

**CITY OF SHELBY  
NORTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**



# CITY OF SHELBY, NORTH CAROLINA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR YEAR ENDED JUNE 30, 2014

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# **INTRODUCTORY SECTION**





October 31, 2014

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, 2014.

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, 2014, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Shelby's financial statements for the fiscal year ended June 30, 2014, 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.

Job Ready Shell Building #2 has been constructed in the Foothills Commerce Center and is available for sale. This is a 100,000 sq. feet facility that is easily expandable to double the existing footage. The City has received excellent response to the Foothills Commerce Center and expects this to continue with Shell Building #2.

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

Greenheck Fan Corporation has invested approximately \$33 million in a facility that will create approximately 184 jobs over the next 4 years in Shelby and Cleveland County. Greenheck will be a City utility customer and has annexed into the City. Greenheck manufactures equipment that moves and controls air for commercial and industrial climate control systems.

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

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

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

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

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

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

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

### **Budget Highlights for FY 2015**

The City tax rate of 43.5 cents remains the same for FY 2015. Budgeted expenditures in the General Fund are expected to increase modestly to \$19,342,229 in FY 2015. The City's water rates and sewer rates had increases of between 2% and 5%, depending upon service type, for FY 2015. The City electric rates were increased 2.0% in FY 2015. 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 2015.

In FY 14 the City entered into a financing agreement for the purchase of rolling stock, the loan proceeds received amounted to \$930,900. The loan term is 59 months with annual payments, beginning March 2015, with an interest rate of 1.42 percent.

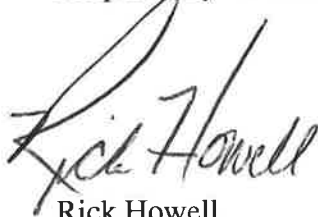
## AWARDS AND ACKNOWLEDGMENTS

The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Shelby for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. This was the sixteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

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

Respectfully submitted,



Rick Howell  
City Manager



Justin S. Merritt  
Finance Director





Government Finance Officers Association

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

Presented to

**City of Shelby  
North Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

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City of Shelby, North Carolina

List of Principal Officials  
June 30, 2014

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*Elected Officials*

Oliver Stanhope Anthony, III  
*Mayor*

Eric Hendrick

Dicky Amaya  
*Mayor Pro Tem*

Dennis C. Bailey

David W. White.

Jeanette D. Patterson

Ben Kittrell

*City Administration*

Rick Howell  
*City Manager*

Justin S. Merritt  
*Director of Finance*

Bernadette A. Parduski  
*City Clerk*

Brad Cornwell  
*Director of Utilities*

Deborah Jolly  
*Human Resources Director*

Jeff Ledford  
*Police Chief*

Charles K. Holtzclaw  
*Director of Parks & Recreation*

Daniel C. Darst  
*Director of Public Works*

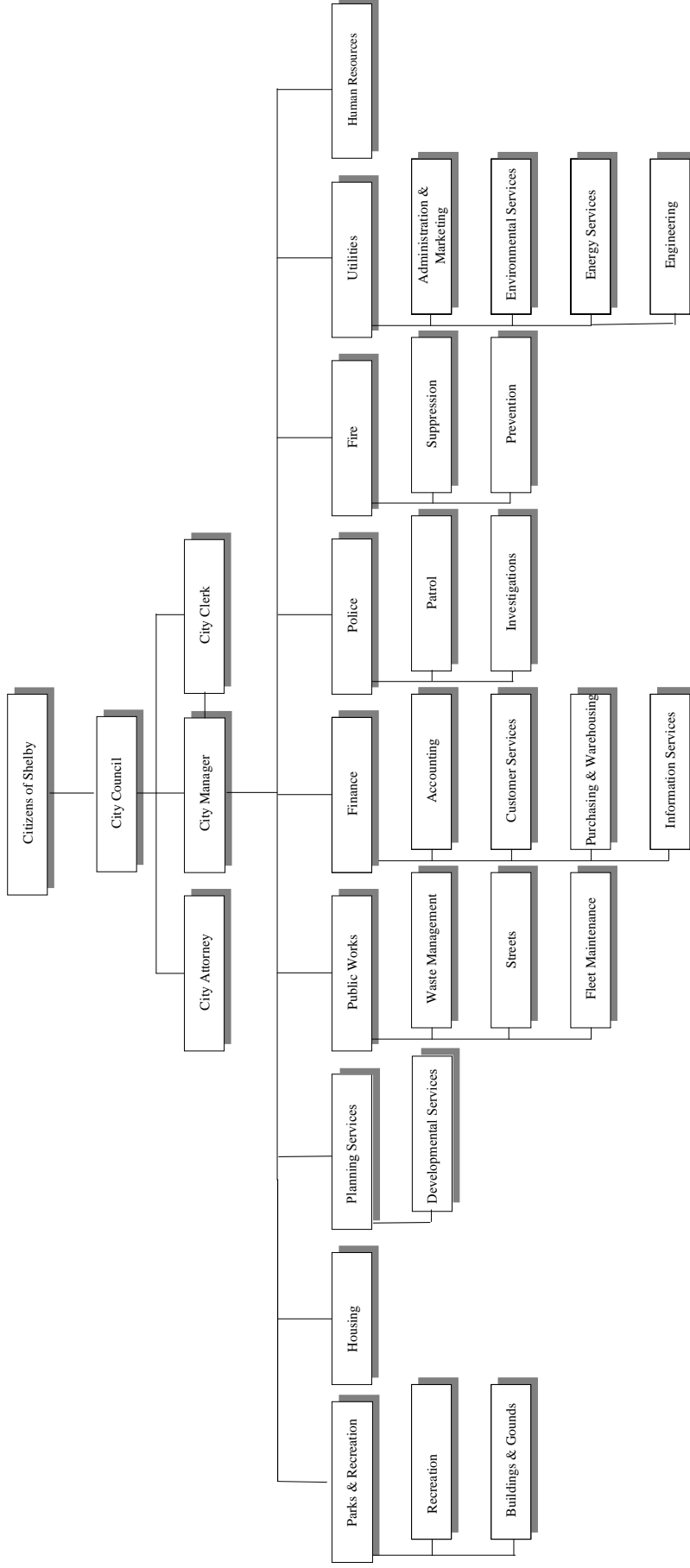
William P. Hunt  
*Fire Chief*

Bryan T. Howell  
*Director of Housing*

Walter Scharer, AICP  
*Director Planning Services*

Robert (Bob) Yelton  
*City Attorney*

# City of Shelby Organization Chart







# FINANCIAL SECTION



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

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

## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of and for the year ended June 30, 2014, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Shelby ABC Board were not audited in accordance with *Governmental Auditing Standards*.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Shelby, North Carolina, as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

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

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

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

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



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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of the City of Shelby's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelby's internal control over financial reporting and compliance.

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 31, 2014



## Management's Discussion and Analysis

As management of the City of Shelby, we offer readers of the City of Shelby's financial statements this narrative overview and analysis of the financial activities of the City of Shelby for the fiscal year ended June 30, 2014. 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

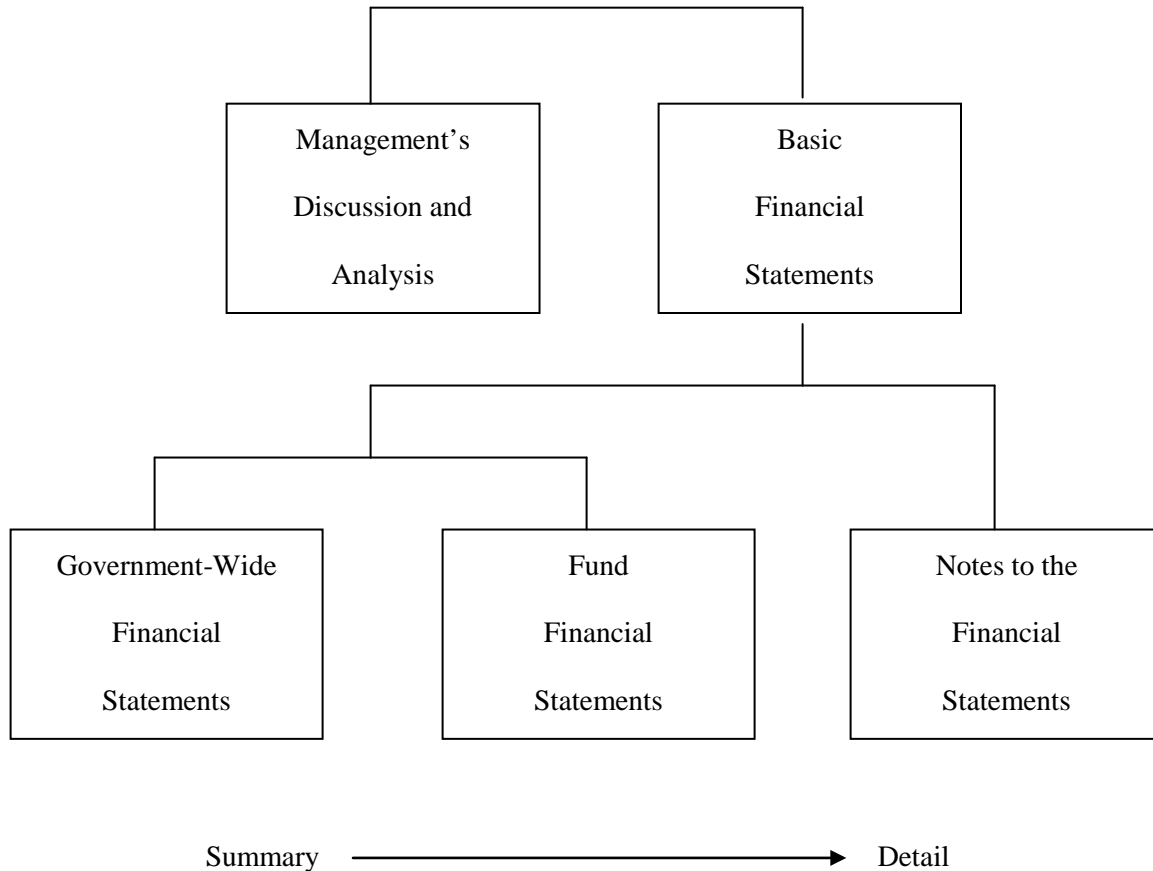
- The assets and deferred outflows of resources of the City of Shelby exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$133,510,029 (*net position*).
- The government's total net position increased by \$5,752,007, due to an increase of \$334,311 in governmental activities net position and an increase of \$5,417,696 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 \$9,732,666, with a net decrease in fund balance of \$1,497,635. Approximately 56.5 percent of this total amount, or \$5,498,903, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,004,961, or 15.5% 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 are the difference between the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the City's financial condition.

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

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

## Fund Financial Statements

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

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

The City of Shelby maintains 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, and natural gas operations, as well as its housing assistance program which the U.S. Department of Housing and Urban Development requires to be accounted for in an Enterprise Fund. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

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

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

**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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Assets:</b>						
Current/other assets	\$ 10,664,916	\$ 11,919,236	\$ 29,620,941	\$ 27,281,656	\$ 40,285,857	\$ 39,200,892
Capital assets	36,150,569	34,182,553	93,097,005	91,903,497	129,247,574	126,086,050
Total assets	46,815,485	46,101,789	122,717,946	119,185,153	169,533,431	165,286,942
<b>Deferred Outflows of Resources</b>	-	-	623,437	664,999	623,437	664,999
<b>Total Assets and Deferred Outflows of Resources</b>	<u>46,815,485</u>	<u>46,101,789</u>	<u>123,341,383</u>	<u>119,850,152</u>	<u>170,156,868</u>	<u>165,951,941</u>
<b>Liabilities:</b>						
Long-term liabilities	5,504,888	5,441,510	22,919,754	25,356,469	28,424,642	30,797,979
Other liabilities	1,824,304	1,508,297	6,397,893	5,887,643	8,222,197	7,395,940
Total liabilities	7,329,192	6,949,807	29,317,647	31,244,112	36,646,839	38,193,919
<b>Net Position:</b>						
Net investment in capital assets	33,394,329	31,063,065	68,474,999	65,346,300	101,869,328	96,409,365
Restricted	5,076,751	5,882,225	-	-	5,076,751	5,882,225
Unrestricted	1,015,213	2,206,692	25,548,737	23,259,740	26,563,950	25,466,432
Total net position	<u>\$ 39,486,293</u>	<u>\$ 39,151,982</u>	<u>\$ 94,023,736</u>	<u>\$ 88,606,040</u>	<u>\$ 133,510,029</u>	<u>\$ 127,758,022</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 \$133,510,029 as of June 30, 2014. The City's net position increased by \$5,752,007 for the fiscal year ended June 30, 2014. The City's net position also reflects the net investment in capital assets (e.g., land, buildings, and equipment), less any related debt still outstanding that was issued to acquire those items. The City of Shelby uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Shelby's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City's net position, \$5,076,851, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$26,563,951 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 97.09%
- Increase in charges for services and grants and contributions increased revenues in the current year

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 2,452,996	\$ 2,381,717	\$ 50,319,643	\$ 43,169,216	\$ 52,772,639	\$ 45,550,933
Operating grants and contributions	1,353,783	2,144,426	562,273	420,416	1,916,056	2,564,842
Capital grants and contributions	1,730,501	467,580	1,575,827	423,409	3,306,328	890,989
General revenues:						
Property taxes	8,017,228	7,732,736	-	-	8,017,228	7,732,736
Other taxes	4,484,287	4,446,451	-	-	4,484,287	4,446,451
Gain on sale of assets	-	1,720,913	-	-	-	1,720,913
Investment earnings	186,031	(115,459)	159,494	(106,454)	345,525	(221,913)
Total revenues	<u>18,224,826</u>	<u>18,778,364</u>	<u>52,617,237</u>	<u>43,906,587</u>	<u>70,842,063</u>	<u>62,684,951</u>
<b>Expenses:</b>						
General government	2,583,788	1,491,968	-	-	2,583,788	1,491,968
Public safety	10,101,261	9,402,424	-	-	10,101,261	9,402,424
Transportation	3,192,813	3,959,923	-	-	3,192,813	3,959,923
Environmental protection	1,699,976	1,569,800	-	-	1,699,976	1,569,800
Culture and recreational	2,353,678	2,105,578	-	-	2,353,678	2,105,578
Housing and redevelopment	1,133,101	221,476	-	-	1,133,101	221,476
Interest on long-term debt	40,898	79,403	-	-	40,898	79,403
Water	-	-	3,932,188	3,851,117	3,932,188	3,851,117
Sewer	-	-	4,441,454	3,935,645	4,441,454	3,935,645
Electric	-	-	19,892,141	19,167,975	19,892,141	19,167,975
Gas	-	-	14,512,088	10,293,972	14,512,088	10,293,972
Housing assistance	-	-	1,206,670	1,194,627	1,206,670	1,194,627
Total expenses	<u>21,105,515</u>	<u>18,830,572</u>	<u>43,984,541</u>	<u>38,443,336</u>	<u>65,090,056</u>	<u>57,273,908</u>
Increase (decrease) in net position before transfers	(2,880,689)	(52,208)	8,632,696	5,463,251	5,752,007	5,411,043
Transfers in (out)	<u>3,215,000</u>	<u>2,560,000</u>	<u>(3,215,000)</u>	<u>(2,560,000)</u>	-	-
Increase (decrease) in net position	334,311	2,507,792	5,417,696	2,903,251	5,752,007	5,411,043
<b>Net Position:</b>						
Beginning of year - July 1	<u>39,151,982</u>	<u>36,644,190</u>	<u>88,606,040</u>	<u>85,702,789</u>	<u>127,758,022</u>	<u>122,346,979</u>
End of year - June 30	<u>\$ 39,486,293</u>	<u>\$ 39,151,982</u>	<u>\$ 94,023,736</u>	<u>\$ 88,606,040</u>	<u>\$ 133,510,029</u>	<u>\$ 127,758,022</u>



**Governmental Activities.** Governmental activities increased the City's net position by \$334,311. Key elements of this increase are as follows:

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

**Business-Type Activities.** Business-type activities increased the City of Shelby's net position by \$5,417,696. Key elements of this increase are as follows:

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

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

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

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

The General Fund is the chief operating fund of the City of Shelby. At the end of the current fiscal year, fund balance available in the General Fund was \$4,584,266, while total fund balance reached \$7,923,538. 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 23.61% of total General Fund expenditures and transfers to other funds, while total fund balance represents 40.80% of that same amount.

At June 30, 2014, the governmental funds of the City of Shelby reported a combined fund balance of \$9,732,666, a decrease of \$1,497,635 over last year. The primary reason for this decrease is due to an increase in expenditures in the Economic Development Project Fund for the Job Ready Shell Building #2 Project.

**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 \$128,298 (.84%). Amendments were necessary due to conservatism used in compiling the original budget and economic changes.

**Proprietary Funds.** The City of Shelby's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position at the fiscal year-end in the Water Fund was \$4,757,306; in the Sewer Fund was \$1,427,300; in the Electric Fund was \$5,909,194; and in the Gas Fund was \$11,394,278. 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, 2014 totaled \$129,247,574 (net of accumulated depreciation). These assets include buildings, land, improvements, and equipment.

Major capital asset transactions during the year include:

- Transfer of assets from construction in progress to depreciable assets for the Mall Area Lift Station of \$728,103
- Transfer of assets from construction in progress to depreciable assets for the Foothills Commerce Center of \$5,904,518
- Transfer of assets from construction in progress to depreciable assets for the Country Club Gardens Cable Project of \$299,405
- Transfer of assets from construction in progress to depreciable assets for the Artee/Washburn Road Gas Line Relocation of \$266,982
- Transfer of assets from construction in progress to depreciable assets for the U.S. 74 Gas Line Relocation of \$204,474
- Construction in progress of the Job Ready Shell Building #2 Project of \$2,536,180
- Construction in progress of the 1st Broad Wastewater Treatment Plant Upgrades of \$768,035
- Construction in progress of the KSM Sewer Line Extension Project of \$275,850
- Construction in progress of the Artee/Washburn Road Water Line Relocation Project of \$345,631
- Construction in progress of the Airport RPZ Land & Easements Project of \$172,854
- Construction of the Police Department Roof Replacement Project of \$176,700

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 5,014,681	\$ 5,014,681	\$ 515,230	\$ 496,366	\$ 5,529,911	\$ 5,511,047
Buildings and system	13,412,976	13,236,275	97,012,436	88,835,152	110,425,412	102,071,427
Improvements other than buildings	10,899,183	10,899,183	42,765,864	42,267,412	53,665,047	53,166,595
Machinery and equipment	7,491,615	6,930,777	5,779,840	5,702,363	13,271,455	12,633,140
Infrastructure	11,484,875	11,484,875	-	-	11,484,875	11,484,875
Vehicles and motorized equipment	8,542,596	8,455,142	2,938,343	2,780,169	11,480,939	11,235,311
Construction in progress	<u>4,140,386</u>	<u>1,231,547</u>	<u>2,365,115</u>	<u>6,871,519</u>	<u>6,505,501</u>	<u>8,103,066</u>
Subtotal	60,986,312	57,252,480	151,376,828	146,952,981	212,363,140	204,205,461
Accumulated Less: accumulated depreciation	<u>(24,835,743)</u>	<u>(23,069,927)</u>	<u>(58,279,823)</u>	<u>(55,049,484)</u>	<u>(83,115,566)</u>	<u>(78,119,411)</u>
Capital assets, net	<u>\$ 36,150,569</u>	<u>\$ 34,182,553</u>	<u>\$ 93,097,005</u>	<u>\$ 91,903,497</u>	<u>\$ 129,247,574</u>	<u>\$ 126,086,050</u>

Additional information on the City's capital assets can be found in Note 2.A. of the basic financial statements located on pages 40-46.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Installment purchase notes	\$ 2,756,240	\$ 3,119,488	\$ 2,021,676	\$ 1,301,058	\$ 4,777,916	\$ 4,420,546
Revenue bonds	-	-	23,223,767	25,921,138	23,223,767	25,921,138
Compensated absences	958,623	935,889	220,861	214,895	1,179,484	1,150,784
Net pension obligation	530,551	441,825	-	-	530,551	441,825
Other post-employment benefits	2,458,343	2,096,067	702,046	595,178	3,160,389	2,691,245
Total	<u>\$ 6,703,757</u>	<u>\$ 6,593,269</u>	<u>\$ 26,168,350</u>	<u>\$ 28,032,269</u>	<u>\$ 32,872,107</u>	<u>\$ 34,625,538</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 \$117,700,000.

Additional information regarding the City of Shelby's long-term debt can be found in Note 2.B. on pages 47-55 of this audited financial report.

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

- The State of North Carolina unemployment numbers changed from 8.8% in June 2013 to 6.4% in June 2014. Cleveland County's numbers changed from 10.5% in June 2013 to 6.8% in June 2014.
- KSM Castings Group, a company that manufactures automotive components, will construct a 110,000 sq. feet facility and invest approximately \$45 million in its Shelby facility. KSM plans to create approximately 189 jobs over the next 5 years. KSM has annexed into the City and will be served by City utilities.
- The City of Shelby and Cleveland County have completed construction of Job Ready Shell Building #2 in the Foothills Commerce Center. This 100,000 sq. feet facility is available for sale and is being actively marketed.

**Budget Highlights for the Fiscal Year Ending June 30, 2015**

**Governmental Activities.** The City tax rate of 43.5 cents remains the same for FY 2015. Budgeted expenditures in the General Fund are expected to increase modestly to \$19,342,229 in FY 2015. This increase is largely due to the planned purchase of a 75ft ladder quint fire apparatus, which will be financed over a period of 59 months.

**Business-Type Activities.** The City's water rates and sewer rates had increases of between 2% and 5%, depending upon service type, for FY 2015. The City electric rates were increased 2.0% in FY 2015. 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 2015.

## **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, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
<b>Assets:</b>				
Current assets:				
Cash and cash equivalents	\$ 5,496,142	\$ 20,151,839	\$ 25,647,981	\$ 293,662
Taxes receivable, net	255,869	-	255,869	-
Accounts receivable, net	576,195	5,407,222	5,983,417	-
Loans receivable	66,423	-	66,423	-
Interest receivable	25,523	-	25,523	-
Due from other governments	1,814,648	1,872,554	3,687,202	-
Internal balances	62,036	(62,036)	-	-
Inventories	170,292	1,605,511	1,775,803	563,345
Prepaid items	251,860	43,978	295,838	2,186
Total current assets	<u>8,718,988</u>	<u>29,019,068</u>	<u>37,738,056</u>	<u>859,193</u>
Non-current assets:				
Cash and cash equivalents, restricted	1,945,928	601,873	2,547,801	-
Capital assets, non-depreciable	9,155,067	2,880,345	12,035,412	182,567
Capital assets, net	26,995,502	90,216,660	117,212,162	146,328
Total non-current assets	<u>38,096,497</u>	<u>93,698,878</u>	<u>131,795,375</u>	<u>328,895</u>
Total assets	<u>46,815,485</u>	<u>122,717,946</u>	<u>169,533,431</u>	<u>1,188,088</u>
<b>Deferred Outflows of Resources:</b>				
Deferred charge on refunding	-	623,437	623,437	-
Total deferred outflows of resources	<u>-</u>	<u>623,437</u>	<u>623,437</u>	<u>-</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable and accrued liabilities	602,022	2,397,834	2,999,856	161,233
Accrued interest payable	15,477	146,402	161,879	-
Due to other governments	1,200	-	1,200	-
Unearned revenue	-	3,188	3,188	-
Other liabilities	6,736	-	6,736	-
Liabilities to be paid from restricted assets	-	601,873	601,873	-
Current portion of long-term liabilities	1,198,869	3,248,596	4,447,465	-
Total current liabilities	<u>1,824,304</u>	<u>6,397,893</u>	<u>8,222,197</u>	<u>161,233</u>
Long-term liabilities:				
Due in more than one year	5,504,888	22,919,754	28,424,642	-
Total liabilities	<u>7,329,192</u>	<u>29,317,647</u>	<u>36,646,839</u>	<u>161,233</u>
<b>Net Position:</b>				
Net investment in capital assets	33,394,329	68,474,999	101,869,328	328,895
Restricted for:				
Stabilization by State statute	2,937,239	-	2,937,239	-
Perpetual	711,563	-	711,563	-
Public safety	182,290	-	182,290	-
Streets - Powell Bill	1,245,659	-	1,245,659	-
Working capital	-	-	-	109,669
Unrestricted	1,015,213	25,548,737	26,563,950	588,291
Total net position	<u>\$ 39,486,293</u>	<u>\$ 94,023,736</u>	<u>\$ 133,510,029</u>	<u>\$ 1,026,855</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, 2014**

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 2,583,788	\$ 376,793	\$ 84,561	\$ -
Public safety	10,101,261	10,757	1,014,182	27,460
Transportation	3,192,813	345,939	20,000	176,037
Environmental protection	1,699,976	1,230,086	-	-
Cultural and recreation	2,353,678	356,308	29,737	-
Housing and redevelopment	1,133,101	133,113	205,303	1,527,004
Interest on long-term debt	40,898	-	-	-
Total governmental activities	<u>21,105,515</u>	<u>2,452,996</u>	<u>1,353,783</u>	<u>1,730,501</u>
<b>Business-Type Activities:</b>				
Water Fund	3,932,188	4,630,474	90,839	464,921
Sewer Fund	4,441,454	5,087,911	37,136	623,556
Electric Fund	19,892,141	21,468,268	-	-
Gas Fund	14,512,088	18,546,630	10,541	261,737
Housing Assistance Fund	1,206,670	586,360	423,757	225,613
Total business-type activities	<u>43,984,541</u>	<u>50,319,643</u>	<u>562,273</u>	<u>1,575,827</u>
Total primary government	<u>\$ 65,090,056</u>	<u>\$ 52,772,639</u>	<u>\$ 1,916,056</u>	<u>\$ 3,306,328</u>
<b>Component Unit:</b>				
City of Shelby ABC Board	<u>\$ 2,856,265</u>	<u>\$ 2,856,266</u>	<u>\$ -</u>	<u>\$ -</u>

**General Revenues:**

Taxes  
 Property tax  
 Sales tax  
 Franchise tax  
 Other taxes  
 Investment earnings  
 Total general revenues, not including transfers

Transfers

Total general revenues and transfers

Change in net position

**Net Position:**

Beginning of year - July 1

End of year - June 30

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



Exhibit B

<b>Net (Expense) Revenue and Changes in Net Position</b>			
<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>City of Shelby ABC Board</b>
\$ (2,122,434)	\$ -	\$ (2,122,434)	\$ -
(9,048,862)	-	(9,048,862)	-
(2,650,837)	-	(2,650,837)	-
(469,890)	-	(469,890)	-
(1,967,633)	-	(1,967,633)	-
732,319	-	732,319	-
(40,898)	-	(40,898)	-
<u>(15,568,235)</u>	<u>-</u>	<u>(15,568,235)</u>	<u>-</u>
-	1,254,046	1,254,046	-
-	1,307,149	1,307,149	-
-	1,576,127	1,576,127	-
-	4,306,820	4,306,820	-
-	29,060	29,060	-
<u>-</u>	<u>8,473,202</u>	<u>8,473,202</u>	<u>-</u>
<u>(15,568,235)</u>	<u>8,473,202</u>	<u>(7,095,033)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
8,017,228	-	8,017,228	-
2,808,457	-	2,808,457	-
1,586,083	-	1,586,083	-
89,747	-	89,747	-
186,031	159,494	345,525	59
<u>12,687,546</u>	<u>159,494</u>	<u>12,847,040</u>	<u>59</u>
<u>3,215,000</u>	<u>(3,215,000)</u>	<u>-</u>	<u>-</u>
<u>15,902,546</u>	<u>(3,055,506)</u>	<u>12,847,040</u>	<u>59</u>
334,311	5,417,696	5,752,007	60
<u>39,151,982</u>	<u>88,606,040</u>	<u>127,758,022</u>	<u>1,026,795</u>
<u>\$ 39,486,293</u>	<u>\$ 94,023,736</u>	<u>\$ 133,510,029</u>	<u>\$ 1,026,855</u>

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

## CITY OF SHELBY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2014

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 3,843,138	\$ 1,653,004	\$ 5,496,142
Receivables, net:			
Taxes	240,853	15,016	255,869
Accounts	562,692	13,503	576,195
Interest	24,668	855	25,523
Loans	-	66,423	66,423
Due from other funds	532,167	-	532,167
Due from other governments	1,797,593	17,055	1,814,648
Inventories	170,292	-	170,292
Prepaid items	251,860	-	251,860
Restricted cash and cash equivalents	1,245,659	700,269	1,945,928
Total assets	<u>\$ 8,668,922</u>	<u>\$ 2,466,125</u>	<u>\$ 11,135,047</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 497,795	\$ 104,227	\$ 602,022
Due to other funds	-	470,131	470,131
Due to other governments	-	1,200	1,200
Other liabilities	6,736	-	6,736
Total liabilities	<u>504,531</u>	<u>575,558</u>	<u>1,080,089</u>
<b>Deferred Inflows of Resources:</b>			
Taxes receivable	240,853	15,016	255,869
Other receivables	-	66,423	66,423
Total deferred inflows of resources	<u>240,853</u>	<u>81,439</u>	<u>322,292</u>
<b>Fund Balances:</b>			
Non-spendable:			
Inventories	170,292	-	170,292
Prepays	251,860	-	251,860
Perpetual	-	711,563	711,563
Restricted:			
Stabilization by State statute	2,917,120	20,119	2,937,239
Public safety	-	182,290	182,290
Streets - Powell Bill	1,245,659	-	1,245,659
Committed:			
Capital projects	-	459,889	459,889
Assigned:			
Subsequent year's expenditures	333,646	-	333,646
Economic development	-	435,267	435,267
Unassigned	3,004,961	-	3,004,961
Total fund balances	<u>7,923,538</u>	<u>1,809,128</u>	<u>9,732,666</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,668,922</u>	<u>\$ 2,466,125</u>	

Amounts reported for governmental activities in the Statement of Net Position  
(Exhibit A) are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	36,150,569
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.	322,292
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>(6,719,234)</u>
Net position of governmental activities per Exhibit A	<u>\$ 39,486,293</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, 2014

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ 7,907,806	\$ 112,427	\$ 8,020,233
Other taxes and licenses	2,808,457	-	2,808,457
Unrestricted intergovernmental	1,740,541	-	1,740,541
Restricted intergovernmental	984,163	1,761,704	2,745,867
Permits and fees	206,655	-	206,655
Sales and services	1,967,680	-	1,967,680
Investment earnings	171,537	14,494	186,031
Donations	-	74,573	74,573
Miscellaneous	258,913	196,525	455,438
Total revenues	<u>16,045,752</u>	<u>2,159,723</u>	<u>18,205,475</u>
<b>Expenditures:</b>			
Current:			
General government	2,464,225	2,445	2,466,670
Public safety	9,046,276	466,117	9,512,393
Transportation	2,502,436	304,952	2,807,388
Environmental protection	1,959,645	-	1,959,645
Cultural and recreation	2,075,813	-	2,075,813
Housing and redevelopment	-	3,736,988	3,736,988
Debt service:			
Principal retirement	923,248	-	923,248
Interest and other charges	25,421	-	25,421
Total expenditures	<u>18,997,064</u>	<u>4,510,502</u>	<u>23,507,566</u>
Revenues over (under) expenditures	<u>(2,951,312)</u>	<u>(2,350,779)</u>	<u>(5,302,091)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	2,685,000	1,041,943	3,726,943
Transfers to other funds	(421,943)	(90,000)	(511,943)
Long-term debt issued	560,000	-	560,000
Proceeds from sale of capital assets	29,456	-	29,456
Total other financing sources (uses)	<u>2,852,513</u>	<u>951,943</u>	<u>3,804,456</u>
Net change in fund balances	(98,799)	(1,398,836)	(1,497,635)
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>8,022,337</u>	<u>3,207,964</u>	<u>11,230,301</u>
End of year - June 30	<u>\$ 7,923,538</u>	<u>\$ 1,809,128</u>	<u>\$ 9,732,666</u>

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

## CITY OF SHELBY, NORTH CAROLINA

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - TO THE STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

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)	\$ (1,497,635)
<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	(3,005)
Miscellaneous revenues	(7,100)
<p>Expenses related to compensated absences, OPEB, and Law Enforcement Officers' Separation Allowance that do not require current financial resources are not reported as expenditures in the governmental funds statement.</p>	
	(473,736)
<p>Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.</p>	
	3,822,372
<p>The issuance of long-term debt is reported as revenue in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.</p>	
	(560,000)
<p>Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.</p>	
	(1,854,356)
<p>Change in accrued interest payable, governmental fund debt</p>	
	(15,477)
<p>Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.</p>	
	<u>923,248</u>
Change in net position of governmental activities per Exhibit B	<u>\$ 334,311</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, 2014**

	<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	\$ 7,565,000	\$ 7,565,000	\$ 7,907,806	\$ 342,806
Other taxes and licenses	2,700,000	2,700,000	2,808,457	108,457
Unrestricted intergovernmental	1,712,000	1,712,000	1,740,541	28,541
Restricted intergovernmental	930,180	986,180	984,163	(2,017)
Permits and fees	140,300	140,300	206,655	66,355
Sales and services	1,917,600	1,989,898	1,967,680	(22,218)
Investment earnings	55,000	55,000	171,537	116,537
Miscellaneous	184,000	184,000	258,913	74,913
Total revenues	<u>15,204,080</u>	<u>15,332,378</u>	<u>16,045,752</u>	<u>713,374</u>
<b>Expenditures:</b>				
Current:				
General government	2,537,790	2,609,640	2,464,225	145,415
Public safety	9,025,825	9,063,012	9,046,276	16,736
Transportation	2,683,875	2,992,363	2,502,436	489,927
Environmental protection	1,826,365	1,967,165	1,959,645	7,520
Cultural and recreation	1,954,125	2,089,097	2,075,813	13,284
Debt service:				
Principal retirement	907,100	892,310	923,248	(30,938)
Interest and other charges	67,550	67,550	25,421	42,129
Total expenditures	<u>19,002,630</u>	<u>19,681,137</u>	<u>18,997,064</u>	<u>684,073</u>
Revenues over (under) expenditures	<u>(3,798,550)</u>	<u>(4,348,759)</u>	<u>(2,951,312)</u>	<u>1,397,447</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	2,685,000	2,685,000	2,685,000	-
Transfers (to) other funds	(53,700)	(462,400)	(421,943)	40,457
Long-term debt issued	420,000	560,000	560,000	-
Proceeds from sale of capital assets	20,000	20,000	29,456	9,456
Appropriated fund balance	727,250	1,546,159	-	(1,546,159)
Total other financing sources (uses)	<u>3,798,550</u>	<u>4,348,759</u>	<u>2,852,513</u>	<u>(1,496,246)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(98,799)</u>	<u>\$ (98,799)</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>8,022,337</u>	
End of year - June 30			<u>\$ 7,923,538</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, 2014

	Major Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Assets:</b>						
Current assets:						
Cash and cash equivalents	\$ 3,639,521	\$ 869,853	\$ 3,898,643	\$ 9,582,764	\$ 2,161,058	\$ 20,151,839
Accounts receivable, net	738,335	802,188	3,111,563	752,547	2,589	5,407,222
Due from other funds	-	-	-	950,000	-	950,000
Due from other governments	475,265	1,124,638	93	272,248	310	1,872,554
Inventories	293,985	109,098	790,351	412,077	-	1,605,511
Prepaid items	10,244	14,135	7,315	11,534	750	43,978
Total current assets	<u>5,157,350</u>	<u>2,919,912</u>	<u>7,807,965</u>	<u>11,981,170</u>	<u>2,164,707</u>	<u>30,031,104</u>
Non-current assets:						
Restricted cash and cash equivalents	44,932	44,932	263,525	209,680	38,804	601,873
Capital assets, non-depreciable	657,189	1,563,246	87,089	289,918	282,903	2,880,345
Capital assets, net	<u>22,267,499</u>	<u>30,159,476</u>	<u>18,691,255</u>	<u>14,443,955</u>	<u>4,654,475</u>	<u>90,216,660</u>
Total non-current assets	<u>22,969,620</u>	<u>31,767,654</u>	<u>19,041,869</u>	<u>14,943,553</u>	<u>4,976,182</u>	<u>93,698,878</u>
Total assets	<u>28,126,970</u>	<u>34,687,566</u>	<u>26,849,834</u>	<u>26,924,723</u>	<u>7,140,889</u>	<u>123,729,982</u>
<b>Deferred Outflows of Resources:</b>						
Advance refunding bond issue	<u>259,862</u>	<u>82,306</u>	<u>211,507</u>	<u>69,762</u>	<u>-</u>	<u>623,437</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable and accrued liabilities	113,788	233,720	1,693,732	340,923	15,671	2,397,834
Accrued interest payable	65,695	42,648	18,068	19,991	-	146,402
Due to other funds	1,851	1,007,258	584	1,958	385	1,012,036
Unearned revenue	516	617	2,055	-	-	3,188
Compensated absences payable	13,000	10,000	15,000	13,000	5,000	56,000
Current portion of long-term debt	753,738	1,205,631	525,265	707,962	-	3,192,596
Liabilities payable from restricted assets:						
Customer deposits	<u>44,932</u>	<u>44,932</u>	<u>263,525</u>	<u>209,680</u>	<u>38,804</u>	<u>601,873</u>
Total current liabilities	<u>993,520</u>	<u>2,544,806</u>	<u>2,518,229</u>	<u>1,293,514</u>	<u>59,860</u>	<u>7,409,929</u>
Non-current liabilities:						
Compensated absences payable	42,355	28,637	43,452	34,108	16,309	164,861
Other long-term debt	8,230,068	6,755,398	3,735,899	3,331,482	-	22,052,847
Other post-employment benefits	<u>162,839</u>	<u>169,732</u>	<u>125,880</u>	<u>176,912</u>	<u>66,683</u>	<u>702,046</u>
Total non-current liabilities	<u>8,435,262</u>	<u>6,953,767</u>	<u>3,905,231</u>	<u>3,542,502</u>	<u>82,992</u>	<u>22,919,754</u>
Total liabilities	<u>9,428,782</u>	<u>9,498,573</u>	<u>6,423,460</u>	<u>4,836,016</u>	<u>142,852</u>	<u>30,329,683</u>
<b>Net Position:</b>						
Net investment in capital assets	14,200,744	23,843,999	14,728,687	10,764,191	4,937,378	68,474,999
Unrestricted	<u>4,757,306</u>	<u>1,427,300</u>	<u>5,909,194</u>	<u>11,394,278</u>	<u>2,060,659</u>	<u>25,548,737</u>
Total net position	<u>\$ 18,958,050</u>	<u>\$ 25,271,299</u>	<u>\$ 20,637,881</u>	<u>\$ 22,158,469</u>	<u>\$ 6,998,037</u>	<u>\$ 94,023,736</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, 2014

	Major Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Operating Revenues:</b>						
Charges for services	\$ 4,416,280	\$ 4,878,368	\$ 21,272,053	\$ 18,426,654	\$ 581,153	\$ 49,574,508
Other fees	49,240	33,983	-	36,488	-	119,711
Other operating revenues	164,954	175,560	196,215	83,488	5,207	625,424
Total operating revenues	<u>4,630,474</u>	<u>5,087,911</u>	<u>21,468,268</u>	<u>18,546,630</u>	<u>586,360</u>	<u>50,319,643</u>
<b>Operating Expenses:</b>						
Administration	727,245	753,162	931,925	1,237,551	371,056	4,020,939
Operations and maintenance	630,381	815,471	18,382,780	12,540,789	623,009	32,992,430
Treatment plant	1,275,158	1,325,420	-	-	-	2,600,578
Depreciation and amortization	881,876	1,251,762	451,827	593,793	212,605	3,391,863
Total operating expenses	<u>3,514,660</u>	<u>4,145,815</u>	<u>19,766,532</u>	<u>14,372,133</u>	<u>1,206,670</u>	<u>43,005,810</u>
Operating income (loss)	<u>1,115,814</u>	<u>942,096</u>	<u>1,701,736</u>	<u>4,174,497</u>	<u>(620,310)</u>	<u>7,313,833</u>
<b>Non-Operating Revenues (Expenses):</b>						
Operating grants	-	-	-	-	423,757	423,757
Refund of interest expense	90,839	37,136	-	10,541	-	138,516
Investment earnings	38,781	18,915	63,300	22,764	15,734	159,494
Interest expense and fiscal charges	(417,528)	(295,639)	(125,609)	(139,955)	-	(978,731)
Total non-operating revenues (expenses)	<u>(287,908)</u>	<u>(239,588)</u>	<u>(62,309)</u>	<u>(106,650)</u>	<u>439,491</u>	<u>(256,964)</u>
Income (loss) before capital contributions and transfers	<u>827,906</u>	<u>702,508</u>	<u>1,639,427</u>	<u>4,067,847</u>	<u>(180,819)</u>	<u>7,056,869</u>
Capital contributions	464,921	623,556	-	261,737	225,613	1,575,827
Transfers from other funds	36,600	291,060	-	-	-	327,660
Transfers to other funds	(5,000)	(5,000)	(545,000)	(2,987,660)	-	(3,542,660)
Change in net position	<u>1,324,427</u>	<u>1,612,124</u>	<u>1,094,427</u>	<u>1,341,924</u>	<u>44,794</u>	<u>5,417,696</u>
<b>Net Position:</b>						
Beginning year - July 1	18,485,126	23,503,757	18,879,918	20,783,996	6,953,243	88,606,040
Prior period adjustment	(851,503)	155,418	663,536	32,549	-	-
Beginning year - July 1, as restated	<u>17,633,623</u>	<u>23,659,175</u>	<u>19,543,454</u>	<u>20,816,545</u>	<u>6,953,243</u>	<u>88,606,040</u>
End of year - June 30	<u>\$ 18,958,050</u>	<u>\$ 25,271,299</u>	<u>\$ 20,637,881</u>	<u>\$ 22,158,469</u>	<u>\$ 6,998,037</u>	<u>\$ 94,023,736</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, 2014

	Major Enterprise Funds				Nonmajor Fund	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
<b>Cash Flows from Operating Activities:</b>						
Cash received from customers	\$ 4,567,783	\$ 5,073,020	\$ 21,369,639	\$ 19,052,753	\$ 586,269	\$ 50,649,464
Cash paid for goods and services	(1,833,255)	(2,397,620)	(18,290,312)	(12,546,820)	(615,476)	(35,683,483)
Cash paid to employees	(706,502)	(718,829)	(888,949)	(1,229,787)	(364,038)	(3,908,105)
Net cash provided (used) by operating activities	<u>2,028,026</u>	<u>1,956,571</u>	<u>2,190,378</u>	<u>5,276,146</u>	<u>(393,245)</u>	<u>11,057,876</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>						
Proceeds from operating grants	-	-	-	-	423,757	423,757
Increase (decrease) in due from other funds	(471,467)	(1,119,925)	99,789	(261,311)	4,451	(1,748,463)
Transfers from (to) other funds	<u>31,600</u>	<u>286,060</u>	<u>(545,000)</u>	<u>(2,987,660)</u>	<u>-</u>	<u>(3,215,000)</u>
Net cash provided (used) by non-capital financing activities	<u>(439,867)</u>	<u>(833,865)</u>	<u>(445,211)</u>	<u>(3,248,971)</u>	<u>428,208</u>	<u>(4,539,706)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Acquisition and construction of capital assets	(966,406)	(2,197,802)	(304,959)	(822,348)	(252,295)	(4,543,810)
Capital contributions - grants	464,921	623,556	-	261,737	225,613	1,575,827
Proceeds from issuance of long-term debt	133,000	795,000	32,400	136,500	-	1,096,900
Principal paid on long-term debt	(702,352)	(1,150,411)	(541,017)	(679,874)	-	(3,073,654)
Interest paid on long-term debt	<u>(331,493)</u>	<u>(263,901)</u>	<u>(127,234)</u>	<u>(132,868)</u>	<u>-</u>	<u>(855,496)</u>
Net cash provided (used) for capital and related financing activities	<u>(1,402,330)</u>	<u>(2,193,558)</u>	<u>(940,810)</u>	<u>(1,236,853)</u>	<u>(26,682)</u>	<u>(5,800,233)</u>
<b>Cash Flows from Investing Activities:</b>						
Interest received from investments	<u>38,781</u>	<u>18,915</u>	<u>63,300</u>	<u>22,764</u>	<u>15,734</u>	<u>159,494</u>
Net cash provided (used) by investing activities	<u>38,781</u>	<u>18,915</u>	<u>63,300</u>	<u>22,764</u>	<u>15,734</u>	<u>159,494</u>
Net increase (decrease) in cash and cash equivalents	224,610	(1,051,937)	867,657	813,086	24,015	877,431
<b>Cash and Cash Equivalents:</b>						
Beginning of year - July 1	<u>3,459,843</u>	<u>1,966,722</u>	<u>3,294,511</u>	<u>8,979,358</u>	<u>2,175,847</u>	<u>19,876,281</u>
End of year - June 30	<u>\$ 3,684,453</u>	<u>\$ 914,785</u>	<u>\$ 4,162,168</u>	<u>\$ 9,792,444</u>	<u>\$ 2,199,862</u>	<u>\$ 20,753,712</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, 2014

	Major Enterprise Funds				Nonmajor Fund	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)	\$ 1,115,814	\$ 942,096	\$ 1,701,736	\$ 4,174,497	\$ (620,310)	\$ 7,313,833
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	881,876	1,251,762	451,827	593,793	212,605	3,391,863
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(62,587)	(11,116)	(137,287)	506,123	(495)	294,638
(Increase) decrease in inventories	(7,699)	(28,396)	50,064	(16,628)	-	(2,659)
(Increase) decrease in prepaids	299	(6,029)	606	(457)	215	(5,366)
Increase (decrease) in accounts payable and accrued liabilities	79,684	(222,304)	41,798	11,054	7,318	(82,450)
Increase (decrease) in unearned revenues	(104)	(3,775)	(2,281)	-	-	(6,160)
Increase (decrease) in customer deposits	-	-	40,939	-	404	41,343
Increase (decrease) in compensated absences	(3,470)	5,412	24,200	(17,009)	(3,167)	5,966
Increase (decrease) in other post-employment benefits	24,213	28,921	18,776	24,773	10,185	106,868
Net cash provided (used) by operating activities	<u>\$ 2,028,026</u>	<u>\$ 1,956,571</u>	<u>\$ 2,190,378</u>	<u>\$ 5,276,146</u>	<u>\$ (393,245)</u>	<u>\$ 11,057,876</u>

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



# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

##### City of Shelby ABC Board

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

#### B. Basis of Presentation

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

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

The City reports the following major governmental funds:

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

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

The City reports the following nonmajor governmental funds:

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

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

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 Fund:

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

### C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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. Intergovernmental revenues and sales and services are recognized as revenue when received and are not susceptible to accrual because, generally, they are not measurable until received in cash.

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

### **D. Management Estimates**

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

### **E. Budgetary Data**

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

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

#### Deposits and Investments

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

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

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

#### Cash and Investments

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

#### Restricted Assets

Donations for redevelopment, revitalization, and beautification of downtown Shelby and for perpetual care of the municipal cemetery are restricted by donors. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.



# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

### City of Shelby Restricted Cash

#### **Governmental Activities:**

General Fund:

Streets \$ 1,245,659

Raper Roark Trust Fund:

Downtown redevelopment 327,848

Cemetery Fund:

Perpetual care of cemetery 372,421

Total governmental activities \$ 1,945,928

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

Water Fund:

Customer deposits \$ 44,932

Sewer Fund:

Customer deposits 44,932

Electric Fund:

Customer deposits 263,525

Gas Fund:

Customer deposits 209,680

Housing Fund:

Customer deposits 38,804

Total business-type activities \$ 601,873

### **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, 2013. 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, 2014

### Allowance for Doubtful Accounts

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

### Inventory and Prepaid Items

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

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

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

### Capital Assets

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

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

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has one item that meets this criterion in the current year – deferred charge on refunding. In addition to liabilities, the Statement of Net Position can also report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has two items that meet this criterion, taxes receivable and other receivables.

### Long-Term Obligations

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

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### **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, 2014.

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.

### **Net Position/Fund Balances**

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

### **Fund Balances**

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

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

The governmental fund types classify fund balances as follows:

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

	<u>General Fund</u>	<u>Nonmajor Permanent Funds</u>
<i>Inventories</i> - portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources	\$ 170,292	\$ -
<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	251,860	-
<i>Perpetual</i> - portion of fund balance that consists of donations received, which the earnings are to be used for the redevelopment, revitalization, and beautification of downtown Shelby, and for the perpetual care of the municipal cemetery. The donations are to be invested in perpetuity.	<u>-</u>	<u>711,563</u>
Total	<u>\$ 422,152</u>	<u>\$ 711,563</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

	<u>General Fund</u>	<u>Nonmajor Capital Project Funds</u>	<u>Nonmajor Special Revenue Funds</u>
<i>Restricted for Stabilization of State Statute</i> - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)]	\$ 2,917,120	\$ 2,486	\$ 17,633
<i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures	-	182,290	-
<i>Restricted for Streets - Powell Bill</i> - portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the total unexpended Powell Bill funds.	<u>1,245,659</u>	-	-
Total	<u>\$ 4,162,779</u>	<u>\$ 184,776</u>	<u>\$ 17,633</u>

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

	<u>General Fund</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Nonmajor Capital Project Funds</u>
<i>Committed for Capital Projects</i> - portion of fund balance that is committed for future capital activities	\$ -	\$ -	\$ 459,889
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 459,889</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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>	<u>Nonmajor Capital Project 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.	\$ 333,646	\$ -	\$ -
<i>Assigned for Economic Development</i> - portion of fund balance that is assigned for economic development.	<u>-</u>	<u>435,267</u>	<u>-</u>
Total	<u>\$ 333,646</u>	<u>\$ 435,267</u>	<u>\$ -</u>

**Unassigned Fund Balance.** Unassigned fund balance represents the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

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

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

Total fund balance - General Fund (Exhibit C)	\$ 7,923,538
<b>Less:</b>	
Non-spendable	(422,152)
Stabilization by State statute	<u>(2,917,120)</u>
Available for appropriation	<u>\$ 4,584,266</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### 2. Detail Notes On All Funds

#### A. Assets

##### Deposits

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

At June 30, 2014, the City's deposits had a carrying amount of \$5,699,620 and a bank balance of \$5,848,546. The ABC Board's deposits had a carrying amount of \$286,582 and a bank balance of \$293,374.

Of the City's bank balance, \$922,623 was covered by federal depository insurance, and \$4,925,923 was covered by collateral held under the Pooling Method.

The City had petty cash of \$4,745 at June 30, 2014, and the ABC Board had cash on hand of \$7,080.



# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Investments

At June 30, 2014, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than Six Months</u>	<u>Six Months to Five Years</u>	<u>Five to Seven Years</u>
US Government Agencies	\$ 12,062,475	\$ -	\$ 12,062,475	\$ -
Bank of the Ozarks CD's	2,000,000	2,000,000	-	-
US Bank CD's	479,339	479,339	-	-
NCCMT	7,949,603	7,949,603	-	-
Total	<u>\$ 22,491,417</u>	<u>\$ 10,428,942</u>	<u>\$ 12,062,475</u>	<u>\$ -</u>

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

*Credit Risk.* The City has no formal policy regarding credit risk, but has internal management procedures that limit the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City's investments in US agencies (Federal Home Loan Bank, Federal Farm Credit Bank, Freddie Mac) are rated AA+ by Standard and Poors and Aaa by Moody's Investors Service. The City's investment in the North Carolina Capital Management Trust cash portfolio carried a credit rating of AAAM by Standard and Poors as of June 30, 2014. All certificates of deposit are issued by banks organized under the laws of the State of North Carolina and are fully collateralized using the Pooling Method with the North Carolina Department of State Treasurer.

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

*Concentration of Credit Risk.* The City will diversify its investments by security type and institution. With the exception of US Treasuries securities and authorized pools, no more than 50 percent of the City's total investment portfolio will be invested in a single security type and no more than thirty-three percent with a single financial institution. More than 5 percent of the City's investments are in US Government Agencies; Federal Farm Credit Bank and Fannie Mae, 20.0% and 31.5%, respectively.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Receivables – Allowances for Doubtful Accounts

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

	Governmental Activities	Business-Type Activities	Total
Taxes receivable	\$ 223,000	\$ -	\$ 223,000
Accounts receivable	88,210	1,617,795	1,706,005
<b>Total</b>	<b>\$ 311,210</b>	<b>\$ 1,617,795</b>	<b>\$ 1,929,005</b>

### Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balances	Additions	Deletions	Transfers	Ending Balances
<b>Governmental Activities:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 5,014,681	\$ -	\$ -	\$ -	\$ 5,014,681
Construction in progress	1,231,547	3,085,540	-	(176,701)	4,140,386
Total non-depreciable capital assets	6,246,228	3,085,540	-	(176,701)	9,155,067
<b>Depreciable Capital Assets:</b>					
Buildings	13,236,275	-	-	176,701	13,412,976
Other improvements	10,899,183	-	-	-	10,899,183
Machinery and equipment	6,930,777	566,133	(5,295)	-	7,491,615
Vehicles	8,455,142	170,699	(83,245)	-	8,542,596
Infrastructure	11,484,875	-	-	-	11,484,875
Total depreciable capital assets	51,006,252	736,832	(88,540)	176,701	51,831,245
<b>Less Accumulated Depreciation:</b>					
Buildings	5,808,676	359,444	-	-	6,168,120
Other improvements	1,918,150	286,305	-	-	2,204,455
Machinery and equipment	4,961,038	454,564	(5,295)	-	5,410,307
Vehicles	6,619,501	451,630	(83,245)	-	6,987,886
Infrastructure	3,762,562	302,413	-	-	4,064,975
Total accumulated depreciation	23,069,927	\$ 1,854,356	\$ (88,540)	\$ -	24,835,743
Total depreciable capital assets, net	27,936,325				26,995,502
Governmental activities capital assets, net	<b>\$ 34,182,553</b>				<b>\$ 36,150,569</b>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

**Governmental Activities:**

General government	\$	220,925
Public safety		626,341
Transportation		669,622
Environmental protection		80,880
Cultural and recreation		<u>256,588</u>
Total depreciation expense - governmental activities	\$	<u><u>1,854,356</u></u>

	<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	\$ 49,483	\$ -	\$ -	\$ -	\$ 49,483
Construction in progress	<u>67,822</u>	<u>539,884</u>	<u>-</u>	<u>-</u>	<u>607,706</u>
Total non-depreciable capital assets	<u>117,305</u>	<u>539,884</u>	<u>-</u>	<u>-</u>	<u>657,189</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	12,689,719	70,293	-	-	12,760,012
Water extensions	22,290,608	223,462	-	-	22,514,070
Machinery and equipment	1,244,008	48,535	-	-	1,292,543
Vehicles	<u>315,552</u>	<u>84,232</u>	<u>(58,400)</u>	<u>-</u>	<u>341,384</u>
Total depreciable capital assets	<u>36,539,887</u>	<u>426,522</u>	<u>(58,400)</u>	<u>-</u>	<u>36,908,009</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	6,716,153	208,023	-	-	6,924,176
Water extensions	5,874,406	563,736	-	-	6,438,142
Machinery and equipment	1,025,557	57,845	-	-	1,083,402
Vehicles	<u>218,242</u>	<u>34,948</u>	<u>(58,400)</u>	<u>-</u>	<u>194,790</u>
Total accumulated depreciation	<u>13,834,358</u>	<u>\$ 864,552</u>	<u>\$ (58,400)</u>	<u>\$ -</u>	<u>14,640,510</u>
Total depreciable capital assets, net	<u>22,705,529</u>				<u>22,267,499</u>
Water Fund capital assets, net	<u>\$ 22,822,834</u>				<u>\$ 22,924,688</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending</u> <u>Balances</u>
<b>Sewer Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 58,402	\$ -	\$ -	\$ -	\$ 58,402
Construction in progress	502,590	1,828,368	-	(826,114)	1,504,844
Total non-depreciable capital assets	<u>560,992</u>	<u>1,828,368</u>	<u>-</u>	<u>(826,114)</u>	<u>1,563,246</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	16,274,732	199,458	-	-	16,474,190
Sewer extensions	26,177,762	102,436	-	826,114	27,106,312
Machinery and equipment	1,972,621	18,000	(36,100)	-	1,954,521
Vehicles	692,498	49,540	-	-	742,038
System improvements	60,707	-	-	-	60,707
Total depreciable capital assets	<u>45,178,320</u>	<u>369,434</u>	<u>(36,100)</u>	<u>826,114</u>	<u>46,337,768</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	6,415,125	320,780	-	-	6,735,905
Sewer extensions	6,614,166	656,710	-	-	7,270,876
Machinery and equipment	1,422,684	203,403	(36,100)	-	1,589,987
Vehicles	513,106	63,738	-	-	576,844
System improvements	3,036	1,644	-	-	4,680
Total accumulated depreciation	<u>14,968,117</u>	<u>\$ 1,246,275</u>	<u>\$ (36,100)</u>	<u>\$ -</u>	<u>16,178,292</u>
Total depreciable capital assets, net	<u>30,210,203</u>				<u>30,159,476</u>
Sewer Fund capital assets, net	<u>\$ 30,771,195</u>				<u>\$ 31,722,722</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending</u> <u>Balances</u>
<b>Electric Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 75,683	\$ -	\$ -	\$ -	\$ 75,683
Construction in progress	6,045,827	208,759	-	(6,243,180)	11,406
Total non-depreciable capital assets	<u>6,121,510</u>	<u>208,759</u>	<u>-</u>	<u>(6,243,180)</u>	<u>87,089</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	4,158,645	-	-	-	4,158,645
Electric extensions	16,569,110	65,860	-	6,243,180	22,878,150
Machinery and equipment	1,118,260	6,008	-	-	1,124,268
Vehicles	1,105,804	24,332	-	-	1,130,136
Total depreciable capital assets	<u>22,951,819</u>	<u>96,200</u>	<u>-</u>	<u>6,243,180</u>	<u>29,291,199</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	1,840,593	70,729	-	-	1,911,322
Electric extensions	6,520,904	206,242	-	-	6,727,146
Machinery and equipment	882,238	75,274	-	-	957,512
Vehicles	918,482	85,482	-	-	1,003,964
Total accumulated depreciation	<u>10,162,217</u>	<u>\$ 437,727</u>	<u>\$ -</u>	<u>\$ -</u>	<u>10,599,944</u>
Total depreciable capital assets, net	<u>12,789,602</u>				<u>18,691,255</u>
Electric Fund capital assets, net	<u>\$ 18,911,112</u>				<u>\$ 18,778,344</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</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	255,280	452,606	-	(471,457)	236,429
Total non-depreciable capital assets	<u>308,769</u>	<u>452,606</u>	<u>-</u>	<u>(471,457)</u>	<u>289,918</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	475,462	-	-	-	475,462
Sewer extensions	23,072,834	244,775	-	471,457	23,789,066
Machinery and equipment	1,197,262	48,750	(7,716)	-	1,238,296
Vehicles	533,105	76,216	(17,746)	-	591,575
Total depreciable capital assets	<u>25,278,663</u>	<u>369,741</u>	<u>(25,462)</u>	<u>471,457</u>	<u>26,094,399</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	417,568	16,512	-	-	434,080
Sewer extensions	9,464,768	412,323	-	-	9,877,091
Machinery and equipment	740,133	128,106	(7,716)	-	860,523
Vehicles	464,295	32,201	(17,746)	-	478,750
Total accumulated depreciation	<u>11,086,764</u>	<u>\$ 589,142</u>	<u>\$ (25,462)</u>	<u>\$ -</u>	<u>11,650,444</u>
Total depreciable capital assets, net	<u>14,191,899</u>				<u>14,443,955</u>
Gas Fund capital assets, net	<u>\$ 14,500,668</u>				<u>\$ 14,733,873</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
<b>Housing Assistance Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 259,309	\$ 18,864	\$ -	\$ -	\$ 278,173
Construction in progress	-	4,730	-	-	4,730
Total non-depreciable capital assets	<u>259,309</u>	<u>23,594</u>	<u>-</u>	<u>-</u>	<u>282,903</u>
<b>Depreciable Capital Assets:</b>					
Buildings and system	8,668,854	228,701	-	-	8,897,555
Other improvements	664,131	-	-	-	664,131
Machinery and equipment	170,212	-	-	-	170,212
Vehicles	133,210	-	-	-	133,210
Total depreciable capital assets	<u>9,636,407</u>	<u>228,701</u>	<u>-</u>	<u>-</u>	<u>9,865,108</u>
<b>Less Accumulated Depreciation:</b>					
Buildings and system	4,122,576	193,027	-	-	4,315,603
Other improvements	575,095	16,513	-	-	591,608
Machinery and equipment	170,212	-	-	-	170,212
Vehicles	130,145	3,065	-	-	133,210
Total accumulated depreciation	<u>4,998,028</u>	<u>\$ 212,605</u>	<u>\$ -</u>	<u>\$ -</u>	<u>5,210,633</u>
Total depreciable capital assets, net	<u>4,638,379</u>				<u>4,654,475</u>
Housing Assistance Fund capital assets, net	<u>\$ 4,897,688</u>				<u>\$ 4,937,378</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Construction Commitments**

The City has active construction projects as of June 30, 2014. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Foothills Commerce Center Waterline Phase 2	\$ 11,349
Artee Road Sewer Line Extension	16,162
Outfall & WWTP	3,849
WWTP Improvements	683,830
Outfall Improvements	26,495
Land Acquisition & Easement	52,289
Foothills Commer Center Roadway Phase 2	<u>283,618</u>
Total	<u>\$ 1,077,592</u>

Capital Asset activity for the ABC Board for the year ended June 30, 2014, was as follows:

<u>Component Unit</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 182,567	\$ -	\$ -	\$ 182,567
<b>Depreciable Capital Assets:</b>				
Buildings	742,864	-	-	742,864
Office and store equipment	315,823	7,131	-	322,954
Vehicle	24,250	-	-	24,250
Total depreciable capital assets	<u>1,082,937</u>	<u>7,131</u>	<u>-</u>	<u>1,090,068</u>
<b>Less Accumulated Depreciation:</b>				
Buildings	632,570	20,239	-	652,809
Office and store equipment	271,739	9,088	-	280,827
Vehicle	7,679	2,425	-	10,104
Total accumulated depreciation	<u>911,988</u>	<u>31,752</u>	<u>-</u>	<u>943,740</u>
Total ABC depreciable capital assets	<u>170,949</u>	<u>(24,621)</u>	<u>-</u>	<u>146,328</u>
ABC capital assets, net	<u>\$ 353,516</u>	<u>\$ (24,621)</u>	<u>\$ -</u>	<u>\$ 328,895</u>



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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, 2014, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable	\$ 367,867	\$ 529,803
Accrued gas and electric purchases	-	1,809,847
Accrued payroll liabilities	<u>234,155</u>	<u>58,184</u>
Total accounts payable and accrued liabilities	<u>\$ 602,022</u>	<u>\$ 2,397,834</u>

**Long-Term Obligations**

In February 2014, the City entered into a State Revolving Fund loan agreement with the Department of Environment and Natural Resources for the completion of sewer capital projects in the amount of \$726,000. The terms call for twenty annual payments of \$36,300 through May of 2034 with no interest.

In March 2014, the City entered into a financing agreement for the acquisition of several pieces of equipment in the amount of \$930,900. The terms call for five annual payments of \$194,142 through February of 2019 at an interest rate of 1.42%.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

In previous years, the City has entered into a revolving loan agreement, as well as several financing agreements. All other financing arrangements that have an outstanding balance at June 30, 2014, are summarized as follows:

Financing Agreements	Interest Rate	Date Debt Matures	Amount of Original Debt	Balance Outstanding at June 30, 2014					
				Governmental Activities	Business-Type Activities				Total Business-Type
					Water Fund	Sewer Fund	Electric Fund	Gas Fund	
Fire house construction	5.27%	11/2014	\$ 835,000	\$ 27,833	\$ -	\$ -	\$ -	\$ -	\$ -
Sewer extension	5.56%	03/2015	300,000	-	-	20,000	-	-	20,000
Park and recreation improvements	3.24%	04/2015	1,352,345	135,234	-	-	-	-	-
Cleveland County	1.68%	03/2022	183,526	-	-	146,821	-	-	146,821
Powell Bill 2012	1.43%	05/2017	158,000	96,120	-	-	-	-	-
Powell Bill 2013	1.18%	11/2017	31,890	27,214	-	-	-	-	-
Capital projects 2009 Purchase of equipment	3.64%	06/2019	1,250,000	625,000	-	-	-	-	-
2010 Purchase of equipment	3.20%	06/2014	688,496	-	-	-	-	-	-
2011 Purchase of equipment	2.36%	05/2015	903,162	153,634	9,255	13,606	8,576	4,340	35,777
2012 Purchase of equipment	1.69%	05/2016	965,726	208,918	1,846	140,254	16,857	28,290	187,247
2013 Purchase of equipment	1.43%	05/2017	1,250,000	407,340	11,385	77,905	75,504	92,437	257,231
2014 Purchase of equipment	1.18%	11/2017	986,960	514,947	87,295	124,341	-	66,064	277,700
2014 DENR	0.00%	5/2034	726,000	-	-	726,000	-	-	726,000
<b>Total</b>			<b>\$ 10,562,005</b>	<b>\$ 2,756,240</b>	<b>\$ 242,781</b>	<b>\$ 1,317,927</b>	<b>\$ 133,337</b>	<b>\$ 327,631</b>	<b>\$ 2,021,676</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Governmental Activities Long-Term Debt**

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2014, are as follows:

<b>Year Ending June 30</b>	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 958,869	\$ 53,956	\$ 1,012,825
2016	639,859	34,749	674,608
2017	540,152	61,324	601,476
2018	377,095	12,846	389,941
2019	240,265	10,156	250,421
<b>Total</b>	<b>\$ 2,756,240</b>	<b>\$ 173,031</b>	<b>\$ 2,929,271</b>

**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>
2015	\$ 60,780	\$ 2,803	\$ 63,583
2016	52,468	2,011	54,479
2017	52,088	1,417	53,505
2018	50,085	827	50,912
2019	27,360	262	27,622
<b>Total</b>	<b>\$ 242,781</b>	<b>\$ 7,320</b>	<b>\$ 250,101</b>

<b>Year Ending June 30</b>	<b>Sewer Fund</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 227,471	\$ 12,136	\$ 239,607
2016	196,047	8,090	204,137
2017	126,213	5,424	131,637
2018	99,762	3,861	103,623
2019	68,873	2,651	71,524
2020-2024	236,561	3,700	240,261
2025-2029	181,500	-	181,500
2030-2034	181,500	-	181,500
<b>Total</b>	<b>\$ 1,317,927</b>	<b>\$ 35,862</b>	<b>\$ 1,353,789</b>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>Year Ending</b>	<b>Electric Fund</b>					
	<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>		
2015	\$	49,219	\$	2,071	\$	51,290
2016		41,258		1,269		42,527
2017		29,617		665		30,282
2018		6,568		188		6,756
2019		6,675		87		6,762
Total	\$	133,337	\$	4,280	\$	137,617

<b>Year Ending</b>	<b>Gas Fund</b>					
	<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>		
2015	\$	93,729	\$	3,875	\$	97,604
2016		90,681		2,654		93,335
2017		71,669		1,545		73,214
2018		43,427		648		44,075
2019		28,125		205		28,330
Total	\$	327,631	\$	8,927	\$	336,558

**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.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

The outstanding balances on these bonds at June 30, 2014, are as follows:

	<u>Interest Rates</u>	<u>Series Matures</u>	<u>Original Issue</u>	<u>Outstanding June 30, 2014</u>
Combined Enterprise System, Series 2004A	4.62%	2029	\$ 18,465,000	\$ 1,145,000
Combined Enterprise System, Series 2010	6.20%	2025	8,346,400	6,583,767
Combined Enterprise System, Series 2013A	2.78%	2029	9,645,000	9,455,000
Combined Enterprise System, Series 2013B	1.56%	2017	2,540,000	1,895,000
Combined Enterprise System, Series 2013C	2.69%	2028	3,185,000	2,975,000
Combined Enterprise System, Series 2013D	2.10%	2016	1,785,000	<u>1,170,000</u>
Total				<u>\$ 23,223,767</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Water Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 692,958	\$ 390,878	\$ 1,083,836
2016	712,270	359,246	1,071,516
2017	742,463	326,023	1,068,486
2018	592,667	291,363	884,030
2019	613,547	262,366	875,913
2020-2024	3,415,142	836,921	4,252,063
2025-2029	<u>1,971,978</u>	<u>149,309</u>	<u>2,121,287</u>
Total	<u>\$ 8,741,025</u>	<u>\$ 2,616,106</u>	<u>\$ 11,357,131</u>

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>Year Ending</b>	<b>Sewer Fund</b>			
	<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$	978,160	\$ 235,001	\$ 1,213,161
2016		985,611	206,956	1,192,567
2017		415,310	178,330	593,640
2018		367,036	161,410	528,446
2019		382,695	146,190	528,885
2020-2024		2,103,436	481,705	2,585,141
2025-2029		1,410,854	100,306	1,511,160
Total	\$	<u>6,643,102</u>	<u>\$ 1,509,898</u>	<u>\$ 8,153,000</u>

<b>Year Ending</b>	<b>Electric Fund</b>			
	<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$	476,046	\$ 112,581	\$ 588,627
2016		485,348	100,393	585,741
2017		500,320	87,507	587,827
2018		189,952	74,118	264,070
2019		195,040	68,837	263,877
2020-2024		1,061,696	259,648	1,321,344
2025-2029		1,219,425	103,586	1,323,011
Total	\$	<u>4,127,827</u>	<u>\$ 806,670</u>	<u>\$ 4,934,497</u>

<b>Year Ending</b>	<b>Gas Fund</b>			
	<b>June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$	614,233	\$ 104,592	\$ 718,825
2016		627,966	91,172	719,138
2017		638,708	77,283	715,991
2018		148,589	63,048	211,637
2019		154,280	57,495	211,775
2020-2024		845,407	196,972	1,042,379
2025-2029		682,630	52,261	734,891
Total	\$	<u>3,711,813</u>	<u>\$ 642,823</u>	<u>\$ 4,354,636</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The City has pledged future water, sewer, electric, and gas customer revenues, net of specified operating expenses, to repay \$23,223,767 revenue bonds issued in 2004, 2010, and 2013. Proceeds from the bonds provided financing for various capital improvements. The bonds are payable solely from water, sewer, electric, and gas customer net revenues and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$28,799,264. Principal and interest paid for the current year and total customer net revenues were \$4,052,384 and \$49,733,284, 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, 2014, is as follows:

Operating revenues	\$ 49,733,283
Operating expenses*	<u>38,619,882</u>
Income available for debt service	<u>\$ 11,113,401</u>
Debt service, principal, and interest paid (Revenue bond only)	<u>\$ 3,625,810</u>
Debt service coverage ratio	<u>306.51%</u>

\*Per rate covenants, this does not include the depreciation expense of \$3,179,258.

**Changes in Long-Term Liabilities.** Long-term liability activity for the fiscal year ended June 30, 2014, 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	\$ 3,119,488	\$ 560,000	\$ (923,248)	\$ 2,756,240	\$ 958,869
Net pension obligations	441,825	128,182	(39,456)	530,551	-
Compensated absences	935,889	245,310	(222,576)	958,623	240,000
Other post-employment benefits	<u>2,096,067</u>	<u>792,588</u>	<u>(430,312)</u>	<u>2,458,343</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 6,593,269</u>	<u>\$ 1,726,080</u>	<u>\$ (1,615,592)</u>	<u>\$ 6,703,757</u>	<u>\$ 1,198,869</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
<b>Business-Type Activities:</b>					
<b>Water Fund:</b>					
Revenue bonds	\$ 9,406,880	\$ -	\$ (665,855)	\$ 8,741,025	\$ 692,958
Installment debt	146,278	133,000	(36,497)	242,781	60,780
Compensated absences	58,825	15,530	(19,000)	55,355	13,000
Other post-employment benefits	<u>138,626</u>	<u>52,973</u>	<u>(28,760)</u>	<u>162,839</u>	<u>-</u>
Water Fund long-term liabilities	<u>\$ 9,750,609</u>	<u>\$ 201,503</u>	<u>\$ (750,112)</u>	<u>\$ 9,202,000</u>	<u>\$ 766,738</u>
<b>Sewer Fund:</b>					
Revenue bonds	\$ 7,612,590	\$ -	\$ (969,488)	\$ 6,643,102	\$ 978,160
Other debt	703,850	795,000	(180,923)	1,317,927	227,471
Compensated absences	33,225	12,522	(7,110)	38,637	10,000
Other post-employment benefits	<u>140,811</u>	<u>63,274</u>	<u>(34,353)</u>	<u>169,732</u>	<u>-</u>
Sewer Fund long-term liabilities	<u>\$ 8,490,476</u>	<u>\$ 870,796</u>	<u>\$ (1,191,874)</u>	<u>\$ 8,169,398</u>	<u>\$ 1,215,631</u>
<b>Electric Fund:</b>					
Revenue bonds	\$ 4,589,192	\$ -	\$ (461,365)	\$ 4,127,827	\$ 476,046
Installment debt	180,589	32,400	(79,652)	133,337	49,219
Compensated absences	34,252	25,872	(1,672)	58,452	15,000
Other post-employment benefits	<u>107,104</u>	<u>41,077</u>	<u>(22,301)</u>	<u>125,880</u>	<u>-</u>
Electric Fund long-term liabilities	<u>\$ 4,911,137</u>	<u>\$ 99,349</u>	<u>\$ (564,990)</u>	<u>\$ 4,445,496</u>	<u>\$ 540,265</u>
<b>Gas Fund:</b>					
Revenue bonds	\$ 4,312,477	\$ -	\$ (600,664)	\$ 3,711,813	\$ 614,233
Installment debt	270,341	136,500	(79,210)	327,631	93,729
Compensated absences	64,117	14,251	(31,260)	47,108	13,000
Other post-employment benefits	<u>152,139</u>	<u>54,199</u>	<u>(29,426)</u>	<u>176,912</u>	<u>-</u>
Gas Fund long-term liabilities	<u>\$ 4,799,074</u>	<u>\$ 204,950</u>	<u>\$ (740,560)</u>	<u>\$ 4,263,464</u>	<u>\$ 720,962</u>
<b>Housing Assistance Fund:</b>					
Compensated absences	\$ 24,476	\$ 6,132	\$ (9,299)	\$ 21,309	\$ 5,000
Other post-employment benefits	<u>56,498</u>	<u>22,280</u>	<u>(12,095)</u>	<u>66,683</u>	<u>-</u>
Housing Assistance long-term liabilities	<u>\$ 80,974</u>	<u>\$ 28,412</u>	<u>\$ (21,394)</u>	<u>\$ 87,992</u>	<u>\$ 5,000</u>
<b>Total Business-Type Activities:</b>					
Revenue bonds	\$ 25,921,139	\$ -	\$ (2,697,372)	\$ 23,223,767	\$ 2,761,397
Installment debt	1,301,058	1,096,900	(376,282)	2,021,676	431,199
Compensated absences	214,895	74,307	(68,341)	220,861	56,000
Other post-employment benefits	<u>595,178</u>	<u>233,803</u>	<u>(126,935)</u>	<u>702,046</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 28,032,270</u>	<u>\$ 1,405,010</u>	<u>\$ (3,268,930)</u>	<u>\$ 26,168,350</u>	<u>\$ 3,248,596</u>



**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

At June 30, 2014, the City has a legal debt margin of approximately \$117,700,000.

**Deferred Outflows and Inflows of Resources.** The amount of deferred outflows of resources is a charge on refunding of debt for \$623,437. Deferred inflows of resources at year end is comprised of the following:

	<b>Unavailable Revenue</b>
Taxes receivable (General Fund)	\$ 240,853
Taxes receivable (nonmajor funds)	15,016
Loans (nonmajor funds)	<u>66,423</u>
Total	<u>\$ 322,292</u>

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

**Governmental Activities:**

Capital assets, net of accumulated depreciation	\$ 36,150,569
Outstanding balance on related debt	<u>(2,756,240)</u>
Total governmental activities	<u>\$ 33,394,329</u>

**Business-Type Activities:**

**Water:**

Capital assets, net of accumulated depreciation	\$ 22,924,688
Outstanding balance on related debt	(8,983,806)
Deferred charge on refunding	<u>259,862</u>
Total Water	<u>14,200,744</u>

**Sewer:**

Capital assets, net of accumulated depreciation	31,722,722
Outstanding balance on related debt	(7,961,029)
Deferred charge on refunding	<u>82,306</u>
Total Sewer	<u>23,843,999</u>

**Electric:**

Capital assets, net of accumulated depreciation	18,778,344
Outstanding balance on related debt	(4,261,164)
Deferred charge on refunding	<u>211,507</u>
Total Electric	<u>14,728,687</u>

**Gas:**

Capital assets, net of accumulated depreciation	14,733,873
Outstanding balance on related debt	(4,039,444)
Deferred charge on refunding	<u>69,762</u>
Total Gas	<u>10,764,191</u>

**Housing:**

Capital assets, net of accumulated depreciation	<u>4,937,378</u>
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Total business-type activities	<u>\$ 68,474,999</u>
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# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

**Plan Description.** The City and the ABC Board contribute to the State-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. The report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy.** Plan members are required to contribute 6% of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.07% and 7.41%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 7.07% of annual covered payroll. The contribution requirements of members and of the City and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$838,768, \$774,963, and \$803,779, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$37,371, \$35,062, and \$38,016, respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

#### **Law Enforcement Officers' Special Separation Allowance**

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits and terminated plan members entitled to, but not yet receiving, benefits	3
Active plan members	<u>71</u>
Total	<u><u>74</u></u>

### Summary of Significant Accounting Policies

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

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

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

The annual required contribution for the current year was determined as part of the December 31, 2012, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level dollar of projected unit credit on a closed basis. The remaining amortization period at December 31, 2012, was 18 years.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Annual Pension Cost and Net Pension Obligation.** The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 142,088
Interest on net pension obligation	22,091
Adjustment to annual required contribution	<u>(35,997)</u>
Annual pension cost	128,182
Contributions made	<u>39,456</u>
Increase (decrease) in net pension obligation	88,726
Net pension obligation:	
Beginning of year - July 1	<u>441,825</u>
End of year - June 30	<u><u>\$ 530,551</u></u>

**Three-Year Trend Information**

<b>Year Ended June 30</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2014	\$ 128,182	30.78%	\$ 530,551
2013	127,246	27.69%	441,825
2012	123,809	45.08%	349,812

**Funding Status and Funding Progress.** As of December 31, 2013, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$1,288,470, and the unfunded actuarial accrued liability (UAAL) was \$1,288,470. The covered payroll (annual payroll of active employees covered by the plan) was \$2,902,613, and the ratio of the UAAL to the covered payroll was 44.39 percent.

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. The City has elected to include all other City employees in the Plan at the same contribution rate. All amounts contributed are vested immediately. Also, the other City employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2014, were \$755,855, which consisted of \$588,720 from the City and \$167,135 from the covered employees.

### **Firefighter’s and Rescue Squad Workers’ Pension Fund**

**Plan Description.** The State of North Carolina contributes, on behalf of the City, to the Firefighter’s and Rescue Squad Workers’ Pension Fund (the “Fund”), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State’s CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy.** Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the Plan through appropriations. The City does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

**Plan Description.** Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides post-employment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees’ Retirement System (System) and have at least twenty-two years of creditable service with the City. The City pays the full cost of coverage for these benefits through private insurers. Also, the City’s retirees can purchase coverage for their dependents at the City’s group rates. 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, 2011, the date of the latest actuarial valuation:

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

The City has 45 retirees receiving benefits.

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

The current ARC rate is 8.8% of annual covered payroll. The City’s contributions totaled \$557,246, or 4.8% of annual covered payroll, including \$289,339 for general employees, \$96,446 for law enforcement officers, and \$171,460 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 modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Annual OPEB Cost and Net Obligation.** The City’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 1,021,579
Valuation discount rate	4.00%
Interest on net OPEB obligation	107,650
Adjustments to annual required contribution	<u>(102,839)</u>
Annual OPEB cost (expense)	1,026,390
Contributions made	<u>(557,246)</u>
Increase (decrease) in net OPEB obligation	469,144
Net OPEB obligation:	
Beginning of year - July 1	<u>2,691,245</u>
End of year - June 30	<u>\$ 3,160,389</u>

The City’s net OPEB obligation is comprised of \$2,458,343 and \$702,046 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 2014, 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>
2014	\$ 1,026,390	54.30%	\$ 3,160,389
2013	995,764	51.10%	2,691,245
2012	945,707	45.44%	2,204,281

**Fund Status and Funding Progress.** As of December 31, 2011, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits and; thus, the unfunded actuarial accrued liability (UAAL) was \$11,727,758. The covered payroll (annual payroll of active employees covered by the Plan) was \$11,602,746, and the ratio of the UAAL to the covered payroll was 101.1 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends.



# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

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

In the December 31, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 9.5% to 5% annually. Both rates included a 3.00% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, was 30 years.

### **Other Employment Benefit**

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

For the fiscal year ended June 30, 2014, the City made contributions to the State for death benefits of \$0. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>No. Years Contributing</u>	<u>Years Relief</u>	<u>FY Contributions Resume</u>
Less than 10	1	2014
10-20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The City of Shelby will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

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

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### **On-Behalf Payments for Fringe Benefits and Salaries**

For the year ended June 30, 2014, the City has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$2,370 for the 18 full-time Firefighter who perform firefighting duties for the City's fire department. The employees elected to be members of the Firefighter's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Also, the City has recognized a revenue and an expenditure on-behalf payments for fringe benefits and salaries of \$33,900 for the salary supplement and stipend benefits paid to eligible Firefighter by the local Board of Trustees of the Firefighter's Relief Fund during the year ended June 30, 2014. Under State law, the local Board of Trustees for the Fund receives an amount each year that the Board may use at its own discretion for eligible Firefighter or their dependents.

### **Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in 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.

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.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014, the City was a defendant to various lawsuits. In the opinion of the City’s management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City’s financial position.

The City receives amounts from federal, State, and local government agencies in the form of grants. The disbursement of funds under these programs is subject to audit in accordance with Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. The City expects the amount, if any, of expenditures that may be disallowed by the granting agencies as a result of these audits to be immaterial.

**C. Interfund Balances and Activity**

The composition of interfund balances as of June 30, 2014, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds:		
General Fund	Capital Projects Fund	\$ 470,131
General Fund	Water Fund	1,851
General Fund	Sewer Fund	57,258
General Fund	Electric Fund	584
General Fund	Gas Fund	1,958
General Fund	Housing Assistance Fund	385
Gas Fund	Sewer Fund loan	<u>950,000</u>
Total		<u>\$ 1,482,167</u>

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

The \$1 million loan between the Gas Fund and the Sewer Fund will be repaid over 20 years. The balance as of June 30, 2014, was \$950,000.

**CITY OF SHELBY, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Electric Fund	\$ 535,000
General Fund	Gas Fund	2,150,000
Economic Development Commission Fund	General Fund	37,000
Economic Development Commission Fund	Water Fund	5,000
Economic Development Commission Fund	Sewer Fund	5,000
Economic Development Commission Fund	Electric Fund	10,000
Economic Development Commission Fund	Gas Fund	510,000
Capital Projects Fund	General Fund	384,943
Economic Development Project Fund	Economic Development Commission Fund	90,000
Water	Gas Fund	36,600
Sewer	Gas Fund	291,060
Total		<u>\$ 4,054,603</u>

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

**Jointly Governed Organizations**

The City, in conjunction with twenty other local governments, is a member of the North Carolina Municipal Power Agency No. 1 (the “Agency”). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency’s governing board. The twenty-one members who receive power from the Agency have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City’s purchases of power for the year ended June 30, 2014, were \$16,590,955.

# CITY OF SHELBY, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The City is a member of the Isothermal Planning and Development Commission, one of eighteen regional Councils of Government in North Carolina. Four counties and twenty-nine municipalities comprise the Commission. Participating governments established the Commission to coordinate various funding from Federal and State agencies and to provide assistance for specific projects. Each participating unit of government appoints one member to the Commission's governing board. The City paid membership fees of approximately \$6,104 to the Commission during the year ended June 30, 2014.

### **Joint Ventures**

The City and the members of the City's fire department each appoint two members to the five-member local Board of Trustees for the Firefighter's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firefighter's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these monies to the local Board of the Firefighter's Relief Fund. These funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for on-behalf payments for salaries and fringe benefits made to members of the City's fire department by the Board of Trustees. During the year ended June 30, 2014, the City reported revenues and expenditures for the payments of \$33,900 made through the Firefighter's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2014. The Firefighter's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firefighter's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

### **Prior Period Restatement**

During the fiscal year ended June 30, 2014, the City determined that the remaining portion of the 2004 Revenue Bond liabilities were not allocated across the major enterprise funds properly. Therefore, an adjustment to beginning net position for each of the four major enterprise funds was made to allocate the liability at the appropriate percentages. The adjustments as noted on Exhibit H are as follows: Water beginning net position decreased \$851,503, Sewer beginning net position increased \$155,418, Electric beginning net position increased \$663,536, and Gas beginning net position increased \$32,549, the net of which is \$-0-, and had no effect on total beginning net position for total business-type activities.



## **REQUIRED SUPPLEMENTARY INFORMATION**

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

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Funding Progress for the Other Post-Employment Benefits
- Schedule of Employer Contributions for the Other Post-Employment Benefits
- Notes to the Required Schedules for the Other Post-Employment Benefits





## CITY OF SHELBY, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2014

## Schedule of Funding Progress

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

## Schedule of Employer Contributions

Year Ended June 30	Annual		Percentage of ARC Contributed
	Required Contribution (ARC)	Amount Contributed By Employer	
2014	\$ 142,088	\$ 39,456	27.77%
2013	131,524	35,233	26.79%
2012	126,530	55,809	44.11%
2011	136,737	79,997	58.50%
2010	110,532	75,265	68.09%
2009	97,858	68,471	69.97%

## Notes to the Required Schedules:

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

Valuation date	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	5.00%
Projected salary increases *	4.25% to 7.85%
Cost of living adjustments	N/A
* Includes inflation at 3.00%	

## CITY OF SHELBY, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS  
 RETIREE HEALTH PLAN  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2014

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 Schedule of Funding Progress
 

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Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability (AAL)- Projected Unit Credit B		Unfunded AAL (UAAL) B - A	Funded Ratio A / B	Covered Payroll C	UAAL as a Percentage Covered Payroll (B - A) / C	
12/31/2011	\$ -	\$	11,727,758	\$	11,727,758	0.00%	\$ 11,602,746	101.08%
12/31/2009	-		10,875,002		10,875,002	0.00%	11,399,038	95.40%
12/31/2008	-		12,186,718		12,186,718	0.00%	12,197,685	99.91%

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 Schedule of Employer Contributions
 

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Year Ended June 30	Annual Required Contribution (ARC)	Amount Contributed By Employer	Percentage of ARC Contributed
2013	991,824	508,800	51.30%
2012	936,437	429,819	45.90%
2011	902,590	449,119	49.76%
2010	1,036,216	426,762	41.18%
2009	1,036,216	420,870	40.62%

**Notes to the Required Schedules:**

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

Valuation date	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rate	9.50% - 5.00%
Year of ultimate trend rate	2018
* Includes inflation at 3.00%	



## **GENERAL FUND**

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



CITY OF SHELBY, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
<b>Ad Valorem Taxes:</b>				
Current year	\$ 7,300,000	\$ 7,666,891	\$ 366,891	\$ 7,378,471
Prior years	240,000	214,754	(25,246)	206,814
Tax discounts	(20,000)	(19,033)	967	(16,462)
Interest and penalties	45,000	45,194	194	43,289
Total	<u>7,565,000</u>	<u>7,907,806</u>	<u>342,806</u>	<u>7,612,112</u>
<b>Other Taxes and Licenses:</b>				
Local option sales tax	2,700,000	2,789,957	89,957	2,862,052
Privilege licenses	-	18,500	18,500	680
Total	<u>2,700,000</u>	<u>2,808,457</u>	<u>108,457</u>	<u>2,862,732</u>
<b>Unrestricted Intergovernmental Revenues:</b>				
Payment in lieu of taxes	9,000	-	(9,000)	9,582
Utility franchise tax	1,550,000	1,586,083	36,083	1,571,869
Beer and wine tax	93,000	89,747	(3,253)	2,250
ABC revenue	60,000	64,711	4,711	176,896
Total	<u>1,712,000</u>	<u>1,740,541</u>	<u>28,541</u>	<u>1,760,597</u>
<b>Restricted Intergovernmental Revenues:</b>				
Powell Bill allocation	606,180	616,363	10,183	613,850
Local occupancy tax	156,000	140,213	(15,787)	138,506
Federal and State grants	187,000	191,319	4,319	242,253
ABC Law enforcement revenue	10,000	3,957	(6,043)	20,583
Rental vehicle gross receivable tax	27,000	32,311	5,311	30,821
Total	<u>986,180</u>	<u>984,163</u>	<u>(2,017)</u>	<u>1,046,013</u>
<b>Permits and Fees:</b>				
Building permits/inspection fees	100,000	178,305	78,305	96,377
Other permits	40,300	27,390	(12,910)	52,380
Filing fees	-	960	960	690
Total	<u>140,300</u>	<u>206,655</u>	<u>66,355</u>	<u>149,447</u>
<b>Sales and Services:</b>				
Parking penalties	-	-	-	50
Court costs and fees	8,000	6,800	(1,200)	6,530
Cemetery revenue	-	(1,220)	(1,220)	5,042
Golf cart rentals	76,500	50,719	(25,781)	64,409
Recreation revenue	372,898	335,326	(37,572)	262,646
Garbage disposal fees	748,000	756,540	8,540	693,202

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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	Budget	Actual	Variance Over/Under	Actual
Recycling fees	270,000	256,096	(13,904)	260,730
Utility late fees	180,000	217,450	37,450	200,200
Airport fuel sales	320,000	333,339	13,339	315,238
Other rent	14,500	12,630	(1,870)	13,987
Total	1,989,898	1,967,680	(22,218)	1,822,034
<b>Investment Earnings</b>	55,000	171,537	116,537	(105,692)
<b>Miscellaneous:</b>				
Student resource officer	114,000	157,029	43,029	114,000
Public nuisance	55,000	47,863	(7,137)	65,915
Donations	-	328	328	202
Other	15,000	53,693	38,693	79,117
Total	184,000	258,913	74,913	259,234
Total revenues	15,332,378	16,045,752	713,374	15,406,477
<b>Expenditures:</b>				
<b>General Government:</b>				
Mayor and council	49,642	49,549	93	42,014
Administration and general	191,006	170,465	20,541	162,175
Finance	313,042	308,632	4,410	309,059
Purchasing	24,360	18,937	5,423	33,908
Legal	12,725	12,225	500	12,630
Human resources	449,683	389,987	59,696	202,850
City hall	155,125	151,708	3,417	109,973
Building and zoning	223,840	193,822	30,018	256,064
Community development	451,920	447,324	4,596	370,515
Special appropriations	738,297	721,576	16,721	570,810
Total	2,609,640	2,464,225	145,415	2,069,998
<b>Public Safety:</b>				
Police department	5,800,575	5,796,443	4,132	5,657,098
Fire department	3,262,437	3,249,833	12,604	3,334,419
Total	9,063,012	9,046,276	16,736	8,991,517
<b>Transportation:</b>				
Streets and highways	958,264	954,473	3,791	1,000,965
Street maintenance and repairs - Powell Bill	227,130	217,036	10,094	221,934
Street construction and improvement - Powell Bill	937,769	490,353	447,416	293,007
Garage	396,670	405,794	(9,124)	408,129
Airport	472,530	434,780	37,750	444,414
Total	2,992,363	2,502,436	489,927	2,368,449

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, 2014  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	Budget	Actual	Variance Over/Under	Actual
<b>Environmental Protection:</b>				
Sanitation	1,702,965	1,696,887	6,078	1,377,542
Recycling	264,200	262,758	1,442	257,690
Total	1,967,165	1,959,645	7,520	1,635,232
<b>Cultural and Recreational:</b>				
Parks and recreation	2,089,097	2,075,813	13,284	1,944,162
<b>Debt Service:</b>				
Principal retirement	892,310	923,248	(30,938)	821,675
Interest	67,550	25,421	42,129	79,403
Total	959,860	948,669	11,191	901,078
Total expenditures	19,681,137	18,997,064	684,073	17,910,436
Revenue over (under) expenditures	(4,348,759)	(2,951,312)	1,397,447	(2,503,959)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	2,685,000	2,685,000	-	2,460,000
Transfers (to) other funds	(462,400)	(421,943)	40,457	(315,100)
Long-term debt issued	560,000	560,000	-	658,126
Proceeds from the sale of capital assets	20,000	29,456	9,456	21,456
Appropriated fund balance	1,546,159	-	(1,546,159)	-
Total other financing sources (uses)	4,348,759	2,852,513	(1,496,246)	2,824,482
Net change in fund balance	\$ -	(98,799)	\$ (98,799)	320,523
<b>Fund Balance:</b>				
Beginning of year - July 1		8,022,337		7,701,814
End of year - June 30		\$ 7,923,538		\$ 8,022,337







## NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENTS AND SCHEDULES

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

### *Special Revenue Funds*

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

### *Capital Project Funds*

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

### *Permanent Funds*

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



## CITY OF SHELBY, NORTH CAROLINA

## NONMAJOR GOVERNMENTAL FUNDS

## COMBINING BALANCE SHEET

JUNE 30, 2014

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Permanent Funds	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 622,205	\$ 1,030,799	\$ -	\$ 1,653,004
Receivables, net:				
Taxes	15,016	-	-	15,016
Accounts	500	1,709	11,294	13,503
Interest	790	65	-	855
Loans	66,423	-	-	66,423
Due from other governments	1,196	15,859	-	17,055
Cash and cash equivalents - restricted	-	-	700,269	700,269
Total assets	<u>\$ 706,130</u>	<u>\$ 1,048,432</u>	<u>\$ 711,563</u>	<u>\$ 2,466,125</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 4,648	\$ 99,579	\$ -	\$ 104,227
Due to other funds	-	470,131	-	470,131
Due to other governments	-	1,200	-	1,200
Total liabilities	<u>4,648</u>	<u>570,910</u>	<u>-</u>	<u>575,558</u>
<b>Deferred Inflows of Resources:</b>				
Taxes receivable	15,016	-	-	15,016
Other receivables	66,423	-	-	66,423
Total deferred inflows of resources	<u>81,439</u>	<u>-</u>	<u>-</u>	<u>81,439</u>
<b>Fund Balances:</b>				
Non-spendable:				
Perpetual	-	-	711,563	711,563
Restricted:				
Stabilization by State statute	2,486	17,633	-	20,119
Public safety	182,290	-	-	182,290
Committed:				
Capital projects	-	459,889	-	459,889
Assigned:				
Economic development	435,267	-	-	435,267
Total fund balances	<u>620,043</u>	<u>477,522</u>	<u>711,563</u>	<u>1,809,128</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 706,130</u>	<u>\$ 1,048,432</u>	<u>\$ 711,563</u>	<u>\$ 2,466,125</u>

## CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2014**

	<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	\$ 112,427	\$ -	\$ -	\$ 112,427
Restricted intergovernmental	58,663	1,703,041	-	1,761,704
Investment earnings	3,816	10,207	471	14,494
Miscellaneous	196,525	-	-	196,525
Donations	-	-	74,573	74,573
Total revenues	<u>371,431</u>	<u>1,713,248</u>	<u>75,044</u>	<u>2,159,723</u>
<b>Expenditures:</b>				
General government	-	-	2,445	2,445
Public safety	289,416	176,701	-	466,117
Transportation	-	304,952	-	304,952
Housing and redevelopment	671,863	3,065,125	-	3,736,988
Total expenditures	<u>961,279</u>	<u>3,546,778</u>	<u>2,445</u>	<u>4,510,502</u>
Revenues over (under) expenditures	<u>(589,848)</u>	<u>(1,833,530)</u>	<u>72,599</u>	<u>(2,350,779)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	567,000	474,943	-	1,041,943
Transfers (to) other funds	<u>(90,000)</u>	<u>-</u>	<u>-</u>	<u>(90,000)</u>
Total other financing sources (uses)	<u>477,000</u>	<u>474,943</u>	<u>-</u>	<u>951,943</u>
Net change in fund balances	(112,848)	(1,358,587)	72,599	(1,398,836)
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>732,891</u>	<u>1,836,109</u>	<u>638,964</u>	<u>3,207,964</u>
End of year - June 30	<u>\$ 620,043</u>	<u>\$ 477,522</u>	<u>\$ 711,563</u>	<u>\$ 1,809,128</u>

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014

	<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	\$ 182,490	\$ 439,715	\$ 622,205
Receivables, net:			
Taxes	-	15,016	15,016
Accounts	-	500	500
Interest	-	790	790
Loans	-	66,423	66,423
Due from other governments	-	1,196	1,196
Total assets	<u>\$ 182,490</u>	<u>\$ 523,640</u>	<u>\$ 706,130</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	<u>\$ 200</u>	<u>\$ 4,448</u>	<u>\$ 4,648</u>
<b>Deferred Inflows of Resources:</b>			
Taxes receivable	-	15,016	15,016
Other receivables	-	66,423	66,423
Total deferred inflows of resources	<u>-</u>	<u>81,439</u>	<u>81,439</u>
<b>Fund Balances:</b>			
Restricted:			
Stabilization by State statute	-	2,486	2,486
Public safety	182,290	-	182,290
Assigned:			
Economic development	-	435,267	435,267
Total fund balances	<u>182,290</u>	<u>437,753</u>	<u>620,043</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 182,490</u>	<u>\$ 523,640</u>	<u>\$ 706,130</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, 2014**

	<b>Emergency Telephone System Fund</b>	<b>Economic Development Commission Fund</b>	<b>Total Nonmajor Special Revenue Funds</b>
<b>Revenues:</b>			
Ad valorem taxes	\$ -	\$ 112,427	\$ 112,427
Restricted intergovernmental	49,885	8,778	58,663
Investment earnings	-	3,816	3,816
Miscellaneous income	-	196,525	196,525
Total revenues	<u>49,885</u>	<u>321,546</u>	<u>371,431</u>
<b>Expenditures:</b>			
Public safety	289,416	-	289,416
Housing and redevelopment	-	671,863	671,863
Total expenditures	<u>289,416</u>	<u>671,863</u>	<u>961,279</u>
Revenues over (under) expenditures	<u>(239,531)</u>	<u>(350,317)</u>	<u>(589,848)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	-	567,000	567,000
Transfers to other funds	-	(90,000)	(90,000)
Total other financing sources (uses)	<u>-</u>	<u>477,000</u>	<u>477,000</u>
Net change in fund balances	(239,531)	126,683	(112,848)
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>421,821</u>	<u>311,070</u>	<u>732,891</u>
End of year - June 30	<u>\$ 182,290</u>	<u>\$ 437,753</u>	<u>\$ 620,043</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Restricted intergovernmental	\$ 45,728	\$ 49,885	\$ 4,157
<b>Expenditures:</b>			
Public safety:			
Software	139,378	18,428	120,950
Phone system	<u>151,763</u>	<u>270,988</u>	<u>(119,225)</u>
Total expenditures	<u>291,141</u>	<u>289,416</u>	<u>1,725</u>
Revenues over (under) expenditures	<u>(245,413)</u>	<u>(239,531)</u>	<u>5,882</u>
<b>Other Financing Sources (Uses):</b>			
Appropriated fund balance	<u>245,413</u>	<u>-</u>	<u>(245,413)</u>
Total other financing sources (uses)	<u>245,413</u>	<u>-</u>	<u>(245,413)</u>
Net change in fund balance	<u>\$ -</u>	<u>(239,531)</u>	<u>\$ (239,531)</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>421,821</u>	
End of year - June 30		<u>\$ 182,290</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ 109,700	\$ 112,427	\$ 2,727
Restricted intergovernmental	1,800	8,778	6,978
Investment earnings	3,000	3,816	816
Miscellaneous income	90,000	196,525	106,525
Total revenues	<u>204,500</u>	<u>321,546</u>	<u>117,046</u>
<b>Expenditures:</b>			
Housing and redevelopment	<u>681,500</u>	<u>671,863</u>	<u>9,637</u>
Revenues over (under) expenditures	<u>(477,000)</u>	<u>(350,317)</u>	<u>126,683</u>
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	567,000	567,000	-
Transfers to other funds	(90,000)	(90,000)	-
Total other financing sources (uses)	<u>477,000</u>	<u>477,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	126,683	<u>\$ 126,683</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>311,070</u>	
End of year - June 30		<u>\$ 437,753</u>	



## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014

	<u>Capital Projects Fund</u>	<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	\$ 803,243	\$ 28,081	\$ 199,475	\$ 1,030,799
Receivables, net	1,709	-	-	1,709
Interest	-	65	-	65
Due from other governments	<u>15,859</u>	<u>-</u>	<u>-</u>	<u>15,859</u>
Total assets	<u>\$ 820,811</u>	<u>\$ 28,146</u>	<u>\$ 199,475</u>	<u>\$ 1,048,432</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 99,579	\$ -	\$ -	\$ 99,579
Due to other funds	470,131	-	-	470,131
Due to other governments	<u>1,200</u>	<u>-</u>	<u>-</u>	<u>1,200</u>
Total liabilities	<u>570,910</u>	<u>-</u>	<u>-</u>	<u>570,910</u>
<b>Fund Balances:</b>				
Restricted:				
Stabilization by State statute	17,568	65	-	17,633
Committed	<u>232,333</u>	<u>28,081</u>	<u>199,475</u>	<u>459,889</u>
Total fund balances	<u>249,901</u>	<u>28,146</u>	<u>199,475</u>	<u>477,522</u>
Total liabilities and fund balances	<u>\$ 820,811</u>	<u>\$ 28,146</u>	<u>\$ 199,475</u>	<u>\$ 1,048,432</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, 2014**

	<b>Capital Projects Fund</b>	<b>Economic Development Project Fund</b>	<b>Economic Development Reserve Fund</b>	<b>Total Nonmajor Capital Project Funds</b>
<b>Revenues:</b>				
Restricted intergovernmental	\$ 352,037	\$ 1,351,004	\$ -	\$ 1,703,041
Investment earnings	10,386	(179)	-	10,207
Total revenues	<u>362,423</u>	<u>1,350,825</u>	<u>-</u>	<u>1,713,248</u>
<b>Expenditures:</b>				
Public safety	176,701	-	-	176,701
Transportation	304,952	-	-	304,952
Redevelopment	142,500	2,922,625	-	3,065,125
Total expenditures	<u>624,153</u>	<u>2,922,625</u>	<u>-</u>	<u>3,546,778</u>
Revenues over (under) expenditures	<u>(261,730)</u>	<u>(1,571,800)</u>	<u>-</u>	<u>(1,833,530)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>384,943</u>	<u>90,000</u>	<u>-</u>	<u>474,943</u>
Net change in fund balances	123,213	(1,481,800)	-	(1,358,587)
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>126,688</u>	<u>1,509,946</u>	<u>199,475</u>	<u>1,836,109</u>
End of year - June 30	<u>\$ 249,901</u>	<u>\$ 28,146</u>	<u>\$ 199,475</u>	<u>\$ 477,522</u>

## CITY OF SHELBY, NORTH CAROLINA

**CAPITAL PROJECTS FUND - NONMAJOR CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Project Authorization</b>	<b>Actual</b>		<b>Total</b>
		<b>Prior Years</b>	<b>Current Year</b>	
<b>Revenues:</b>				
Trail Grant	\$ 75,000	\$ 75,000	\$ 64,500	\$ 139,500
Airport Grant 2011	166,667	48,791	10,589	59,380
Rural Center building reuse	799,500	799,500	-	799,500
Airport land easement	727,650	83,159	164,211	247,370
CDBG Catalyst Grant 2011	500,000	-	111,500	111,500
Airport Grant 2012-13	158,333	-	1,237	1,237
Investment earnings	-	68,803	10,386	79,189
Total revenues	<u>2,427,150</u>	<u>1,075,253</u>	<u>362,423</u>	<u>1,437,676</u>
<b>Expenditures:</b>				
Carolina Thread Trail	75,000	19,960	31,000	50,960
Airport Grant 2011	166,667	51,449	11,057	62,506
Rural Center building reuse	819,000	819,000	-	819,000
Airport land easement	808,500	87,536	172,854	260,390
CDBG Catalyst Grant 2011	500,000	-	111,500	111,500
Police Department Roof	170,500	-	176,701	176,701
FCC Roads Phase II	408,700	-	119,739	119,739
Airport Grant 2012-13	166,667	-	1,302	1,302
Total expenditures	<u>3,115,034</u>	<u>977,945</u>	<u>624,153</u>	<u>1,602,098</u>
Revenues over (under) expenditures	(687,884)	97,308	(261,730)	(164,422)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>687,884</u>	<u>29,380</u>	<u>384,943</u>	<u>414,323</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ 126,688</u>	<u>\$ 123,213</u>	<u>\$ 249,901</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, 2014

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
County, local grants	\$ 2,077,447	\$ 225,620	\$ 1,351,004	\$ 1,576,624
Investment earnings	-	-	(179)	(179)
Total revenues	<u>2,077,447</u>	<u>225,620</u>	<u>1,350,825</u>	<u>1,576,445</u>
<b>Expenditures:</b>				
Payment to Cleveland County	-	-	349,738	349,738
FCC Roads Phase 2	667,447	-	36,707	36,707
FCC Job Ready Shell Building #2	<u>3,000,000</u>	<u>215,674</u>	<u>2,536,180</u>	<u>2,751,854</u>
Total expenditures	<u>3,667,447</u>	<u>215,674</u>	<u>2,922,625</u>	<u>3,138,299</u>
Revenues over (under) expenditures	(1,590,000)	9,946	(1,571,800)	(1,561,854)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	<u>1,590,000</u>	<u>1,500,000</u>	<u>90,000</u>	<u>1,590,000</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ 1,509,946</u>	<u>\$ (1,481,800)</u>	<u>\$ 28,146</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, 2014

	<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 (deficit)	<u>\$ -</u>	<u>\$ 199,475</u>	<u>\$ -</u>	<u>\$ 199,475</u>

## CITY OF SHELBY, NORTH CAROLINA

NONMAJOR PERMANENT FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
<b>Assets:</b>			
Accounts receivable, net	\$ 11,294	\$ -	\$ 11,294
Cash and cash equivalents - restricted	<u>327,848</u>	<u>372,421</u>	<u>700,269</u>
Total assets	<u>\$ 339,142</u>	<u>\$ 372,421</u>	<u>\$ 711,563</u>
<b>Fund Balances:</b>			
Non-spendable:			
Perpetual	<u>\$ 339,142</u>	<u>\$ 372,421</u>	<u>\$ 711,563</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, 2014**

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
<b>Revenues:</b>			
Investment earnings	\$ 471	\$ -	\$ 471
Donations	<u>2,853</u>	<u>71,720</u>	<u>74,573</u>
Total revenues	<u>3,324</u>	<u>71,720</u>	<u>75,044</u>
<b>Expenditures:</b>			
General government	<u>2,445</u>	<u>-</u>	<u>2,445</u>
Net change in fund balances	879	71,720	72,599
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>338,263</u>	<u>300,701</u>	<u>638,964</u>
End of year - June 30	<u>\$ 339,142</u>	<u>\$ 372,421</u>	<u>\$ 711,563</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*

- **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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for sales and services:			
Water charges	\$ 4,310,614	\$ 4,416,280	\$ 105,666
Water taps	35,000	46,840	11,840
Water cutoffs	1,200	2,400	1,200
Other	<u>119,850</u>	<u>164,954</u>	<u>45,104</u>
Total operating revenues	<u>4,466,664</u>	<u>4,630,474</u>	<u>163,810</u>
Non-operating revenues:			
Grant - refund of interest expense	90,111	90,839	728
Investment earnings	<u>8,000</u>	<u>38,764</u>	<u>30,764</u>
Total non-operating revenues	<u>98,111</u>	<u>129,603</u>	<u>31,492</u>
Total revenues	<u>4,564,775</u>	<u>4,760,077</u>	<u>195,302</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	734,831	706,502	28,329
Operations	629,560	506,449	123,111
Maintenance and repairs	155,376	124,014	31,362
Treatment plant	1,440,290	1,275,158	165,132
Capital outlay	<u>741,452</u>	<u>426,440</u>	<u>315,012</u>
Total costs of sales and services	<u>3,701,509</u>	<u>3,038,563</u>	<u>662,946</u>
Debt service:			
Principal retirement	735,450	702,352	33,098
Interest	<u>454,400</u>	<u>417,528</u>	<u>36,872</u>
Total debt service	<u>1,189,850</u>	<u>1,119,880</u>	<u>69,970</u>
Total operating expenditures	<u>4,891,359</u>	<u>4,158,443</u>	<u>732,916</u>
Revenue over (under) expenditures	<u>(326,584)</u>	<u>601,634</u>	<u>928,218</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, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Other Financing Sources (Uses):</b>			
Transfers (to) other funds	(103,400)	(103,400)	-
Long-term debt issued	133,000	133,000	-
Appropriated fund balance	296,984	-	(296,984)
Total other financing sources (uses)	<u>326,584</u>	<u>29,600</u>	<u>(296,984)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>631,234</u>	<u>\$ 631,234</u>

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

Reconciling items:	
Debt principal	702,352
Long-term debt issued	(133,000)
Capital outlay	426,522
Decrease (increase) in compensated absences	3,470
Decrease (increase) in other post-employment benefits	(24,213)
Depreciation and amortization	(881,876)
Water Capital Projects Fund activity	464,938
Water Capital Projects Fund transfers in (out)	36,600
Water Capital Projects fund intrafund transfer	<u>98,400</u>
Total reconciling items	<u>693,193</u>
Change in net position	<u>\$ 1,324,427</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, 2014

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
<b>Capital Grants:</b>				
Management Plan - Rural Center Grant	\$ 40,000	\$ 40,000	\$ -	\$ 40,000
Project #825 - Clearwater Water	107,450	84,626	-	84,626
Project #827 - Keeter Stadium Water Line	88,247	79,461	-	79,461
Project #828 - Baldor Water Metering Vault	17,835	16,617	-	16,617
Project #830 - Artee Washburn Rd Water Line	419,900	-	360,111	360,111
Project #831 - KSM Water Line	146,320	-	104,810	104,810
Investment earnings	-	69,456	17	69,473
Total revenues	<u>819,752</u>	<u>290,160</u>	<u>464,938</u>	<u>755,098</u>
<b>Expenditures:</b>				
Project #818 - Westside Pumpstation	2,440,000	2,442,753	-	2,442,753
Project #819 - Westside Elevated Tank	2,085,719	2,070,565	-	2,070,565
Project #820 - Eastside Water Line	937,781	937,781	-	937,781
Project #821 - Water Line Extensions	423,000	344,674	-	344,674
Project #822 - Eastside Water Tank	147,000	47,256	-	47,256
Project #823 - Water Sewer Asset Management Plan	70,000	67,000	-	67,000
Project #824 - Parks Water Project	-	54,754	-	54,754
Project #825 - Clearwater Water Project	214,950	159,533	-	159,533
Project #826 - Water Treatment Plant FY11	515,000	450,824	-	450,824
Project #827 - Keeter Stadium Water Line	119,133	100,304	-	100,304
Project #828 - Baldor Water Metering Vault	34,379	31,669	-	31,669
Project #829 - Plato Lee Water Line Relocation	105,700	5,700	-	5,700
Project #830 Artee Washburn Rd Water Line	419,900	14,785	345,631	360,416
Project #831 KSM Water Line	182,920	-	109,022	109,022
Project #832 FCC Waterline Phase 2	98,400	-	85,231	85,231
Total expenditures	<u>7,793,882</u>	<u>6,727,598</u>	<u>539,884</u>	<u>7,267,482</u>
Revenues over (under) expenditures	<u>(6,974,130)</u>	<u>(6,437,438)</u>	<u>(74,946)</u>	<u>(6,512,384)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	434,244	405,275	135,000	540,275
Long-term debt issued	5,463,500	5,473,569	-	5,473,569
Appropriated fund balance	1,076,386	-	-	-
Total other financing sources (uses)	<u>6,974,130</u>	<u>5,878,844</u>	<u>135,000</u>	<u>6,013,844</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (558,594)</u>	<u>\$ 60,054</u>	<u>\$ (498,540)</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 4,873,000	\$ 4,878,368	\$ 5,368
Other fees	17,000	33,983	16,983
Other operating revenues	103,000	175,560	72,560
Total operating revenue	<u>4,993,000</u>	<u>5,087,911</u>	<u>94,911</u>
Non-operating revenues:			
Grant - refund of interest expense	36,390	37,136	746
Investment earnings	5,000	18,398	13,398
Total non-operating revenues	<u>41,390</u>	<u>55,534</u>	<u>14,144</u>
Total revenues	<u>5,034,390</u>	<u>5,143,445</u>	<u>109,055</u>
<b>Expenditures:</b>			
Operating expenditures:			
Cost of sales and services:			
Administration	765,910	747,750	18,160
Line operation	434,735	443,254	(8,519)
Maintenance and repairs	397,000	343,296	53,704
Treatment plant	1,393,633	1,325,420	68,213
Capital outlay	764,724	369,434	395,290
Total costs of sales and services	<u>3,756,002</u>	<u>3,229,154</u>	<u>526,848</u>
Debt service:			
Principal retirement	1,192,950	1,150,411	42,539
Interest	344,500	295,639	48,861
Total debt service	<u>1,537,450</u>	<u>1,446,050</u>	<u>91,400</u>
Total operating expenditures	<u>5,293,452</u>	<u>4,675,204</u>	<u>618,248</u>
Revenues over (under) expenditures	<u>(259,062)</u>	<u>468,241</u>	<u>727,303</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Other Financing Sources (Uses):</b>			
Transfers (to) other funds	(37,340)	(37,340)	-
Long-term debt issued	69,000	69,000	-
Appropriated fund balance	<u>227,402</u>	-	<u>(227,402)</u>
Total other financing sources (uses)	<u>259,062</u>	<u>31,660</u>	<u>(227,402)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>499,901</u>	<u>\$ 499,901</u>

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

Long-term debt issued	(69,000)
Debt principal	1,150,411
Capital outlay	369,434
(Increase) decrease in compensated absences	(5,412)
(Increase) decrease in other post-employment benefits	(28,921)
Depreciation and amortization	(1,251,762)
Net Sewer Capital Projects Fund activity	<u>947,473</u>
Total reconciling items	<u>1,112,223</u>
Change in net position	<u>\$ 1,612,124</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, 2014

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Project #843 - Westside sewer - Rural Center Grant	\$ 3,890,000	\$ 3,448,622	\$ -	\$ 3,448,622
Project #845 - Hallelujah communities	569,500	335,269	-	335,269
Project #856 - Wastewater treatment plant upgrades - EPA STAG Grant	192,900	191,619	-	191,619
Project #846 - Shelby Middle School Sewer Project - County share	401,600	229,940	-	229,940
Project #858 - Chestnut street CDBG sewer project	750,000	750,000	-	750,000
Project #859 - Clearwater Sewer - rural center	41,400	38,608	-	38,608
Project #860 - Keeter Stadium sewer line	58,831	51,907	-	51,907
Project #863 - Baldor Sewer Pump Station Project	119,355	94,572	-	94,572
Project #864 - Artee Road sewer line relocation	172,400	-	97,706	97,706
Project #867 - KSM sewer line extension	309,150	-	275,850	275,850
Project #868 - Brushy Creek sewer outfall	250,000	-	250,000	250,000
Investment earnings	-	71,055	517	71,572
Total revenues	<u>6,755,136</u>	<u>5,211,592</u>	<u>624,073</u>	<u>5,835,665</u>
<b>Expenditures:</b>				
Project #840 - Eastside sewer project	3,309,100	3,170,508	-	3,170,508
Project #843 - Westside sewer	5,735,000	5,251,566	-	5,251,566
Project #844 - Spruce lift station replacement	121,000	116,445	-	116,445
Project #845 - Hallelujah communities	962,000	615,618	-	615,618
Project #856 - Wastewater treatment plant upgrade	350,800	408,040	-	408,040
Project #846 - Shelby Middle School Sewer Project	422,600	413,465	-	413,465
Project #857 - Parks Sewer Project	-	65,664	-	65,664
Project #858 - Chestnut Street CDBG Sewer Project	961,600	951,587	-	951,587
Project #859 - Clearwater Sewer Project	82,750	78,736	-	78,736
Project #860 - Keeter Stadium sewer line	79,422	82,291	-	82,291
Project #861 - Artee Sewer Line Extension Project	206,000	-	161,520	161,520
Project #862 - Mall area lift station project	1,132,750	268,372	459,731	728,103
Project #863 - Baldor Sewer Pump Station Project	240,000	180,926	-	180,926
Project #864 - Artee Road sewer line relocation	172,400	7,030	90,981	98,011
Project #865 - First Broad Wastewater Treatment Plant improvements	10,200,000	115,977	768,035	884,012
Project #866 - Wastewater outfall line improvements	3,398,640	105,272	72,251	177,523
Project #867 - KSM sewer line extension	350,210	-	275,850	275,850
Project #868 - Brushy Creek sewer outfall	500,000	-	-	-
Total expenditures	<u>28,224,272</u>	<u>11,831,497</u>	<u>1,828,368</u>	<u>13,659,865</u>
Revenues over (under) expenditures	<u>(21,469,136)</u>	<u>(6,619,905)</u>	<u>(1,204,295)</u>	<u>(7,824,200)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	13,916,595	472,945	291,060	764,005
Intrafund transfers to (from) other funds	-	-	32,340	32,340
Long-term debt issued	6,163,600	5,182,427	726,000	5,908,427
Loan from Gas Fund	1,000,000	1,000,000	-	1,000,000
Appropriated fund balance	388,941	-	-	-
Total other financing sources (uses)	<u>21,469,136</u>	<u>6,655,372</u>	<u>1,049,400</u>	<u>7,704,772</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 35,467</u>	<u>\$ (154,895)</u>	<u>\$ (119,428)</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 20,501,500	\$ 21,272,053	\$ 770,553
Other fees	100,000	-	(100,000)
Other operating revenues	170,850	196,215	25,365
Total operating revenue	<u>20,772,350</u>	<u>21,468,268</u>	<u>695,918</u>
<b>Non-Operating Revenues:</b>			
Investment earnings	<u>20,000</u>	<u>52,024</u>	<u>32,024</u>
Total revenues	<u>20,792,350</u>	<u>21,520,292</u>	<u>727,942</u>
<b>Expenditures:</b>			
Cost of sales and services:			
Administration	940,235	888,949	51,286
Line operation	18,606,912	18,362,027	244,885
Capital outlay	222,150	116,953	105,197
Total costs of sales and services	<u>19,769,297</u>	<u>19,367,929</u>	<u>401,368</u>
Debt service:			
Principal repayment	486,100	541,017	(54,917)
Interest and fees	183,050	125,609	57,441
Total debt service	<u>669,150</u>	<u>666,626</u>	<u>2,524</u>
Total expenditures	<u>20,438,447</u>	<u>20,034,555</u>	<u>403,892</u>
Revenues over (under) expenditures	<u>353,903</u>	<u>1,485,737</u>	<u>1,131,834</u>
<b>Other Financing Sources (Uses):</b>			
Transfers to other funds	(545,000)	(545,000)	-
Long-term debt issued	32,400	32,400	-
Appropriated fund balance	158,697	-	(158,697)
Total other financing sources (uses)	<u>(353,903)</u>	<u>(512,600)</u>	<u>(158,697)</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	973,137	\$ 973,137
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Debt principal		541,017	
Refunded debt issued		(32,400)	
Capital outlay		96,200	
(Increase) decrease in compensated absences		(24,200)	
(Increase) decrease in other post-employment benefits		(18,776)	
Depreciation and amortization		(451,827)	
Electric Capital Projects Fund activity		5,987	
Net Electric Reserve Fund activity		<u>5,289</u>	
Total reconciling items		<u>121,290</u>	
Change in net position		<u>\$ 1,094,427</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, 2014**

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Project #859 - Cleveland County contribution	\$ 2,353,000	\$ 2,280,881	\$ -	\$ 2,280,881
Project #859 - Golden Leaf Grant	1,000,000	838,756	-	838,756
Project #859 - Commerce Grant	800,000	500,000	-	500,000
Project #859 - State Grant	4,000	4,000	-	4,000
Project #860 - NC DOT Grant	39,100	-	-	-
Project #862 - Solar farm electric line	160,000	143,254	-	143,254
Project #864 - UOC Lighting Project	20,000	20,600	-	20,600
Investment earnings	-	115,053	5,987	121,040
Total revenues	<u>4,376,100</u>	<u>3,902,544</u>	<u>5,987</u>	<u>3,908,531</u>
<b>Expenditures:</b>				
Project #853 - Aerial mapping	523,550	471,443	-	471,443
Project #859 - Foothills Commerce Center	6,210,000	5,904,518	-	5,904,518
Project #860 - Dekalb Street	39,100	-	-	-
Project #861 - Electric line extension	642,400	984,477	-	984,477
Project #862 - Solar farm electric line	320,000	284,215	-	284,215
Project #863 - Underground cable FY11	150,000	129,678	-	129,678
Project #864 - UOC Lighting Project	40,000	38,983	274	39,257
Project #865 - Artee Road Electric Line Relocation	114,000	8,121	3,285	11,406
Project #866 - Country Club Gardens Cable Project	476,000	94,205	205,200	299,405
Total expenditures	<u>8,515,050</u>	<u>7,915,640</u>	<u>208,759</u>	<u>8,124,399</u>
Revenues over (under) expenditures	<u>(4,138,950)</u>	<u>(4,013,096)</u>	<u>(202,772)</u>	<u>(4,215,868)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	3,305,400	1,884,457	-	1,884,457
Long-term debt issued	523,550	523,550	-	523,550
Appropriated fund balance	310,000	-	-	-
Total other financing sources (uses)	<u>4,138,950</u>	<u>2,408,007</u>	<u>-</u>	<u>2,408,007</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (1,605,089)</u>	<u>\$ (202,772)</u>	<u>\$ (1,807,861)</u>

## CITY OF SHELBY, NORTH CAROLINA

## ENTERPRISE FUND

## ELECTRIC CAPITAL RESERVE FUND

## SCHEDULE OF REVENUES AND EXPENDITURES -

## BUDGET AND ACTUAL (NON-GAAP)

## FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Non-operating revenues:			
Investment earnings	\$ -	\$ 5,289	\$ 5,289
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 5,289</u>	<u>\$ 5,289</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 17,561,500	\$ 18,426,654	\$ 865,154
Other fees	40,000	36,488	(3,512)
Other operating revenues	<u>65,500</u>	<u>83,488</u>	<u>17,988</u>
Total operating revenue	<u>17,667,000</u>	<u>18,546,630</u>	<u>879,630</u>
Non-operating revenues:			
Grant - refund of interest expense	10,456	10,541	85
Investment earnings	<u>15,000</u>	<u>8,653</u>	<u>(6,347)</u>
Total non-operating revenues	<u>25,456</u>	<u>19,194</u>	<u>(6,262)</u>
Total revenues	<u>17,692,456</u>	<u>18,565,824</u>	<u>873,368</u>
<b>Expenditures:</b>			
Cost of sales and services:			
Administration	1,322,435	1,229,788	92,647
Line operation	12,679,780	12,540,789	138,991
Capital outlay	<u>1,164,500</u>	<u>369,741</u>	<u>794,759</u>
Total costs of sales and services	<u>15,166,715</u>	<u>14,140,318</u>	<u>1,026,397</u>
Debt service:			
Principal repayment	859,900	679,874	180,026
Interest and fees	<u>162,350</u>	<u>139,955</u>	<u>22,395</u>
Total debt service	<u>1,022,250</u>	<u>819,829</u>	<u>202,421</u>
Total expenditures	<u>16,188,965</u>	<u>14,960,147</u>	<u>1,228,818</u>
Revenues over (under) expenditures	<u>1,503,491</u>	<u>3,605,677</u>	<u>2,102,186</u>
<b>Other Financing Sources (Uses):</b>			
Transfers to other funds	(2,660,000)	(2,660,000)	-
Intrafund transfers	(250,000)	(250,000)	-
Long-term debt issued	136,500	136,500	-
Appropriated fund balance	<u>1,270,009</u>	<u>-</u>	<u>(1,270,009)</u>
Total other financing sources (uses)	<u>(1,503,491)</u>	<u>(2,773,500)</u>	<u>(1,270,009)</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	832,177	\$ 832,177
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Debt principal		679,874	
Long-term debt issued		(136,500)	
Capital outlay		369,741	
(Increase) decrease in compensated absences		17,009	
(Increase) decrease in other post-employment benefits		(24,773)	
Depreciation and amortization		(593,793)	
Gas Capital Project Fund revenues		261,738	
Gas Capital Project Fund interest		7,011	
Gas Capital Reserve Fund interest		7,100	
Gas Capital Reserve Fund transfers		(327,660)	
Gas Capital Reserve Fund intrafund transfer		<u>250,000</u>	
Total reconciling items		<u>509,747</u>	
Change in net position		<u>\$ 1,341,924</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, 2014

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Project #879 - Artee Washburn				
Road gas line relocation	\$ 492,500	\$ -	\$ 261,738	\$ 261,738
Investment earnings	-	38,895	7,011	45,906
Total revenues	492,500	38,895	268,749	307,644
<b>Expenditures:</b>				
Project #876 - Airport Road gas line	175,000	131,934	-	131,934
Project #877 - PPG meter station upgrade	635,000	681,012	-	681,012
Project #878 - Plato Lee gas line relocation	138,045	11,091	-	11,091
Project #879 - Artee/Washburn Road gas line relocation	492,500	26,390	240,592	266,982
Project #880 - NC226 Polkville Road Gas line relocation	241,000	13,325	212,014	225,339
Project #881 - R2707AA US 74 gas line relocation	337,510	204,474	-	204,474
Total expenditures	2,019,055	1,068,226	452,606	1,520,832
Revenues over (under) expenditures	(1,526,555)	(1,029,331)	(183,857)	(1,213,188)
<b>Other Financing Sources (Uses):</b>				
Transfers from other funds	716,555	716,555	-	716,555
Long-term debt issued	810,000	635,161	-	635,161
Total other financing sources (uses)	1,526,555	1,351,716	-	1,351,716
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 322,385	\$ (183,857)	\$ 138,528

## CITY OF SHELBY, NORTH CAROLINA

## ENTERPRISE FUND

## GAS CAPITAL RESERVE FUND

## SCHEDULE OF REVENUES AND EXPENDITURES -

## BUDGET AND ACTUAL (NON-GAAP)

## FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Non-operating revenues:			
Investment earnings	\$ -	\$ 7,100	\$ 7,100
<b>Other Financing Sources (Uses):</b>			
Transfers from other funds	-	250,000	250,000
Transfers to other funds	(327,660)	(327,660)	-
Appropriated fund balance	<u>327,660</u>	<u>-</u>	<u>(327,660)</u>
Total other financing sources (uses)	<u>-</u>	<u>(77,660)</u>	<u>(77,660)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (70,560)</u>	<u>\$ (70,560)</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, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating revenues:			
Charges for services	\$ 545,250	\$ 581,153	\$ 35,903
Other operating revenues	5,000	5,207	207
Total operating revenue	<u>550,250</u>	<u>586,360</u>	<u>36,110</u>
Non-operating revenues:			
Operating and capital grants	680,849	649,370	(31,479)
Investment earnings	11,700	15,734	4,034
Total non-operating revenues	<u>692,549</u>	<u>665,104</u>	<u>(27,445)</u>
Total revenues	<u>1,242,799</u>	<u>1,251,464</u>	<u>8,665</u>
<b>Expenditures:</b>			
Cost of sales and services:			
Administration	361,000	374,223	(13,223)
Operating and maintenance	615,550	612,824	2,726
Capital outlay	266,249	228,701	37,548
Total costs of sales and services	<u>1,242,799</u>	<u>1,215,748</u>	<u>27,051</u>
Total expenditures	<u>1,242,799</u>	<u>1,215,748</u>	<u>27,051</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>35,716</u>	<u>\$ 35,716</u>
<b>Reconciliation of Modified Accrual Basis with Accrual Basis:</b>			
Capital outlay		228,701	
Decrease (increase) in compensated absences		3,167	
Decrease (increase) in other post-employment benefits		(10,185)	
Depreciation		<u>(212,605)</u>	
Total reconciling items		<u>9,078</u>	
Change in net position		<u>\$ 44,794</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, 2014

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b>Expenditures:</b>				
Land	\$ 239,750	\$ 24,898	\$ 18,864	\$ 43,762
Construction	<u>-</u>	<u>-</u>	<u>4,730</u>	<u>4,730</u>
Total expenditures	<u>239,750</u>	<u>24,898</u>	<u>23,594</u>	<u>48,492</u>
<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>\$ 214,852</u>	<u>\$ (23,594)</u>	<u>\$ 191,258</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, 2014**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2013</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2014</u>
2013-2014	\$ -	\$ 8,032,593	\$ 7,799,082	\$ 233,511
2012-2013	273,273	-	182,219	91,054
2011-2012	48,084	-	12,658	35,426
2010-2011	33,754	-	9,407	24,347
2009-2010	25,139	-	2,472	22,667
2008-2009	17,707	-	1,524	16,183
2007-2008	15,474	-	1,130	14,344
2006-2007	16,014	-	1,247	14,767
2005-2006	15,500	-	698	14,802
2004-2005	12,550	-	782	11,768
2003-2004	12,841	-	12,841	-
Total	<u>\$ 470,336</u>	<u>\$ 8,032,593</u>	<u>\$ 8,024,060</u>	478,869

Less: allowance for uncollectible ad valorem taxes receivable (223,000)

Ad valorem taxes receivable, net \$ 255,869

**Reconciliation with Revenues:**

Ad valorem taxes - General Fund	\$ 7,907,806
Ad valorem taxes - Special Revenue Fund	112,427
Interest and penalties collected	(48,233)
Discounts allowed	19,528
Miscellaneous adjustments	19,691
Arrears written off for tax year 2003-2004 per Statute of Limitations	<u>12,841</u>
Total collections and credits	<u>\$ 8,024,060</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, 2014

	<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	\$ 1,738,672,414	0.435	\$ 7,563,225	\$ 6,888,613	\$ 674,612
Municipal service district taxed at current year's rate	<u>50,097,710</u>	0.655	<u>328,140</u>	<u>315,951</u>	<u>12,189</u>
Total original levy	<u>1,788,770,124</u>		<u>7,891,365</u>	<u>7,204,564</u>	<u>686,801</u>
<b>Discoveries:</b>					
Property taxed at current year's rate	53,957,931	0.435	234,717	233,676	1,041
Municipal service district taxed at current year's rate	<u>22,901</u>	0.655	<u>150</u>	<u>150</u>	<u>-</u>
Total discoveries	<u>53,980,832</u>		<u>234,867</u>	<u>233,826</u>	<u>1,041</u>
<b>Abatements:</b>					
Property taxed at current year's rate	21,273,333	0.435	92,539	85,634	6,905
Municipal service district taxed at current year's rate	<u>167,939</u>	0.655	<u>1,100</u>	<u>1,002</u>	<u>98</u>
Total abatements	<u>21,441,272</u>		<u>93,639</u>	<u>86,636</u>	<u>7,003</u>
Total property valuation	<u>\$ 1,821,309,684</u>				
<b>Net Levy</b>			8,032,593	7,351,754	680,839
Uncollected taxes at June 30, 2014			<u>233,511</u>	<u>205,029</u>	<u>28,482</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 7,799,082</u>	<u>\$ 7,146,725</u>	<u>\$ 652,357</u>
<b>Current Levy Collection Percentage</b>			<u>97.09%</u>	<u>97.21%</u>	<u>95.82%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>96.48%</u>	<u>97.27%</u>	<u>85.82%</u>

## CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY  
CITY-WIDE LEVY  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>City-Wide</u>		<u>Total Levy</u>		
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 1,738,672,414	0.435	\$ 7,563,225	\$ 6,888,613	\$ 674,612
<b>Discoveries:</b>					
Property taxed at current year's rate	53,957,931	0.435	234,717	233,676	1,041
<b>Abatements:</b>					
Property taxed at current year's rate	<u>21,273,333</u>	0.435	<u>92,539</u>	<u>85,634</u>	<u>6,905</u>
Total property valuation	<u>\$ 1,771,357,011</u>				
<b>Net Levy</b>			7,705,403	7,036,655	668,748
Uncollected taxes at June 30, 2014			<u>222,039</u>	<u>197,673</u>	<u>24,366</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 7,483,364</u>	<u>\$ 6,838,982</u>	<u>\$ 644,382</u>
<b>Current Levy Collection Percentage</b>			<u>97.12%</u>	<u>97.19%</u>	<u>96.36%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>96.43%</u>	<u>97.24%</u>	<u>85.65%</u>

## CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY  
MUNICIPAL SERVICE DISTRICT LEVY  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Municipal Service District</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 50,097,710	0.655	\$ 328,140	\$ 315,951	\$ 12,189
<b>Discoveries:</b>					
Property taxed at current year's rate	22,901	0.655	150	150	-
<b>Abatements:</b>					
Property taxed at current year's rate	<u>167,939</u>	0.655	<u>1,100</u>	<u>1,002</u>	<u>98</u>
Total property valuation	<u>\$ 49,952,672</u>				
<b>Net Levy</b>			327,190	315,099	12,091
Uncollected taxes at June 30, 2014			<u>11,472</u>	<u>7,356</u>	<u>4,116</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 315,718</u>	<u>\$ 307,743</u>	<u>\$ 7,975</u>
<b>Current Levy Collection Percentage</b>			<u>96.49%</u>	<u>97.67%</u>	<u>65.96%</u>
<b>Prior Year Levy Collection Percentage</b>			<u>97.54%</u>	<u>97.90%</u>	<u>91.03%</u>



## CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - BALANCE SHEET  
FOR THE YEAR ENDED JUNE 30, 2014

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
<b>Assets:</b>				
Current assets:				
Cash:				
111	Cash - unrestricted	\$ 190,683	\$ -	\$ 190,683
114	Cash - tenant security deposits	38,804	-	38,804
100	Total cash	<u>229,487</u>	<u>-</u>	<u>229,487</u>
Accounts and notes receivables:				
124	Accounts receivable - other governments	101	-	101
126	Accounts receivable - tenant - dwelling rents	209	-	209
129	Accrued interest receivable	2,589	-	2,589
120	Total receivables, net allowances for uncollectibles	<u>2,899</u>	<u>-</u>	<u>2,899</u>
131	Investments - unrestricted	1,970,375	-	1,970,375
142	Prepaid expenses and other assets	750	-	750
150	Total current assets	<u>2,203,511</u>	<u>-</u>	<u>2,203,511</u>
Non-current assets:				
Fixed assets:				
161	Land	282,903	-	282,903
162	Buildings	9,336,073	225,613	9,561,686
163	Furniture, equipment, and machinery - dwellings	303,422	-	303,422
166	Accumulated depreciation	(5,462,437)	-	(5,462,437)
180	Total non-current assets	<u>4,459,961</u>	<u>225,613</u>	<u>4,685,574</u>
190	Total assets	<u>\$ 6,663,472</u>	<u>\$ 225,613</u>	<u>\$ 6,889,085</u>
<b>Liabilities and Net Position</b>				
Liabilities:				
Current liabilities:				
312	Accounts payable < 90 days	\$ 9,520	\$ -	\$ 9,520
321	Accrued wages/payroll taxes payable	6,536	-	6,536
322	Accrued compensated absences	5,000	-	5,000
341	Tenant security deposits	38,804	-	38,804
310	Total current liabilities	<u>59,860</u>	<u>-</u>	<u>59,860</u>
Non-current liabilities:				
354	Accrued compensated absences - non-current	16,309	-	16,309
	Other post-employment benefits	66,683	-	66,683
350	Total non-current liabilities	<u>82,992</u>	<u>-</u>	<u>82,992</u>
300	Total liabilities	<u>142,852</u>	<u>-</u>	<u>142,852</u>
Net position:				
508.1	Net investment in capital assets	4,459,961	225,613	4,685,574
512.1	Unrestricted net position	2,060,659	-	2,060,659
513	Total net position	<u>6,520,620</u>	<u>225,613</u>	<u>6,746,233</u>
600	Total liabilities and net position	<u>\$ 6,663,472</u>	<u>\$ 225,613</u>	<u>\$ 6,889,085</u>

## CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - REVENUES AND EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2014

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
	<b>Revenue:</b>			
703	Net tenant rental revenue	\$ 578,700	\$ -	\$ 578,700
704	Tenant revenue - other	2,453	-	2,453
705	Total tenant revenue	581,153	-	581,153
706	HUD PHA operating grants	423,757	-	423,757
706.1	HUD PHA capital grants	-	225,613	225,613
711	Investment income - unrestricted	15,734	-	15,734
715	Other revenues	5,207	-	5,207
700	Total revenues	1,025,851	225,613	1,251,464
	<b>Expenses:</b>			
	Administrative:			
911	Administrative salaries	246,294	-	246,294
912	Audit services	6,379	-	6,379
915	Employee benefit contributions - administrative	106,428	-	106,428
	Tenant services:			
924	Tenant services - other	2,906	-	2,906
	Utilities:			
931	Water	107,434	-	107,434
932	Electricity	133,982	-	133,982
933	Gas	129,640	-	129,640
942	Ordinary maintenance and operation - materials and other	101,405	-	101,405
943	Ordinary maintenance and operation - contract costs	56,215	-	56,215
	General expenses:			
961	Insurance premiums	54,138	-	54,138
962	Other general expenses	14,940	-	14,940
962.1	Compensated absences	21,309	-	21,309
963	Payments in lieu of taxes	2,832	-	2,832
964	Bad debt - tenant rents	10,163	-	10,163
969	Total operating expenses	994,065	-	994,065
970	Excess operating revenue over operating expenses	31,786	225,613	257,399
974	Depreciation expense	464,409	-	464,409
900	Total expenses	1,458,474	-	1,458,474
1000	Excess (deficiency) of revenue over expenses	\$ (432,623)	\$ 225,613	\$ (207,010)
	MEMO Account Information:			
1103	Beginning equity	\$ 6,658,254	\$ 294,989	\$ 6,953,243
1104	Prior period adjustments, equity transfers and corrections of errors	294,989	(294,989)	-
1120	Unit months available	2,064	-	2,064
1121	Number of unit months leased	2,060	-	2,060

**CITY OF SHELBY, NORTH CAROLINA**

Schedule I-3

**STATEMENT OF PROGRAM COSTS - COMPLETED  
FOR THE YEAR ENDED JUNE 30, 2014**

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): NC19PO345012	14.872	\$ 213,624	\$ 213,624	\$ 165,823	\$ 47,801	\$ 213,624	\$ 168,572	\$ 45,052	\$ -	\$ -
Capital Fund Program (CFP): NC1980345013	14.872	\$ 180,561	\$ 177,812	\$ -	\$ 177,812	\$ 180,561	\$ -	\$ 180,561	\$ 2,749	\$ (2,749)





## STATISTICAL SECTION

This part of the City of Shelby's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the City's overall financial condition. The schedules included in this section can be categorized as follows:

### Financial Trends (Page 110-115)

*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 116-119)

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

### Debt Capacity (Page 120-125)

*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 126-128)

*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 129-130)

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

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



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

	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Governmental Activities</b>										
Net investment in capital assets	\$ 18,667	\$ 18,755	\$ 24,599	\$ 25,834	\$ 26,977	\$ 29,009	\$ 32,852	\$ 30,598	\$ 31,063	\$ 33,394
Restricted	755	832	1,035	1,183	1,465	1,571	5,639	4,687	5,882	5,077
Unrestricted	4,151	5,283	5,576	5,490	6,281	4,906	(1,565)	1,360	2,207	1,015
Total governmental activities net position	\$ 23,573	\$ 24,870	\$ 31,210	\$ 32,507	\$ 34,723	\$ 35,486	\$ 36,926	\$ 36,645	\$ 39,152	\$ 39,486
<b>Business-Type Activities</b>										
Net investment in capital assets	\$ 38,561	\$ 41,578	\$ 44,008	\$ 46,892	\$ 56,416	\$ 53,425	\$ 60,461	\$ 63,276	\$ 65,346	\$ 68,475
Unrestricted	21,173	20,507	23,828	23,064	18,436	24,731	22,245	22,427	23,260	25,549
Total business-type activities net position	\$ 59,734	\$ 62,085	\$ 67,836	\$ 69,956	\$ 74,852	\$ 78,156	\$ 82,706	\$ 85,703	\$ 88,606	\$ 94,024
<b>Primary Government</b>										
Net investment in capital assets	\$ 57,228	\$ 60,333	\$ 68,607	\$ 72,726	\$ 83,393	\$ 82,434	\$ 93,313	\$ 93,874	\$ 96,409	\$ 101,869
Restricted	755	832	1,035	1,183	1,465	1,571	5,639	4,687	5,882	5,077
Unrestricted	25,324	25,790	29,404	28,554	24,717	29,637	20,680	23,787	25,467	26,564
Total primary government net position	\$ 83,307	\$ 86,955	\$ 99,046	\$ 102,463	\$ 109,575	\$ 113,642	\$ 119,632	\$ 122,348	\$ 127,758	\$ 133,510

**Notes:**

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

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

	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Expenses</b>										
Governmental activities:										
General government	\$ 1,882	\$ 1,846	\$ 2,208	\$ 2,403	\$ 2,403	\$ 2,312	\$ 3,258	\$ 2,344	\$ 1,492	\$ 2,584
Public safety	8,429	8,114	8,683	8,899	9,565	9,669	9,701	10,054	9,402	10,101
Transportation	2,122	1,955	1,677	2,160	2,108	2,532	2,481	2,638	3,960	3,193
Environmental protection	1,755	1,420	1,390	1,427	1,563	1,444	1,479	1,876	1,570	1,700
Cultural and recreational	2,130	2,029	1,982	2,039	2,140	1,967	939	2,151	2,106	2,354
Housing and redevelopment	310	281	856	103	192	209	267	321	222	1,133
Interest on long-term debt	152	175	144	130	75	95	73	68	79	41
Total governmental activities expenses	16,780	15,820	16,940	17,161	18,046	18,228	18,198	19,452	18,831	21,106
Business-type activities:										
Water	3,007	2,920	2,970	3,334	3,605	3,321	3,693	3,761	3,851	3,932
Sewer	3,003	2,790	2,852	2,976	3,522	3,407	3,687	3,716	3,936	4,441
Electric	14,199	14,806	14,897	15,814	15,980	16,999	17,888	18,519	19,168	19,892
Gas	27,704	34,113	15,780	18,404	16,222	12,806	11,453	8,408	10,294	14,512
Housing assistance	1,330	1,180	1,140	1,030	1,119	1,083	1,163	1,138	1,195	1,207
Total business-type activities expenses	49,243	55,809	37,639	41,558	40,448	37,616	37,884	35,542	38,444	43,984
Total primary governmental expenses	\$ 66,023	\$ 71,629	\$ 54,579	\$ 58,719	\$ 58,494	\$ 55,844	\$ 56,082	\$ 54,994	\$ 57,275	\$ 65,090
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 223	\$ 33	\$ 19	\$ 15	\$ 2	\$ 4	\$ 365	\$ 441	\$ 406	\$ 377
Public safety	6	229	248	357	228	265	23	21	27	11
Transportation	-	1	1	110	195	209	261	377	329	346
Environmental protection	565	595	598	631	873	833	863	994	1,154	1,230
Cultural and recreational	272	276	280	309	320	338	318	294	327	356
Housing and redevelopment	-	-	-	-	-	-	127	141	139	133
Operating grants and contributions:										
General government	384	10	-	-	154	4	55	144	1,075	85
Public safety	9	245	524	252	268	476	1,098	1,048	1,050	1,014
Transportation	-	-	-	-	26	20	15	20	20	20
Environmental protection	-	-	-	-	-	-	-	-	-	-
Cultural and recreational	-	-	-	-	-	-	5	-	-	30
Housing and redevelopment	-	11	560	3	81	93	-	-	-	205
Capital grants and contributions										
General government	-	-	-	-	32	-	-	-	-	-
Public safety	-	-	-	-	250	112	242	6	32	27
Transportation	1,008	1,004	1,329	2,051	2,236	1,664	315	785	435	176
Cultural and recreational	-	-	821	-	-	44	456	-	-	-
Housing and redevelopment	-	-	-	-	194	-	-	-	-	1,527
Total governmental activities program revenues	2,467	2,404	4,380	3,728	4,859	4,062	4,143	4,271	4,994	5,537
Business-type activities:										
Charges for services										
Water	3,171	3,519	3,397	3,464	3,372	3,318	3,909	3,859	4,260	4,630
Sewer	3,319	3,440	3,735	3,763	4,030	3,983	4,485	4,388	4,926	5,088
Electric	14,895	15,529	16,907	17,333	17,398	17,591	18,659	18,924	20,259	21,468
Gas	30,742	36,599	18,758	20,017	18,517	15,676	14,486	9,555	13,142	18,547
Housing assistance	484	505	514	521	564	577	575	570	582	586
Operating grants and contributions										
Water	15	-	-	-	-	-	105	111	122	91
Sewer	57	-	-	-	-	-	43	46	43	37
Electric	-	-	214	-	-	-	-	-	-	-
Gas	-	-	-	-	-	-	12	13	12	11
Housing assistance	724	500	474	425	430	476	414	258	243	424
Capital grants and contributions										
Water	16	-	18	-	-	-	90	114	-	465
Sewer	-	-	112	-	1,670	955	1,589	833	95	624
Electric	-	-	-	-	696	242	1,036	1,779	34	-
Gas	-	-	-	-	-	-	-	-	-	261
Housing assistance	73	263	261	284	576	227	200	399	295	226
Total business-type activities program revenues	53,496	60,355	44,390	45,807	47,253	43,045	45,603	40,849	44,013	52,458
Total primary governmental program revenues	\$ 55,963	\$ 62,759	\$ 48,770	\$ 49,535	\$ 52,112	\$ 47,107	\$ 49,746	\$ 45,120	\$ 49,007	\$ 57,995
Net (expense)/revenue										
Governmental activities	\$ (14,313)	\$ (13,416)	\$ (12,560)	\$ (13,433)	\$ (13,187)	\$ (14,166)	\$ (14,055)	\$ (15,181)	\$ (13,837)	\$ (15,569)
Business-type activities	4,253	4,546	6,751	4,249	6,805	5,429	7,719	5,307	5,569	8,474
Total primary governmental net expenses (revenues)	\$ (10,060)	\$ (8,870)	\$ (5,809)	\$ (9,184)	\$ (6,382)	\$ (8,737)	\$ (6,336)	\$ (9,874)	\$ (8,268)	\$ (7,095)



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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Taxes										
Property taxes, levied for general purpose	\$ 6,540	\$ 6,739	\$ 7,144	\$ 7,277	\$ 7,856	\$ 7,587	\$ 7,663	\$ 7,719	\$ 7,732	\$ 8,017
Sales tax	2,522	2,759	2,972	2,967	2,831	2,669	2,732	2,866	2,862	2,809
Franchise tax	1,303	1,362	1,385	1,503	1,551	1,540	1,582	1,560	1,572	1,586
Other taxes	344	241	230	298	303	237	95	109	12	90
Miscellaneous	145	335	454	264	270	261	-	-	1,721	-
Unrestricted investment earnings	145	399	300	304	197	173	143	212	(115)	186
Contributions to permanent fund principal	7	17	59	25	42	108	-	-	-	-
Transfers	<u>2,844</u>	<u>2,859</u>	<u>2,110</u>	<u>2,091</u>	<u>2,351</u>	<u>2,350</u>	<u>3,280</u>	<u>2,434</u>	<u>2,560</u>	<u>3,215</u>
Total governmental activities	<u>13,850</u>	<u>14,711</u>	<u>14,654</u>	<u>14,729</u>	<u>15,401</u>	<u>14,925</u>	<u>15,495</u>	<u>14,900</u>	<u>16,344</u>	<u>15,903</u>
Business-type activities										
Unrestricted investment earnings	425	663	1,004	996	441	225	111	123	(106)	159
Miscellaneous	15	-	106	-	-	-	-	-	-	-
Transfers	<u>(2,844)</u>	<u>(2,859)</u>	<u>(2,110)</u>	<u>(2,091)</u>	<u>(2,351)</u>	<u>(2,350)</u>	<u>(3,280)</u>	<u>(2,434)</u>	<u>(2,560)</u>	<u>(3,215)</u>
Total business-type activities	<u>(2,404)</u>	<u>(2,196)</u>	<u>(1,000)</u>	<u>(1,095)</u>	<u>(1,910)</u>	<u>(2,125)</u>	<u>(3,169)</u>	<u>(2,311)</u>	<u>(2,666)</u>	<u>(3,056)</u>
Total primary government	<u>\$ 11,446</u>	<u>\$ 12,515</u>	<u>\$ 13,654</u>	<u>\$ 13,634</u>	<u>\$ 13,491</u>	<u>\$ 12,800</u>	<u>\$ 12,326</u>	<u>\$ 12,589</u>	<u>\$ 13,678</u>	<u>\$ 12,847</u>
<b>Change in Net Position</b>										
Governmental activities	\$ (463)	\$ 1,295	\$ 2,094	\$ 1,296	\$ 2,214	\$ 759	\$ 1,440	\$ (281)	\$ 2,508	\$ 334
Business-type activities	<u>1,849</u>	<u>2,350</u>	<u>5,751</u>	<u>3,154</u>	<u>4,895</u>	<u>3,304</u>	<u>4,550</u>	<u>2,996</u>	<u>2,903</u>	<u>5,418</u>
Total primary government	<u>\$ 1,386</u>	<u>\$ 3,645</u>	<u>\$ 7,845</u>	<u>\$ 4,450</u>	<u>\$ 7,109</u>	<u>\$ 4,063</u>	<u>\$ 5,990</u>	<u>\$ 2,715</u>	<u>\$ 5,411</u>	<u>\$ 5,752</u>

**Notes:**

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

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

	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Reserved	\$ 2,566	\$ 3,215	\$ 3,003	\$ 3,127	\$ 3,493	\$ 5,088	\$ -	\$ -	\$ -	\$ -
Unreserved	3,721	3,271	3,189	3,424	3,851	2,987	-	-	-	-
Non-spendable	-	-	-	-	-	-	521	437	436	422
Restricted	-	-	-	-	-	-	6,732	3,955	4,101	4,163
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	88	64	465	334
Unassigned	-	-	-	-	-	-	580	3,246	3,020	3,005
Total General Fund	\$ 6,287	\$ 6,486	\$ 6,192	\$ 6,551	\$ 7,344	\$ 8,075	\$ 7,921	\$ 7,702	\$ 8,022	\$ 7,924
All other governmental funds										
Reserved	\$ 275	\$ 262	\$ 541	\$ 445	\$ 1,285	\$ 487	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in										
Special Revenue Fund	315	262	324	286	328	247	-	-	-	-
Capital Projects Fund	-	-	(88)	-	-	-	-	-	-	-
Non-spendable	-	-	-	-	-	-	-	-	-	-
Permanent funds	-	-	-	-	-	-	522	584	639	712
Restricted	-	-	-	-	-	-	-	-	-	-
Special Revenue Fund	-	-	-	-	-	-	90	745	424	185
Capital Projects Fund	-	-	-	-	-	-	762	122	254	17
Committed	-	-	-	-	-	-	-	-	-	-
Special Revenue Fund	-	-	-	-	-	-	-	-	-	-
Capital Projects Fund	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Special Revenue Fund	-	-	-	-	-	-	164	-	1,582	435
Capital Projects Fund	-	-	-	-	-	-	-	-	309	-
Unassigned	-	-	-	-	-	-	-	-	-	-
Capital Projects Fund	-	-	-	-	-	-	(730)	(272)	-	-
Total all other governmental funds	\$ 590	\$ 524	\$ 777	\$ 731	\$ 1,613	\$ 734	\$ 808	\$ 1,179	\$ 3,208	\$ 1,809

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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Revenues</b>										
Ad valorem taxes	\$ 6,545	\$ 6,770	\$ 6,729	\$ 7,692	\$ 7,951	\$ 7,755	\$ 7,686	\$ 7,731	\$ 7,721	\$ 8,020
Other taxes and licenses	2,524	2,762	2,976	2,969	2,858	2,682	2,733	2,866	2,863	2,808
Unrestricted intergovernmental revenues	1,644	1,627	1,686	1,864	1,887	1,793	1,837	1,733	1,761	1,741
Restricted intergovernmental revenues	1,400	1,307	2,415	2,328	3,172	2,338	1,933	2,006	2,390	2,746
Permits and fees	140	221	237	216	213	254	272	174	149	207
Sales and services	926	913	910	1,207	1,405	1,396	1,472	1,694	1,822	1,968
Investment earnings	145	335	300	304	197	173	143	212	(115)	186
Donations	7	17	69	25	42	108	47	58	62	74
Miscellaneous	135	205	319	167	187	189	206	260	400	455
Total revenues	<u>13,466</u>	<u>14,157</u>	<u>15,641</u>	<u>16,772</u>	<u>17,912</u>	<u>16,688</u>	<u>16,329</u>	<u>16,734</u>	<u>17,053</u>	<u>18,205</u>
<b>Expenditures</b>										
General government	1,638	1,674	2,094	2,280	2,222	2,067	3,034	2,141	2,077	2,282
Public safety	7,898	7,706	8,336	8,598	8,677	8,877	9,814	9,497	9,092	9,164
Transportation	988	1,692	1,362	1,872	1,763	2,034	2,490	3,205	3,771	2,502
Environmental protection	1,917	1,158	1,078	1,111	1,225	1,219	1,277	1,925	1,635	1,593
Cultural and recreational	1,700	1,810	1,731	1,794	1,826	1,703	2,083	1,979	1,944	2,062
Housing and redevelopment	890	287	855	103	192	209	267	321	222	1,134
Capital outlay	2,542	1,984	1,240	1,788	3,216	3,356	-	-	-	3,822
Debt service										
Principal	612	1,027	1,147	1,124	1,004	869	716	713	822	923
Interest and other charges	124	186	168	136	79	95	82	68	79	25
Total expenditures	<u>18,309</u>	<u>17,524</u>	<u>18,011</u>	<u>18,806</u>	<u>20,204</u>	<u>20,429</u>	<u>19,763</u>	<u>19,849</u>	<u>19,642</u>	<u>23,507</u>
Excess of revenues over (under) expenditures	<u>(4,843)</u>	<u>(3,367)</u>	<u>(2,370)</u>	<u>(2,034)</u>	<u>(2,292)</u>	<u>(3,741)</u>	<u>(3,434)</u>	<u>(3,115)</u>	<u>(2,589)</u>	<u>(5,302)</u>
<b>Other financing sources (uses)</b>										
Transfers from other funds	2,982	2,936	2,381	2,155	2,695	2,886	3,685	3,367	4,375	3,727
Transfers from component unit	-	-	-	-	-	-	-	-	-	-
Transfers to other funds	(137)	(77)	(271)	(64)	(344)	(536)	(404)	(933)	(1,815)	(512)
Installment debt issued	2,747	509	172	246	1,616	707	510	812	658	560
Proceeds from sale of assets	21	131	47	11	13	28	54	21	1,721	29
Increase in inventory	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>5,613</u>	<u>3,499</u>	<u>2,329</u>	<u>2,348</u>	<u>3,980</u>	<u>3,085</u>	<u>3,845</u>	<u>3,267</u>	<u>4,939</u>	<u>3,804</u>
Net change in fund balance	\$ <u>770</u>	\$ <u>132</u>	\$ <u>(41)</u>	\$ <u>314</u>	\$ <u>1,688</u>	\$ <u>(656)</u>	\$ <u>411</u>	\$ <u>152</u>	\$ <u>2,350</u>	\$ <u>(1,498)</u>
Debt services as a percentage of non-capital expenditures	<u>4.67%</u>	<u>7.81%</u>	<u>7.84%</u>	<u>7.40%</u>	<u>6.38%</u>	<u>5.65%</u>	<u>4.04%</u>	<u>3.93%</u>	<u>4.59%</u>	<u>4.03%</u>

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

<b>Year Ended June 30</b>	<b>Ad Valorem</b>	<b>Sales</b>	<b>Intangibles</b>	<b>Utility Franchise</b>	<b>Beer and Wine</b>	<b>Inventory</b>	<b>Food Stamp</b>	<b>Licenses and CATV Franchise</b>	<b>Total</b>
2005	\$ 6,545,205	\$ 2,521,613	\$ -	\$ 1,128,509	\$ 92,890	\$ -	\$ -	\$ 174,255	\$ 10,462,472
2006	6,770,471	2,759,114	-	1,181,332	92,566	-	-	180,671	10,984,154
2007	6,729,415	2,971,686	-	1,263,696	94,331	-	-	121,166	11,180,294
2008	7,691,627	2,966,596	-	1,503,349	96,103	-	-	-	12,257,675
2009	7,950,913	2,830,915	-	1,550,877	93,190	-	-	-	12,425,895
2010	7,754,894	2,669,105	-	1,540,052	31,178	-	-	-	11,995,229
2011	7,685,528	2,732,493	-	1,581,881	93,593	-	-	-	12,093,495
2012	7,730,801	2,865,854	-	1,559,642	89,706	-	-	-	12,246,003
2013	7,692,762	2,862,052	-	1,571,869	84,396	-	-	-	12,211,079
2014	7,991,528	2,789,957	-	1,586,083	88,147	-	-	-	12,455,715

\* 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>
2005**	\$ 1,158,263	\$ 327,398	\$ 38,729	\$ 1,524,390	0.420
2006	1,176,662	345,669	41,194	1,563,525	0.420
2007	1,191,948	427,287	46,759	1,665,994	0.420
2008	1,198,940	410,032	45,676	1,654,648	0.435
2009**	1,285,067	434,154	46,856	1,766,077	0.435
2010	1,214,457	469,579	47,324	1,731,360	0.435
2011	1,346,266	351,316	32,284	1,729,866	0.435
2012	1,353,708	350,630	36,011	1,740,349	0.435
2013	1,366,296	356,518	36,057	1,758,871	0.435
2014	1,378,377	402,035	40,898	1,821,310	0.435

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

\* The City's property tax rate is levied each July 1st on the assessed value listed as of the prior January 1st for all real and personal property located within the City. Assessed valuations are established by Cleveland County at 100% of the estimated market value. Public Service Company property is certified by the State of North Carolina at 100% of actual value, with no distinction between real and personal property values. The City implemented a staggered motor vehicle property tax billing system during 1993-1994, which was required by State Statute. Under this system, property taxes are billed as motor vehicle registrations are renewed.

\*\* A revaluation of real property is required by North Carolina General Statutes at least every eight years (Cleveland County conducts a revaluation every four years). The last revaluation was completed in 2008.

**Notes:** Includes Municipal Service District

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

<b>Year Ended June 30</b>	<b>City of Shelby</b>	<b>Uptown Shelby Municipal Service District</b>	<b>Cleveland County</b>	<b>County School District</b>
2005	\$ 0.42	\$ 0.27	\$ 0.62	\$ 0.16
2006	0.42	0.27	0.58	0.15
2007	0.42	0.27	0.58	0.15
2008	0.44	0.22	0.58	0.15
2009	0.44	0.22	0.58	0.15
2010	0.44	0.22	0.57	0.15
2011	0.44	0.22	0.57	0.15
2012	0.44	0.22	0.57	0.15
2013	0.44	0.22	0.57	0.15
2014	0.44	0.22	0.57	0.15

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

Taxpayer	2014			2005		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
PPG Industries Inc.	\$ 101,425	1	5.57%	\$ -		0.00%
Wal-Mart Stores	67,166	2	3.69%	74,155	1	5.46%
Curtis Wright Controls Inc	26,518	3	1.46%	10,747	7	0.79%
Shelby Mall LLC	17,376	4	0.95%	-		0.00%
Lowe's Home Centers Inc.	15,292	5	0.84%	9,824	8	0.72%
Baldor Electric Company	14,106	6	0.77%	-		0.00%
Duke Energy Carolinas	13,174	7	0.72%	11,202	6	0.83%
Wal-Mart Real Estate Business	11,581	8	0.64%	9,703	9	0.71%
NCCT LLC	10,954	9	0.60%	-		0.00%
Kendrion Shelby, Inc	10,218	10	0.56%	-		0.00%
Copeland Corp	-		0.00%	43,119	2	3.18%
Kemet Electronics	-		0.00%	14,971	3	1.10%
Bell South Telephone Company	-		0.00%	12,551	4	0.92%
Honeywell International	-		0.00%	11,666	5	0.86%
Delta Partners LLC	-		0.00%	8,130	10	0.60%
Totals	<u>\$ 287,810</u>		<u>15.80%</u>	<u>\$ 206,068</u>		<u>15.17%</u>
Total Taxable Assessed Value	<u>\$ 1,821,310</u>			<u>\$ 1,524,390</u>		

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

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

Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Current Outstanding Balance	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2005	\$ 6,547	\$ 6,290	96.07%	\$ 12	253	\$ 6,525	99.82%
2006	6,723	6,467	96.19%	15	250	6,702	99.78%
2007	7,148	6,489	90.78%	15	655	6,714	99.78%
2008	7,300	7,033	96.34%	14	261	7,695	99.81%
2009	7,791	7,474	95.93%	16	310	7,772	99.79%
2010	7,641	7,398	96.82%	23	229	7,616	99.70%
2011	7,635	7,403	96.96%	24	217	7,610	99.68%
2012	7,688	7,460	97.03%	35	206	7,651	99.54%
2013	7,759	7,486	96.48%	91	181	7,666	98.83%
2014	7,670	7,437	96.96%	234	-	7,437	96.96%



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

Year Ended June 30	Governmental Activities		Business-Type Activities				Total Primary Government	(County) Personal Income (amounts expressed in thousands)	Percentage of Personal Income	(County) Per Capita Personal Income		Per Capita
	Installment Purchase Obligations	General Obligation Bonds	Revenue Bonds	State Revolving Loans	Installment Purchase Obligations	Personal Income				Per Capita		
2005	\$ 5,311	\$ 955	\$ 24,670	\$ 6,439	\$ 968	\$ 38,343	\$ 2,558,000	1.50%	\$ 26,104	\$ 1,830		
2006	4,794	630	23,380	5,854	921	35,579	2,645,000	1.35%	27,058	1,704		
2007	3,819	310	22,055	5,268	760	32,212	2,845,959	1.13%	28,151	1,544		
2008	2,942	-	24,546	4,683	967	33,138	2,932,307	1.13%	27,466	1,597		
2009	3,553	-	22,773	4,098	1,004	31,428	2,947,603	1.07%	30,205	1,510		
2010	3,391	-	29,282	3,512	925	37,110	3,026,601	1.23%	N/A	1,785		
2011	3,185	-	27,299	2,927	1,117	34,528	N/A	N/A	N/A	1,699		
2012	3,283	-	25,449	2,341	1,406	32,479	N/A	N/A	N/A	1,608		
2013	3,119	-	25,921	-	1,301	30,341	N/A	N/A	N/A	1,502		
2014	2,756	-	23,224	-	2,022	28,002	N/A	N/A	N/A	1,378		

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>
2005	\$ 955	0.06%	\$ 46
2006	630	0.04%	30
2007	310	0.02%	15
2008	-	0.00%	N/A
2009	-	0.00%	N/A
2010	-	0.00%	N/A
2011	-	0.00%	N/A
2012	-	0.00%	N/A
2013	-	0.00%	N/A
2014	-	0.00%	N/A

**City of Shelby, North Carolina**  
**Direct and Overlapping Governmental Activities Debt**  
**As of June 30, 2014**

	<u>Net General Obligation Bonded Debt</u>	<u>Percentage Applicable To City**</u>	<u>City of Shelby Share of Debt</u>
Direct debt - City of Shelby*	\$ -	100.00%	\$ -
Overlapping debt - Cleveland County	<u>582,854</u>	25.19%	<u>146,821</u>
Total direct and overlapping debt	<u>\$ 582,854</u>		<u>\$ 146,821</u>

\*General obligation bonds only

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

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

<b>Year Ended June 30</b>	<b>Debt Limits 8% of Assessed Value</b>	<b>Total Net Debt Applicable to Limit</b>	<b>Legal Debt Margin</b>	<b>Total Net Debt Applicable to Limit as a Percentage of Debt Limit</b>
2005	\$ 121,951	\$ 7,235	\$ 114,716	5.93%
2006	125,082	6,345	118,737	5.07%
2007	133,280	4,889	128,391	3.67%
2008	132,372	3,877	128,495	2.93%
2009	141,286	4,557	136,729	3.23%
2010	138,508	4,316	134,192	3.12%
2011	138,389	4,302	134,087	3.11%
2012	132,489	1,947	130,542	1.47%
2013	140,710	4,436	136,274	3.15%
2014	145,705	4,778	117,703	4.06%

**City of Shelby, North Carolina**  
**Computation of Legal Debt Margin**  
**June 30, 2014**

Assessed value of taxable property					\$	<u>1,821,310</u>
Debt limit - eight percent (8%) of assessed value					\$	145,705
Gross debt						
Revenue bonds	\$	23,224				
Other financing agreements/notes payable		4,778	\$	28,002		
Total amount of debt applicable to debt limitation						<u>28,002</u>
Legal debt margin					\$	<u>117,703</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		
2005	\$	52,126,682	\$	44,445,623	\$	7,681,059	\$	634,351	\$	1,279,351	600%
2006		59,087,999		51,392,662		7,695,337		971,269		2,261,269	340%
2007		42,797,066		33,504,075		9,292,991		931,264		2,256,264	412%
2008		44,577,279		37,208,269		7,369,010		1,097,683		2,442,683	302%
2009		43,317,051		35,794,720		7,522,331		1,175,118		2,947,505	255%
2010		40,568,116		32,886,694		7,681,422		910,078		2,748,106	280%
2011		41,539,114		32,635,437		8,903,677		1,283,712		3,266,526	273%
2012		36,726,720		30,290,507		6,436,213		1,263,076		3,113,100	207%
2013		43,169,216		34,043,599		9,125,617		868,377		3,066,987	298%
2014		50,319,644		39,613,948		10,705,696		56,389		2,078,065	515%

\* 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>
2005	20,957	\$ 26,104	37.8	17,182	7.4%	\$ 2,558,000
2006	20,876	27,058	37.9	17,035	6.8%	2,645,000
2007	20,863	28,151	38.7	17,060	7.1%	2,845,959
2008	20,745	27,466	38.2	16,580	7.9%	2,932,307
2009	20,808	29,692	39.2	16,738	15.4%	2,947,603
2010	20,793	29,990	N/A	15,997	13.2%	2,939,629
2011	20,323	31,046	39.0	15,721	12.1%	3,026,601
2012	20,202	20,003	40.5	15,374	10.9%	3,202,220
2013	20,270	N/A	40.8	15,259	10.5%	N/A
2014	20,325	N/A	41.4	16,420	7.40%	N/A

- (1) NC Department of Commerce/Office of State Planning, [www.citypopulation.de/usanorthcarolina](http://www.citypopulation.de/usanorthcarolina)  
(2) U.S. Bureau of Economic Analysis for Cleveland County, NC Department of Commerce for Shelby  
(3) Cleveland County/Shelby City Schools Administrative Offices, NC Department of Commerce.  
The two school systems merged in 2005.  
(4) Employment Security Commission  
(5) Amounts for Cleveland County expressed in thousands of dollars taken from [www.fedstats.gov](http://www.fedstats.gov).  
Amounts for Shelby, NC from [www.bea.gov](http://www.bea.gov)  
N/A - information not available.

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

Employer	Industry	2014		2010	
		Rank	Employment Range	Rank	Employment Range
Cleveland County School District	Education	1	1000+	1	1000+
Cleveland Regional Medical Center	Health services	2	1000+	2	1000+
Wal-Mart Distribution Center	Retail distribution	3	1000+	4	500-999
Cleveland County Government	Public administration	4	500-999	3	500-999
Baldor Electric Company	Manufacturing	5	500-999		
PPG Fiber Glass Products	Industrial supplies	6	500-999	5	500-999
Cleveland Community College	Education	7	500-999	6	250-499
Curtis-Wright Controls	Transportation equipment	8	250-499	8	250-499
White Oak Manor Inc.	Education and health services	9	250-499	10	250-499
City of Shelby	Public administration	10	250-499	7	250-499
Ultra Machining	Machine shop			8	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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government	32.5	31.5	30.0	38.0	38.0	38.0	38.0	39.0	40.0	35.0
Public safety										
Police	83.0	86.0	86.0	87.0	87.0	87.0	86.0	86.0	86.0	97.0
Fire	56.0	56.0	54.0	53.0	53.0	53.0	53.0	58.0	57.0	58.0
Transportation	20.5	20.0	18.0	19.0	19.0	19.0	19.0	17.0	22.0	21.0
Environmental protection	38.0	19.0	17.0	17.0	17.0	17.0	17.0	19.0	16.0	17.0
Cultural and recreation	24.0	23.0	19.0	19.0	19.0	19.0	19.0	22.0	32.0	30.0
Housing and redevelopment	10.0	8.5	8.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Business-type activities										
Water	17.75	18.5	18.5	17.5	17.5	17.5	17.5	19.0	17.0	18.0
Sewer	19.5	19.5	21.0	18.5	18.5	18.5	18.3	21.0	19.0	21.0
Electric	11.25	12.5	11.5	10.5	10.5	10.5	10.4	14.0	12.0	12.0
Gas	19.0	20.0	20.5	18.5	18.5	18.5	18.7	18.0	17.0	18.0
Housing	6.0	6.0	6.0	6.0	6.0	6.0	6.0	7.0	7.0	7.0
<b>Total</b>	<b>337.5</b>	<b>320.5</b>	<b>309.5</b>	<b>313.0</b>	<b>313.0</b>	<b>313.0</b>	<b>312.0</b>	<b>329.0</b>	<b>334.0</b>	<b>343.0</b>

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

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

Function	Fiscal Year Ended June 30									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public safety										
Police:										
Number of calls for service	46,794	46,006	43,246	43,310	40,251	39,741	37,303	39,068	35,877	35,877
Uniform Crime Report Part I crimes reported	1,875	1,500	1,348	1,489	1,149	1,149	1,039	1,025	887	761
Uniform Crime Report Part II crimes reported	848	771	712	649	625	625	529	554	475	453
Fire										
Number of responses	1,740	1,929	1,848	1,883	1,913	1,976	2,179	1,945	1,984	1,935
Number of inspections	1,683	1,645	1,169	1,355	707	1,426	1,502	1,530	1,365	1,185
Transportation										
Miles of street repaved	2.60	1.60	1.20	-	3.00	-	1.60	1.61	1.83	2.38
Environmental protection										
Tons of solid waste collected	8,978	8,387	9,928	9,925	10,608	7,937	7,233	6,930	6,354	4,884
Tons of recycling collected									728	710
Cultural and recreational										
Number of youth sport program participants	1,570	1,754	2,019	2,276	2,247	3,566	2,309	3,130	3,385	3,881
Number of adult sport program participants	890	832	1,106	1,044	622	758	944	1,026	1,141	1,230
Number of golf rounds played	10,458	10,894	10,936	12,341	11,818	11,240	10,283	10,491	9,761	8,704
Housing and redevelopment										
Building inspections										
Number of permits issued	1,137	1,064	994	1,072	1,057	919	1,076	1,261	1,167	1,007
Number of inspections	4,084	3,866	4,067	4,621	4,343	4,205	4,376	5,437	3,634	3,395
Business-type activities										
Water system										
Customers at June 30	10,083	10,048	10,090	10,048	9,554	9,601	9,587	9,691	9,746	9,739
Average of daily consumption **	4.39	4.39	4.68	4.33	4.97	4.06	4.41	3.87	4.73	5.57
Peak daily consumption **	6.50	6.50	6.32	7.02	7.09	5.78	6.10	7.64	7.65	8.15
Sewer system										
Customers at June 30	8,356	8,350	8,362	8,282	7,826	7,866	7,840	7,952	8,031	8,016
Average of daily treatment **	2.81	2.81	2.77	2.42	2.72	2.26	2.25	2.41	2.95	3.57
Peak daily treatment **	6.00	6.00	3.20	5.29	7.55	9.98	6.61	5.86	12.86	10.59
Electric system										
Customers at June 30	8,230	8,212	8,245	8,268	8,290	7,432	7,409	7,414	7,504	7,505
Natural gas system										
Customers at June 30	10,350	10,372	10,437	10,404	9,755	9,793	9,649	9,615	9,582	9,588

\* 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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public safety										
Police										
Number of stations	1	1	1	1	1	1	1	1	1	1
Number of patrol units	22	22	31	32	43	43	47	47	47	50
Fire										
Number of stations	3	3	3	3	3	3	3	3	3	3
Transportation										
Number of airports	1	1	1	1	1	1	1	1	1	1
Miles of paved roads	121.55	120.82	121.14	121.33	121.52	122.41	122.34	122.72	122.72	123.55
Miles of unpaved roads	0.20	0.20	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Miles of sidewalks	36.0	36.0	27.8	27.8	27.8	27.8	27.8	28.0	28	28
Cultural and recreation										
Number of parks	12	12	12	12	12	12	12	12	12	12
Acres of parks land ***	169	169	169	169	169	169	169	169	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
Business-type activities										
Water system										
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Plant capacity *	12	12	12	12	12	12	12	12	12	12
Miles of water mains	220	220	206	206	215	214	219	218	221	222
Number of fire hydrants	1,273	1,273	1,305	1,301	1,305	1,343	1,271	1,241	1,358	1,376
Sewer system										
Number of treatment plants	1	1	1	1	1	1	1	1	1	1
Plant capacity *	6	6	6	6	6	6	6	6	6	6
Miles of sanitary sewers	178	178	181	191	202	204	203	195	190	190
Miles of storm sewers	6.5	6.5	6.5	6.5	6.5	6.5	6.5		10	10
Electric system										
Number of sub-stations	3	4	4	4	4	4	4	4	4	4
System capacity **	52	52	65	65	65	65	65	65	65	65
Miles of primary lines	207	207	133	134	135	141	141	141	146	147
Miles of secondary lines	175	175	222	222	202	203	204	163	210	211
Natural gas system										
Miles of gas mains	462	462	463	465	496	473	506	479	482	504

\* In millions of gallons

\*\* In mega-watts

Source: Various City Departments

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





## **COMPLIANCE SECTION**

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

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

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

Schedule of Findings and Questioned Costs

Summary Schedule of Prior Year's Audit Findings

Schedule of Expenditures of Federal and State Awards



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

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 31, 2014. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency 2014-001 described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

### **Compliance and Other Matters**

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

### **Response to Finding**

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

### **Purpose of this Report**

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

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 31, 2014



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

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

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

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

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

We have audited the City of Shelby, North Carolina's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Shelby's major Federal programs for the year ended June 30, 2014. The City of Shelby's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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

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

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

Our responsibility is to express an opinion on compliance for each of the City of Shelby's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shelby's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the City of Shelby complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 31, 2014

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

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

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

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

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

We have audited the City of Shelby, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the City of Shelby's major State programs for the year ended June 30, 2014. The City of Shelby's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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

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

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

Our responsibility is to express an opinion on compliance for each of the City of Shelby's major State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the City of Shelby's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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Toll Free Both Locations 1-800-948-0585 ♦ Website: [www.martinstarnes.com](http://www.martinstarnes.com)

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

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

In our opinion, the City of Shelby complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2014.

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

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

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

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

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

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

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 31, 2014

**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

*Financial Statements*

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

*Federal Awards*

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

Identification of major Federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Public Housing Authority Owned Rental Housing	14.850
Dollar threshold used to distinguish between Type A and Type B Programs	\$300,000
Auditee qualified as low-risk auditee?	No

**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

*State Awards*

Internal control over major State programs:

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

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

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

Identification of major State programs:

**Program Name**

Powell Bill

NC Dept. of Commerce-IDF Grant-KSM Castings Water & Sewer

**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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

**Finding 2014-001**

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

**Condition:** A prior period adjustment is required to correct material errors that occurred in periods prior to the current fiscal year under audit. The necessity of a prior period adjustment indicates that the City's system of controls did not detect and prevent a material error in financial reporting.

**Context:** The City refunded debt in the prior period. While total debt recorded for the business-type activities was correct, the allocation of the debt balances among the funds required a material adjustment to reflect the purpose for which the debt was approved and issued.

**Effect:** Material errors in financial reporting occurred with regards to the individual proprietary funds Statement of Net Position for the Water Fund and Electric Fund.

**Cause:** The complexity and scope of the refunding transactions in the 2013 fiscal year

**Recommendation:** The City should exercise due care in reviewing the financial statements. Unusual transactions should be scrutinized to ensure they are properly recorded, presented, and disclosed in the financial statements.

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

**Views of Responsible Officials and Planned Corrective Actions:** Management concurs with the finding and will continue to review financial statements to detect misstatements prior to their issuance, thus preventing prior period adjustments.

**CITY OF SHELBY, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

None reported

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

None reported



**CITY OF SHELBY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

No prior year findings.

**CITY OF SHELBY, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Fed. (Direct &amp; Pass-Through) Expenditures</u>	<u>State Expenditures</u>
<b>Federal Grants:</b>				
<b><u>U.S. Department of Housing and Urban Development</u></b>				
Direct Program:				
Low Rent Housing Program:				
Public Housing Authority Owned Rental Housing	14.850	NC034-00000111D	\$ 969,940	\$ -
Capital Fund Program (CFP) - 2013	14.872	NC19P034501-13	185,201	-
Capital Fund Program (CFP) - 2012	14.872	NC19P034501-12	<u>43,500</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>1,198,641</u>	<u>-</u>
<b><u>U.S. Department of Justice</u></b>				
Direct Program:				
Bulletproof Vest Partnership Program	16.607	N/A	8,054	-
Passed-through the NC Department of Crime Control and Public Safety:				
Project Safe Neighborhoods	16.609	N/A	<u>-</u>	<u>-</u>
Total U.S. Department of Justice			<u>8,054</u>	<u>-</u>
<b><u>U.S. Department of Transportation</u></b>				
Passed-through the NC Department of Transportation:				
Airport Improvement Program	20.106	36237.16.12.1	1,302	
Airport Improvement Program	20.106	36237.16.11.1	11,057	
State Aid to Airports Program	N/A	36244.23.11.1	<u>-</u>	<u>172,854</u>
State and Community Highway Safety - Governors Highway			<u>12,359</u>	<u>172,854</u>
Total U.S. Department of Transportation			<u>1,219,054</u>	<u>172,854</u>
Total assistance - Federal programs			<u>1,219,054</u>	<u>172,854</u>
<b>State Grants:</b>				
<b><u>NC Department of Transportation:</u></b>				
Powell Bill	N/A	32570	<u>-</u>	<u>750,943</u>
<b><u>NC Department of Commerce:</u></b>				
IDF Grant - KSM Castings Water & Sewer		U-434	<u>-</u>	<u>386,422</u>
<b><u>NC Catalvst Grant:</u></b>				
Community Development Block Grant		11-C-2381	<u>-</u>	<u>111,500</u>
<b><u>NC Rural Development:</u></b>				
USDA Rural Business Enterprise Grant & USDA Community Facilities Grant		7 C.F.R. part 3570, subpart B	<u>-</u>	<u>5,881</u>
Total assistance - State programs			<u>-</u>	<u>1,254,746</u>
Total assistance			<u>\$ 1,219,054</u>	<u>\$ 1,427,600</u>

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

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

2. **Loans Outstanding**

City of Shelby had the following loan balances outstanding at June 30, 2014. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>Amount Outstanding</u>
Industrial Development Fund - KSM Castings Water & Sewer	<u>\$ 386,422</u>