	(5,557)	3,953	(11)
Total primary government	\$ 13,634	\$ 13,491	\$ 12,800	\$ 12,326	\$ 12,589	\$ 13,678	\$ 12,847	\$ 13,397	\$ 13,597	\$ 14,536
<b>Change in Net Position</b>										
Governmental activities	\$ 1,296	\$ 2,214	\$ 759	\$ 1,440	\$ (281)	\$ 2,508	\$ 334	\$ 2,824	\$ 2,141	\$ (32)
Business-type activities	3,154	4,895	3,304	4,550	2,996	2,903	5,418	38	2,465	2,551
Total primary government	\$ 4,450	\$ 7,109	\$ 4,063	\$ 5,990	\$ 2,715	\$ 5,411	\$ 5,752	\$ 2,862	\$ 4,606	\$ 2,519

**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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	\$ 3,127	\$ 3,493	\$ 5,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	3,424	3,851	2,987	-	-	-	-	-	-	-
Non-spendable	-	-	-	521	437	436	422	372	434	452
Restricted	-	-	-	6,732	3,955	4,101	4,163	3,813	3,991	3,179
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	88	64	465	334	472	351	730
Unassigned	-	-	-	580	3,246	3,020	3,005	4,267	2,859	3,697
Total General Fund	\$ 6,551	\$ 7,344	\$ 8,075	\$ 7,921	\$ 7,702	\$ 8,022	\$ 7,924	\$ 8,924	\$ 7,636	\$ 8,058
All other governmental funds										
Reserved	\$ 445	\$ 1,285	\$ 487	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in										
Special Revenue Fund	286	328	247	-	-	-	-	-	-	-
Capital Projects Fund	-	-	-	-	-	-	-	-	-	-
Non-spendable										
Special Revenue Fund	-	-	-	-	-	-	-	59	61	12
Permanent funds	-	-	-	522	584	639	712	764	818	879
Restricted										
Special Revenue Fund	-	-	-	90	745	424	185	191	221	239
Capital Projects Fund	-	-	-	762	122	254	17	669	525	7,853 *
Permanent funds	-	-	-	-	-	-	-	11	11	15
Committed										
Capital Projects Fund	-	-	-	-	-	-	460	804	199	445
Assigned										
Special Revenue Fund	-	-	-	164	-	1,582	435	416	2,013	1,730
Capital Projects Fund	-	-	-	-	-	309	-	-	-	-
Unassigned										
Capital Projects Fund	-	-	-	(730)	(272)	-	-	(513)	(666)	-
Total all other governmental funds	\$ 731	\$ 1,613	\$ 734	\$ 808	\$ 1,179	\$ 3,208	\$ 1,809	\$ 2,401	\$ 3,182	\$ 11,173

\*The substantial increase in "All Other Governmental funds - Restricted" for Capital projects fund is explained in Management's Discussion and Analysis and in the notes to the financial statements.

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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenues</b>										
Ad valorem taxes	\$ 7,692	\$ 7,951	\$ 7,755	\$ 7,686	\$ 7,731	\$ 7,721	\$ 8,020	\$ 8,298	\$ 8,326	\$ 9,015
Other taxes and licenses	2,969	2,858	2,682	2,733	2,866	2,863	2,808	2,980	3,061	3,501
Unrestricted intergovernmental revenues	1,864	1,887	1,793	1,837	1,733	1,761	1,741	2,007	2,221	2,149
Restricted intergovernmental revenues	2,328	3,172	2,338	1,933	2,006	2,390	2,746	1,933	2,259	1,737
Permits and fees	216	213	254	272	174	149	207	232	327	347
Sales and services	1,207	1,405	1,396	1,472	1,694	1,822	1,968	1,783	1,698	1,893
Investment earnings	304	197	173	143	212	(115)	186	143	114	(4)
Donations	25	42	108	47	58	62	74	61	53	61
Miscellaneous	167	187	189	206	260	400	455	500	362	357
Total revenues	16,772	17,912	16,688	16,329	16,734	17,053	18,205	17,936	18,422	19,056
<b>Expenditures</b>										
General government	2,280	2,222	2,067	3,034	2,141	2,077	2,282	1,639	1,825	2,020
Public safety	8,598	8,677	8,877	9,814	9,497	9,092	9,164	9,613	9,978	10,430
Transportation	1,872	1,763	2,034	2,490	3,205	3,771	2,502	2,977	2,853	2,991
Environmental protection	1,111	1,225	1,219	1,277	1,925	1,635	1,593	1,537	1,502	1,485
Cultural and recreational	1,794	1,826	1,703	2,083	1,979	1,944	2,062	1,999	1,876	1,656
Housing and redevelopment	103	192	209	267	321	222	1,134	1,529	3,456	1,334
Capital outlay	1,788	3,216	3,356	-	-	-	3,822	3,254	4,128	2,077
Debt service										
Principal	1,124	1,004	869	716	713	822	923	959	934	973
Interest and other charges	136	79	95	82	68	79	25	13	58	66
Total expenditures	18,806	20,204	20,429	19,763	19,849	19,642	23,507	23,520	26,611	23,033
Excess of revenues over (under) expenditures	(2,034)	(2,292)	(3,741)	(3,434)	(3,115)	(2,589)	(5,302)	(5,302)	(8,189)	(3,977)
<b>Other financing sources (uses)</b>										
Transfers from other funds	2,155	2,695	2,886	3,685	3,367	4,375	3,727	6,983	4,303	5,377
Transfers to other funds	(64)	(344)	(536)	(404)	(933)	(1,815)	(512)	(1,399)	(299)	(1,402)
Installment debt issued	246	1,616	707	510	812	658	560	1,515	828	8,371
Proceeds from sale of assets	11	13	28	54	21	1,721	29	11	2,849	44
Total other financing sources (uses)	2,348	3,980	3,085	3,845	3,267	4,939	3,804	7,110	4,682	12,390
Net change in fund balance	\$ 314	\$ 1,688	\$ (656)	\$ 411	\$ 152	\$ 2,350	\$ (1,498)	\$ 1,526	\$ (507)	\$ 8,413
Debt services as a percentage of non-capital expenditures	7.40%	6.38%	5.65%	4.04%	3.93%	4.59%	4.82%	4.80%	4.41%	4.96%

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

Year Ended June 30	Ad Valorem	Sales	Intangibles	Utility Franchise	Beer and Wine	Inventory	Food Stamp	Licenses and CATV Franchise	Total
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
2017	9,000,184	3,494,500	-	1,929,904	90,926	-	-	-	14,515,514

\* 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
2017**	1,448,080	548,429	48,773	2,045,282	0.4972

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>
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
2017	0.4972	0.250	0.570	0.150

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

Taxpayer	2017			2008		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Clearwater Paper Corporation	\$ 240,757	1	11.77%			
PPG Industries Inc.	95,471	2	4.67%	\$ 97,515	1	5.89%
Wal-Mart Stores	92,478	3	4.52%	81,899	2	4.95%
KSM Castings NC Inc.	44,512	4	2.18%			
Cleveland Yutaka Corporation	25,161	5	1.23%			
Curtis Wright Controls, Inc.	22,196	6	1.09%	13,259	5	0.80%
Schletter Inc.	20,609	7	1.01%			
Greenheck Fan Corp & Real Estate Holdings	19,912	8	0.97%			
Shelby Mall LLC	16,440	9	0.80%	13,606	4	0.82%
Baldor Electric Company	14,881	10	0.73%			
Copeland Corp				15,371	3	0.93%
Lowe's Home Centers, Inc.				12,000	6	0.73%
Duke Energy Carolina				10,583	7	0.64%
Bell South Telephone Company				10,382	8	0.63%
Carlisle at Delta Park LLC				7,254	9	0.44%
Shelby Loan & Mortgage Co.				5,906	10	0.36%
Totals	<u>\$ 592,417</u>		<u>17.19%</u>	<u>\$ 267,775</u>		<u>16.18%</u>
Total Taxable Assessed Value	<u>\$ 2,045,282</u>			<u>\$ 1,654,648</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		Collected within the		Current Outstanding Balance	Collections in Subsequent Years	Total Collections to Date	
	Fiscal Year	Amount	Fiscal Year of the Levy	Percentage of Levy			Amount	Percentage of Levy
2008	\$ 7,300	\$ 7,033		96.34%	\$ 13	261	\$ 7,696	99.82%
2009	7,791	7,474		95.93%	15	310	7,773	99.80%
2010	7,641	7,398		96.82%	19	230	7,617	99.72%
2011	7,635	7,403		96.96%	17	218	7,611	99.70%
2012	7,688	7,460		97.03%	18	211	7,657	99.61%
2013	7,759	7,486		96.48%	30	187	7,673	98.91%
2014	7,670	7,437		96.96%	37	10	7,447	97.09%
2015	7,543	7,385		97.91%	35	22	7,407	97.84%
2016	7,756	7,604		98.04%	51	94	7,698	98.04%
2017	8,356	8,204		98.18%	152	-	8,204	98.18%

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

Year Ended June 30	Governmental Activities			Business-Type Activities				Total Primary Government	(County)		
	Installment Purchase Obligations	General Obligation Bonds		Revenue Bonds	State Revolving Loans	Installment Purchase Obligations	Personal Income (amounts expressed in thousands)		Percentage of Personal Income	Per Capita Personal Income	Per Capita
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%	29,990	1,785	
2011	3,185	-	27,299	2,927	1,117	34,528	N/A	N/A	31,046	1,699	
2012	3,283	-	25,449	2,341	1,406	32,479	N/A	N/A	20,003	1,608	
2013	3,119	-	25,921	-	1,301	30,341	N/A	N/A	21,036	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	20,504	1,697	
2016	3,207	-	20,046	-	14,302	37,555	N/A	N/A	20,003	1,852	
2017	10,605	-	20,545	-	13,723	44,873	N/A	N/A	N/A	2,235	

N/A - information not available.

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

<u>Year Ended June 30</u>	<u>General Obligation Bonds</u>	<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
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
2017	-	0.00%	N/A

**City of Shelby, North Carolina**  
**Direct and Overlapping Governmental Activities Debt**  
**As of June 30, 2017**

	<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*			
General Obligation Bonded Debt	\$ -	100.00%	\$ -
2013 Purchase of Equipment	\$ 138,609	100.00%	\$ 138,609
2014 Purchase of Equipment	\$ 228,811	100.00%	\$ 228,811
2015 Purchase of Equipment	\$ 923,085	100.00%	\$ 923,085
2016 Purchase of Equipment	\$ 693,106	100.00%	\$ 693,106
2017 Purchase of Equipment	\$ 671,446	100.00%	\$ 671,446
Telecommunications/Fueling Center Capital Project	\$ 250,000	100.00%	\$ 250,000
Hanna Park Capital Project	\$ 7,700,000	100.00%	\$ 7,700,000
Overlapping Governmental debt - Cleveland County	<u>-</u>	25.19%	<u>-</u>
Total direct and overlapping debt			<u><u>\$ 10,605,057</u></u>

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

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

<u>Year Ended June 30</u>	<u>Debt Limits 8% of Assessed Value</u>	<u>Total Net Debt Applicable to Limit</u>	<u>Legal Debt Margin</u>	<u>Total Net Debt Applicable to Limit as a Percentage of Debt Limit</u>
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%
2017	143,174	44,874	98,301	45.65%

**City of Shelby, North Carolina**  
**Computation of Legal Debt Margin**  
**June 30, 2017**

Assessed value of taxable property				\$	<u>1,789,681</u>
Debt limit - eight percent (8%) of assessed value				\$	143,174
Gross debt					
Revenue bonds	\$	20,545			
Other financing agreements/notes payable		24,328	\$	44,873	
Total amount of debt applicable to debt limitation					<u>44,873</u>
Legal debt margin				\$	<u>98,301</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	
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%
2017	48,351,028	37,529,836	10,821,192	2,520,169	760,365	3,280,534	330%

\* 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>
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%	3,118,566
2015	20,586	20,504	41.7	14,916	6.90%	3,265,967
2016	20,283	20,003	40.3	14,822	6.50%	N/A
2017	(July 2016) 20,080	20,585	40.1	14,548	5.60%	32,500 *

(1) NC Department of Budget & Management [nc.gov/demog/](http://nc.gov/demog/)

(2) U.S. Bureau of Economic Analysis for Cleveland County, NC Department of Commerce for Shelby  
[www.bestplaces.net/economy/city/north\\_carolina/shelby](http://www.bestplaces.net/economy/city/north_carolina/shelby)

(3) Cleveland County/Shelby City Schools Administrative Offices, NC Department of Commerce.  
The two school systems merged in 2005.

(4) Employment Security Commission [www.bestplaces.net/economy/city/north\\_carolina/shelby](http://www.bestplaces.net/economy/city/north_carolina/shelby)

(5) Amounts for Cleveland County expressed in thousands of dollars taken from [www.fedstats.gov](http://www.fedstats.gov). <https://fred.stlouisfed.org>  
Amounts for Shelby, NC from [www.bea.gov](http://www.bea.gov) [www.bestplaces.net/economy/city/north\\_carolina/shelby](http://www.bestplaces.net/economy/city/north_carolina/shelby)

N/A - information not available.

\*Median Household Income



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

Employer	Industry	2017		2013	
		Rank	Employment Range	Rank	Employment Range
Cleveland County School District	Education	1	1000+	1	1000+
Cleveland Regional Medical Center	Health services	2	1000+	2	1000+
Wal-Mart Distribution Center	Retail distribution	3	1000+	3	1000+
Cleveland County Government	Public administration	4	500-999	4	500-999
Gardner-Webb University	Education	5	500-999		
Ingles Markets	Trade/Transportation/Utilities	6	500-999		
Baldor Electric Company	Manufacturing	7	500-999	5	500-999
Cleveland Community College	Education	8	500-999	7	500-999
PPG Fiber Glass Products	Industrial supplies	9	250-499	6	500-999
City of Shelby	Public administration	10	250-499	10	250-499
Curtiss-Wright Flight Systems, Inc.	Transportation equipment			8	250-499
White Oak Manor, Inc.	Education and health services			9	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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
General government	38.0	38.0	38.0	38.0	39.0	40.0	35.0	35.0	34.0	34.0
Public safety										
Police	87.0	87.0	87.0	86.0	86.0	86.0	97.0	97.0	95.0	88.0
Fire	53.0	53.0	53.0	53.0	58.0	57.0	58.0	58.0	56.0	53.0
Transportation	19.0	19.0	19.0	19.0	17.0	22.0	21.0	21.0	24.0	23.0
Environmental protection	17.0	17.0	17.0	17.0	19.0	16.0	17.0	17.0	16.0	16.0
Cultural and recreational	19.0	19.0	19.0	19.0	22.0	32.0	30.0	30.0	32.0	22.0
Housing and redevelopment	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Business-type activities										
Water	17.5	17.5	17.5	17.5	19.0	17.0	18.0	16.0	16.5	16.0
Sewer	18.5	18.5	18.5	18.3	21.0	19.0	21.0	21.0	23.0	24.0
Electric	10.5	10.5	10.5	10.4	14.0	12.0	12.0	12.0	14.0	15.0
Gas	18.5	18.5	18.5	18.7	18.0	17.0	18.0	18.0	19.0	19.0
Stormwater	-	-	-	-	-	-	-	2.0	2.0	2.0
Housing	6.0	6.0	6.0	6.0	7.0	7.0	7.0	7.0	7.5	7.0
<b>Total</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>	<b>328.0</b>

**Source:** City of Shelby's Finance Department  
 \* Full-Time positions approved by budget - no part-time equivalencies included.

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

Function	Fiscal Year Ended June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety										
Police:										
Number of calls for service	43,310	40,251	39,741	37,303	39,068	35,877	35,877	36,173	36,186	46,592
Uniform Crime Report Part I crimes reported	1,489	1,149	1,149	1,039	1,025	887	761	861	771	816
Uniform Crime Report Part II crimes reported	649	625	625	529	554	475	453	525	517	483
Fire										
Number of responses	1,883	1,913	1,976	2,179	1,945	1,984	1,935	2,112	2,250	2,285
Number of inspections	1,355	707	1,426	1,502	1,530	1,365	1,185	1,258	1,355	1,423
Transportation										
Miles of street repaved	-	3.00	-	1.60	1.61	1.83	2.38	2.57	4.13	2.01
Environmental protection										
Tons of solid waste collected	9,925	10,608	7,937	7,233	6,930	6,354	4,884	6,632	7,045	6,960
Tons of recycling collected						728	710	955	996	959
Tons of yard waste collected										5,635
Cultural and recreational										
Number of youth sport program participants	2,276	2,247	3,566	2,309	3,130	3,385	3,881	4,009	4,114	4,188
Number of adult sport program participants	1,044	622	758	944	1,026	1,141	1,230	1,351	1,762	1,966
Number of golf rounds played	12,341	11,818	11,240	10,283	10,491	9,761	8,704	7,529	6,506	6,583
Housing and redevelopment										
Building inspections										
Number of permits issued	1,072	1,057	919	1,076	1,261	1,167	1,007	1,138	1,066	1,202
Number of inspections	4,621	4,343	4,205	4,376	5,437	3,634	3,395	3,935	4,384	4,187
Business-type activities										
Water system										
Customers at June 30	10,048	9,554	9,601	9,587	9,691	9,746	9,739	9,874	9,927	9,996
Average of daily consumption **	4.33	4.97	4.06	4.41	3.87	4.73	5.57	5.84	5.67	6.07
Peak daily consumption **	7.02	7.09	5.78	6.10	7.64	7.65	8.15	8.45	8.45	9.33
Sewer system										
Customers at June 30	8,282	7,826	7,866	7,840	7,952	8,031	8,016	8,136	8,201	8,264
Average of daily treatment **	2.42	2.72	2.26	2.25	2.41	2.95	3.57	3.07	3.47	3.04
Peak daily treatment **	5.29	7.55	9.98	6.61	5.86	12.86	10.59	10.25	11.77	8.52
Electric system										
Customers at June 30	8,268	8,290	7,432	7,409	7,414	7,504	7,505	7,605	7,671	7,729
Natural gas system										
Customers at June 30	10,404	9,755	9,793	9,649	9,615	9,582	9,588	9,643	9,617	9,624

\* 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									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Public safety</b>										
Police										
Number of stations	1	1	1	1	1	1	1	1	2	2
Number of patrol units	32	43	43	47	47	47	50	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	122	122	122	123	123	124	124	124	124
Miles of unpaved roads	0	0	0	0	0	0	0	0	0	0
Miles of sidewalks	28	28	28	28	28	28	28	29	30	30
<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	340	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	215	214	219	218	221	222	223	221	221
Number of fire hydrants	1,301	1,305	1,343	1,271	1,241	1,358	1,376	1,389	1,394	1,412
Sewer system										
Plant capacity *	6	6	6	6	6	6	6	6	6	6
Miles of sanitary sewers	191	202	204	203	195	190	190	191	191	191
Miles of storm sewers	7	7	7	7	-	10	10	25	26	26
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	134	135	141	141	141	146	147	148	148	149
Miles of secondary lines	222	202	203	204	163	210	211	211	211	211
Natural gas system										
Miles of gas mains	465	496	473	506	479	482	504	501	501	502

\* 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, Responses, and Questioned Costs

Corrective Action Plan

Summary Schedule of Prior Year's Audit Findings

Schedule of Expenditures of Federal and State Awards



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

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

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

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

To the Honorable Mayor and  
Members of the City Council  
City of Shelby  
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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 7, 2017. 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 auditor's 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.

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 have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings, Responses, and Questioned Costs, 2017-001 and 2017-002, that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

### **City of Shelby's Responses to Findings**

The City of Shelby's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Responses, and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and; accordingly, we express no opinion on them.

### **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  
November 7, 2017



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

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

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

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

To the Honorable Mayor and  
Members of the City Council  
City of Shelby  
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, 2017. The City of Shelby's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, 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; and 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.

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PO Box 5729 ♦ Statesville, NC 28687 ♦ 1710 Wilkesboro Hwy ♦ Statesville, NC 28625 ♦ 704-872-8923 ♦ Fax 704-872-4982  
800-948-0585 ♦ [www.martinstarnes.com](http://www.martinstarnes.com)

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

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

In our opinion, the City of Shelby complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **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  
November 7, 2017

# 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 the Uniform Guidance; And the State Single Audit Implementation Act**

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

To the Honorable Mayor and  
Members of the City Council  
City of Shelby  
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, 2017. The City of Shelby's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, 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.

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**800-948-0585 ♦ [www.martinstarnes.com](http://www.martinstarnes.com)**

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major State programs. However, our audit does not provide a legal determination of the City of Shelby's compliance.

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

In our opinion, the City of Shelby complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2017.

### **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 a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material non-compliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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  
November 7, 2017

**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**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? No

***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:

<b>Program Name</b>	<b>CFDA#</b>
Public and Indian Housing	14.850

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, RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**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, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

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

#### Material Weakness

##### **Finding 2017-001:**

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

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

**Effect:** Financial reports used for budget monitoring throughout the year do not properly reflect the account balances.

**Cause:** The general ledger is not reconciled to subsidiary ledgers on a regular basis, and year-end journal entries are not booked. Significant adjustments were made for capital assets, receivables, and payables.

**Recommendation:** Management should reconcile the subsidiary ledgers on a regular basis, reconcile year-end balances to subsidiary ledgers, post closing entries as needed, and improve the internal control system by establishing and following year end closing procedures to prevent the adjustments in the future.

**Views of Responsible Officials and Planned Corrective Actions:** Management concurs with this finding. Please refer to the Corrective Action Plan.

# CITY OF SHELBY, NORTH CAROLINA

## SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

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

#### Material Weakness

##### **Finding 2017-002:**

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

**Condition:** A restatement for governmental capital assets was made during fiscal year 2017. At the completion of a project in the Capital Projects Fund, it was noted that project expenditures should not have been capitalized as the asset was not going to be an asset of the City's.

**Effect:** Governmental capital assets were misstated in the prior year.

**Cause:** Inadequate monitoring of capital assets.

**Recommendation:** Management should review and approve capital asset activity more frequently to be able to correct errors as they occur.

**Views of Responsible Officials and Planned Corrective Actions:** Management concurs with this finding. Please refer to the Corrective Action Plan.



**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**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



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**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2017**

**Financial Statement Findings**

**Material Weakness**

**Finding 2017-001**

*Contact Person: Justin Merritt, Finance Director*

**Views of Responsible Officials and Planned Corrective Actions:** Management will reconcile the subsidiary ledgers on a more regular basis and will check entries for accuracy of the accounts after entry. Reconciling entries will be added to the year-end closing procedures to prevent future adjustments during the audit.

**Proposed Completion Date:** The City will implement the above procedure in Fiscal Year 2018.

**Material Weakness**

**Finding 2017-002**

*Contact Person: Justin Merritt, Finance Director*

**Views of Responsible Officials and Planned Corrective Actions:** A quarterly review and compilation of Additions/Disposals will be conducted. A tracking mechanism will be created. The Finance Director will forward all new budgets related to capital projects with capitalizable assets to the Capital Asset Accountant to ensure inclusion of all new capital projects and improve the accuracy of the final Capital Asset records.

**Proposed Completion Date:** The City will implement the above procedure in Fiscal Year 2018.

**Federal Award Findings and Questioned Costs**

None reported

**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, 2017**

**Finding: 2016-001**

Status: Corrected

CITY OF SHELBY, NORTH CAROLINA  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Fed. (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Pass-Through to Subrecipients</u>
<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	\$ 1,100,150	\$ -	\$ -
Public Housing Capital Fund--2014	14.872	NC19P034501-14	14,990	-	-
Public Housing Capital Fund--2015	14.872	NC19P034501-15	95,953	-	-
Total U.S. Dept. of Housing and Urban Development			<u>1,211,093</u>	<u>-</u>	<u>-</u>
<u>U.S. Dept. of Justice</u>					
Direct Program:					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	JAG16	8,462	-	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	GCC16	6,871	-	-
Passed-through U.S. Dept. of Defense:					
Bulletproof Vest Partnership Program	16.607	N/A	9,253	-	-
Total U.S. Dept. of Justice			<u>24,586</u>	<u>-</u>	<u>-</u>
<u>U.S. Environmental Protection Agency</u>					
Passed-through the N.C. Department of Environmental Quality:					
Clean Water State Revolving Fund Cluster					
Capitalization Grants for Clean Water State Revolving Funds -					
Compost Facility	66.458	E-SRF-T-15-0411	468,510	-	-
Total assistance - federal programs			<u>1,704,189</u>	<u>-</u>	<u>-</u>
<b>State Grants:</b>					
<u>NC Department of Transportation:</u>					
Powell Bill	N/A	32570	-	623,246	-
State Aid to Airports Program	DOT-8	36244.23.12.1	-	147,990	-
State Aid to Airports Program	DOT-8	36244.23.11.1	-	211,785	-
Total N.C. Department of Transportation			<u>-</u>	<u>983,021</u>	<u>-</u>
<u>NC Department of Commerce:</u>					
Passed-through NC Rural Economic Development:					
CDBG Downtown Revitalization Fund - Campbell & Sterchi Bldg		E-1, CDBG 15-E-2771	-	81,018	81,018
<u>NC Office of Management and Budget</u>					
Passed-through NC Department of Commerce:					
Downtown Revitalization - Session Law 2016-94		2017-047-1257-1534	-	94,340	-
<u>NC E911 Board:</u>					
E-911 PSAP Grant	N/A	G2017-15	-	2,529	-
<u>NC Department of Cultural and Natural Resources</u>					
Passed-through NC Division of Parks and Recreation:					
Connect NC Bond Grant Program - All Aboard Park!	N/A	2017CNC13	-	10,026	-
Total assistance - State programs			<u>-</u>	<u>1,170,934</u>	<u>81,018</u>
Total assistance			<u>\$ 1,704,189</u>	<u>\$ 1,170,934</u>	<u>\$ 81,018</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, 2017. 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**

City of Shelby had expenditures of \$468,510 at 6/30/17 under the Capitalization Grants for Clean Water State Revolving Funds. However, at fiscal year-end, no draw downs had been made for the debt; therefore, there is a zero debt balance at 6/30/17. The City plans to make a draw in FY 2018.