

**CITY OF SHELBY
NORTH CAROLINA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

PREPARED BY:

CITY OF SHELBY FINANCE DEPARTMENT



CITY OF SHELBY, NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR YEAR ENDED JUNE 30, 2018

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INTRODUCTORY SECTION





October 25, 2018

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, 2018.

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, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Shelby's financial statements for the fiscal year ended June 30, 2018, 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 20,000 and presently covers a land area of 22 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 NEG Industries, Clearwater Paper Corporation, Ultra Machine & Fabrication, Greenheck, KSM Castings Group, Specialty Lighting, Mafic 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 Atrium Health, Cleveland, a 240 bed medical facility with approximately 1,000 employees that is one of the City's top five utility customers. The availability of an educated work force is always a concern to any new business or industry desiring to locate within the County. Vocational education programs offered through the public schools, Cleveland Community College, and Gardner Webb University support job training in the County.

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

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

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

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

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

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

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

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

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

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

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

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

Budget Highlights for FY 2019

The City tax rate increased from 49.72 cents per one hundred dollars of valuation for FY 2018 to 52.25 cents per one hundred dollars of valuation for FY 2019. Budgeted expenditures in the General Fund are expected to increase to \$24,035,223 in FY 2019. This increase is largely due to the planned implementation of a wage and position classification plan and the purchase of various pieces of equipment, which will be financed over a period of 59 months. The City's water and sewer rates had increases of 5% for outside City customers for FY 2019 as well as upward adjustments to the base rates for all customers. The City will remain on the margin-based rate structure implemented in July 2001 with its Gas Fund. The margins will not increase in FY 2019.

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, 2017. This was the twentieth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

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

Respectfully submitted,


Rick Howell
City Manager


Justin S. Merritt
Director of Finance



Government Finance Officers Association

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

Presented to

**City of Shelby
North Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

City of Shelby, North Carolina

List of Principal Officials
June 30, 2018

Elected Officials

Oliver Stanhope Anthony, III
Mayor

Eric B. Hendrick

Dicky Amaya
Mayor Pro Tem

Violet Arth Dukes

David W. White

David Causby

Ben U. Kittrell

City Administration

Rick Howell
City Manager

Justin S. Merritt
Director of Finance

Bernadette A. Parduski
City Clerk

Julie R. McMurry
Energy Services Director

Deborah Jolly
Director of Human Resources

Jeff Ledford
Police Chief

Charles K. Holtzclaw
Director of Parks & Recreation

Daniel C. Darst
Director of Public Works

William P. Hunt
Fire Chief

Bryan T. Howell
Director of Housing

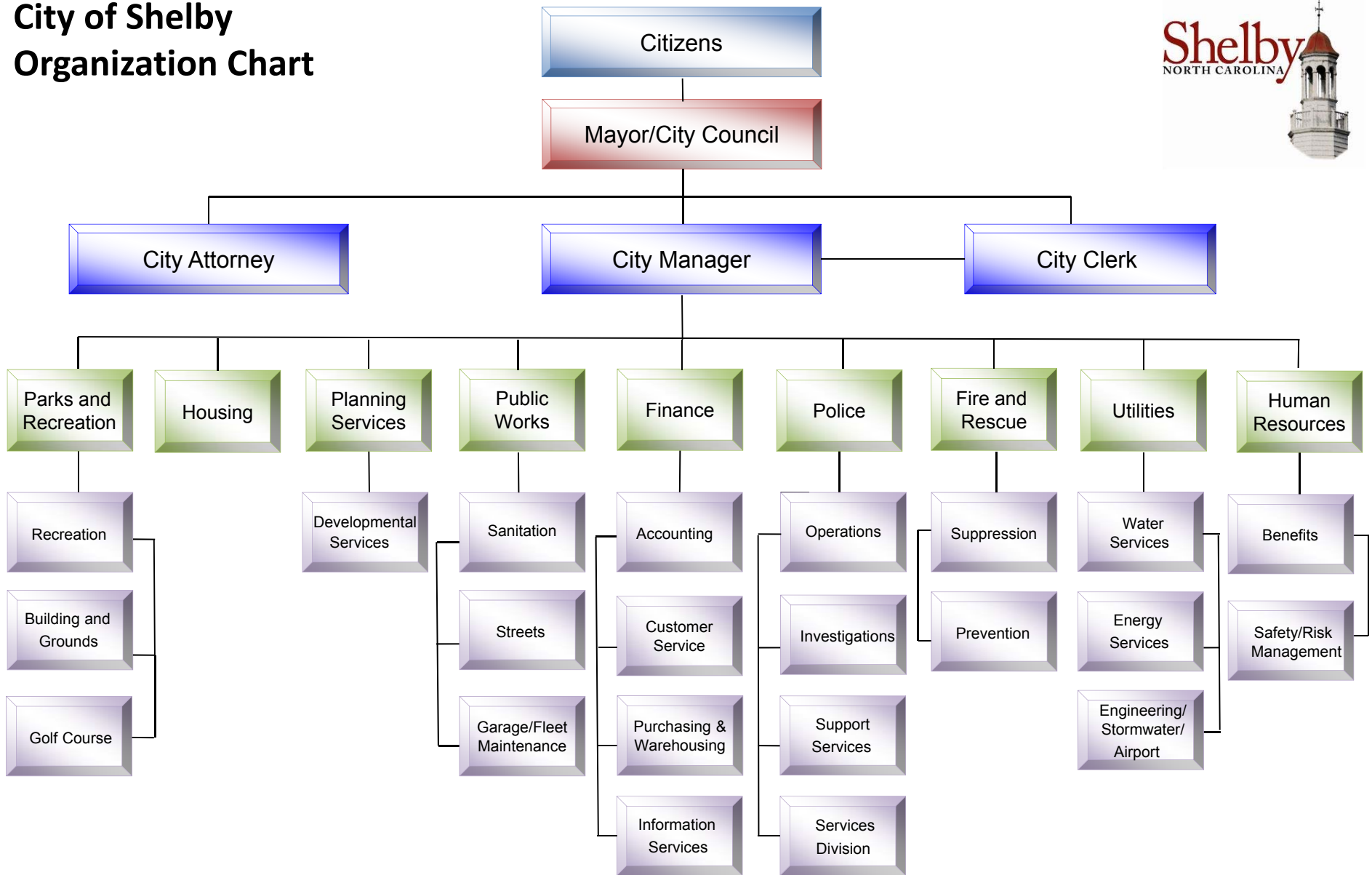
Walter Scharer, AICP
Director of Planning & Development Services

Ben Yarborough
Director of Engineering Services

David Hux
Water Resources Director

Robert W. (Bob) Yelton
City Attorney

City of Shelby Organization Chart



(xi)





FINANCIAL SECTION



MARTIN STARNES & ASSOCIATES, CPAs, P.A.

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

INDEPENDENT AUDITOR'S REPORT

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

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City of Shelby ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Shelby ABC Board, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the City of Shelby ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal

control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 6 to the financial statements, for fiscal year ended June 30, 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelby's basic financial statements. The introductory section, combining and individual fund financial statements, budgetary schedules, other schedules, statistical section, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by Title 2 *U.S. Code of*

Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018 on our consideration of the City of Shelby’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelby’s internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 25, 2018



Management's Discussion and Analysis

As management of the City of Shelby (the "City"), we offer readers of the City of Shelby's financial statements this narrative overview and analysis of the financial activities of the City of Shelby for the fiscal year ended June 30, 2018. 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

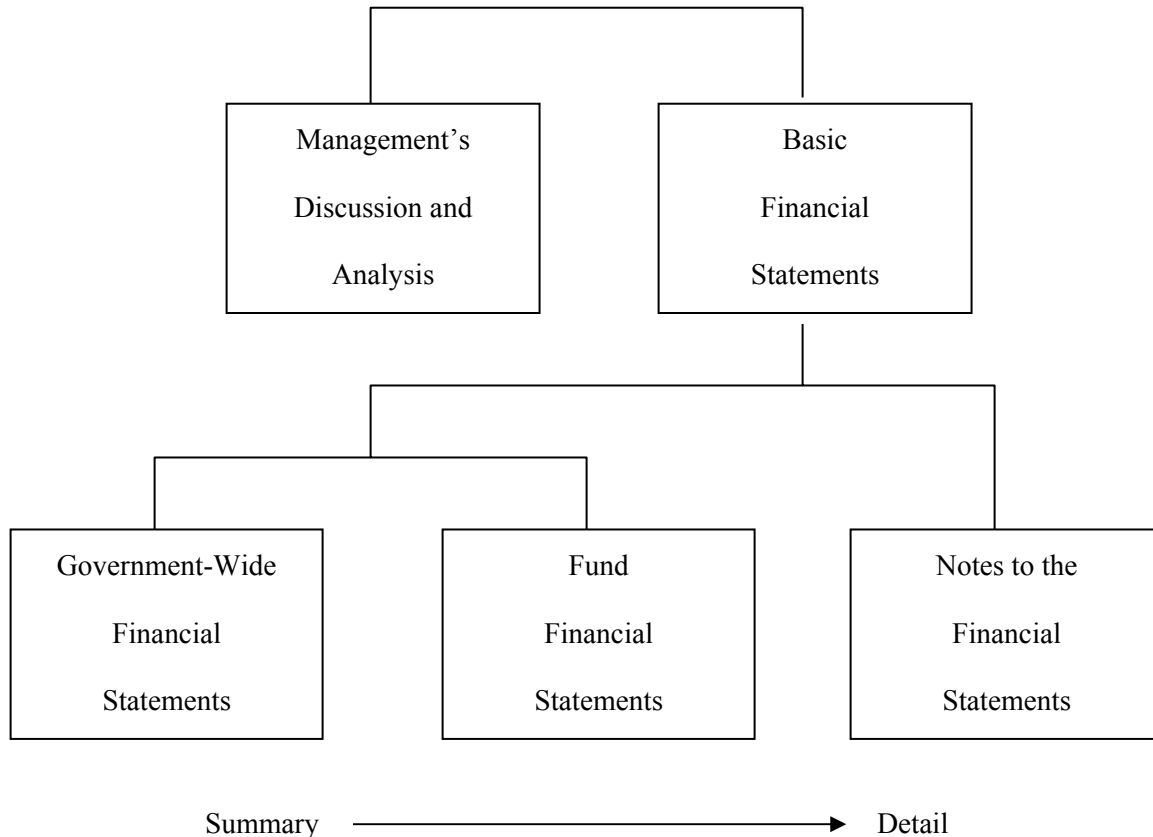
- The assets and deferred outflows of resources of the City of Shelby exceed its liabilities and deferred inflows of resources at the close of the fiscal year by \$138,594,883 (*net position*).
- The government's total net position increased by \$10,741,658, due to an increase of \$2,709,191 in governmental activities' net position and an increase of \$8,032,467 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 \$15,756,074, with a net decrease in fund balance of \$3,475,087. Approximately 56.4 percent of this total amount, or \$8,884,604, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,027,708, or 21.8 percent, of total General Fund expenditures and transfers out for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets:						
Current/other assets	\$ 17,141,554	\$ 20,356,344	\$ 32,960,612	\$ 26,634,563	\$ 50,102,166	\$ 46,990,907
Capital assets	<u>45,908,602</u>	<u>39,429,764</u>	<u>124,899,542</u>	<u>111,905,974</u>	<u>170,808,144</u>	<u>151,335,738</u>
Total assets	<u>63,050,156</u>	<u>59,786,108</u>	<u>157,860,154</u>	<u>138,540,537</u>	<u>220,910,310</u>	<u>198,326,645</u>
Deferred Outflows of Resources						
	<u>2,870,935</u>	<u>3,116,788</u>	<u>1,199,045</u>	<u>1,381,008</u>	<u>4,069,980</u>	<u>4,497,796</u>
Liabilities:						
Long-term liabilities	27,694,134	19,204,555	44,275,431	33,779,116	71,969,565	52,983,671
Other liabilities	<u>3,080,928</u>	<u>2,696,398</u>	<u>9,969,189</u>	<u>7,006,857</u>	<u>13,050,117</u>	<u>9,703,255</u>
Total liabilities	<u>30,775,062</u>	<u>21,900,953</u>	<u>54,244,620</u>	<u>40,785,973</u>	<u>85,019,682</u>	<u>62,686,926</u>
Deferred Inflows of Resources						
	<u>756,634</u>	<u>244,299</u>	<u>609,091</u>	<u>56,739</u>	<u>1,365,725</u>	<u>301,038</u>
Net Position:						
Net investment in capital assets	38,491,732	36,664,382	91,821,298	80,074,444	130,313,030	116,738,826
Restricted	5,425,754	4,324,617	-	-	5,425,754	4,324,617
Unrestricted	<u>(9,528,091)</u>	<u>(231,355)</u>	<u>12,384,190</u>	<u>19,004,389</u>	<u>2,856,099</u>	<u>18,773,034</u>
Total net position	<u>\$ 34,389,395</u>	<u>\$ 40,757,644</u>	<u>\$ 104,205,488</u>	<u>\$ 99,078,833</u>	<u>\$ 138,594,883</u>	<u>\$ 139,836,477</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 \$138,594,883 as of June 30, 2018. The City's net position increased by \$10,741,658 for the fiscal year ended June 30, 2018. 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, \$5,425,754, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,856,099 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 increasing the collection percentage to 98.63% from 98.31% in the previous year.
- Increase in sales tax collections contributed to increased revenues in the current year.
- Increase in charges for services and grants and contributions increased revenues in the current year.

City of Shelby's Changes in Net Position
Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,520,310	\$ 2,468,735	\$ 52,423,449	\$ 49,793,874	\$ 54,943,759	\$ 52,262,609
Operating grants and contributions	1,759,274	1,706,687	565,938	560,761	2,325,212	2,267,448
Capital grants and contributions	2,022,116	377,462	5,031,672	82,496	7,053,788	459,958
General revenues:						
Property taxes	10,366,376	9,015,563	-	-	10,366,376	9,015,563
Other taxes	6,049,518	5,535,149	-	-	6,049,518	5,535,149
Gain (loss) on sale of assets	35,241	-	(1,083,090)	-	(1,047,849)	-
Investment earnings	213,582	(3,543)	131,603	(10,653)	345,185	(14,196)
Total revenues	<u>22,966,417</u>	<u>19,100,053</u>	<u>57,069,572</u>	<u>50,426,478</u>	<u>80,035,989</u>	<u>69,526,531</u>
Expenses:						
General government	3,150,943	3,041,400	-	-	3,150,943	3,041,400
Public safety	11,246,184	11,631,275	-	-	11,246,184	11,631,275
Transportation	3,040,141	2,891,063	-	-	3,040,141	2,891,063
Environmental protection	2,084,146	1,707,329	-	-	2,084,146	1,707,329
Cultural and recreational	2,533,895	2,589,506	-	-	2,533,895	2,589,506
Housing and redevelopment	1,803,839	1,151,101	-	-	1,803,839	1,151,101
Interest on long-term debt	252,378	95,693	-	-	252,378	95,693
Water	-	-	4,356,543	4,334,316	4,356,543	4,334,316
Sewer	-	-	4,724,448	4,447,873	4,724,448	4,447,873
Electric	-	-	20,921,507	21,271,737	20,921,507	21,271,737
Gas	-	-	12,921,236	11,542,563	12,921,236	11,542,563
Stormwater	-	-	938,528	833,371	938,528	833,371
Housing assistance	-	-	1,320,543	1,470,448	1,320,543	1,470,448
Total expenses	<u>24,111,526</u>	<u>23,107,367</u>	<u>45,182,805</u>	<u>43,900,308</u>	<u>69,294,331</u>	<u>67,007,675</u>
Change in net position before transfers	(1,145,109)	(4,007,314)	11,886,767	6,526,170	10,741,658	2,518,856
Transfers in (out)	<u>3,854,300</u>	<u>3,974,750</u>	<u>(3,854,300)</u>	<u>(3,974,750)</u>	<u>-</u>	<u>-</u>
Change in net position	<u>2,709,191</u>	<u>(32,564)</u>	<u>8,032,467</u>	<u>2,551,420</u>	<u>10,741,658</u>	<u>2,518,856</u>
Net Position:						
Beginning of year - July 1	40,757,644	42,992,565	99,078,833	96,110,118	139,836,477	139,102,683
Prior period adjustment	(9,077,440)	(2,202,357)	(2,905,812)	417,295	(11,983,252)	(1,785,062)
Beginning of year - July 1, as restated	<u>31,680,204</u>	<u>40,790,208</u>	<u>96,173,021</u>	<u>96,527,413</u>	<u>127,853,225</u>	<u>137,317,621</u>
End of year -June 30	<u>\$ 34,389,395</u>	<u>\$ 40,757,644</u>	<u>\$ 104,205,488</u>	<u>\$ 99,078,833</u>	<u>\$ 138,594,883</u>	<u>\$ 139,836,477</u>

Governmental Activities. Governmental activities increased the City's net position by \$2,709,191. Key elements of this increase are as follows:

- Increase in Property Tax Levy contributed to an overall increase in revenues in the current year
- Increase in Sales Tax Collections contributed to overall revenue increase in the current year

Business-Type Activities. Business-type activities increased the City of Shelby's net position by \$8,032,467. Key elements of this increase are as follows:

- Increase in cash is related to debt proceeds received in the current year that will be used for construction of capital assets.
- Inflows of cash, primarily through increased revenues from water, sewer and electric sales to customers.

Financial Analysis of the City's Funds

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

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

The General Fund is the chief operating fund of the City of Shelby. At the end of the current fiscal year, fund balance available in the General Fund was \$5,588,373, while total fund balance reached \$9,230,873. 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 24.17% of total General Fund expenditures and transfers to other funds, while total fund balance represents 39.93% of that same amount.

At June 30, 2018, the governmental funds of the City of Shelby reported a combined fund balance of \$15,756,074, a decrease of \$3,475,087 from last year. The primary reason for this decrease is due to investment in capital assets during the current year.

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

General Fund Budgetary Highlights. During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available, 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants, and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased revenues by approximately \$178,000 (0.95%). Amendments were necessary due to conservatism used in compiling the original budget and economic changes.

Proprietary Funds. The City of Shelby’s proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position for the major enterprise funds at the fiscal year-end were as follows: the Water Fund was \$949,583; the Sewer Fund was \$(1,392,900); the Electric Fund was \$5,601,503; and the Gas Fund was \$4,940,712. 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, 2018 totaled \$170,808,144 (net of accumulated depreciation). These assets include buildings, land, improvements, and equipment.

Major capital asset transactions during the year include:

- Construction in Progress of Hanna Park Complex of \$4,640,981
- Construction of Police Department Communications Center of \$1,552,789
- Construction in Progress of Grover Morgan Waterline Project of \$1,617,424
- Construction in Progress of Farmville Road Waterline Project of \$2,612,101
- Construction in Progress of Uptown Water Infrastructure Project of \$1,072,429
- Construction in Progress of Westside Sewer Improvements of \$3,474,334
- Construction in Progress of Wastewater Treatment Plant of \$1,294,760
- Construction in Progress of Uptown Electric Utility Infrastructure of \$1,125,025
- Construction in Progress of the Farmville Road Gas Line Loop of \$1,827,081

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 5,725,393	\$ 5,664,090	\$ 963,696	\$ 650,346	\$ 6,689,089	\$ 6,314,436
Buildings and systems	17,753,144	17,753,144	167,270,049	165,254,062	185,023,193	183,007,206
Improvements other than buildings	13,792,682	12,062,065	917,930	724,838	14,710,612	12,786,903
Machinery and equipment	8,776,504	8,443,773	6,325,082	6,261,129	15,101,586	14,704,902
Infrastructure	11,484,875	11,484,875	-	-	11,484,875	11,484,875
Vehicles and motorized equipment	9,871,286	9,639,168	3,742,973	3,561,632	13,614,259	13,200,800
Construction in progress	9,693,491	3,786,821	18,284,919	4,087,413	27,978,410	7,874,234
Subtotal	77,097,375	68,833,936	197,504,649	180,539,420	274,602,024	249,373,356
Less: accumulated depreciation	(31,188,773)	(29,404,172)	(72,605,107)	(68,633,446)	(103,793,880)	(98,037,618)
Capital assets, net	<u>\$ 45,908,602</u>	<u>\$ 39,429,764</u>	<u>\$ 124,899,542</u>	<u>\$ 111,905,974</u>	<u>\$ 170,808,144</u>	<u>\$ 151,335,738</u>

Additional information on the City’s capital assets can be found in Note 2.A. of the basic financial statements located on pages 42-48.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Installment purchase notes	\$ 10,371,162	\$ 10,605,057	\$ 23,891,376	\$ 13,723,243	\$ 34,262,538	\$ 24,328,300
Revenue bonds	-	-	18,927,726	20,545,373	18,927,726	20,545,373
Net pension liability-LGERS	2,699,487	3,608,977	738,654	1,029,811	3,438,141	4,638,788
Total pension liability-LEOSSA	2,533,732	2,277,534	-	-	2,533,732	2,277,534
Compensated absences	1,047,162	980,323	263,690	220,875	1,310,852	1,201,198
Other post-employment benefits	12,909,157	12,547,992	4,029,264	3,913,649	16,938,421	16,461,641
Total	\$ 29,560,700	\$ 30,019,883	\$ 47,850,710	\$ 39,432,951	\$ 77,411,410	\$ 69,452,834

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 \$111,800,000.

Additional information regarding the City of Shelby's long-term debt can be found in Note 2.B. on pages 49-57 of this audited financial report.

Economic Factors and Next Year's Budgets and Rates

- The State of North Carolina unemployment numbers changed from 4.4% in June 2017 to 4.2% in June 2018. Cleveland County's numbers changed from 4.4% in June 2017 to 4.3% in June 2018.
- Clearwater Paper Corporation, a company that manufactures private brand paper products, is currently expanding its current 990,000 sq. foot facility with an additional \$330 million in net new investment. Clearwater Paper Corporation currently employs approximately 264 employees and will add another 180 through this expansion. Clearwater Paper Corporation has been annexed into the City and is being served by City utilities.
- MAFIC, SA, a company that manufactures basalt fiber material, is currently constructing \$15 million in net new investment. MAFIC, SA will employ 113 employees at this facility. MAFIC SA is located within the City and will be served by City utilities.

Budget Highlights for the Fiscal Year Ending June 30, 2019

Governmental Activities. The City tax rate increased from 49.72 cents per one hundred dollars of valuation for FY 2018 to 52.25 cents per one hundred dollars of valuation for FY 2019. Budgeted expenditures in the General Fund are expected to increase to \$24,035,223 in FY 2019. This increase is largely due to the planned implementation of a wage and position classification plan and the purchase of various pieces of equipment, which will be financed over a period of 59 months.

Business-Type Activities. The City's water and sewer rates had increases of 5% for outside City customers for FY 2019 as well as upward adjustments to the base rates for all customers. The City will remain on the margin-based rate structure implemented in July 2001 with its Gas Fund. The margins will not increase in FY 2019.

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, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
Assets:				
Current assets:				
Cash and cash equivalents	\$ 8,297,891	\$ 13,711,082	\$ 22,008,973	\$ 357,263
Taxes receivable, net	225,356	-	225,356	-
Accounts receivable, net	880,858	6,177,790	7,058,648	-
Loans receivable	26,435	-	26,435	-
Interest receivable	13,460	-	13,460	-
Due from other governments	2,797,322	799,394	3,596,716	-
Inventories	147,057	1,922,605	2,069,662	601,869
Prepaid items	357,501	102,473	459,974	16,861
Total current assets	<u>12,745,880</u>	<u>22,713,344</u>	<u>35,459,224</u>	<u>975,993</u>
Non-current assets:				
Cash and cash equivalents, restricted	4,395,674	9,877,281	14,272,955	-
Long-term notes receivable	-	369,987	369,987	-
Capital assets, non-depreciable	15,418,884	19,248,615	34,667,499	182,567
Capital assets, net	30,489,718	105,650,927	136,140,645	156,013
Total non-current assets	<u>50,304,276</u>	<u>135,146,810</u>	<u>185,451,086</u>	<u>338,580</u>
Total assets	<u>63,050,156</u>	<u>157,860,154</u>	<u>220,910,310</u>	<u>1,314,573</u>
Deferred Outflows of Resources:				
OPEB deferrals	672,519	197,832	870,351	-
Pension deferrals	2,198,416	544,024	2,742,440	58,483
Deferred charge on refunding	-	457,189	457,189	-
Total deferred outflows of resources	<u>2,870,935</u>	<u>1,199,045</u>	<u>4,069,980</u>	<u>58,483</u>
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	1,121,828	5,685,974	6,807,802	318,692
Accrued interest payable	54,238	114,324	168,562	-
Advances from grantors	32,620	-	32,620	-
Other liabilities	5,676	-	5,676	-
Liabilities to be paid from restricted assets	-	593,612	593,612	-
Current portion of long-term liabilities	1,866,566	3,575,279	5,441,845	-
Total current liabilities	<u>3,080,928</u>	<u>9,969,189</u>	<u>13,050,117</u>	<u>318,692</u>
Long-term liabilities:				
Net pension liability - LGERS	2,699,487	738,654	3,438,141	44,917
Total pension liability - LEOSSA	2,533,732	-	2,533,732	-
Total OPEB liability	12,909,157	4,029,264	16,938,421	-
Due in more than one year	9,551,758	39,507,513	49,059,271	-
Total long-term liabilities	<u>27,694,134</u>	<u>44,275,431</u>	<u>71,969,565</u>	<u>44,917</u>
Total liabilities	<u>30,775,062</u>	<u>54,244,620</u>	<u>85,019,682</u>	<u>363,609</u>
Deferred Inflows of Resources:				
Unavailable revenues	-	387,785	387,785	-
OPEB deferrals	592,754	189,749	782,503	-
Pension deferrals	163,880	31,557	195,437	1,271
Total deferred inflows of resources	<u>756,634</u>	<u>609,091</u>	<u>1,365,725</u>	<u>1,271</u>
Net Position:				
Net investment in capital assets	38,491,732	91,821,298	130,313,030	338,580
Restricted for:				
Stabilization by state statute	3,831,047	-	3,831,047	-
Perpetual - non-expendable	1,191,120	-	1,191,120	-
Public safety	185,945	-	185,945	-
Streets - Powell Bill	217,642	-	217,642	-
Working capital	-	-	-	137,031
Unrestricted	<u>(9,528,091)</u>	<u>12,384,190</u>	<u>2,856,099</u>	<u>532,565</u>
Total net position	<u>\$ 34,389,395</u>	<u>\$ 104,205,488</u>	<u>\$ 138,594,883</u>	<u>\$ 1,008,176</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, 2018

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 3,150,943	\$ 555,712	\$ 340,128	\$ -
Public safety	11,246,184	35,876	1,196,658	920,993
Transportation	3,040,141	281,506	-	444,958
Environmental protection	2,084,146	1,350,578	-	-
Cultural and recreational	2,533,895	296,638	-	304,000
Housing and redevelopment	1,803,839	-	222,488	352,165
Interest on long-term debt	252,378	-	-	-
Total governmental activities	<u>24,111,526</u>	<u>2,520,310</u>	<u>1,759,274</u>	<u>2,022,116</u>
Business-Type Activities:				
Water Fund	4,356,543	4,712,406	65,406	1,127,810
Sewer Fund	4,724,448	5,446,949	26,735	3,476,921
Electric Fund	20,921,507	23,249,891	-	-
Gas Fund	12,921,236	17,252,476	7,587	175,462
Stormwater Fund	938,528	789,110	-	-
Housing Assistance Fund	1,320,543	972,617	466,210	251,479
Total business-type activities	<u>45,182,805</u>	<u>52,423,449</u>	<u>565,938</u>	<u>5,031,672</u>
Total primary government	<u>\$ 69,294,331</u>	<u>\$ 54,943,759</u>	<u>\$ 2,325,212</u>	<u>\$ 7,053,788</u>
Component Unit:				
City of Shelby ABC Board	<u>\$ 3,568,890</u>	<u>\$ 3,568,891</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF SHELBY, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs:	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Shelby ABC Board
Primary Government:				
Governmental Activities:				
General government	\$ (2,255,103)	\$ -	\$ (2,255,103)	\$ -
Public safety	(9,092,657)	-	(9,092,657)	-
Transportation	(2,313,677)	-	(2,313,677)	-
Environmental protection	(733,568)	-	(733,568)	-
Cultural and recreational	(1,933,257)	-	(1,933,257)	-
Housing and redevelopment	(1,229,186)	-	(1,229,186)	-
Interest on long-term debt	(252,378)	-	(252,378)	-
Total governmental activities	(17,809,826)	-	(17,809,826)	-
Business-Type Activities:				
Water Fund	-	1,549,079	1,549,079	-
Sewer Fund	-	4,226,157	4,226,157	-
Electric Fund	-	2,328,384	2,328,384	-
Gas Fund	-	4,514,289	4,514,289	-
Stormwater Fund	-	(149,418)	(149,418)	-
Housing Assistance Fund	-	369,763	369,763	-
Total business-type activities	-	12,838,254	12,838,254	-
Total primary government	(17,809,826)	12,838,254	(4,971,572)	-
Component Unit:				
City of Shelby ABC Board				1
General Revenues:				
Taxes				
Property tax	10,366,376	-	10,366,376	-
Sales tax	3,971,524	-	3,971,524	-
Franchise tax	1,974,948	-	1,974,948	-
Other taxes	103,046	-	103,046	-
Investment earnings	213,582	131,603	345,185	217
Gain (loss) on disposal of asset	35,241	(1,083,090)	(1,047,849)	-
Total general revenues, not including transfers	16,664,717	(951,487)	15,713,230	217
Transfers	3,854,300	(3,854,300)	-	-
Total general revenues and transfers	20,519,017	(4,805,787)	15,713,230	217
Change in net position	2,709,191	8,032,467	10,741,658	218
Net Position:				
Beginning of year - July 1	40,757,644	99,078,833	139,836,477	1,007,958
Prior period adjustment	(9,077,440)	(2,905,812)	(11,983,252)	-
Beginning year - July 1, as restated	31,680,204	96,173,021	127,853,225	1,007,958
End of year - June 30	\$ 34,389,395	\$ 104,205,488	\$ 138,594,883	\$ 1,008,176

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

CITY OF SHELBY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	Major Funds			Total Governmental Funds
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
Assets:				
Cash and cash equivalents	\$ 5,979,443	\$ -	\$ 2,318,448	\$ 8,297,891
Receivables, net:				
Taxes	222,419	-	2,937	225,356
Accounts	860,238	-	20,620	880,858
Interest	8,534	3,497	1,429	13,460
Loans	-	-	26,435	26,435
Due from other funds	112,972	-	-	112,972
Due from other governments	2,186,198	545,394	65,730	2,797,322
Inventories	147,057	-	-	147,057
Prepaid items	327,501	-	30,000	357,501
Restricted cash and cash equivalents	217,642	2,986,912	1,191,120	4,395,674
Total assets	<u>\$ 10,062,004</u>	<u>\$ 3,535,803</u>	<u>\$ 3,656,719</u>	<u>\$ 17,254,526</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 603,036	\$ 508,823	\$ 9,969	\$ 1,121,828
Due to other funds	-	91,137	21,835	112,972
Advances from grantors	-	32,620	-	32,620
Other liabilities	5,676	-	-	5,676
Total liabilities	<u>608,712</u>	<u>632,580</u>	<u>31,804</u>	<u>1,273,096</u>
Deferred Inflows of Resources:				
Taxes receivable	<u>222,419</u>	<u>-</u>	<u>2,937</u>	<u>225,356</u>
Fund Balances:				
Non-spendable:				
Inventories	147,057	-	-	147,057
Prepays	327,501	-	30,000	357,501
Perpetual	-	-	1,191,120	1,191,120
Restricted:				
Stabilization by state statute	3,167,942	548,891	114,214	3,831,047
Public safety	-	-	185,945	185,945
Streets - Powell Bill	217,642	-	-	217,642
Transportation	-	2,954,292	-	2,954,292
Committed:				
Capital projects	-	-	199,475	199,475
Assigned:				
Subsequent year's expenditures	343,023	-	-	343,023
Economic development	-	-	1,923,059	1,923,059
Unassigned	5,027,708	(599,960)	(21,835)	4,405,913
Total fund balances	<u>9,230,873</u>	<u>2,903,223</u>	<u>3,621,978</u>	<u>15,756,074</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 10,062,004</u>	<u>\$ 3,535,803</u>	<u>\$ 3,656,719</u>	<u>\$ 17,254,526</u>

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

CITY OF SHELBY, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Total fund balances	\$ 15,756,074
Net pension liability	(2,699,487)
Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	45,908,602
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.	225,356
Deferred inflows of resources related to pensions are not reported in the funds.	
LGERS	(120,012)
LEOSSA	(43,868)
Deferred inflows of resources related to OPEB are not reported in the funds.	(592,754)
Deferred outflows of resources related to pensions are not reported in the funds.	
LGERS	2,035,178
LEOSSA	163,238
Deferred outflows of resources related to OPEB are not reported in the funds.	672,519
Total pension liability	(2,533,732)
OPEB liability	(12,909,157)
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>(11,472,562)</u>
Net position of governmental activities per Exhibit A	<u>\$ 34,389,395</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, 2018

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	
Revenues:				
Ad valorem taxes	\$ 10,244,432	\$ -	\$ 107,146	\$ 10,351,578
Other taxes and licenses	3,971,524	-	-	3,971,524
Unrestricted intergovernmental	2,264,771	-	-	2,264,771
Restricted intergovernmental	915,416	1,934,496	422,153	3,272,065
Permits and fees	267,140	-	-	267,140
Sales and services	1,942,634	-	-	1,942,634
Investment earnings	136,130	55,886	21,566	213,582
Donations	-	-	306,318	306,318
Miscellaneous	320,666	-	6,100	326,766
Total revenues	<u>20,062,713</u>	<u>1,990,382</u>	<u>863,283</u>	<u>22,916,378</u>
Expenditures:				
Current:				
General government	2,758,954	-	1,620	2,760,574
Public safety	10,531,493	1,552,789	85,977	12,170,259
Transportation	2,829,256	5,095,334	-	7,924,590
Environmental protection	1,785,799	-	-	1,785,799
Cultural and recreation	2,431,237	693,462	-	3,124,699
Housing and redevelopment	-	383,992	1,655,173	2,039,165
Debt service:				
Principal retirement	1,492,887	-	-	1,492,887
Interest and other charges	242,025	-	-	242,025
Total expenditures	<u>22,071,651</u>	<u>7,725,577</u>	<u>1,742,770</u>	<u>31,539,998</u>
Revenues over (under) expenditures	<u>(2,008,938)</u>	<u>(5,735,195)</u>	<u>(879,487)</u>	<u>(8,623,620)</u>
Other Financing Sources (Uses):				
Transfers from other funds	2,935,000	611,470	1,355,199	4,901,669
Transfers (to) other funds	(1,047,369)	-	-	(1,047,369)
Long-term debt issued	1,258,992	-	-	1,258,992
Proceeds from sale of assets	35,241	-	-	35,241
Total other financing sources (uses)	<u>3,181,864</u>	<u>611,470</u>	<u>1,355,199</u>	<u>5,148,533</u>
Net change in fund balances	1,172,926	(5,123,725)	475,712	(3,475,087)
Fund Balances:				
Beginning of year - July 1	<u>8,057,947</u>	<u>8,026,948</u>	<u>3,146,266</u>	<u>19,231,161</u>
End of year - June 30	<u>\$ 9,230,873</u>	<u>\$ 2,903,223</u>	<u>\$ 3,621,978</u>	<u>\$ 15,756,074</u>

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

CITY OF SHELBY, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

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) \$ (3,475,087)

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:

Property taxes 14,798

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. 8,321,854

Expenses related to compensated absences, other post-employment benefits, net pension obligation, and pension expense that do not require current financial resources and are not reported as expenditures in the governmental funds statement.

Compensated absences	(66,839)
Pension expense - LGERS	(68,387)
Pension expense - LEOSSA	(116,274)
Other post-employment benefits	(281,400)

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. (1,258,992)

Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement. (1,843,016)

Change in accrued interest payable, governmental fund debt (10,353)

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. 1,492,887

Change in net position of governmental activities per Exhibit B \$ 2,709,191

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, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 8,691,200	\$ 9,821,200	\$ 10,244,432	\$ 423,232
Other taxes and licenses	3,401,000	3,551,000	3,971,524	420,524
Unrestricted intergovernmental	3,307,000	2,177,000	2,264,771	87,771
Restricted intergovernmental	769,611	784,157	915,416	131,259
Permits and fees	279,320	279,320	267,140	(12,180)
Sales and services	1,881,200	1,881,200	1,942,634	61,434
Investment earnings	45,000	45,000	136,130	91,130
Miscellaneous	251,500	264,664	320,666	56,002
Total revenues	<u>18,625,831</u>	<u>18,803,541</u>	<u>20,062,713</u>	<u>1,259,172</u>
Expenditures:				
Current:				
General government	3,009,052	2,884,475	2,758,954	125,521
Public safety	11,497,049	11,627,541	10,531,493	1,096,048
Transportation	2,535,345	3,225,740	2,829,256	396,484
Environmental protection	1,728,310	1,804,256	1,785,799	18,457
Cultural and recreational	2,553,160	2,534,522	2,431,237	103,285
Debt service:				
Principal retirement	1,473,700	1,473,700	1,492,887	(19,187)
Interest and other charges	266,600	266,295	242,025	24,270
Total expenditures	<u>23,063,216</u>	<u>23,816,529</u>	<u>22,071,651</u>	<u>1,744,878</u>
Revenues over (under) expenditures	<u>(4,437,385)</u>	<u>(5,012,988)</u>	<u>(2,008,938)</u>	<u>3,004,050</u>
Other Financing Sources (Uses):				
Transfers from other funds	2,935,000	2,935,000	2,935,000	-
Transfers (to) other funds	(47,000)	(1,047,440)	(1,047,369)	71
Long-term debt issued	1,253,341	1,253,341	1,258,992	5,651
Proceeds from sale of capital assets	15,000	15,000	35,241	20,241
Appropriated fund balance	281,044	1,857,087	-	(1,857,087)
Total other financing sources (uses)	<u>4,437,385</u>	<u>5,012,988</u>	<u>3,181,864</u>	<u>(1,831,124)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	1,172,926	<u>\$ 1,172,926</u>
Fund Balance:				
Beginning of year - July 1			<u>8,057,947</u>	
End of year - June 30			<u>\$ 9,230,873</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, 2018

	Major Enterprise Funds				Nonmajor Funds	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Assets:						
Current assets:						
Cash and cash equivalents	\$ 2,566,869	\$ 2,048,271	\$ 1,888,022	\$ 4,568,557	\$ 2,639,363	\$ 13,711,082
Accounts receivable, net	746,355	904,780	3,694,927	709,029	122,699	6,177,790
Advanced to other funds	-	-	100,000	10,000	-	110,000
Due from other governments	145,124	633,086	-	962	20,222	799,394
Inventories	471,786	186,724	782,442	472,667	8,986	1,922,605
Prepaid items	15,839	14,811	15,616	39,838	16,369	102,473
Total current assets	<u>3,945,973</u>	<u>3,787,672</u>	<u>6,481,007</u>	<u>5,801,053</u>	<u>2,807,639</u>	<u>22,823,344</u>
Non-current assets:						
Restricted cash and cash equivalents	4,192,107	4,929,945	554,112	161,617	39,500	9,877,281
Advanced to other funds	-	-	1,900,000	900,000	-	2,800,000
Long-term notes receivable	369,987	-	-	-	-	369,987
Capital assets, non-depreciable	8,163,755	7,367,847	1,813,366	1,620,623	283,024	19,248,615
Capital assets, net	<u>24,400,801</u>	<u>42,078,904</u>	<u>17,476,908</u>	<u>16,857,201</u>	<u>4,837,113</u>	<u>105,650,927</u>
Total non-current assets	<u>37,126,650</u>	<u>54,376,696</u>	<u>21,744,386</u>	<u>19,539,441</u>	<u>5,159,637</u>	<u>137,946,810</u>
Total assets	<u>41,072,623</u>	<u>58,164,368</u>	<u>28,225,393</u>	<u>25,340,494</u>	<u>7,967,276</u>	<u>160,770,154</u>
Deferred Outflows of Resources:						
OPEB deferrals	45,639	16,000	75,327	60,467	399	197,832
Pension deferrals	125,716	134,324	85,593	144,647	53,744	544,024
Deferred charge on refunding	190,566	60,358	155,107	51,158	-	457,189
Total deferred outflows of resources	<u>361,921</u>	<u>210,682</u>	<u>316,027</u>	<u>256,272</u>	<u>54,143</u>	<u>1,199,045</u>
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	1,713,971	1,268,490	1,868,699	751,655	83,159	5,685,974
Accrued interest payable	63,532	26,636	13,492	10,664	-	114,324
Advanced from other funds	27,250	82,750	-	-	-	110,000
Compensated absences payable	19,000	11,000	12,000	15,000	10,000	67,000
Current portion of long-term debt	1,321,393	1,538,322	283,047	313,831	51,686	3,508,279
Liabilities payable from restricted assets:						
Customer deposits	-	-	554,112	-	39,500	593,612
Total current liabilities	<u>3,145,146</u>	<u>2,927,198</u>	<u>2,731,350</u>	<u>1,091,150</u>	<u>184,345</u>	<u>10,079,189</u>
Non-current liabilities:						
Advanced from other funds	517,750	2,282,250	-	-	-	2,800,000
Compensated absences payable	56,008	32,434	34,050	43,610	30,588	196,690
Other long-term debt	13,919,331	20,021,607	2,512,707	2,725,767	131,411	39,310,823
Net pension liability	170,302	182,614	122,398	191,499	71,841	738,654
Other post-employment benefits	919,398	1,001,924	843,850	902,980	361,112	4,029,264
Total non-current liabilities	<u>15,582,789</u>	<u>23,520,829</u>	<u>3,513,005</u>	<u>3,863,856</u>	<u>594,952</u>	<u>47,075,431</u>
Total liabilities	<u>18,727,935</u>	<u>26,448,027</u>	<u>6,244,355</u>	<u>4,955,006</u>	<u>779,297</u>	<u>57,154,620</u>
Deferred Inflows of Resources:						
Unavailable revenues	-	387,785	-	-	-	387,785
OPEB deferrals	43,191	47,237	41,180	41,503	16,638	189,749
Pension deferrals	7,330	7,776	4,755	8,544	3,152	31,557
Total deferred inflows of resources	<u>50,521</u>	<u>442,798</u>	<u>45,935</u>	<u>50,047</u>	<u>19,790</u>	<u>609,091</u>
Net Position:						
Net investment in capital assets	21,706,505	32,877,125	16,649,627	15,651,001	4,937,040	91,821,298
Unrestricted	<u>949,583</u>	<u>(1,392,900)</u>	<u>5,601,503</u>	<u>4,940,712</u>	<u>2,285,292</u>	<u>12,384,190</u>
Total net position	<u>\$ 22,656,088</u>	<u>\$ 31,484,225</u>	<u>\$ 22,251,130</u>	<u>\$ 20,591,713</u>	<u>\$ 7,222,332</u>	<u>\$ 104,205,488</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, 2018

	Major Enterprise Funds				Nonmajor Funds	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Operating Revenues:						
Charges for services	\$ 4,591,996	\$ 5,242,980	\$ 23,019,515	\$ 17,127,212	\$ 1,431,160	\$ 51,412,863
Other fees	35,585	138,545	850	49,010	2,580	226,570
Other operating revenues	84,825	65,424	229,526	76,254	327,987	784,016
Total operating revenues	<u>4,712,406</u>	<u>5,446,949</u>	<u>23,249,891</u>	<u>17,252,476</u>	<u>1,761,727</u>	<u>52,423,449</u>
Operating Expenses:						
Administration	723,317	896,581	1,127,557	1,306,076	1,245,549	5,299,080
Operations and maintenance	864,070	772,336	19,020,951	10,850,629	706,927	32,214,913
Treatment plant	1,405,976	1,505,997	-	-	-	2,911,973
Depreciation	942,100	1,358,882	680,875	685,680	304,124	3,971,661
Amortization	17,328	5,486	14,100	4,651	-	41,565
Total operating expenses	<u>3,952,791</u>	<u>4,539,282</u>	<u>20,843,483</u>	<u>12,847,036</u>	<u>2,256,600</u>	<u>44,439,192</u>
Operating income (loss)	<u>759,615</u>	<u>907,667</u>	<u>2,406,408</u>	<u>4,405,440</u>	<u>(494,873)</u>	<u>7,984,257</u>
Non-Operating Revenues (Expenses):						
Grants	-	-	-	-	466,210	466,210
Refund of interest expense	65,406	26,735	-	7,587	-	99,728
Investment earnings	9,856	35,937	17,298	50,463	18,049	131,603
Loss on disposal of asset	-	(60,707)	-	(1,022,383)	-	(1,083,090)
Interest expense and fiscal charges	(403,752)	(185,166)	(78,024)	(74,200)	(2,471)	(743,613)
Total non-operating revenues (expenses)	<u>(328,490)</u>	<u>(183,201)</u>	<u>(60,726)</u>	<u>(1,038,533)</u>	<u>481,788</u>	<u>(1,129,162)</u>
Income (loss) before capital contributions and transfers	431,125	724,466	2,345,682	3,366,907	(13,085)	6,855,095
Capital contributions	1,127,810	3,476,921	-	175,462	251,479	5,031,672
Transfers to other funds	(30,432)	(30,432)	(948,218)	(2,845,218)	-	(3,854,300)
Change in net position	<u>1,528,503</u>	<u>4,170,955</u>	<u>1,397,464</u>	<u>697,151</u>	<u>238,394</u>	<u>8,032,467</u>
Net Position:						
Beginning year - July 1	21,789,010	28,036,660	21,484,301	20,530,132	7,238,730	99,078,833
Prior period adjustment	(661,425)	(723,390)	(630,635)	(635,570)	(254,792)	(2,905,812)
Beginning year - July 1, as restated	<u>21,127,585</u>	<u>27,313,270</u>	<u>20,853,666</u>	<u>19,894,562</u>	<u>6,983,938</u>	<u>96,173,021</u>
End of year - June 30	<u>\$ 22,656,088</u>	<u>\$ 31,484,225</u>	<u>\$ 22,251,130</u>	<u>\$ 20,591,713</u>	<u>\$ 7,222,332</u>	<u>\$ 104,205,488</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, 2018

	Major Enterprise Funds				Nonmajor Funds	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Cash Flows from Operating Activities:						
Cash received from customers	\$ 4,638,361	\$ 5,384,068	\$ 22,908,896	\$ 17,240,179	\$ 1,745,827	\$ 51,917,331
Cash paid for goods and services	(914,159)	(1,610,785)	(20,881,053)	(10,965,522)	(1,730,972)	(36,102,491)
Cash paid to employees	(673,308)	(840,038)	(1,040,597)	(1,282,200)	(342,540)	(4,178,683)
Net cash provided (used) by operating activities	<u>3,050,894</u>	<u>2,933,245</u>	<u>987,246</u>	<u>4,992,457</u>	<u>(327,685)</u>	<u>11,636,157</u>
Cash Flows from Non-Capital Financing Activities:						
Proceeds from operating grants	-	-	-	-	466,210	466,210
Increase (decrease) in due from other funds	454,461	1,205,298	-	14,976	(20,462)	1,654,273
Transfers from (to) other funds	(30,432)	(30,432)	(948,218)	(2,845,218)	-	(3,854,300)
Net cash provided (used) by non-capital financing activities	<u>424,029</u>	<u>1,174,866</u>	<u>(948,218)</u>	<u>(2,830,242)</u>	<u>445,748</u>	<u>(1,733,817)</u>
Cash Flows from Capital and Related Financing Activities:						
Acquisition and construction of capital assets	(6,586,301)	(6,468,671)	(1,823,992)	(2,915,556)	(253,799)	(18,048,319)
Capital contributions - grants	1,127,810	3,476,921	-	175,462	251,479	5,031,672
Proceeds from issuance of long-term debt	4,180,000	5,713,536	119,952	1,213,952	17,568	11,245,008
Payment on notes receivable	25,892	-	-	-	-	25,892
Principal paid on long-term debt	(1,016,851)	(1,143,172)	(254,190)	(232,579)	(47,730)	(2,694,522)
Interest paid on long-term debt	(344,042)	(161,535)	(78,104)	(67,672)	(2,471)	(653,824)
Net cash provided (used) for capital and related financing activities	<u>(2,613,492)</u>	<u>1,417,079</u>	<u>(2,036,334)</u>	<u>(1,826,393)</u>	<u>(34,953)</u>	<u>(5,094,093)</u>
Cash Flows from Investing Activities:						
Interest received from investments	<u>9,856</u>	<u>35,937</u>	<u>17,298</u>	<u>50,463</u>	<u>18,049</u>	<u>131,603</u>
Net increase (decrease) in cash and cash equivalents	871,287	5,561,127	(1,980,008)	386,285	101,159	4,939,850
Cash and Cash Equivalents:						
Beginning of year - July 1	<u>5,887,689</u>	<u>1,417,089</u>	<u>4,422,142</u>	<u>4,343,889</u>	<u>2,577,704</u>	<u>18,648,513</u>
End of year - June 30	<u>\$ 6,758,976</u>	<u>\$ 6,978,216</u>	<u>\$ 2,442,134</u>	<u>\$ 4,730,174</u>	<u>\$ 2,678,863</u>	<u>\$ 23,588,363</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, 2018

	Major Enterprise Funds				Nonmajor Funds	Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Operating income (loss)	\$ 759,615	\$ 907,667	\$ 2,406,408	\$ 4,405,440	\$ (494,873)	\$ 7,984,257
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Amortization	17,328	5,486	14,100	4,651	-	41,565
Depreciation	942,100	1,358,882	680,875	685,680	304,124	3,971,661
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(74,045)	(62,880)	(334,534)	(12,297)	(15,650)	(499,406)
(Increase) decrease in inventories	(63,857)	(65,506)	10,519	(21,100)	(1,273)	(141,217)
(Increase) decrease in prepaids	(432)	1,749	(6,800)	(26,838)	(8,455)	(40,776)
Increase (decrease) in accounts payable and accrued liabilities	1,420,176	731,304	(1,768,213)	(66,955)	(161,769)	154,543
Increase (decrease) in customer deposits	-	-	(6,461)	-	(250)	(6,711)
Increase (decrease) in compensated absences	21,156	(8,930)	(4,342)	12,769	22,162	42,815
(Increase) decrease in deferred outflows of resources for pensions	76,992	84,245	73,365	73,922	29,709	338,233
Increase (decrease) in net pension liability	(66,276)	(72,519)	(63,154)	(63,634)	(25,574)	(291,157)
Increase (decrease) in deferred inflows of resources for pensions	(5,732)	(6,272)	(5,462)	(5,504)	(2,212)	(25,182)
(Increase) decrease in deferred outflows of resources for OPEB	(45,639)	(16,000)	(75,327)	(60,467)	(399)	(197,832)
Increase (decrease) in deferred inflows of resources for OPEB	43,191	47,237	41,180	41,503	16,638	189,749
Increase (decrease) in other post-employment benefits	26,317	28,782	25,092	25,287	10,137	115,615
Net cash provided (used) by operating activities	<u>\$ 3,050,894</u>	<u>\$ 2,933,245</u>	<u>\$ 987,246</u>	<u>\$ 4,992,457</u>	<u>\$ (327,685)</u>	<u>\$ 11,636,157</u>
Noncash Investing, Capital, and Financing Activities:						
Refund of interest expense	\$ 65,406	\$ 26,735	\$ -	\$ 7,587	\$ -	\$ 99,728
Loss on disposal of assets	\$ -	\$ 60,707	\$ -	\$ 1,022,383	\$ -	\$ 1,083,090

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, 2018

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

City of Shelby ABC Board

The members of the ABC Board’s governing board are appointed by the City. In addition, the ABC Board is required by state statute to distribute its surpluses to the General Fund of the City of Shelby and Cleveland City. 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, 2018

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

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

The City reports the following major governmental funds:

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

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

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

The City reports the following nonmajor governmental funds:

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

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

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

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

The City reports the following major enterprise funds:

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

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

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

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

The City reports the following nonmajor enterprise funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

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

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

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

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

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

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

D. Accounting Estimates

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

E. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Special Revenue Funds, Enterprise Funds, and the Electric Capital Reserve Fund. All annual appropriations lapse at fiscal year-end. Project ordinances are adopted for the Capital Projects Funds and Water, Sewer, Electric, and Gas Capital Projects Funds. All budgets are prepared using the modified accrual basis of accounting.

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

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Deposits and Investments

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

State law [G.S. 159-30 (c)] authorizes the City and its component unit to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"). The City's and the ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, an SEC-registered (2a-7) government money market fund, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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

Cash and Investments

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

Restricted Assets

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

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Restricted Cash

Governmental Activities:

General Fund:

Streets	\$ 217,642
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Capital Projects Fund:

Unspent debt proceeds	2,954,292
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Unspent grant proceeds	32,620
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Raper Roark Trust Fund:

Downtown redevelopment	601,699
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Cemetery Fund:

Perpetual care of cemetery	<u>589,421</u>
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Total governmental activities	<u>\$ 4,395,674</u>
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Business-Type Activities:

Water Fund:

Unspent debt proceeds	\$ 4,192,107
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Sewer Fund:

Unspent debt proceeds	4,929,945
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Electric Fund:

Customer deposits	554,112
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Gas Fund:

Unspent debt proceeds	161,617
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Housing Assistance Fund:

Customer deposits	<u>39,500</u>
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Total business-type activities	<u>\$ 9,877,281</u>
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Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2017. 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, 2018

Allowance for Doubtful Accounts

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

Inventory and Prepaid Items

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

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

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003 consist of the road network assets that were acquired, or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The City has three items that meet this criteria in the current year – a charge on refunding, pension deferrals, and OPEB deferrals. 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 three items that meet this criteria – unavailable revenues, pension deferrals, and OPEB deferrals.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Long-Term Obligations

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

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

Compensated Absences

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

Employees of the ABC Board receive vacation pay based on a scale determined by the Board. Vacation is earned in one year to be taken in the following year. If it is not taken by the end of the following year, it is paid to the employee. No liability for vacation pay existed as of June 30, 2018.

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

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

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Net Position/Fund Balances

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

	<u>General Fund</u>	<u>Nonmajor Governmental 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.	\$ 147,057	\$ -
<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.	327,501	30,000
<i>Perpetual</i> - portion of fund balance that consists of donations received, which the earnings are to be used for the redevelopment, revitalization, and beautification of downtown Shelby, and for the perpetual care of the municipal cemetery. The donations are to be invested in perpetuity.	<u>-</u>	<u>1,191,120</u>
Total	<u>\$ 474,558</u>	<u>\$ 1,221,120</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

	General Fund	Major Capital Projects Fund	Nonmajor SRF/CPF Funds	Permanent Fund
<i>Restricted for Stabilization by State Statute</i> - portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].	\$ 3,167,942	\$ 548,891	\$ 102,931	\$ 11,283
<i>Restricted for Public Safety</i> - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures.	-	-	185,945	-
<i>Restricted for Streets</i> - Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the total unexpended Powell Bill funds.	217,642	-	-	-
<i>Restricted for Transportation</i> - portion of fund balance (unspent debt proceeds) that is restricted by revenue source for capital expenditures.	-	2,954,292	-	-
Total	\$ 3,385,584	\$ 3,503,183	\$ 288,876	\$ 11,283

Restricted fund balance differs on Exhibit A from Exhibit C for unspent debt proceeds in the governmental funds of \$2,954,292.

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

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

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

	General Fund	Nonmajor Governmental Funds
<i>Assigned for Subsequent Year's Expenditures</i> - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.	\$ 343,023	\$ -
<i>Assigned for Economic Development</i> - portion of fund balance that is assigned for economic development.	<u>-</u>	<u>1,923,059</u>
Total	<u>\$ 343,023</u>	<u>\$ 1,923,059</u>

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

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

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

Total fund balance - General Fund (Exhibit C)	\$ 9,230,873
Less:	
Non-spendable	(474,558)
Stabilization by state statute	<u>(3,167,942)</u>
Available for appropriation	<u>\$ 5,588,373</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Defined Benefit Cost-Sharing Plans

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

2. Detail Notes On All Funds

A. Assets

Deposits

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

At June 30, 2018, the City's deposits had a carrying amount of \$11,874,088 and a bank balance of \$12,485,715. Of the City's bank balance, \$1,030,979 was covered by federal depository insurance, and the remainder was covered by collateral held under the Pooling Method. The ABC Board's deposits had a carrying amount of \$349,583 and a bank balance of \$303,681. Of the ABC Board's bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. The City had petty cash of \$4,554 at June 30, 2018, and the ABC Board had petty cash of \$7,680.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Investments

At June 30, 2018, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/2018</u>	<u>Less Than Six Months</u>	<u>Six Months to Five Years</u>
US Government Agencies	Fair Value - Level 2	\$ 4,607,090	\$ 499,935	\$ 4,107,155
NCCMT - Govt Portfolio	Amortized Cost	988,648	N/A	
NCCMT - Term Portfolio	Fair Value - Level 1	18,807,548	18,807,548	-
Total		<u>\$ 24,403,286</u>	<u>\$ 19,307,483</u>	<u>\$ 4,107,155</u>

All investments are measured using the market approach; using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. Level of fair value hierarchy: Level 1 debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices.

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

Credit Risk. The City has no formal policy regarding credit risk, but has internal management procedures that limit the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City's investments in US agencies (Federal Home Loan Bank, NC State Eastern Municipal, Fannie Mae) are rated AAA by Standard and Poor's and Aaa by Moody's Investors Service. The City's investment in the North Carolina Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2018. The City's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. All certificates of deposit are issued by banks organized under the laws of the State of North Carolina and are fully collateralized using the Pooling Method with the North Carolina Department of State Treasurer.

Concentration of Credit Risk. The City will diversify its investments by security type and institution. With the exception of US treasuries securities and authorized pools, no more than 50% of the City's total investment portfolio will be invested in a single security type and no more than 33% with a single financial institution. Less than 20% of the City's investments are in US government agencies; Federal Home Loan Bank, Fannie Mae, and NC State Eastern Municipal, 14.8%, 2.0%, and 2.0%, respectively.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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	\$ 167,000	\$ -	\$ 167,000
Accounts receivable	110,172	1,843,359	1,953,531
Total	\$ 277,172	\$ 1,843,359	\$ 2,120,531

Due from other governments consists of the following at June 30, 2018:

	Governmental Activities	Business-Type Activities	Total
General Fund sales tax	\$ 512,126	\$ -	\$ 512,126
General Fund local option sales tax	983,524	-	983,524
General Fund utility franchise tax	456,827	-	456,827
General Fund NCVTS and grants	138,269	-	138,269
General Fund other	95,452	-	95,452
Capital Projects Fund grants	545,394	-	545,394
Nonmajor grants	65,730	-	65,730
Water Fund sales tax	-	145,124	145,124
Sewer Fund sales tax	-	95,301	95,301
Sewer Fund grants	-	537,785	537,785
Gas Fund sales tax	-	962	962
Nonmajor fund sales tax	-	4,695	4,695
Nonmajor fund other	-	15,527	15,527
Total	\$ 2,797,322	\$ 799,394	\$ 3,596,716

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2018 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Governmental Activities:					
Non-Depreciable Capital Assets:					
Land	\$ 5,664,090	\$ 61,303	\$ -	\$ -	\$ 5,725,393
Construction in progress	3,786,821	7,618,788	-	(1,712,118)	9,693,491
Total non-depreciable capital assets	<u>9,450,911</u>	<u>7,680,091</u>	<u>-</u>	<u>(1,712,118)</u>	<u>15,418,884</u>
Depreciable Capital Assets:					
Buildings	17,753,144	-	-	-	17,753,144
Other improvements	12,062,065	18,499	-	1,712,118	13,792,682
Machinery and equipment	8,443,773	360,517	(27,786)	-	8,776,504
Vehicles	9,639,168	262,747	(30,629)	-	9,871,286
Infrastructure	11,484,875	-	-	-	11,484,875
Total depreciable capital assets	<u>59,383,025</u>	<u>641,763</u>	<u>(58,415)</u>	<u>1,712,118</u>	<u>61,678,491</u>
Less Accumulated Depreciation:					
Buildings	7,265,133	411,108	-	-	7,676,241
Other improvements	3,073,741	306,587	-	-	3,380,328
Machinery and equipment	6,795,205	507,039	(27,786)	-	7,274,458
Vehicles	7,735,540	465,192	(30,629)	-	8,170,103
Infrastructure	4,534,553	153,090	-	-	4,687,643
Total accumulated depreciation	<u>29,404,172</u>	<u>\$ 1,843,016</u>	<u>\$ (58,415)</u>	<u>\$ -</u>	<u>31,188,773</u>
Total depreciable capital assets, net	<u>29,978,853</u>				<u>30,489,718</u>
Governmental activities capital assets, net	<u>\$ 39,429,764</u>				<u>\$ 45,908,602</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Governmental Activities:

General government	\$	411,108
Public safety		306,587
Transportation		507,039
Environmental protection		465,192
Cultural and recreational		<u>153,090</u>
Total depreciation expense - governmental activities	\$	<u><u>1,843,016</u></u>

Capital asset activity for business-type activities for the year ended June 30, 2018 was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Water Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 184,599	\$ -	\$ -	\$ -	\$ 184,599
Construction in progress	<u>1,954,495</u>	<u>6,024,661</u>	<u>-</u>	<u>-</u>	<u>7,979,156</u>
Total non-depreciable capital assets	<u>2,139,094</u>	<u>6,024,661</u>	<u>-</u>	<u>-</u>	<u>8,163,755</u>
Depreciable Capital Assets:					
Buildings and system	13,571,520	-	-	-	13,571,520
Water extensions	26,532,906	505,972	-	-	27,038,878
Machinery and equipment	1,357,675	24,470	-	-	1,382,145
Vehicles	<u>420,876</u>	<u>31,198</u>	<u>-</u>	<u>-</u>	<u>452,074</u>
Total depreciable capital assets	<u>41,882,977</u>	<u>561,640</u>	<u>-</u>	<u>-</u>	<u>42,444,617</u>
Less Accumulated Depreciation:					
Buildings and system	7,502,623	254,474	-	-	7,757,097
Water extensions	8,133,500	648,787	-	-	8,782,287
Machinery and equipment	1,202,995	-	-	-	1,202,995
Vehicles	<u>262,598</u>	<u>38,839</u>	<u>-</u>	<u>-</u>	<u>301,437</u>
Total accumulated depreciation	<u>17,101,716</u>	<u>\$ 942,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>18,043,816</u>
Total depreciable capital assets, net	<u>24,781,261</u>				<u>24,400,801</u>
Water Fund capital assets, net	<u>\$ 26,920,355</u>				<u>\$ 32,564,556</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Sewer Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 58,402	\$ -	\$ -	\$ -	\$ 58,402
Construction in progress	1,521,137	5,788,308	-	-	7,309,445
Total non-depreciable capital assets	<u>1,579,539</u>	<u>5,788,308</u>	<u>-</u>	<u>-</u>	<u>7,367,847</u>
Depreciable Capital Assets:					
Buildings and system	16,826,827	-	-	-	16,826,827
Sewer extensions	42,484,097	640,880	-	-	43,124,977
Machinery and equipment	2,009,791	39,483	-	-	2,049,274
Vehicles	892,462	-	-	-	892,462
System improvements	60,707	-	(60,707)	-	-
Total depreciable capital assets	<u>62,273,884</u>	<u>680,363</u>	<u>(60,707)</u>	<u>-</u>	<u>62,893,540</u>
Less Accumulated Depreciation:					
Buildings and system	7,535,473	402,316	-	-	7,937,789
Sewer extensions	9,253,637	921,520	-	-	10,175,157
Machinery and equipment	1,935,242	-	-	-	1,935,242
Vehicles	731,402	35,046	-	-	766,448
Total accumulated depreciation	<u>19,455,754</u>	<u>\$ 1,358,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>20,814,636</u>
Total depreciable capital assets, net	<u>42,818,130</u>				<u>42,078,904</u>
Sewer Fund capital assets, net	<u>\$ 44,397,669</u>				<u>\$ 49,446,751</u>

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Electric Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 75,683	\$ -	\$ -	\$ -	\$ 75,683
Construction in progress	393,132	1,500,291	-	(155,740)	1,737,683
Total non-depreciable capital assets	<u>468,815</u>	<u>1,500,291</u>	<u>-</u>	<u>(155,740)</u>	<u>1,813,366</u>
Depreciable Capital Assets:					
Buildings and system	4,158,645	-	-	-	4,158,645
Electric extensions	23,744,537	204,269	-	155,740	24,104,546
Machinery and equipment	1,109,112	-	-	-	1,109,112
Vehicles	1,299,152	119,432	-	-	1,418,584
Total depreciable capital assets	<u>30,311,446</u>	<u>323,701</u>	<u>-</u>	<u>155,740</u>	<u>30,790,887</u>
Less Accumulated Depreciation:					
Buildings and system	2,107,270	65,315	-	-	2,172,585
Electric extensions	8,330,732	596,685	-	-	8,927,417
Machinery and equipment	1,066,042	-	-	-	1,066,042
Vehicles	1,129,060	18,875	-	-	1,147,935
Total accumulated depreciation	<u>12,633,104</u>	<u>\$ 680,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>13,313,979</u>
Total depreciable capital assets, net	<u>17,678,342</u>				<u>17,476,908</u>
Electric Fund capital assets, net	<u>\$ 18,147,157</u>				<u>\$ 19,290,274</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Gas Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 53,489	\$ 1,335,733	\$ (1,022,383)	\$ -	\$ 366,839
Construction in progress	213,798	1,147,933	-	(107,947)	1,253,784
Total non-depreciable capital assets	<u>267,287</u>	<u>2,483,666</u>	<u>(1,022,383)</u>	<u>(107,947)</u>	<u>1,620,623</u>
Depreciable Capital Assets:					
Buildings and system	2,993,479	-	-	-	2,993,479
Gas extensions	25,529,251	401,179	-	107,947	26,038,377
Machinery and equipment	1,215,042	-	-	-	1,215,042
Vehicles	731,753	30,711	-	-	762,464
Total depreciable capital assets	<u>30,469,525</u>	<u>431,890</u>	<u>-</u>	<u>107,947</u>	<u>31,009,362</u>
Less Accumulated Depreciation:					
Buildings and system	453,200	-	-	-	453,200
Sewer extensions	11,281,369	648,483	-	-	11,929,852
Machinery and equipment	1,149,967	-	-	-	1,149,967
Vehicles	581,945	37,197	-	-	619,142
Total accumulated depreciation	<u>13,466,481</u>	<u>\$ 685,680</u>	<u>\$ -</u>	<u>\$ -</u>	<u>14,152,161</u>
Total depreciable capital assets, net	<u>17,003,044</u>				<u>16,857,201</u>
Gas Fund capital assets, net	<u>\$ 17,270,331</u>				<u>\$ 18,477,824</u>

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Stormwater Fund:					
Depreciable Capital Assets:					
Machinery and equipment	\$ 399,297	\$ -	\$ -	\$ -	\$ 399,297
Vehicles	53,859	-	-	-	53,859
Total depreciable capital assets	<u>453,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>453,156</u>
Less Accumulated Depreciation:					
Machinery and equipment	93,335	66,982	-	-	160,317
Vehicles	22,441	10,772	-	-	33,213
Total accumulated depreciation	<u>115,776</u>	<u>\$ 77,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>193,530</u>
Total depreciable capital assets, net	<u>337,380</u>				<u>259,626</u>
Stormwater Fund capital assets, net	<u>\$ 337,380</u>				<u>\$ 259,626</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Housing Assistance Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 278,173	\$ -	\$ -	\$ -	\$ 278,173
Construction in progress	4,851	-	-	-	4,851
Total non-depreciable capital assets	<u>283,024</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>283,024</u>
Depreciable Capital Assets:					
Buildings and system	9,412,800	-	-	-	9,412,800
Other improvements	664,131	253,799	-	-	917,930
Machinery and equipment	170,212	-	-	-	170,212
Vehicles	163,530	-	-	-	163,530
Total depreciable capital assets	<u>10,410,673</u>	<u>253,799</u>	<u>-</u>	<u>-</u>	<u>10,664,472</u>
Less Accumulated Depreciation:					
Buildings and system	4,915,381	200,196	-	-	5,115,577
Other improvements	653,011	19,981	-	-	672,992
Machinery and equipment	170,212	-	-	-	170,212
Vehicles	122,011	6,193	-	-	128,204
Total accumulated depreciation	<u>5,860,615</u>	<u>\$ 226,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>6,086,985</u>
Total depreciable capital assets, net	<u>4,550,058</u>				<u>4,577,487</u>
Housing Assistance Fund capital assets, net	<u>\$ 4,833,082</u>				<u>\$ 4,860,511</u>
Total business-type assets	<u>\$ 111,905,974</u>				<u>\$ 124,899,542</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Construction Commitments

The City has active construction projects as of June 30, 2018. At year-end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Project Authorizations</u>	<u>Remaining Commitment</u>
Governmental:		
East Gateway Enhancement Project	\$ 436,500	\$ 5,029
Uptown Streetscape/Ped Improvements	392,900	31,119
Hanna Property Multi-Purpose Recreation Complex	8,220,800	2,464,901
Airport Land Easement	1,138,500	65,574
Airport Runway Overlay	2,700,716	10,847
Foothills Commerce Center Mass Grading	<u>1,275,000</u>	<u>64,965</u>
Total	<u>14,164,416</u>	<u>2,642,435</u>
Business-Type:		
<i>Water Fund:</i>		
Grover-Morgan Waterline Project	3,527,101	149,714
Farmville Road Water Project	12,480,000	9,536,663
Uptown Water Improvements	220,000	25,200
Water Treatment Plant Upgrade	635,000	71,817
Uptown Water Infrastructure Replacement	<u>2,624,500</u>	<u>2,370,595</u>
Total	<u>19,486,601</u>	<u>12,153,989</u>
<i>Sewer Fund:</i>		
Brushy Creek Sewer Outfall	500,000	18,075
Westside Sewer Improvements	9,000,000	4,718,442
First Broad WWTP Influent Project	<u>6,700,000</u>	<u>5,069,298</u>
Total	<u>16,200,000</u>	<u>9,805,815</u>
<i>Electric Fund:</i>		
Hanna Park Electric Line Extension	192,000	12,583
Uptown Electric Utility Upgrade Project	1,725,000	223,452
Huesker Sewer Extension	37,800	38,129
Westside sewer improvements	9,000,000	28,227
First Broad WWTP influent project	<u>6,700,000</u>	<u>8,757</u>
Total	<u>17,654,800</u>	<u>311,148</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Project</u>	<u>Project Authorizations</u>	<u>Remaining Commitment</u>
<i>Gas Fund:</i>		
Highway 74 Bypass Section "C" Gas Line Relocation	831,564	401,028
Farmville Road Gasline Loop	1,808,500	564,154
Joe's Lake Road Gas Line Relocation	<u>225,000</u>	<u>61,619</u>
Total	<u>2,865,064</u>	<u>1,026,801</u>
Total	<u>\$ 70,370,881</u>	<u>\$ 25,940,188</u>

Capital asset activity for the ABC Board for the year ended June 30, 2018 was as follows:

<u>Component Unit</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Non-Depreciable Capital Assets:				
Land	\$ 182,567	\$ -	\$ -	\$ 182,567
Depreciable Capital Assets:				
Buildings	751,688	23,729	(58,930)	716,487
Office and store equipment	379,517	20,361	-	399,878
Land improvements	1,950	-	-	1,950
Vehicle	<u>24,250</u>	<u>-</u>	<u>-</u>	<u>24,250</u>
Total depreciable capital assets	<u>1,157,405</u>	<u>44,090</u>	<u>(58,930)</u>	<u>1,142,565</u>
Less Accumulated Depreciation:				
Buildings	695,949	5,320	(58,317)	642,952
Office and store equipment	311,296	12,296	-	323,592
Land improvements	106	98	-	204
Vehicle	<u>17,379</u>	<u>2,425</u>	<u>-</u>	<u>19,804</u>
Total accumulated depreciation	<u>1,024,730</u>	<u>20,139</u>	<u>(58,317)</u>	<u>986,552</u>
Total ABC depreciable capital assets	<u>132,675</u>	<u>23,951</u>	<u>(613)</u>	<u>156,013</u>
ABC capital assets, net	<u>\$ 315,242</u>	<u>\$ 23,951</u>	<u>\$ (613)</u>	<u>\$ 338,580</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018 were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 691,622	\$ 4,002,286
Accrued gas and electric purchases	-	1,557,734
Accrued payroll liabilities	430,206	125,954
Total accounts payable and accrued liabilities	<u>\$ 1,121,828</u>	<u>\$ 5,685,974</u>

Long-Term Obligations

All financing arrangements that have an outstanding balance at June 30, 2018 are summarized as follows:

Financing Agreements	Interest Rate	Date Debt Matures	Amount of Original Debt	Balance Outstanding at June 30, 2018						
				Governmental Activities	Business-Type Activities					Total Business-Type
					Water Fund	Sewer Fund	Electric Fund	Gas Fund	Stormwater Fund	
Cleveland County	1.68%	03/2022	\$ 183,526	\$ -	\$ 73,410	\$ -	\$ -	\$ -	\$ -	\$ 73,410
Powell Bill 2015	1.55%	2021	280,000	114,618	-	-	-	-	-	-
Powell Bill 2016	1.49%	2022	18,006	10,946	-	-	-	-	-	-
Powell Bill 2017	2.83%	2022	159,104	128,273	-	-	-	-	-	-
Capital projects 2014 Purchase of equipment	3.64%	06/2019	1,250,000	125,000	-	-	-	-	-	-
2014 DENR	1.42%	2/2019	930,900	115,265	27,361	14,221	6,674	28,126	-	76,382
2015 Purchase of equipment	0.00%	5/2034	726,000	-	-	580,802	-	-	-	580,802
2015 DENR	1.55%	2021	1,859,433	505,645	48,718	34,985	-	36,849	20,459	141,011
2015 DENR	0.00%	2029	3,130,438	-	-	2,660,872	-	-	-	2,660,872
2015 DENR	0.00%	2029	9,396,658	-	-	8,456,992	-	-	-	8,456,992
2016 Purchase of equipment	1.49%	2022	1,333,790	512,696	46,785	25,542	135,573	44,921	34,380	287,201
2017 Purchase of equipment	1.89%	2022	1,130,000	413,060	65,594	102,583	57,395	33,435	110,690	369,697
Capital projects 2018 Purchase of equipment	2.83%	2032	7,700,000	7,186,667	-	-	-	-	-	-
Cleveland County	2.39%	2024	1,440,000	1,258,992	-	13,537	119,952	29,952	17,568	181,009
Total	3.25%	2033	<u>\$ 41,620,705</u>	<u>\$ 10,371,162</u>	<u>\$ 4,180,000</u>	<u>\$ 5,700,000</u>	<u>\$ 319,594</u>	<u>\$ 1,184,000</u>	<u>\$ 183,097</u>	<u>\$ 23,891,376</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Governmental Activities Long-Term Debt

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2018 are as follows:

Year Ending June 30	Governmental Activities		
	Principal	Interest	Total
2019	\$ 1,604,566	\$ 266,133	\$ 1,870,699
2020	1,380,253	230,793	1,611,046
2021	1,078,665	200,672	1,279,337
2022	910,082	174,929	1,085,011
2023	777,596	151,053	928,649
2024-2028	2,566,667	508,457	3,075,124
2029-2032	2,053,333	145,273	2,198,606
Total	<u>\$ 10,371,162</u>	<u>\$ 1,677,310</u>	<u>\$ 12,048,472</u>

Business-Type Activities Long-Term Debt

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

Year Ending June 30	Water Fund		
	Principal	Interest	Total
2019	\$ 381,392	\$ 129,853	\$ 511,245
2020	354,960	119,508	474,468
2021	330,953	109,549	440,502
2022	315,437	99,794	415,231
2023	298,571	90,566	389,137
2024-2028	1,492,855	316,982	1,809,837
2029-2032	1,194,290	90,568	1,284,858
Total	<u>\$ 4,368,458</u>	<u>\$ 956,820</u>	<u>\$ 5,325,278</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Year Ending June 30	Sewer Fund		
	Principal	Interest	Total
2019	\$ 1,155,627	\$ 178,727	\$ 1,334,354
2020	1,142,323	164,628	1,306,951
2021	1,125,383	150,731	1,276,114
2022	1,117,297	136,876	1,254,173
2023	1,072,640	123,542	1,196,182
2024-2028	5,348,995	432,179	5,781,174
2029-2033	4,941,836	123,482	5,065,318
2034-2036	1,758,843	-	1,758,843
Total	\$ 17,662,944	\$ 1,310,165	\$ 18,973,109

Year Ending June 30	Electric Fund		
	Principal	Interest	Total
2019	\$ 88,007	\$ 6,069	\$ 94,076
2020	82,787	4,529	87,316
2021	84,324	2,991	87,315
2022	39,298	1,470	40,768
2023	25,178	551	25,729
Total	\$ 319,594	\$ 15,610	\$ 335,204

Year Ending June 30	Gas Fund		
	Principal	Interest	Total
2019	\$ 159,551	\$ 38,904	\$ 198,455
2020	132,240	35,159	167,399
2021	114,192	31,796	145,988
2022	99,296	28,659	127,955
2023	90,858	25,812	116,670
2024-2028	422,855	89,859	512,714
2029-2032	338,291	25,674	363,965
Total	\$ 1,357,283	\$ 275,863	\$ 1,633,146

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Year Ending June 30	Stormwater Fund		
	Principal	Interest	Total
2019	\$ 51,686	\$ 3,362	\$ 55,048
2020	52,594	2,435	55,029
2021	43,073	1,505	44,578
2022	32,056	718	32,774
2023	3,688	81	3,769
Total	\$ 183,097	\$ 8,101	\$ 191,198

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

The outstanding balances on these bonds at June 30, 2018 are as follows:

	Interest Rates	Date Series Matures	Amount of Original Issue	Balance Outstanding June 30, 2018
Combined Enterprise System, Series 2010	6.20%	2025	\$ 8,346,400	4,516,130
Combined Enterprise System, Series 2013A	2.78%	2029	9,645,000	7,300,000
Combined Enterprise System, Series 2013C	2.69%	2028	3,185,000	2,240,000
Combined Enterprise System, Series 2015	2.50%	2031	2,460,000	2,113,086
Combined Enterprise System, Series 2016	1.95%	2032	3,020,000	2,758,510
Total				\$ 18,927,726

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30	Water Fund		
	Principal	Interest	Total
2019	\$ 940,001	\$ 367,202	\$ 1,307,203
2020	970,767	329,906	1,300,673
2021	998,151	291,264	1,289,415
2022	1,030,509	251,347	1,281,856
2023	1,063,708	209,997	1,273,705
2024-2028	4,290,272	493,858	4,784,130
2029-2033	1,578,858	57,757	1,636,615
Total	\$ 10,872,266	\$ 2,001,331	\$ 12,873,597

Year Ending June 30	Sewer Fund		
	Principal	Interest	Total
2019	\$ 382,695	\$ 146,190	\$ 528,885
2020	395,406	130,332	525,738
2021	407,053	113,906	520,959
2022	420,281	96,934	517,215
2023	433,783	79,361	513,144
2024-2028	1,757,675	158,695	1,916,370
2029-2033	100,092	2,783	102,875
Total	\$ 3,896,985	\$ 728,201	\$ 4,625,186

Year Ending June 30	Electric Fund		
	Principal	Interest	Total
2019	\$ 195,040	\$ 68,837	\$ 263,877
2020	201,824	63,415	265,239
2021	205,216	57,804	263,020
2022	212,000	52,099	264,099
2023	218,784	46,206	264,990
2024-2028	1,185,504	136,543	1,322,047
2029-2033	257,792	7,168	264,960
Total	\$ 2,476,160	\$ 432,072	\$ 2,908,232

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Year Ending	Gas Fund			
	June 30	Principal	Interest	Total
2019	\$	154,280	\$ 57,495	\$ 211,775
2020		159,453	51,726	211,179
2021		163,571	45,753	209,324
2022		168,891	39,602	208,493
2023		174,289	33,237	207,526
2024-2028		776,106	76,531	852,637
2029-2033		85,725	2,383	88,108
Total	\$	<u>1,682,315</u>	\$ <u>306,727</u>	\$ <u>1,989,042</u>

The City has pledged future water, sewer, electric, and gas customer revenues, net of specified operating expenses, to repay \$47,661,400 revenue bonds series 2004, 2010, 2013, 2015, and 2016. Proceeds from the bonds provided financing for various capital improvements. The bonds are payable solely from water, sewer, electric, and gas customer net revenues and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$18,927,726. Principal and interest paid for the current year and total customer net revenues were \$2,319,473 and \$12,127,526, 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, 2018 was as follows:

Operating revenues	\$ 50,661,722
Operating expenses*	<u>38,473,490</u>
Net income available for debt service	<u>\$ 12,188,232</u>
Debt service, principal, and interest paid (Revenue bond only)	<u>\$ 2,319,473</u>
Debt service coverage ratio	<u>525.47%</u>

*Per rate covenants, this does not include depreciation and amortization expense of \$3,709,102.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Changes in Long-Term Liabilities. Long-term liability activity for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balances, <u>As Restated</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balances	Due Within <u>One Year</u>
Governmental Activities:					
Installment debt	\$ 10,605,057	\$ 1,258,992	\$ (1,492,887)	\$ 10,371,162	\$ 1,604,566
Total pension liability - LEO	2,277,534	256,198	-	2,533,732	-
Compensated absences	980,323	611,765	(544,926)	1,047,162	262,000
Net pension liability - LGERS	3,608,977	-	(909,490)	2,699,487	-
Total OPEB liability	<u>12,547,992</u>	<u>361,165</u>	<u>-</u>	<u>12,909,157</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 30,019,883</u>	<u>\$ 2,488,120</u>	<u>\$ (2,947,303)</u>	<u>\$ 29,560,700</u>	<u>\$ 1,866,566</u>

	Beginning Balances, <u>As Restated</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balances	Due Within <u>One Year</u>
Business-Type Activities:					
Water Fund:					
Revenue bonds	\$ 11,784,336	\$ -	\$ (912,070)	\$ 10,872,266	\$ 940,001
Installment debt	293,239	4,180,000	(104,781)	4,368,458	381,392
Compensated absences	53,852	58,392	(37,236)	75,008	19,000
Net pension liability - LGERS	236,578	-	(66,276)	170,302	-
Total OPEB liability	<u>893,081</u>	<u>26,317</u>	<u>-</u>	<u>919,398</u>	<u>-</u>
Water Fund long-term liabilities	<u>\$ 13,261,086</u>	<u>\$ 4,264,709</u>	<u>\$ (1,120,363)</u>	<u>\$ 16,405,432</u>	<u>\$ 1,340,393</u>

Sewer Fund:					
Revenue bonds	\$ 4,264,021	\$ -	\$ (367,036)	\$ 3,896,985	\$ 382,695
Other debt	12,725,544	5,713,536	(776,136)	17,662,944	1,155,627
Compensated absences	52,364	25,814	(34,744)	43,434	11,000
Net pension liability - LGERS	255,133	-	(72,519)	182,614	-
Total OPEB liability	<u>973,142</u>	<u>28,782</u>	<u>-</u>	<u>1,001,924</u>	<u>-</u>
Sewer Fund long-term liabilities	<u>\$ 18,270,204</u>	<u>\$ 5,768,132</u>	<u>\$ (1,250,435)</u>	<u>\$ 22,787,901</u>	<u>\$ 1,549,322</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

	Beginning			Ending	Due
	Balances,			Balances	Within
	<u>As Restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances</u>	<u>One Year</u>
Electric Fund:					
Revenue bonds	\$ 2,666,112	\$ -	\$ (189,952)	\$ 2,476,160	\$ 195,040
Installment debt	263,880	119,952	(64,238)	319,594	88,007
Compensated absences	50,392	24,975	(29,317)	46,050	12,000
Net pension liability - LGERS	185,552	-	(63,154)	122,398	-
Total OPEB liability	<u>818,758</u>	<u>25,092</u>	<u>-</u>	<u>843,850</u>	<u>-</u>
Electric Fund long-term liabilities	<u>\$ 3,984,694</u>	<u>\$ 170,019</u>	<u>\$ (346,661)</u>	<u>\$ 3,808,052</u>	<u>\$ 295,047</u>
Gas Fund:					
Revenue bonds	\$ 1,830,904	\$ -	\$ (148,589)	\$ 1,682,315	\$ 154,280
Installment debt	227,321	1,213,952	(83,990)	1,357,283	159,551
Compensated absences	45,841	56,545	(43,776)	58,610	15,000
Net pension liability - LGERS	255,133	-	(63,634)	191,499	-
Total OPEB liability	<u>877,693</u>	<u>25,287</u>	<u>-</u>	<u>902,980</u>	<u>-</u>
Gas Fund long-term liabilities	<u>\$ 3,236,892</u>	<u>\$ 1,295,784</u>	<u>\$ (339,989)</u>	<u>\$ 4,192,687</u>	<u>\$ 328,831</u>
Housing Assistance Fund:					
Compensated absences	\$ 14,630	\$ 27,948	\$ (11,541)	\$ 31,037	\$ 8,000
Net pension liability - LGERS	97,415	-	(25,574)	71,841	-
Total OPEB liability	<u>350,975</u>	<u>10,137</u>	<u>-</u>	<u>361,112</u>	<u>-</u>
Housing Assistance long-term liabilities	<u>\$ 463,020</u>	<u>\$ 38,085</u>	<u>\$ (37,115)</u>	<u>\$ 463,990</u>	<u>\$ 8,000</u>
Stormwater Fund:					
Installment debt	\$ 213,259	\$ 17,568	\$ (47,730)	\$ 183,097	\$ 51,686
Compensated absences	<u>3,796</u>	<u>12,484</u>	<u>(6,729)</u>	<u>9,551</u>	<u>2,000</u>
Stormwater Fund long-term liabilities	<u>\$ 217,055</u>	<u>\$ 30,052</u>	<u>\$ (54,459)</u>	<u>\$ 192,648</u>	<u>\$ 53,686</u>
Total Business-Type Activities:					
Revenue bonds	\$ 20,545,373	\$ -	\$ (1,617,647)	\$ 18,927,726	\$ 1,672,016
Installment debt	13,723,243	11,245,008	(1,076,875)	23,891,376	1,836,263
Compensated absences	220,875	206,158	(163,343)	263,690	67,000
Net pension liability - LGERS	1,029,811	-	(291,157)	738,654	-
Total OPEB liability	<u>3,913,649</u>	<u>115,615</u>	<u>-</u>	<u>4,029,264</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 39,432,951</u>	<u>\$ 11,566,781</u>	<u>\$ (3,149,022)</u>	<u>\$ 47,850,710</u>	<u>\$ 3,575,279</u>

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

At June 30, 2018, the City has a legal debt margin of approximately \$111,800,000.

Pension Plan and Post-Employment Obligations

Local Governmental Employees' Retirement System

Description

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

Benefits Provided

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

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service, or within 180 days of their last day of service, and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions

Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Shelby's contractually required contribution rate for the year ended June 30, 2018 was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Shelby were \$1,046,976 for the year ended June 30, 2018. The ABC Board's contributions to LGERS for the year ended June 30, 2018 were \$41,337.

Refunds of Contributions

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

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

At June 30, 2018, the City reported a liability of \$3,438,141 for its proportionate share of the net pension liability and the ABC Board reported \$44,917. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the City's proportion was 0.225%, which was an increase of 0.006% from its proportion measured as of June 30, 2016.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

For the year ended June 30, 2018, the City recognized pension expense of \$1,122,127. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 198,069	\$ 97,323
Changes of assumptions	491,014	-
Net difference between projected and actual earnings on pension plan investments	834,785	-
Changes in proportion and differences between City contributions and proportionate share of contributions	8,358	54,246
City contributions subsequent to the measurement date	<u>1,046,976</u>	<u>-</u>
Total	<u>\$ 2,579,202</u>	<u>\$ 151,569</u>

\$1,046,976 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date, will be recognized as a decrease of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Amount
2019	\$ 146,628
2020	987,305
2021	500,852
2022	(254,128)
2023	-
Thereafter	<u>-</u>
Total	<u>\$ 1,380,657</u>

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	<u>6.0%</u>	4.0%
Total	<u>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2017 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Discount Rate

The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.20%, as well as what the City’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20%) or one percentage point higher (8.20%) than the current rate:

	1% Decrease <u>(6.20%)</u>	Discount Rate <u>(7.20%)</u>	1% Increase <u>(8.20%)</u>
City's proportionate share of the net pension liability (asset)	<u>\$ 10,321,376</u>	<u>\$ 3,438,141</u>	<u>\$ (2,307,188)</u>

Pension Plan Fiduciary Net Position

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

Law Enforcement Officers’ Special Separation Allowance

Plan Description. The City administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the City’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the plan.

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

Inactive members currently receiving benefits	4
Active members	<u>77</u>
Total	<u><u>81</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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meet the following criteria, which are outlined in GASB Statements 73.

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2016 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20 Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ending December 31, 2014.

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

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

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

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-20 15, projected forward generationally from 2015 using MP-20 15. Rates are adjusted by 103% for males and 99% for females.

Contributions. The City is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operation budget. There were no contributions made by the employees. The City’s obligation to contribute to this Plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The City paid \$59,912 as benefits came due.

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

At June 30, 2018, the City reported a total pension liability of \$2,533,732. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was rolled forward to December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the City recognized pension expense of \$193,331.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 6,835
Changes of assumptions and other inputs	121,021	37,033
City benefit payments and administrative expenses subsequent to the measurement date	<u>42,217</u>	<u>-</u>
Total	<u>\$ 163,238</u>	<u>\$ 43,868</u>

\$42,217 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ 14,199
2020	14,199
2021	14,199
2022	14,199
2023	20,131
Thereafter	<u>226</u>
Total	<u>\$ 77,153</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Sensitivity of the City's Total Pension Liability to Changes in the Discount Rate. The following presents the City's total pension liability calculated using the discount rate of 3.16 percent, as well as what the City's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease (2.16%)	Current Discount Rate (3.16%)	1% Increase (4.16%)
Total pension liability	<u>\$ 2,742,666</u>	<u>\$ 2,533,732</u>	<u>\$ 2,341,836</u>

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

	2018
Beginning balance	\$ 2,277,534
Service cost	92,375
Interest on the total pension liability	86,757
Differences between expected and actual experience in the measurement of the total pension liability	(8,199)
Changes of assumptions or other inputs	145,177
Benefit payments	<u>(59,912)</u>
Ending balance of the total pension liability	<u>\$ 2,533,732</u>

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

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Proportionate share of net pension liability (asset)	0.22505%	n/a	
Total pension liability	\$ 3,438,141	\$ 2,533,732	\$ 5,971,873
Pension expense	1,122,127	193,331	1,315,458

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
<u>Deferred Outflows of Resources</u>			
Pensions - difference between expected and actual experience	\$ 198,069	\$ -	\$ 198,069
Net difference between projected and actual investment earnings	834,785	-	834,785
Changes of assumptions	491,014	121,021	612,035
Pensions - change in proportion and differences between employer contributions and proportionate share of contributions	8,358	-	8,358
Benefit payments and administration costs subsequent to the measurement date	<u>1,046,976</u>	<u>42,217</u>	<u>1,089,193</u>
Total	<u>\$ 2,579,202</u>	<u>\$ 163,238</u>	<u>\$ 2,742,440</u>

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
<u>Deferred Inflows of Resources</u>			
Pensions - difference between expected and actual experience	\$ 97,323	\$ 6,835	\$ 104,158
Changes of assumptions	-	37,033	37,033
Pensions - change in proportion and differences between employer contributions and proportionate share of contributions	<u>54,246</u>	<u>-</u>	<u>54,246</u>
Total	<u>\$ 151,569</u>	<u>\$ 43,868</u>	<u>\$ 195,437</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan.

The City contributed \$676,252 for the reporting year. No amounts were forfeited.

Other Post-Employment Benefits – Healthcare Benefits

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

Membership of the Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefit payments	54
Active plan members	<u>322</u>
	<u><u>376</u></u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Total OPEB Liability

The City’s total OPEB liability of \$16,938,421 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	3.00 percent
Salary increases	3.50 to 7.75 percent, including wage inflation
Health Care Cost Trends:	
Pre-Medicare	7.50 percent for 2017 decreasing to an ultimate rate of 5.00% by 2023

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	<u>\$ 17,227,773</u>
Changes for the year:	
Service cost	844,592
Interest	507,111
Differences between expected and actual experience	21,481
Changes of assumptions or other inputs	(896,404)
Benefit payments	<u>(766,132)</u>
Net changes	<u>(289,352)</u>
Balance at June 30, 2018	<u><u>\$ 16,938,421</u></u>

The discount rate used to measure the TOL was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by the LGERS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	<u>\$ 18,610,159</u>	<u>\$ 16,938,421</u>	<u>\$ 15,444,545</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
Total OPEB liability	<u>\$ 15,142,878</u>	<u>\$ 16,938,421</u>	<u>\$ 19,065,264</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense of \$1,245,727. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,753	\$ -
Changes of assumptions and other inputs		782,503
City benefit payments and administrative expenses subsequent to the measurement date	<u>851,598</u>	<u>-</u>
Total	<u>\$ 870,351</u>	<u>\$ 782,503</u>

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

\$851,598 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows and outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending	
June 30	Amount
2019	\$ (111,172)
2020	(111,172)
2021	(111,172)
2022	(111,172)
2023	(111,172)
Thereafter	<u>(207,890)</u>
Total	<u>\$ (763,750)</u>

Other Employment Benefit

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

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

Deferred Outflows and Inflows of Resources

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

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Contributions to pension plan in current fiscal year:		
LGERS	\$ 1,046,976	\$ -
LEOSSA	42,217	-
Benefit payments/administration costs paid subsequent to the measurement date (OPEB)	851,598	-
Differences between expected and actual experience:		
LGERS	198,069	97,323
LEOSSA		6,835
OPEB	18,753	-
Changes in assumptions:		
LGERS	491,014	-
LEOSSA	121,021	37,033
OPEB	-	782,503
Net difference between projected and actual:		
LGERS	834,785	-
LEOSSA		
Changes in proportion and differences between employer contributions and proportionate share:		
LGERS	8,358	54,246
LEOSSA		
Deferred charge on refunding	457,189	-
Taxes receivable (General Fund)	-	222,419
Taxes receivable (nonmajor funds)	-	2,937
Unavailable revenues (Sewer Fund)	-	387,785
Total	<u>\$ 4,069,980</u>	<u>\$ 1,591,081</u>

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in three self-funded, risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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.

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, 2018, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

Summary Disclosure of Significant Contingencies

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

CITY OF SHELBY, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

3. Interfund Balances and Activity

The composition of interfund balances as of June 30, 2018 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances and due to/from other funds:		
General Fund	Capital Projects Fund	\$ 112,972
Electric Fund	Water Fund	545,000
Electric Fund	Sewer Fund	1,455,000
Gas Fund	Sewer Fund	<u>910,000</u>
Total		<u><u>\$ 3,022,972</u></u>

The \$1 million loan between the Gas Fund and the Sewer Fund will be repaid over 20 years. The amounts due in more than a year is shown as advances to/from other funds. The balance as of June 30, 2018 was \$910,000. The \$2 million loan between the Electric Fund and the Water and Sewer Funds will be repaid over 20 years. The amounts due in more than a year is shown as advances to/from other funds. The balances as of June 30, 2018 for the Water and Sewer Funds were \$545,000 and \$1,455,000, respectively.

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Electric Fund	\$ 535,000	City's transfer policy - return investment
	Gas Fund	2,400,000	
Capital Projects Fund	General Fund	542,170	Capital purposes - grant match
	Water Fund	8,557	
	Sewer Fund	8,557	
	Electric Fund	35,093	
	Gas Fund	17,093	
Nonmajor Special Revenue Fund	General Fund	505,199	Economic development purposes - grant match
	Water Fund	21,875	
	Sewer Fund	21,875	
	Electric Fund	378,125	
	Gas Fund	<u>428,125</u>	
Total		<u><u>\$ 4,901,669</u></u>	

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

4. Net Investment in Capital Assets

Net investment in capital assets is comprised of the following:

Governmental Activities:

Capital assets, net of accumulated depreciation	\$ 45,908,602
Outstanding balance on related debt	(10,371,162)
Unspent debt proceeds	2,954,292
Total governmental activities	\$ 38,491,732

Business-Type Activities:

Water Fund:

Capital assets, net of accumulated depreciation	\$ 32,564,556
Outstanding balance on related debt	(15,240,724)
Unspent debt proceeds	4,192,107
Deferred charge on refunding	190,566
Total Water	21,706,505

Sewer Fund:

Capital assets, net of accumulated depreciation	49,446,751
Outstanding balance on related debt	(21,559,929)
Unspent debt proceeds	4,929,945
Deferred charge on refunding	60,358
Total Sewer	32,877,125

Electric Fund:

Capital assets, net of accumulated depreciation	19,290,274
Outstanding balance on related debt	(2,795,754)
Deferred charge on refunding	155,107
Total Electric	16,649,627

Gas Fund:

Capital assets, net of accumulated depreciation	18,477,824
Outstanding balance on related debt	(3,039,598)
Unspent debt proceeds	161,617
Deferred charge on refunding	51,158
Total Gas	15,651,001

Stormwater Fund:

Capital assets, net of accumulated depreciation	259,626
Outstanding balance on related debt	(183,097)
Total Stormwater	76,529

Housing Assistance Fund:

Capital assets, net of accumulated depreciation	4,860,511
Total business-type activities	\$ 91,821,298

CITY OF SHELBY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

5. **Jointly Governed Organizations**

The City, in conjunction with 20 other local governments, is a member of the North Carolina Municipal Power Agency No. 1 (the "Agency"). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The 21 members who receive power from the Agency have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the year ended June 30, 2018 were \$15,896,264.

The City is a member of the Isothermal Planning and Development Commission, one of eighteen regional Councils of Government in North Carolina. Four counties and 29 municipalities comprise the Commission. Participating governments established the Commission to coordinate various funding from federal and state agencies and to provide assistance for specific projects. Each participating unit of government appoints one member to the Commission's governing board. The City paid membership fees of approximately \$9,261 to the Commission during the year ended June 30, 2018.

6. **Change in Accounting Principle/Restatement**

The City implemented Governmental Accounting Standards Board (GASB) No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the City to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the City related to OPEB during the measurement period (fiscal year ending June 30, 2017). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for governmental activities decreased \$9,077,440 and \$2,905,812 for the 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 Changes in Total OPEB Liability and Related Ratios
- Schedule of Proportionate Share of Net Pension Liability (Asset) to the Local Government Employees' Retirement System
- Schedule of Contributions to the Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Law Enforcement Officers' Special Separation Allowance



CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018**

Total OPEB Liability	
	2018
Beginning balance	\$ 17,227,773
Service cost	844,592
Interest on TOL and cash flows	507,111
Differences between expected and actual experience	21,481
Changes of assumptions or other inputs	(896,404)
Benefit payments	(766,132)
Ending balance of the total pension liability	<u>\$ 16,938,421</u>
Covered payroll	\$ 12,728,673
Total OPEB liability as a percentage of covered payroll	133.07%

Notes to Required Schedule:

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal Year</u>	<u>Rate</u>
2018	3.56%

CITY OF SHELBY, NORTH CAROLINA

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

	Local Government Employees' Retirement System				
	2018	2017	2016	2015	2014
Shelby's proportion of the net pension liability (asset) (%)	0.22505%	0.21857%	0.21316%	0.21615%	0.25200%
Shelby's proportion of the net pension liability (asset) (\$)	\$ 3,438,141	\$ 4,638,788	\$ 956,648	\$ (1,274,737)	\$ 2,714,525
Shelby's covered-employee payroll	\$ 13,368,109	\$ 12,458,381	\$ 11,891,524	\$ 11,775,999	\$ 11,242,846
Shelby's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	25.72%	37.23%	8.04%	(10.82%)	24.14%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

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

CITY OF SHELBY, NORTH CAROLINA

CITY OF SHELBY'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST FIVE FISCAL YEARS

	Local Government Employees' Retirement System				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,046,976	\$ 1,004,436	\$ 855,814	\$ 851,812	\$ 838,951
Contributions in relation to the contractually required contribution	<u>1,046,976</u>	<u>1,004,436</u>	<u>855,814</u>	<u>851,812</u>	<u>838,951</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Shelby's covered-employee payroll	\$ 13,525,005	\$ 13,368,109	\$ 12,458,381	\$ 11,891,524	\$ 11,775,999
Contributions as a percentage of covered-employee payroll	7.74%	7.51%	6.87%	7.16%	7.12%

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

CITY OF SHELBY, NORTH CAROLINA

SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST TWO FISCAL YEARS

Law Enforcement Officers' Special Separation Allowance		
	2018	2017
Beginning balance	\$ 2,277,534	\$ 2,215,455
Service cost	92,375	95,912
Interest on the total pension liability	86,757	78,062
Differences between expected and actual experience in the measurement of the total pension liability	(8,199)	-
Changes of assumptions or other inputs	145,177	(54,219)
Benefit payments	(59,912)	(57,676)
Ending balance of the total pension liability	<u>\$ 2,533,732</u>	<u>\$ 2,277,534</u>

Notes to the Schedule:

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

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

CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST TWO FISCAL YEARS**

Law Enforcement Officers' Special Separation Allowance		
	2018	2017
Total pension liability	\$ 2,533,732	\$ 2,277,534
Covered payroll	3,568,670	3,526,429
Total pension liability as a percentage of covered payroll	71.00%	64.58%

Notes to the Schedule:

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

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





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, 2018
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018			2017
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad Valorem Taxes:				
Current year	\$ 9,621,200	\$ 10,114,541	\$ 493,341	\$ 8,749,615
Prior years	200,000	123,587	(76,413)	139,157
Tax discounts	(25,000)	(27,499)	(2,499)	(21,776)
Interest and penalties	25,000	33,803	8,803	35,786
Total	9,821,200	10,244,432	423,232	8,902,782
Other Taxes and Licenses:				
Local option sales tax	3,550,000	3,964,274	414,274	3,494,500
Privilege licenses	1,000	7,250	6,250	6,510
Total	3,551,000	3,971,524	420,524	3,501,010
Unrestricted Intergovernmental Revenues:				
Payment in lieu of taxes	9,000	14,574	5,574	11,659
Utility franchise tax	2,000,000	1,974,948	(25,052)	1,929,904
Beer and wine tax	93,000	88,472	(4,528)	92,576
ABC revenue	75,000	186,777	111,777	114,755
Total	2,177,000	2,264,771	87,771	2,148,894
Restricted Intergovernmental Revenues:				
Powell Bill allocation	594,611	600,090	5,479	604,231
Federal and state grants	149,546	249,850	100,304	186,732
ABC law enforcement revenue	10,000	28,089	18,089	13,359
Rental vehicle gross receivable tax	30,000	37,387	7,387	31,103
Total	784,157	915,416	131,259	835,425
Permits and Fees:				
Building permits/inspection fees	205,000	100,038	(104,962)	192,574
Other permits	74,320	166,662	92,342	153,122
Filing fees	-	440	440	640
Total	279,320	267,140	(12,180)	346,336
Sales and Services:				
Court costs and fees	6,500	7,787	1,287	9,112
Golf cart rentals	47,600	54,984	7,384	46,790
Recreation revenue	284,100	241,654	(42,446)	248,276
Garbage disposal fees	938,000	961,398	23,398	922,627
Recycling fees	232,000	242,430	10,430	282,078
Utility late fees	130,000	146,750	16,750	146,350
Airport fuel sales	215,000	248,801	33,801	201,631
Other rent	28,000	38,830	10,830	35,607
Total	1,881,200	1,942,634	61,434	1,892,471

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, 2018
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018		Variance Over/Under	2017
	Budget	Actual		Actual
Investment Earnings	45,000	136,130	91,130	(18,648)
Miscellaneous:				
Student resource officer	221,500	221,500	-	221,500
Public nuisance	9,000	25,408	16,408	13,479
Donations	13,164	13,164	-	32,481
Other	21,000	60,594	39,594	45,013
Total	264,664	320,666	56,002	312,473
Total revenues	18,803,541	20,062,713	1,259,172	17,920,743
Expenditures:				
General Government:				
Mayor and council	72,412	71,281	1,131	69,552
Administration and general	210,336	194,426	15,910	187,194
Finance	476,242	476,186	56	437,723
Purchasing	34,490	26,552	7,938	24,298
Legal	9,870	9,860	10	9,500
Human resources	174,293	160,817	13,476	137,352
City hall	91,130	86,984	4,146	67,107
Building and zoning	274,250	253,217	21,033	335,901
Community development	543,900	543,769	131	427,644
Special appropriations	997,552	935,862	61,690	786,026
Total	2,884,475	2,758,954	125,521	2,482,297
Public Safety:				
Police department	6,755,390	6,586,521	168,869	6,803,543
Fire department	4,872,151	3,944,972	927,179	3,789,237
Total	11,627,541	10,531,493	1,096,048	10,592,780
Transportation:				
Streets and highways	1,308,035	1,306,577	1,458	1,083,756
Street maintenance and repairs - Powell Bill	319,391	254,258	65,133	161,737
Street construction and improvement - Powell Bill	748,138	444,945	303,193	277,505
Garage	438,500	432,913	5,587	648,782
Airport	411,676	390,563	21,113	358,719
Total	3,225,740	2,829,256	396,484	2,530,499
Environmental Protection:				
Sanitation	1,538,856	1,526,889	11,967	1,248,311
Recycling	265,400	258,910	6,490	244,966
Total	1,804,256	1,785,799	18,457	1,493,277

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, 2018
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018		Variance Over/Under	2017
	Budget	Actual		Actual
Cultural and Recreational:				
Parks and recreation	2,534,522	2,431,237	103,285	2,335,292
Debt Service:				
Principal retirement	1,473,700	1,492,887	(19,187)	973,220
Interest	266,295	242,025	24,270	65,551
Total	1,739,995	1,734,912	5,083	1,038,771
Total expenditures	23,816,529	22,071,651	1,744,878	20,472,916
Revenue over (under) expenditures	(5,012,988)	(2,008,938)	3,004,050	(2,552,173)
Other Financing Sources (Uses):				
Transfers from other funds	2,935,000	2,935,000	-	3,095,000
Transfers (to) other funds	(1,047,440)	(1,047,369)	71	(835,902)
Long-term debt issued	1,253,341	1,258,992	5,651	671,446
Proceeds from the sale of capital assets	15,000	35,241	20,241	43,905
Appropriated fund balance	1,857,087	-	(1,857,087)	-
Total other financing sources (uses)	5,012,988	3,181,864	(1,831,124)	2,974,449
Net change in fund balance	\$ -	1,172,926	\$ 1,172,926	422,276
Fund Balance:				
Beginning of year - July 1		8,057,947		7,635,671
End of year - June 30		\$ 9,230,873		\$ 8,057,947





MAJOR GOVERNMENTAL FUND

Capital Project Funds

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



CITY OF SHELBY, NORTH CAROLINA

CAPITAL PROJECTS FUND - MAJOR CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2018

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Trail Grant	\$ 258,200	\$ 272,700	\$ 448	\$ 273,148
Airport Grant 2011	158,333	147,862	-	147,862
Airport land easement	1,081,575	527,389	419,881	947,270
CDBG Catalyst Grant 2011	500,000	496,353	-	496,353
Airport Grant 2012-13	158,333	158,351	-	158,351
Airport Grant 2013-14	158,333	85,320	-	85,320
Airport Grant 2014-15 (AP141)	158,333	-	-	-
CDBG Carolina Suttle	-	1,200	-	1,200
Hanna Property Multi-Purpose Recreation Complex	-	64,250	-	64,250
Airport Runway Overlay	2,565,680	127,267	25,077	152,344
PSAP Communication addition	1,280,993	-	920,993	920,993
All Aboard! Parks & Rec 2017 NC Connect Grant	250,000	-	250,000	250,000
Urgent repair program	500,000	-	296,717	296,717
Uptown Fallen Hero Memorial Park	144,000	-	21,380	21,380
Investment earnings	-	105,176	55,886	161,062
Total revenues	<u>7,213,780</u>	<u>1,985,868</u>	<u>1,990,382</u>	<u>3,976,250</u>
Expenditures:				
Carolina Thread Trail	415,450	388,933	2,000	390,933
Airport Grant 2011	166,667	166,667	-	166,667
Rural Center building reuse	-	-	-	-
Airport land easement	1,138,500	555,148	441,980	997,128
CDBG Catalyst Grant 2011	500,000	507,172	-	507,172
Police department roof	170,500	176,701	-	176,701
FCC Roads Phase II	408,700	460,210	-	460,210
Airport Grant 2012-13	166,667	167,031	-	167,031
Airport Grant 2013-14 (AP131)	166,667	89,811	-	89,811
Airport Grant 2014-15 (AP141)	166,667	-	-	-
Airport Runway Overlay	2,700,716	147,990	12,373	160,363
East Gateway Enhancement Project	436,500	43,435	354,465	397,900
Hanna Property Multi-Purpose Recreation Complex	8,220,800	622,409	4,640,981	5,263,390
PSAP Communication addition	1,755,000	194,536	1,552,789	1,747,325
All Aboard! Parks & Rec 2017 NC Connect Grant	322,500	10,026	321,617	331,643
Uptown Streetscape/Ped Improvements	392,900	111,485	166,293	277,778
Urgent repair program	500,000	81,018	215,699	296,717
Uptown Fallen Hero Memorial Park	200,000	-	17,380	17,380
Total expenditures	<u>17,828,234</u>	<u>3,722,572</u>	<u>7,725,577</u>	<u>11,448,149</u>
Revenues over (under) expenditures	<u>(10,614,454)</u>	<u>(1,736,704)</u>	<u>(5,735,195)</u>	<u>(7,471,899)</u>
Other Financing Sources (Uses):				
Transfers from other funds	2,914,454	2,063,652	611,470	2,675,122
Long-term debt issued	<u>7,700,000</u>	<u>7,700,000</u>	<u>-</u>	<u>7,700,000</u>
Total other financing sources (uses)	<u>10,614,454</u>	<u>9,763,652</u>	<u>611,470</u>	<u>10,375,122</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ 8,026,948</u>	<u>\$ (5,123,725)</u>	<u>\$ 2,903,223</u>





NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENTS AND SCHEDULES

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

Special Revenue Funds

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

Capital Project Funds

- **Economic Development Project Fund** – This fund is used to account for City projects that support economic development efforts for the area.
- **Economic Development Reserve Fund** – This fund is used to account for financing transactions related to economic development efforts.

Permanent Funds

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



CITY OF SHELBY, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2018

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Permanent Funds	Total
Assets:				
Cash and cash equivalents	\$ 2,118,973	\$ 199,475	\$ -	\$ 2,318,448
Receivables, net:				
Taxes	2,937	-	-	2,937
Accounts	9,337	-	11,283	20,620
Interest	1,392	37	-	1,429
Loans	26,435	-	-	26,435
Due from other governments	25,730	40,000	-	65,730
Prepays	30,000	-	-	30,000
Cash and cash equivalents - restricted	-	-	1,191,120	1,191,120
Total assets	\$ 2,214,804	\$ 239,512	\$ 1,202,403	\$ 3,656,719
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 9,969	\$ -	\$ -	\$ 9,969
Due to other funds	-	21,835	-	21,835
Total liabilities	9,969	21,835	-	31,804
Deferred Inflows of Resources:				
Taxes receivable	2,937	-	-	2,937
Fund Balances:				
Non-spendable:				
Perpetual	-	-	1,191,120	1,191,120
Prepays	30,000	-	-	30,000
Restricted:				
Stabilization by state statute	62,894	40,037	11,283	114,214
Public safety	185,945	-	-	185,945
Committed:				
Capital projects	-	199,475	-	199,475
Assigned:				
Economic development	1,923,059	-	-	1,923,059
Unassigned	-	(21,835)	-	(21,835)
Total fund balances	2,201,898	217,677	1,202,403	3,621,978
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,214,804	\$ 239,512	\$ 1,202,403	\$ 3,656,719

CITY OF SHELBY, NORTH CAROLINA

**NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2018**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Fund	Nonmajor Permanent Funds	Total
Revenues:				
Ad valorem taxes	\$ 107,146	\$ -	\$ -	\$ 107,146
Restricted intergovernmental	367,153	55,000	-	422,153
Investment earnings	17,016	423	4,127	21,566
Miscellaneous	6,100	-	-	6,100
Donations	-	-	306,318	306,318
Total revenues	<u>497,415</u>	<u>55,423</u>	<u>310,445</u>	<u>863,283</u>
Expenditures:				
General government	-	-	1,620	1,620
Public safety	85,977	-	-	85,977
Housing and redevelopment	1,546,261	108,912	-	1,655,173
Total expenditures	<u>1,632,238</u>	<u>108,912</u>	<u>1,620</u>	<u>1,742,770</u>
Revenues over (under) expenditures	<u>(1,134,823)</u>	<u>(53,489)</u>	<u>308,825</u>	<u>(879,487)</u>
Other Financing Sources (Uses):				
Transfers from other funds	<u>1,355,199</u>	<u>-</u>	<u>-</u>	<u>1,355,199</u>
Net change in fund balances	220,376	(53,489)	308,825	475,712
Fund Balances:				
Beginning of year - July 1	<u>1,981,522</u>	<u>271,166</u>	<u>893,578</u>	<u>3,146,266</u>
End of year - June 30	<u>\$ 2,201,898</u>	<u>\$ 217,677</u>	<u>\$ 1,202,403</u>	<u>\$ 3,621,978</u>

CITY OF SHELBY, NORTH CAROLINA

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	<u>Emergency Telephone System Fund</u>	<u>Economic Development Commission Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
Assets:			
Cash and cash equivalents	\$ 191,313	\$ 1,927,660	\$ 2,118,973
Receivables, net:			
Taxes	-	2,937	2,937
Accounts	9,337	-	9,337
Interest	-	1,392	1,392
Loans	-	26,435	26,435
Prepaid items	-	30,000	30,000
Due from other governments	-	25,730	25,730
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 200,650</u>	<u>\$ 2,014,154</u>	<u>\$ 2,214,804</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	<u>\$ 5,368</u>	<u>\$ 4,601</u>	<u>\$ 9,969</u>
Deferred Inflows of Resources:			
Taxes receivable	<u>-</u>	<u>2,937</u>	<u>2,937</u>
Fund Balances:			
Non-spendable:			
Prepays	-	30,000	30,000
Restricted:			
Stabilization by state statute	9,337	53,557	62,894
Public safety	185,945	-	185,945
Assigned:			
Economic development	<u>-</u>	<u>1,923,059</u>	<u>1,923,059</u>
Total fund balances	<u>195,282</u>	<u>2,006,616</u>	<u>2,201,898</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 200,650</u>	<u>\$ 2,014,154</u>	<u>\$ 2,214,804</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, 2018**

	<u>Emergency Telephone System Fund</u>	<u>Economic Development Commission Fund</u>	<u>Total Nonmajor Special Revenue Funds</u>
Revenues:			
Ad valorem taxes	\$ -	\$ 107,146	\$ 107,146
Restricted intergovernmental	112,045	255,108	367,153
Investment earnings	-	17,016	17,016
Miscellaneous income	-	6,100	6,100
Total revenues	<u>112,045</u>	<u>385,370</u>	<u>497,415</u>
Expenditures:			
Public safety	85,977	-	85,977
Housing and redevelopment	-	1,546,261	1,546,261
Total expenditures	<u>85,977</u>	<u>1,546,261</u>	<u>1,632,238</u>
Revenues over (under) expenditures	<u>26,068</u>	<u>(1,160,891)</u>	<u>(1,134,823)</u>
Other Financing Sources (Uses):			
Transfers from other funds	-	1,355,199	1,355,199
Net change in fund balances	26,068	194,308	220,376
Fund Balances:			
Beginning of year - July 1	<u>169,214</u>	<u>1,812,308</u>	<u>1,981,522</u>
End of year - June 30	<u>\$ 195,282</u>	<u>\$ 2,006,616</u>	<u>\$ 2,201,898</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, 2018

	<u>2018</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Restricted intergovernmental	\$ 107,000	\$ 112,045	\$ 5,045
Expenditures:			
Public safety:			
Software	20,000	16,844	3,156
Furniture	500	-	500
Travel and training	3,000	120	2,880
Hardware	7,000	5,368	1,632
Phone system	76,500	63,645	12,855
Total expenditures	<u>107,000</u>	<u>85,977</u>	<u>21,023</u>
Net change in fund balance	<u>\$ -</u>	26,068	<u>\$ 26,068</u>
Fund Balance:			
Beginning of year - July 1		<u>169,214</u>	
End of year - June 30		<u>\$ 195,282</u>	
PSAP Reconciliation:			
Amounts reported on the Emergency Telephone System			
Fund budget and actual are different from the PSAP			
Revenue - Expenditure Report because:			
Ending fund balance, reported on budget and actual		\$ 195,282	
Cumulative prior ineligible expenditures recorded in the fund from prior years		<u>21,059</u>	
Ending fund balance, PSAP report		<u>\$ 216,341</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, 2018

	2018		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad valorem taxes	\$ 108,702	\$ 107,146	\$ (1,556)
Restricted intergovernmental	181,800	255,108	73,308
Investment earnings	2,000	17,016	15,016
Miscellaneous income	2,400	23,670	21,270
Total revenues	<u>294,902</u>	<u>402,940</u>	<u>108,038</u>
Expenditures:			
Housing and redevelopment	<u>1,650,101</u>	<u>1,546,261</u>	<u>103,840</u>
Revenues over (under) expenditures	<u>(1,355,199)</u>	<u>(1,143,321)</u>	<u>211,878</u>
Other Financing Sources (Uses):			
Transfers from other funds	<u>1,355,199</u>	<u>1,355,199</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>211,878</u>	<u>\$ 211,878</u>
Reconciliation of Budgetary Basis with Modified Accrual Basis:			
Payment received on notes receivable		<u>(17,570)</u>	
Net change in fund balance (deficit), modified accrual basis		194,308	
Fund Balance:			
Beginning of year - July 1		<u>1,812,308</u>	
End of year - June 30		<u>\$ 2,006,616</u>	

CITY OF SHELBY, NORTH CAROLINA

NONMAJOR CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	<u>Economic Development Project Fund</u>	<u>Economic Development Reserve Fund</u>	<u>Total Nonmajor Capital Project Funds</u>
Assets:			
Cash and cash equivalents	\$ -	\$ 199,475	\$ 199,475
Interest receivable	37	-	37
Due from other governments	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Total assets	<u>\$ 40,037</u>	<u>\$ 199,475</u>	<u>\$ 239,512</u>
Liabilities and Fund Balances:			
Liabilities:			
Due to other funds	<u>\$ 21,835</u>	<u>\$ -</u>	<u>\$ 21,835</u>
Fund Balances:			
Restricted:			
Stabilization by state statute	40,037	-	40,037
Committed	-	199,475	199,475
Unassigned	<u>(21,835)</u>	<u>-</u>	<u>(21,835)</u>
Total fund balances	<u>18,202</u>	<u>199,475</u>	<u>217,677</u>
Total liabilities and fund balances	<u>\$ 40,037</u>	<u>\$ 199,475</u>	<u>\$ 239,512</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, 2018**

	Economic Development Project Fund	Economic Development Reserve Fund	Total Nonmajor Capital Project Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Restricted intergovernmental	\$ 55,000	\$ -	\$ 55,000
Investment earnings	423	-	423
Total revenues	<u>55,423</u>	<u>-</u>	<u>55,423</u>
Expenditures:			
Redevelopment	<u>108,912</u>	<u>-</u>	<u>108,912</u>
Net change in fund balances	(53,489)	-	(53,489)
Fund Balances:			
Beginning of year - July 1	<u>71,691</u>	<u>199,475</u>	<u>271,166</u>
End of year - June 30	<u>\$ 18,202</u>	<u>\$ 199,475</u>	<u>\$ 217,677</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, 2018

	Project Authorization	Actual		
		Prior Years	Current Year	Total
Revenues:				
County, local grants	\$ 2,306,657	\$ 2,142,602	\$ 15,000	\$ 2,157,602
Restricted intergovernmental	263,000	-	40,000	40,000
Investment earnings	-	371	423	794
Total revenues	<u>2,569,657</u>	<u>2,142,973</u>	<u>55,423</u>	<u>2,198,396</u>
Expenditures:				
Payment to Cleveland County	350,000	349,738	-	349,738
Foothills Farmers Market	1,060,000	1,059,359	-	1,059,359
Foothills Commerce Center Mass Grading	1,275,000	1,125,651	41,877	1,167,528
Washburn Switch Business Park Roadway	438,210	203,758	-	203,758
FCC job ready shell building #2	3,000,000	2,953,095	-	2,953,095
NS Rail Trail Corridor	71,500	4,734	67,035	71,769
Total expenditures	<u>6,194,710</u>	<u>5,696,335</u>	<u>108,912</u>	<u>5,805,247</u>
Revenues over (under) expenditures	(3,625,053)	(3,553,362)	(53,489)	(3,606,851)
Other Financing Sources (Uses):				
Transfers from other funds	<u>3,625,053</u>	<u>3,625,053</u>	-	<u>3,625,053</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ 71,691</u>	<u>\$ (53,489)</u>	<u>\$ 18,202</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, 2018

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

CITY OF SHELBY, NORTH CAROLINA

NONMAJOR PERMANENT FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
Assets:			
Accounts receivable, net	\$ 11,283	\$ -	\$ 11,283
Cash and cash equivalents - restricted	<u>601,699</u>	<u>589,421</u>	<u>1,191,120</u>
Total assets	<u>\$ 612,982</u>	<u>\$ 589,421</u>	<u>\$ 1,202,403</u>
Fund Balances:			
Non-spendable:			
Perpetual	\$ 601,699	\$ 589,421	\$ 1,191,120
Restricted for stabilization by state statute	<u>11,283</u>	<u>-</u>	<u>11,283</u>
Total fund balances	<u>\$ 612,982</u>	<u>\$ 589,421</u>	<u>\$ 1,202,403</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, 2018**

	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>	<u>Total Permanent Funds</u>
Revenues:			
Investment earnings	\$ 4,127	\$ -	\$ 4,127
Donations	<u>251,508</u>	<u>54,810</u>	<u>306,318</u>
Total revenues	<u>255,635</u>	<u>54,810</u>	<u>310,445</u>
Expenditures:			
General government	<u>1,620</u>	<u>-</u>	<u>1,620</u>
Net change in fund balances	254,015	54,810	308,825
Fund Balances:			
Beginning of year - July 1	<u>358,967</u>	<u>534,611</u>	<u>893,578</u>
End of year - June 30	<u>\$ 612,982</u>	<u>\$ 589,421</u>	<u>\$ 1,202,403</u>



PROPRIETARY FUNDS ENTERPRISE FUNDS

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

Major Enterprise Funds

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

Nonmajor Enterprise Fund

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



CITY OF SHELBY, NORTH CAROLINA

**ENTERPRISE FUND - WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for sales and services:			
Water charges	\$ 4,688,000	\$ 4,591,996	\$ (96,004)
Water taps	55,000	32,240	(22,760)
Water cutoffs	3,700	3,345	(355)
Other	109,800	110,717	917
Total operating revenues	<u>4,856,500</u>	<u>4,738,298</u>	<u>(118,202)</u>
Non-operating revenues:			
Grant - refund of interest expense	70,000	65,406	(4,594)
Investment earnings	3,000	351	(2,649)
Total non-operating revenues	<u>73,000</u>	<u>65,757</u>	<u>(7,243)</u>
Total revenues	<u>4,929,500</u>	<u>4,804,055</u>	<u>(125,445)</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	700,832	673,309	27,523
Operations	721,922	707,955	13,967
Maintenance and repairs	172,110	156,115	15,995
Treatment plant	1,434,621	1,405,975	28,646
Capital outlay	658,878	561,640	97,238
Total costs of sales and services	<u>3,688,363</u>	<u>3,504,994</u>	<u>183,369</u>
Debt service:			
Principal retirement	1,019,000	1,016,851	2,149
Interest	406,500	403,752	2,748
Total debt service	<u>1,425,500</u>	<u>1,420,603</u>	<u>4,897</u>
Total operating expenditures	<u>5,113,863</u>	<u>4,925,597</u>	<u>188,266</u>
Revenue over (under) expenditures	<u>(184,363)</u>	<u>(121,542)</u>	<u>62,821</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Intrafund transfers	(2,894,611)	(2,894,601)	10
Transfers (to) other funds	(30,432)	(30,432)	-
Appropriated fund balance	<u>3,109,406</u>	<u>-</u>	<u>(3,109,406)</u>
Total other financing sources (uses)	<u>184,363</u>	<u>(2,925,033)</u>	<u>(3,109,396)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(3,046,575)</u>	<u>\$ (3,046,575)</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Reconciling items:			
Debt principal		1,016,851	
Capital outlay		561,640	
Change in compensated absences		(21,156)	
Change in other post-employment benefits		(26,317)	
Change in deferred outflows of resources - OPEB		45,639	
Change in deferred inflows of resources - OPEB		(43,191)	
Change in net pension liability		66,276	
Change in deferred outflows of resources - pension		(76,992)	
Change in deferred inflows of resources - pension		5,732	
Payment on notes receivable		(25,892)	
Depreciation		(942,100)	
Amortization		(17,328)	
Water Capital Projects Fund activity		1,137,315	
Water Capital Projects Fund intrafund transfer		<u>2,894,601</u>	
Total reconciling items		<u>4,575,078</u>	
Change in net position		<u>\$ 1,528,503</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, 2018

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Capital Grants:				
Project #830 - Artee Washburn Rd Water Line	\$ 419,900	\$ 360,111	\$ -	\$ 360,111
Project #831 - KSM Water Line	146,320	104,810	-	104,810
Project #834 - Farmville Road Water Project	8,250,000	-	1,127,810	1,127,810
Project #822 - Eastside Water Tank	-	5,867	-	5,867
Investment earnings	-	71,069	9,505	80,574
Total revenues	<u>8,816,220</u>	<u>541,857</u>	<u>1,137,315</u>	<u>1,679,172</u>
Expenditures:				
Project #822 - Eastside Water Tank	2,607,000	2,285,726	-	2,285,726
Project #829 - Plato Lee Water Line Relocation	358,731	258,739	-	258,739
Project #830 - Artee Washburn Rd Water Line	419,900	360,416	-	360,416
Project #831 - KSM Water Line	182,920	109,022	-	109,022
Project #832 - FCC Waterline Phase 2	98,400	97,330	-	97,330
Project #833 - Grover-Morgan Waterline Project	3,527,101	1,644,187	1,617,424	3,261,611
Project #834 - Farmville Road Water Project	12,480,000	145,106	2,612,101	2,757,207
Project #835 - Uptown Water Improvements	220,000	165,200	21,079	186,279
Project #836 - Water Treatment Plant Upgrade	635,000	-	701,628	701,628
Project #837 - Metcalf & Fallston Relocate	176,176	-	-	-
Project #838 - Uptown Water Infrastructure Replacement	2,624,500	-	1,072,429	1,072,429
Total expenditures	<u>23,329,728</u>	<u>5,065,726</u>	<u>6,024,661</u>	<u>11,090,387</u>
Revenues over (under) expenditures	<u>(14,513,508)</u>	<u>(4,523,869)</u>	<u>(4,887,346)</u>	<u>(9,411,215)</u>
Other Financing Sources (Uses):				
Intrafund transfers	4,241,508	1,093,876	2,894,601	3,988,477
Long-term debt issued	<u>10,272,000</u>	<u>5,480,000</u>	<u>4,180,000</u>	<u>9,660,000</u>
Total other financing sources (uses)	<u>14,513,508</u>	<u>6,573,876</u>	<u>7,074,601</u>	<u>13,648,477</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 2,050,007</u>	<u>\$ 2,187,255</u>	<u>\$ 4,237,262</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 5,075,000	\$ 5,242,980	\$ 167,980
Other fees	35,000	138,545	103,545
Other operating revenues	<u>56,000</u>	<u>65,424</u>	<u>9,424</u>
Total operating revenue	<u>5,166,000</u>	<u>5,446,949</u>	<u>280,949</u>
Non-operating revenues:			
Grant - refund of interest expense	28,000	26,735	(1,265)
Investment earnings	<u>2,000</u>	<u>78</u>	<u>(1,922)</u>
Total non-operating revenues	<u>30,000</u>	<u>26,813</u>	<u>(3,187)</u>
Total revenues	<u>5,196,000</u>	<u>5,473,762</u>	<u>277,762</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	873,142	840,037	33,105
Line operation	607,845	525,964	81,881
Maintenance and repairs	356,745	246,373	110,372
Treatment plant	1,555,927	1,505,997	49,930
Capital outlay	<u>830,478</u>	<u>680,363</u>	<u>150,115</u>
Total costs of sales and services	<u>4,224,137</u>	<u>3,798,734</u>	<u>425,403</u>
Debt service:			
Principal retirement	1,163,000	1,143,172	19,828
Interest	<u>170,000</u>	<u>185,166</u>	<u>(15,166)</u>
Total debt service	<u>1,333,000</u>	<u>1,328,338</u>	<u>4,662</u>
Total operating expenditures	<u>5,557,137</u>	<u>5,127,072</u>	<u>430,065</u>
Revenues over (under) expenditures	<u>(361,137)</u>	<u>346,690</u>	<u>707,827</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Intrafund transfers	(1,455,000)	(1,455,000)	-
Transfers (to) other funds	(30,432)	(30,432)	-
Long-term debt issued	13,500	13,536	36
Appropriated fund balance	<u>1,833,069</u>	<u>-</u>	<u>(1,833,069)</u>
Total other financing sources (uses)	<u>361,137</u>	<u>(1,471,896)</u>	<u>(1,833,033)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(1,125,206)</u>	<u>\$ (1,125,206)</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Long-term debt issued		(13,536)	
Debt principal		1,143,172	
Capital outlay		680,363	
Loss on disposal of asset		(60,707)	
Change in compensated absences		8,930	
Change in other post-employment benefits		(28,782)	
Change in deferred outflows of resources - OPEB		16,000	
Change in deferred inflows of resources - OPEB		(47,237)	
Change in net pension liability		72,519	
Change in deferred outflows of resources - pension		(84,245)	
Change in deferred inflows of resources - pension		6,272	
Depreciation		(1,358,882)	
Amortization		(5,486)	
Sewer Capital Projects Fund activity		3,512,780	
Sewer Capital Projects Fund intrafund transfer		<u>1,455,000</u>	
Total reconciling items		<u>5,296,161</u>	
Change in net position		<u>\$ 4,170,955</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, 2018

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Project #868 - Brushy Creek sewer outfall	\$ 250,000	\$ 250,000	\$ -	\$ 250,000
Project #871 - Westside sewer improvements	5,500,000	-	2,660,821	2,660,821
Project #872 - First Broad WWTP influent project	4,500,000	-	666,100	666,100
Project #874 - Sewer Asset Inventory & Assessment	150,000	-	150,000	150,000
Investment earnings	-	71,067	35,859	106,926
Total revenues	<u>10,400,000</u>	<u>321,067</u>	<u>3,512,780</u>	<u>3,833,847</u>
Expenditures:				
Project #861 - Artee Sewer Line Extension Project	206,000	176,010	-	176,010
Project #865 - First Broad Wastewater Treatment Plant improvements	10,200,000	9,729,955	-	9,729,955
Project #866 - Wastewater outfall line improvements	3,448,640	3,200,020	-	3,200,020
Project #868 - Brushy Creek sewer outfall	500,000	408,387	5,823	414,210
Project #869 - Compost facility improvements	10,710,000	546,175	261,890	808,065
Project #870 - Huesker Sewer Extension	37,800	27,181	-	27,181
Project #871 - Westside sewer improvements	9,000,000	344,327	3,474,334	3,818,661
Project #872 - First Broad WWTP influent project	6,700,000	219,998	1,294,760	1,514,758
Project #873 - Fallston Road sewer relocation	358,556	-	-	-
Project #874 - Sewer Asset Inventory & Assessment	152,250	2,250	150,000	152,250
Project #875 - Uptown Sewer Infrastructure Replacement	1,455,000	-	601,501	601,501
Total expenditures	<u>42,768,246</u>	<u>14,654,303</u>	<u>5,788,308</u>	<u>20,442,611</u>
Revenues over (under) expenditures	<u>(32,368,246)</u>	<u>(14,333,236)</u>	<u>(2,275,528)</u>	<u>(16,608,764)</u>
Other Financing Sources (Uses):				
Transfers from other funds	250,000	516,640	-	516,640
Intrafund transfers to (from) other funds	2,380,246	658,606	1,455,000	2,113,606
Long-term debt issued	29,532,000	12,527,098	5,700,000	18,227,098
Appropriated fund balance	<u>206,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>32,368,246</u>	<u>13,702,344</u>	<u>7,155,000</u>	<u>20,857,344</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (630,892)</u>	<u>\$ 4,879,472</u>	<u>\$ 4,248,580</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 21,533,427	\$ 23,019,515	\$ 1,486,088
Other fees	-	850	850
Other operating revenues	<u>236,000</u>	<u>229,526</u>	<u>(6,474)</u>
Total operating revenue	<u>21,769,427</u>	<u>23,249,891</u>	<u>1,480,464</u>
Non-Operating Revenues:			
Investment earnings	<u>5,000</u>	<u>17,227</u>	<u>12,227</u>
Total revenues	<u>21,774,427</u>	<u>23,267,118</u>	<u>1,492,691</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	1,140,506	1,136,205	4,301
Line operation	19,360,415	18,973,878	386,537
Capital outlay	<u>577,000</u>	<u>370,774</u>	<u>206,226</u>
Total costs of sales and services	<u>21,077,921</u>	<u>20,480,857</u>	<u>597,064</u>
Debt service:			
Principal repayment	255,000	254,190	810
Interest and fees	<u>79,000</u>	<u>78,024</u>	<u>976</u>
Total debt service	<u>334,000</u>	<u>332,214</u>	<u>1,786</u>
Total expenditures	<u>21,411,921</u>	<u>20,813,071</u>	<u>598,850</u>
Revenues over (under) expenditures	<u>362,506</u>	<u>2,454,047</u>	<u>2,091,541</u>
Other Financing Sources (Uses):			
Transfers to other funds	(948,218)	(948,218)	-
Intrafund transfers	(309,574)	(309,574)	-
Long-term debt issued	120,000	119,952	(48)
Appropriated fund balance	<u>775,286</u>	<u>-</u>	<u>(775,286)</u>
Total other financing sources (uses)	<u>(362,506)</u>	<u>(1,137,840)</u>	<u>(775,334)</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	1,316,207	\$ 1,316,207
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Debt principal		254,190	
Long-term debt issued		(119,952)	
Capital outlay		323,701	
Change in compensated absences		4,342	
Change in other post-employment benefits		(25,092)	
Change in deferred outflows of resources - OPEB		75,327	
Change in deferred inflows of resources - OPEB		(41,180)	
Change in net pension liability		63,154	
Change in deferred outflows of resources - pension		(73,365)	
Change in deferred inflows of resources - pension		5,462	
Depreciation		(680,875)	
Amortization		(14,100)	
Electric Capital Projects Fund activity		71	
Electric Capital Projects Fund intrafund transfer		<u>309,574</u>	
Total reconciling items		<u>81,257</u>	
Change in net position		<u>\$ 1,397,464</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, 2018

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Project #860 - NC DOT Grant	\$ 39,100	\$ -	\$ -	\$ -
Project #871 - Joe's Lake Road Electric Relocation	100,720	-	-	-
Investment earnings	-	128,819	71	128,890
Total revenues	<u>139,820</u>	<u>128,819</u>	<u>71</u>	<u>128,890</u>
Expenditures:				
Project #860 - Dekalb Street	39,100	-	-	-
Project #865 - Artee Road electric line relocation	114,000	3,285	-	3,285
Project #867 - Court Square Infrastructure	160,000	155,740	-	155,740
Project #868 - Hanna Park Electric Line Extension	192,000	90,083	312,160	402,243
Project #869 - Uptown electric utility upgrade project	1,725,000	144,024	1,125,025	1,269,049
Project #870 - Substation 11 Additional Circuit	180,000	-	53,791	53,791
Project #871 - Joe's Lake Road Electric Relocation	134,294	-	2,072	2,072
Project #872 - Scada System Upgrade Project	96,000	-	7,243	7,243
Total expenditures	<u>2,640,394</u>	<u>393,132</u>	<u>1,500,291</u>	<u>1,893,423</u>
Revenues over (under) expenditures	(2,500,574)	(264,313)	(1,500,220)	(1,764,533)
Other Financing Sources (Uses):				
Transfers from other funds	<u>2,500,574</u>	<u>2,191,000</u>	<u>309,574</u>	<u>2,500,574</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,926,687</u>	<u>\$ (1,190,646)</u>	<u>\$ 736,041</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, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 16,798,700	\$ 17,127,212	\$ 328,512
Other fees	30,000	49,010	19,010
Other operating revenues	91,000	76,254	(14,746)
Total operating revenue	<u>16,919,700</u>	<u>17,252,476</u>	<u>332,776</u>
Non-operating revenues:			
Grant - refund of interest expense	5,600	7,587	1,987
Investment earnings	5,000	11,464	6,464
Total non-operating revenues	<u>10,600</u>	<u>19,051</u>	<u>8,451</u>
Total revenues	<u>16,930,300</u>	<u>17,271,527</u>	<u>341,227</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	1,401,684	1,294,969	106,715
Line operation	11,546,590	10,837,859	708,731
Capital outlay	1,276,447	745,240	531,207
Total costs of sales and services	<u>14,224,721</u>	<u>12,878,068</u>	<u>1,346,653</u>
Debt service:			
Principal repayment	242,000	232,579	9,421
Interest and fees	67,500	74,201	(6,701)
Total debt service	<u>309,500</u>	<u>306,780</u>	<u>2,720</u>
Total expenditures	<u>14,534,221</u>	<u>13,184,848</u>	<u>1,349,373</u>
Revenues over (under) expenditures	<u>2,396,079</u>	<u>4,086,679</u>	<u>1,690,600</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, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Transfers to other funds	(2,845,218)	(2,845,218)	-
Intrafund transfers	(359,950)	(109,950)	250,000
Long-term debt issued	30,000	29,952	(48)
Appropriated fund balance	<u>779,089</u>	<u>-</u>	<u>(779,089)</u>
Total other financing sources (uses)	<u>(2,396,079)</u>	<u>(2,925,216)</u>	<u>(529,137)</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>1,161,463</u>	<u>\$ 1,161,463</u>

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

Debt principal	232,579
Long-term debt issued	(29,952)
Capital outlay	745,240
Change in compensated absences	(12,769)
Change in other post-employment benefits	(25,287)
Change in deferred outflows of resources - OPEB	60,467
Change in deferred inflows of resources - OPEB	(41,503)
Change in net pension liability	63,634
Change in deferred outflows of resources - pension	(73,922)
Change in deferred inflows of resources - pension	5,504
Loss on disposal of asset	(1,022,383)
Depreciation	(685,680)
Amortization	(4,651)
Gas Capital Project Fund revenues	175,462
Gas Capital Project Fund interest	38,999
Gas Capital Project Fund intrafund transfer	<u>109,950</u>
Total reconciling items	<u>(464,312)</u>
Change in net position	<u>\$ 697,151</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, 2018

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Project #879 - Artee Washburn				
Road gas line relocation	\$ 492,500	\$ 261,738	\$ -	\$ 261,738
Project #883 - Farmville Road Gas Line Loop	500,000	-	175,462	175,462
Project #884 - Joe's Lake Road Gas Line Relocation	168,750	-	-	-
Investment earnings	-	54,275	38,999	93,274
Total revenues	<u>1,161,250</u>	<u>316,013</u>	<u>214,461</u>	<u>530,474</u>
Expenditures:				
Project #878 - Plato Lee gas line relocation	138,045	107,947	-	107,947
Project #879 - Artee/Washburn Road gas line relocation	492,500	266,982	-	266,982
Project #880 - NC226 Polkville Road gas line relocation	241,000	235,835	-	235,835
Project #881 - R2707AA US 74 gas line relocation	337,510	204,474	-	204,474
Project #882 - Highway 74 bypass section "C" gas line relocation	831,564	65,621	323,735	389,356
Project #883 - Farmville Road Gas Line Loop	1,808,500	40,230	1,827,081	1,867,311
Project #884 - Joe's Lake Road Gas Line Relocation	225,000	-	19,500	19,500
Total expenditures	<u>4,074,119</u>	<u>921,089</u>	<u>2,170,316</u>	<u>3,091,405</u>
Revenues over (under) expenditures	<u>(2,912,869)</u>	<u>(605,076)</u>	<u>(1,955,855)</u>	<u>(2,560,931)</u>
Other Financing Sources (Uses):				
Intrafund transfers	1,792,869	1,682,919	109,950	1,792,869
Long-term debt issued	1,120,000	-	1,184,000	1,184,000
Total other financing sources (uses)	<u>2,912,869</u>	<u>1,682,919</u>	<u>1,293,950</u>	<u>2,976,869</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 1,077,843</u>	<u>\$ (661,905)</u>	<u>\$ 415,938</u>

CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
JUNE 30, 2018

	Stormwater Fund	Housing Assistance Fund	Total Nonmajor Funds
Assets:			
Current assets:			
Cash and cash equivalents	\$ 204,205	\$ 2,435,158	\$ 2,639,363
Accounts receivable, net	108,569	14,130	122,699
Due from other governments	4,695	15,527	20,222
Inventories	8,986	-	8,986
Prepaid items	6,091	10,278	16,369
Total current assets	<u>332,546</u>	<u>2,475,093</u>	<u>2,807,639</u>
Non-current assets:			
Restricted cash and cash equivalents	-	39,500	39,500
Capital assets, non-depreciable	-	283,024	283,024
Capital assets, net	259,626	4,577,487	4,837,113
Total non-current assets	<u>259,626</u>	<u>4,900,011</u>	<u>5,159,637</u>
Total assets	<u>592,172</u>	<u>7,375,104</u>	<u>7,967,276</u>
Deferred Outflows of Resources:			
OPEB deferrals	-	399	399
Pension deferrals	-	53,744	53,744
Total deferred outflows of resources	<u>-</u>	<u>54,143</u>	<u>54,143</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	60,806	22,353	83,159
Compensated absences payable	2,000	8,000	10,000
Current portion of long-term debt	51,686	-	51,686
Liabilities payable from restricted assets:			
Customer deposits	-	39,500	39,500
Total current liabilities	<u>114,492</u>	<u>69,853</u>	<u>184,345</u>
Non-current liabilities:			
Compensated absences payable	7,551	23,037	30,588
Other long-term debt	131,411	-	131,411
Net pension liability	-	71,841	71,841
Other post-employment benefits	-	361,112	361,112
Total non-current liabilities	<u>138,962</u>	<u>455,990</u>	<u>594,952</u>
Total liabilities	<u>253,454</u>	<u>525,843</u>	<u>779,297</u>
Deferred Inflows of Resources:			
OPEB deferrals	-	16,638	16,638
Pension deferrals	-	3,152	3,152
Total deferred inflows of resources	<u>-</u>	<u>19,790</u>	<u>19,790</u>
Net Position:			
Net investment in capital assets	76,529	4,860,511	4,937,040
Unrestricted	<u>262,189</u>	<u>2,023,103</u>	<u>2,285,292</u>
Total net position	<u>\$ 338,718</u>	<u>\$ 6,883,614</u>	<u>\$ 7,222,332</u>

CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN FUND NET POSITION
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>Stormwater Fund</u>	<u>Housing Assistance Fund</u>	<u>Nonmajor Funds</u>
Operating Revenues:			
Charges for services	\$ 786,530	\$ 644,630	\$ 1,431,160
Other fees	2,580	-	2,580
Other operating revenues	-	327,987	327,987
Total operating revenues	<u>789,110</u>	<u>972,617</u>	<u>1,761,727</u>
Operating Expenses:			
Administration	858,303	387,246	1,245,549
Operations and maintenance	-	706,927	706,927
Depreciation and amortization	77,754	226,370	304,124
Total operating expenses	<u>936,057</u>	<u>1,320,543</u>	<u>2,256,600</u>
Operating income (loss)	<u>(146,947)</u>	<u>(347,926)</u>	<u>(494,873)</u>
Non-Operating Revenues (Expenses):			
Operating grants	-	466,210	466,210
Investment earnings	66	17,983	18,049
Interest expense and fiscal charges	(2,471)	-	(2,471)
Total non-operating revenues (expenses)	<u>(2,405)</u>	<u>484,193</u>	<u>481,788</u>
Income (loss) before capital contributions	(149,352)	136,267	(13,085)
Capital contributions	-	251,479	251,479
Change in net position	<u>(149,352)</u>	<u>387,746</u>	<u>238,394</u>
Net Position:			
Beginning year - July 1	488,070	6,750,660	7,238,730
Prior period adjustment	-	(254,792)	(254,792)
Beginning year - July 1, as restated	<u>488,070</u>	<u>6,495,868</u>	<u>6,983,938</u>
End of year - June 30	<u>\$ 338,718</u>	<u>\$ 6,883,614</u>	<u>\$ 7,222,332</u>

CITY OF SHELBY, NORTH CAROLINA

**COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Stormwater Fund	Housing Assistance Fund	Nonmajor Funds
	<u> </u>	<u> </u>	<u> </u>
Cash Flows from Operating Activities:			
Cash received from customers	\$ 786,115	\$ 959,712	\$ 1,745,827
Cash paid for goods and services	(1,027,513)	(703,459)	(1,730,972)
Cash paid to employees	-	(342,540)	(342,540)
Net cash provided (used) by operating activities	<u>(241,398)</u>	<u>(86,287)</u>	<u>(327,685)</u>
 Cash Flows from Non-Capital Financing Activities:			
Proceeds from operating grants	-	466,210	466,210
Increase (decrease) in due from other funds	<u>(2,118)</u>	<u>(18,344)</u>	<u>(20,462)</u>
Net cash provided (used) by non-capital financing activities	<u>(2,118)</u>	<u>447,866</u>	<u>445,748</u>
 Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	-	(253,799)	(253,799)
Capital contributions - grants	-	251,479	251,479
Proceeds from issuance of long-term debt	17,568	-	17,568
Principal paid on long-term debt	(47,730)	-	(47,730)
Interest paid on long-term debt	<u>(2,471)</u>	<u>-</u>	<u>(2,471)</u>
Net cash provided (used) for capital and related financing activities	<u>(32,633)</u>	<u>(2,320)</u>	<u>(34,953)</u>
 Cash Flows from Investing Activities:			
Interest received from investments	<u>66</u>	<u>17,983</u>	<u>18,049</u>
 Net increase (decrease) in cash and cash equivalents	(276,083)	377,242	101,159
 Cash and Cash Equivalents:			
Beginning of year - July 1	<u>480,288</u>	<u>2,097,416</u>	<u>2,577,704</u>
End of year - June 30	<u>\$ 204,205</u>	<u>\$ 2,474,658</u>	<u>\$ 2,678,863</u>

CITY OF SHELBY, NORTH CAROLINA

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Stormwater Fund</u>	<u>Housing Assistance Fund</u>	<u>Nonmajor Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (146,947)	\$ (347,926)	\$ (494,873)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	77,754	226,370	304,124
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(2,995)	(12,655)	(15,650)
(Increase) decrease in inventories	(1,273)	-	(1,273)
(Increase) decrease in prepaids	(3,267)	(5,188)	(8,455)
Increase (decrease) in accounts payable and accrued liabilities	(170,425)	8,656	(161,769)
Increase (decrease) in customer deposits	-	(250)	(250)
Increase (decrease) in compensated absences	5,755	16,407	22,162
(Increase) decrease in deferred outflows of resources for pensions	-	29,709	29,709
Increase (decrease) in net pension liability	-	(25,574)	(25,574)
Increase (decrease) in deferred inflows of resources for pensions	-	(2,212)	(2,212)
(Increase) decrease in deferred outflows of resources - OPEB	-	(399)	(399)
Increase (decrease) in deferred inflows of resources - OPEB	-	16,638	16,638
Increase (decrease) in other post-employment benefits	-	10,137	10,137
	<u> </u>	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	<u>\$ (241,398)</u>	<u>\$ (86,287)</u>	<u>\$ (327,685)</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - STORMWATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 780,000	\$ 786,530	\$ 6,530
Other fees	500	2,580	2,080
Total operating revenue	<u>780,500</u>	<u>789,110</u>	<u>8,610</u>
Non-operating revenues:			
Investment earnings	<u>-</u>	<u>66</u>	<u>66</u>
Total revenues	<u>780,500</u>	<u>789,176</u>	<u>8,676</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	988,760	852,548	136,212
Capital outlay	39,500	-	39,500
Total costs of sales and services	<u>1,028,260</u>	<u>852,548</u>	<u>175,712</u>
Debt service:			
Principal repayment	48,000	47,730	270
Interest and fees	4,000	2,471	1,529
Total debt service	<u>52,000</u>	<u>50,201</u>	<u>1,799</u>
Total expenditures	<u>1,080,260</u>	<u>902,749</u>	<u>177,511</u>
Revenues over (under) expenditures	<u>(299,760)</u>	<u>(113,573)</u>	<u>186,187</u>
Other Financing Sources (Uses):			
Long-term debt issued	17,500	17,568	68
Appropriated fund balance	282,260	-	(282,260)
Total other financing sources (uses)	<u>299,760</u>	<u>17,568</u>	<u>(282,192)</u>

CITY OF SHELBY, NORTH CAROLINA

ENTERPRISE FUND - STORMWATER FUND
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL (NON-GAAP)
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	(96,005)	\$ (96,005)
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Debt principal		47,730	
Long-term debt issued		(17,568)	
(Increase) decrease in compensated absences		(5,755)	
Depreciation and amortization		<u>(77,754)</u>	
Total reconciling items		<u>(53,347)</u>	
Change in net position		<u>\$ (149,352)</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, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 591,100	\$ 644,630	\$ 53,530
Other operating revenues	12,400	327,987	315,587
Total operating revenue	<u>603,500</u>	<u>972,617</u>	<u>369,117</u>
Non-operating revenues:			
Operating and capital grants	901,203	717,689	(183,514)
Investment earnings	1,000	17,983	16,983
Total non-operating revenues	<u>902,203</u>	<u>735,672</u>	<u>(166,531)</u>
Total revenues	<u>1,505,703</u>	<u>1,708,289</u>	<u>202,586</u>
Expenditures:			
Operating expenditures:			
Cost of sales and services:			
Administration	377,300	370,839	6,461
Operating and maintenance	697,050	678,628	18,422
Capital outlay	750,283	253,799	496,484
Total expenditures	<u>1,824,633</u>	<u>1,303,266</u>	<u>521,367</u>
Revenues over (under) expenditures	(318,930)	405,023	723,953
Other Financing Sources (Uses):			
Appropriated fund balance	318,930	-	(318,930)
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>405,023</u>	<u>\$ 405,023</u>
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Capital outlay		253,799	
Change in compensated absences		(16,407)	
Change in deferred outflows of resources - OPEB		399	
Change in deferred inflows of resources - OPEB		(16,638)	
Change in other post-employment benefits		(10,137)	
Change in net pension liability		25,574	
Change in deferred outflows of resources - pension		(29,709)	
Change in deferred inflows of resources - pension		2,212	
Depreciation		<u>(226,370)</u>	
Total reconciling items		<u>(17,277)</u>	
Change in net position		<u>\$ 387,746</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, 2018

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



OTHER SUPPLEMENTAL INFORMATION

This section contains additional information on 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, 2018

Fiscal Year	Uncollected Balance July 1, 2017	Additions	Collections and Credits	Uncollected Balance June 30, 2018
2017-2018	\$ -	\$ 10,365,239	\$ 10,222,764	\$ 142,475
2016-2017	152,180	-	84,800	67,380
2015-2016	50,944	-	17,944	33,000
2014-2015	35,071	-	9,098	25,973
2013-2014	37,078	-	4,990	32,088
2012-2013	30,482	-	3,924	26,558
2011-2012	17,784	-	1,381	16,403
2010-2011	16,868	-	704	16,164
2009-2010	18,780	-	693	18,087
2008-2009	14,537	-	309	14,228
2007-2008	<u>12,834</u>	<u>-</u>	<u>12,834</u>	<u>-</u>
Total	<u>\$ 386,558</u>	<u>\$ 10,365,239</u>	<u>\$ 10,359,441</u>	392,356
Less: allowance for uncollectible ad valorem taxes receivable				<u>(167,000)</u>
Ad valorem taxes receivable, net				<u>\$ 225,356</u>
Reconciliation with Revenues:				
Ad valorem taxes - General Fund				\$ 10,244,432
Ad valorem taxes - Special Revenue Fund				107,146
Interest and penalties collected				(35,031)
Discounts allowed				28,142
Miscellaneous adjustments				1,918
Arrears written off for tax year 2007-2008 per Statute of Limitations				<u>12,834</u>
Total collections and credits				<u>\$ 10,359,441</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, 2018

	<u>Total</u>		<u>Total Levy</u>		
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current year's rate	\$ 1,972,522,727	\$ 0.4972	\$ 9,807,383	\$ 9,120,292	\$ 687,091
Municipal service district taxed at current year's rate	<u>44,731,263</u>	0.7472	<u>334,232</u>	<u>321,862</u>	<u>12,370</u>
Total original levy	<u>2,017,253,991</u>		<u>10,141,615</u>	<u>9,442,154</u>	<u>699,461</u>
Discoveries:					
Property taxed at current year's rate	57,924,779	0.4972	288,002	288,002	-
Municipal service district taxed at current year's rate	<u>40,284</u>	0.7472	<u>301</u>	<u>301</u>	<u>-</u>
Total discoveries	<u>57,965,063</u>		<u>288,303</u>	<u>288,303</u>	<u>-</u>
Releases:					
Property taxed at current year's rate	12,967,619	0.4972	64,475	64,475	-
Municipal service district taxed at current year's rate	<u>27,302</u>	0.7472	<u>204</u>	<u>204</u>	<u>-</u>
Total abatements	<u>12,994,921</u>		<u>64,679</u>	<u>64,679</u>	<u>-</u>
Total property valuation	<u>\$ 2,062,224,133</u>				
Net Levy			10,365,239	9,665,778	699,461
Uncollected taxes at June 30, 2018			<u>142,475</u>	<u>142,475</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 10,222,764</u>	<u>\$ 9,523,303</u>	<u>\$ 699,461</u>
Current Levy Collection Percentage			<u>98.63%</u>	<u>98.53%</u>	<u>100.00%</u>
Prior Year Levy Collection Percentage			<u>98.31%</u>	<u>98.18%</u>	<u>100.00%</u>

CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY
CITY-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2018

	City-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 1,972,522,727	\$ 0.4972	\$ 9,807,383	\$ 9,120,292	\$ 687,091
Discoveries:					
Property taxed at current year's rate	57,924,779	0.4972	288,002	288,002	-
Releases:					
Property taxed at current year's rate	<u>12,967,619</u>	0.4972	<u>64,475</u>	<u>64,475</u>	<u>-</u>
Total property valuation	<u>\$ 2,017,479,887</u>				
Net Levy			10,030,910	9,343,819	687,091
Uncollected taxes at June 30, 2018			<u>137,668</u>	<u>137,668</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 9,893,242</u>	<u>\$ 9,206,151</u>	<u>\$ 687,091</u>
Current Levy Collection Percentage			<u>98.63%</u>	<u>98.53%</u>	<u>100.00%</u>
Prior Year Levy Collection Percentage			<u>98.28%</u>	<u>98.14%</u>	<u>100.00%</u>

CITY OF SHELBY, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR TAX LEVY
MUNICIPAL SERVICE DISTRICT LEVY
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Municipal Service District</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current year's rate	\$ 44,731,263	\$ 0.7472	\$ 334,232	\$ 321,862	\$ 12,370
Discoveries:					
Property taxed at current year's rate	40,284	0.7472	301	301	-
Releases:					
Property taxed at current year's rate	<u>27,302</u>	0.7472	<u>204</u>	<u>204</u>	<u>-</u>
Total property valuation	<u>\$ 44,744,245</u>				
Net Levy			334,329	321,959	12,370
Uncollected taxes at June 30, 2018			<u>4,807</u>	<u>4,807</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 329,522</u>	<u>\$ 317,152</u>	<u>\$ 12,370</u>
Current Levy Collection Percentage			<u>98.56%</u>	<u>98.51%</u>	<u>100.00%</u>
Prior Year Levy Collection Percentage			<u>99.21%</u>	<u>99.18%</u>	<u>100.00%</u>

CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2018

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
	Assets:			
	Current assets:			
	Cash:			
111	Cash - unrestricted	\$ 426,920	\$ -	\$ 426,920
114	Cash - tenant security deposits	39,500	-	39,500
100	Total cash	<u>466,420</u>	<u>-</u>	<u>466,420</u>
	Accounts and notes receivables:			
124	Accounts receivable - other governments	12,643	-	12,643
126	Accounts receivable - tenant - dwelling rents	15,527	-	15,527
129	Accrued interest receivable	1,487	-	1,487
120	Total receivables, net allowances for uncollectibles	<u>29,657</u>	<u>-</u>	<u>29,657</u>
131	Investments - unrestricted	2,008,238	-	2,008,238
142	Prepaid expenses and other assets	10,278	-	10,278
150	Total current assets	<u>2,514,593</u>	<u>-</u>	<u>2,514,593</u>
	Non-current assets:			
161	Land	283,024	-	283,024
162	Buildings	10,082,732	247,999	10,330,731
163	Furniture, equipment, and machinery - dwellings	333,742	-	333,742
166	Accumulated depreciation	(6,086,986)	-	(6,086,986)
160	Total fixed assets, net of accumulated depreciation	<u>4,612,512</u>	<u>247,999</u>	<u>4,860,511</u>
180	Total non-current assets	<u>4,612,512</u>	<u>247,999</u>	<u>4,860,511</u>
190	Total assets	<u>7,127,105</u>	<u>247,999</u>	<u>7,375,104</u>
	Deferred Outflows of Resources:			
	Contributions to pension plan in current fiscal year	21,999	-	21,999
	Pension deferrals	32,144	-	32,144
200	Total deferred outflows of resources	<u>54,143</u>	<u>-</u>	<u>54,143</u>
290	Total assets and deferred outflows of resources	<u>\$ 7,181,248</u>	<u>\$ 247,999</u>	<u>\$ 7,429,247</u>
	Liabilities, Deferred Inflows of Resources, and Net Position:			
	Liabilities:			
	Current liabilities:			
312	Accounts payable < 90 days	\$ 9,488	\$ -	\$ 9,488
321	Accrued wages/payroll taxes payable	12,865	-	12,865
322	Accrued compensated absences	8,000	-	8,000
341	Tenant security deposits	39,500	-	39,500
310	Total current liabilities	<u>69,853</u>	<u>-</u>	<u>69,853</u>
	Non-current liabilities:			
354	Accrued compensated absences - non-current	23,037	-	23,037
	Other post-employment benefit & pension liabilities	432,953	-	432,953
350	Total non-current liabilities	<u>455,990</u>	<u>-</u>	<u>455,990</u>
300	Total liabilities	<u>525,843</u>	<u>-</u>	<u>525,843</u>
	Deferred Inflows of Resources:			
400	Pension deferrals	19,790	-	19,790
	Net Position:			
508.1	Net investment in capital assets	4,612,512	247,999	4,860,511
512.1	Unrestricted net position	2,023,103	-	2,023,103
513	Total net position	<u>6,635,615</u>	<u>247,999</u>	<u>6,883,614</u>
600	Total liabilities, deferred inflows of resources, and net position	<u>\$ 7,181,248</u>	<u>\$ 247,999</u>	<u>\$ 7,429,247</u>

CITY OF SHELBY, NORTH CAROLINA

FINANCIAL DATA SCHEDULE - REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

Line Item #	Account Description	Low Rent 14.850	CFP 14.872	Total
Revenue:				
703	Net tenant rental revenue	\$ 644,630	\$ -	\$ 644,630
706	HUD PHA operating grants	466,210	-	466,210
706.1	HUD PHA capital grants	-	251,479	251,479
711	Investment income - unrestricted	17,983	-	17,983
715	Other revenues	327,987	-	327,987
700	Total revenues	1,456,810	251,479	1,708,289
Expenses:				
Administrative:				
911	Administrative salaries	299,930	-	299,930
912	Audit services	7,154	-	7,154
915	Employee benefit contributions - administrative	119,754	-	119,754
916	Other operating - administrative	-	-	-
Tenant services:				
924	Tenant services - other	4,415	-	4,415
Utilities:				
931	Water	123,372	-	123,372
932	Electricity	139,093	-	139,093
933	Gas	120,881	-	120,881
942	Ordinary maintenance and operation - materials and other	101,368	-	101,368
943	Ordinary maintenance and operation - contract costs	41,544	-	41,544
General expenses:				
961	Insurance premiums	58,299	-	58,299
962	Other general expenses	10,621	-	10,621
962.1	Compensated absences	31,037	-	31,037
963	Payments in lieu of taxes	17,745	-	17,745
964	Bad debt - tenant rents	7,010	-	7,010
969	Total operating expenses	1,082,223	-	1,082,223
970	Excess operating revenue over operating expenses	374,587	251,479	626,066
971	Extraordinary maintenance	11,340	-	11,340
974	Depreciation expense	226,370	-	226,370
976	Capital outlay	-	3,480	3,480
900	Total expenses	1,319,933	3,480	1,323,413
1000	Excess (deficiency) of revenue over expenses	\$ 136,877	\$ 247,999	\$ 384,876
MEMO Account Information:				
1103	Beginning equity	\$ 6,422,109	\$ 76,629	\$ 6,498,738
1104	Prior period adjustments, equity transfers and corrections of errors	76,629	(76,629)	-
1120	Unit months available	2,064	-	2,064
1121	Number of unit months leased	2,056	-	2,056

CITY OF SHELBY, NORTH CAROLINA

**STATEMENT OF PROGRAM COSTS - COMPLETED
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Program Name</u>	<u>CFDA #</u>	<u>Funds Approved</u>	<u>Funds Advanced</u>			<u>Funds Expended</u>			<u>Excess (Deficiency)</u>	
			<u>Ending Balance</u>	<u>Prior Audit</u>	<u>Current Year</u>	<u>Ending Balance</u>	<u>Prior Audit</u>	<u>Current Year</u>	<u>Funds Approved</u>	<u>Funds Advanced</u>
Capital Fund Program (CFP) NC19PO34501-17	14.872	\$ 272,416	\$ 5,007	\$ -	\$ 5,007	\$ 5,007	\$ -	\$ 5,007	\$ 267,409	\$ -
Capital Fund Program (CFP) NC19PO34501-16	14.872	\$ 258,926	\$ 256,472	\$ 10,000	\$ 246,472	\$ 256,472	\$ 14,990	\$ 241,482	\$ 2,454	\$ -
Capital Fund Program (CFP): NC19PO34501-15	14.872	\$ 239,330	\$ 239,330	\$ 239,330	\$ -	\$ 240,840	\$ 239,330	\$ 1,510	\$ -	\$ (1,510)





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 123-128)

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

Revenue Capacity (Page 129-133)

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

Debt Capacity (Page 134-139)

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

Demographic and Economic Information (Page 140-142)

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

Operating Information (Page 143-144)

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

Unless otherwise noted, the information shown on the attached schedules was derived from the comprehensive annual financial reports for the relevant year.



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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental Activities										
Net investment in capital assets	\$ 26,977	\$ 29,009	\$ 32,852	\$ 30,598	\$ 31,063	\$ 33,394	\$ 34,486	\$ 37,344	\$ 36,664	\$ 38,492
Restricted	1,465	1,571	5,639	4,687	5,882	5,077	5,448	5,566	4,325	5,426
Unrestricted	6,281	4,906	(1,565)	1,360	2,207	1,015	916	82	(231)	(9,528)
Total governmental activities net position	\$ 34,723	\$ 35,486	\$ 36,926	\$ 36,645	\$ 39,152	\$ 39,486	\$ 40,850	\$ 42,992	\$ 40,758	\$ 34,390
Business-Type Activities										
Net investment in capital assets	\$ 56,416	\$ 53,425	\$ 60,461	\$ 63,276	\$ 65,346	\$ 68,475	\$ 72,259	\$ 75,472	\$ 80,074	\$ 91,821
Unrestricted	18,436	24,731	22,245	22,427	23,260	25,549	21,387	20,638	19,004	12,384
Total business-type activities net position	\$ 74,852	\$ 78,156	\$ 82,706	\$ 85,703	\$ 88,606	\$ 94,024	\$ 93,646	\$ 96,110	\$ 99,078	\$ 104,205
Primary Government										
Net investment in capital assets	\$ 83,393	\$ 82,434	\$ 93,313	\$ 93,874	\$ 96,409	\$ 101,869	\$ 106,745	\$ 112,816	\$ 116,738	\$ 130,313
Restricted	1,465	1,571	5,639	4,687	5,882	5,077	5,448	5,566	4,325	5,426
Unrestricted	24,717	29,637	20,680	23,787	25,467	26,564	22,303	20,638	18,773	2,856
Total primary government net position	\$ 109,575	\$ 113,642	\$ 119,632	\$ 122,348	\$ 127,758	\$ 133,510	\$ 134,496	\$ 139,020	\$ 139,836	\$ 138,595

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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental activities:										
General government	\$ 2,403	\$ 2,312	\$ 3,258	\$ 2,344	\$ 1,492	\$ 2,584	\$ 2,605	\$ 2,335	\$ 3,041	\$ 3,151
Public safety	9,565	9,669	9,701	10,054	9,402	10,101	10,075	10,467	11,631	11,246
Transportation	2,108	2,532	2,481	2,638	3,960	3,193	3,101	3,349	2,891	3,040
Environmental protection	1,563	1,444	1,479	1,876	1,570	1,700	1,640	1,502	1,707	2,084
Cultural and recreational	2,140	1,967	939	2,151	2,106	2,354	2,295	2,471	2,590	2,534
Housing and redevelopment	192	209	267	321	222	1,133	997	2,891	1,151	1,804
Interest on long-term debt	75	95	73	68	79	41	12	57	96	252
Total governmental activities expenses	<u>18,046</u>	<u>18,228</u>	<u>18,198</u>	<u>19,452</u>	<u>18,831</u>	<u>21,106</u>	<u>20,725</u>	<u>23,072</u>	<u>23,107</u>	<u>24,111</u>
Business-type activities:										
Water	3,605	3,321	3,693	3,761	3,851	3,932	3,896	4,097	4,334	4,357
Sewer	3,522	3,407	3,687	3,716	3,936	4,441	4,257	4,359	4,448	4,724
Electric	15,980	16,999	17,888	18,519	19,168	19,892	21,974	20,608	21,272	20,922
Gas	16,222	12,806	11,453	8,408	10,294	14,512	14,717	10,827	11,543	12,921
Stormwater	-	-	-	-	-	-	294	726	833	938
Housing assistance	1,119	1,083	1,163	1,138	1,195	1,207	1,221	1,256	1,470	1,321
Total business-type activities expenses	<u>40,448</u>	<u>37,616</u>	<u>37,884</u>	<u>35,542</u>	<u>38,444</u>	<u>43,984</u>	<u>46,359</u>	<u>41,873</u>	<u>43,900</u>	<u>45,183</u>
Total primary governmental expenses	<u>\$ 58,494</u>	<u>\$ 55,844</u>	<u>\$ 56,082</u>	<u>\$ 54,994</u>	<u>\$ 57,275</u>	<u>\$ 65,090</u>	<u>\$ 67,084</u>	<u>\$ 64,945</u>	<u>\$ 67,007</u>	<u>\$ 69,294</u>
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 2	\$ 4	\$ 365	\$ 441	\$ 406	\$ 377	\$ 402	\$ 3,371	\$ 572	\$ 556
Public safety	228	265	23	21	27	11	14	23	23	36
Transportation	195	209	261	377	329	346	289	268	228	281
Environmental protection	873	833	863	994	1,154	1,230	1,184	1,142	1,351	1,351
Cultural and recreational	320	338	318	294	327	356	302	272	295	297
Housing and redevelopment	-	-	127	141	139	133	-	-	-	-
Operating grants and contributions:										
General government	154	4	55	144	1,075	85	67	55	83	340
Public safety	268	476	1,098	1,048	1,050	1,014	1,143	1,167	1,192	1,197
Transportation	26	20	15	20	20	20	20	15	15	-
Environmental protection	-	-	-	-	-	-	-	-	-	-
Cultural and recreational	-	-	5	-	-	30	-	-	-	-
Housing and redevelopment	81	93	-	-	-	205	318	683	417	222

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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capital grants and contributions:										
General government	32	-	-	-	-	-	-	-	-	-
Public safety	250	112	242	6	32	27	-	-	-	921
Transportation	2,236	1,664	315	785	435	176	360	437	328	445
Cultural and recreational	-	44	456	-	-	-	-	-	1	304
Housing and redevelopment	194	-	-	-	-	1,527	494	229	48	352
Total governmental activities program revenues	<u>4,859</u>	<u>4,062</u>	<u>4,143</u>	<u>4,271</u>	<u>4,994</u>	<u>5,537</u>	<u>4,593</u>	<u>7,662</u>	<u>4,553</u>	<u>6,302</u>
Business-type activities:										
Charges for services										
Water	3,372	3,318	3,909	3,859	4,260	4,630	4,849	4,722	5,151	4,712
Sewer	4,030	3,983	4,485	4,388	4,926	5,088	5,082	5,230	5,604	5,447
Electric	17,398	17,591	18,659	18,924	20,259	21,468	22,286	21,981	22,641	23,250
Gas	18,517	15,676	14,486	9,555	13,142	18,547	17,591	14,164	14,955	17,252
Stormwater	-	-	-	-	-	-	796	736	810	789
Housing assistance	564	577	575	570	582	586	593	623	633	973
Operating grants and contributions										
Water	-	-	105	111	122	91	85	79	72	65
Sewer	-	-	43	46	43	37	35	32	30	27
Electric	-	-	-	-	-	-	-	-	-	-
Gas	-	-	12	13	12	11	10	9	8	8
Housing assistance	430	476	414	258	243	424	462	455	450	466
Capital grants and contributions										
Water	-	-	90	114	-	465	-	-	6	1,128
Sewer	1,670	955	1,589	833	95	624	-	-	-	3,477
Electric	696	242	1,036	1,779	34	-	-	-	-	-
Gas	-	-	-	-	-	261	-	-	-	175
Housing assistance	576	227	200	399	295	226	166	260	77	252
Total business-type activities program revenues	<u>47,253</u>	<u>43,045</u>	<u>45,603</u>	<u>40,849</u>	<u>44,013</u>	<u>52,458</u>	<u>51,955</u>	<u>48,291</u>	<u>50,437</u>	<u>58,021</u>
Total primary governmental program revenues	<u>\$ 47,253</u>	<u>\$ 43,045</u>	<u>\$ 45,603</u>	<u>\$ 40,849</u>	<u>\$ 44,013</u>	<u>\$ 52,458</u>	<u>\$ 51,955</u>	<u>\$ 48,291</u>	<u>\$ 50,437</u>	<u>\$ 58,021</u>
Net (expense)/revenue										
Governmental activities	\$ (13,187)	\$ (14,166)	\$ (14,055)	\$ (15,181)	\$ (13,837)	\$ (15,569)	\$ (16,130)	\$ (15,409)	\$ (18,554)	\$ (17,809)
Business-type activities	6,805	5,429	7,719	5,307	5,569	8,474	5,595	6,417	6,537	12,838
Total primary governmental net expenses (revenues)	<u>\$ (6,382)</u>	<u>\$ (8,737)</u>	<u>\$ (6,336)</u>	<u>\$ (9,874)</u>	<u>\$ (8,268)</u>	<u>\$ (7,095)</u>	<u>\$ (10,535)</u>	<u>\$ (8,992)</u>	<u>\$ (12,017)</u>	<u>\$ (4,971)</u>

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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes, levied for general purpose	\$ 7,856	\$ 7,587	\$ 7,663	\$ 7,719	\$ 7,732	\$ 8,017	\$ 8,316	\$ 8,263	\$ 9,016	\$ 10,366
Sales tax	2,831	2,669	2,732	2,866	2,862	2,809	2,980	3,061	3,501	3,972
Franchise tax	1,551	1,540	1,582	1,560	1,572	1,586	1,835	2,008	1,930	1,975
Other taxes	303	237	95	109	12	90	97	99	104	103
Miscellaneous	270	261	-	-	1,721	-	-	-	-	-
Unrestricted investment earnings	197	173	143	212	(115)	186	143	114	(4)	249
Contributions to permanent fund principal	42	108	-	-	-	-	-	-	-	-
Transfers	2,351	2,350	3,280	2,434	2,560	3,215	5,584	4,005	-	-
Total governmental activities	<u>15,401</u>	<u>14,925</u>	<u>15,495</u>	<u>14,900</u>	<u>16,344</u>	<u>15,903</u>	<u>18,954</u>	<u>17,550</u>	<u>14,547</u>	<u>16,665</u>
Business-type activities										
Unrestricted investment earnings	441	225	111	123	(106)	159	27	52	(11)	132
Miscellaneous	-	-	-	-	-	-	-	-	-	(1,083)
Transfers	(2,351)	(2,350)	(3,280)	(2,434)	(2,560)	(3,215)	(5,584)	(4,005)	-	-
Total business-type activities	<u>(1,910)</u>	<u>(2,125)</u>	<u>(3,169)</u>	<u>(2,311)</u>	<u>(2,666)</u>	<u>(3,056)</u>	<u>(5,557)</u>	<u>3,953</u>	<u>(11)</u>	<u>(951)</u>
Total primary government	<u>\$ 13,491</u>	<u>\$ 12,800</u>	<u>\$ 12,326</u>	<u>\$ 12,589</u>	<u>\$ 13,678</u>	<u>\$ 12,847</u>	<u>\$ 13,397</u>	<u>\$ 13,597</u>	<u>\$ 14,536</u>	<u>\$ 15,714</u>
Change in Net Position										
Governmental activities	\$ 2,214	\$ 759	\$ 1,440	\$ (281)	\$ 2,508	\$ 334	\$ 2,824	\$ 2,141	\$ (32)	\$ 2,709
Business-type activities	4,895	3,304	4,550	2,996	2,903	5,418	38	2,465	2,551	8,032
Total primary government	<u>\$ 7,109</u>	<u>\$ 4,063</u>	<u>\$ 5,990</u>	<u>\$ 2,715</u>	<u>\$ 5,411</u>	<u>\$ 5,752</u>	<u>\$ 2,862</u>	<u>\$ 4,606</u>	<u>\$ 2,519</u>	<u>\$ 10,741</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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund										
Reserved	\$ 3,493	\$ 5,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	3,851	2,987	-	-	-	-	-	-	-	-
Non-spendable	-	-	521	437	436	422	372	434	452	475
Restricted	-	-	6,732	3,955	4,101	4,163	3,813	3,991	3,179	3,385
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	88	64	465	334	472	351	730	343
Unassigned	-	-	580	3,246	3,020	3,005	4,267	2,859	3,697	5,028
Total General Fund	<u>\$ 7,344</u>	<u>\$ 8,075</u>	<u>\$ 7,921</u>	<u>\$ 7,702</u>	<u>\$ 8,022</u>	<u>\$ 7,924</u>	<u>\$ 8,924</u>	<u>\$ 7,636</u>	<u>\$ 8,058</u>	<u>\$ 9,231</u>
All other governmental funds										
Reserved	\$ 1,285	\$ 487	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in										
Special Revenue Fund	328	247	-	-	-	-	-	-	-	-
Non-spendable										
Special Revenue Fund	-	-	-	-	-	-	59	61	12	30
Permanent funds	-	-	522	584	639	712	764	818	879	1,191
Restricted										
Special Revenue Fund	-	-	90	745	424	185	191	221	239	289
Capital Projects Fund	-	-	762	122	254	17	669	525 *	7,853	3,503
Permanent funds	-	-	-	-	-	-	11	11	15	11
Committed										
Capital Projects Fund	-	-	-	-	-	460	804	199	445	200
Assigned										
Special Revenue Fund	-	-	164	-	1,582	435	416	2,013	1,730	1,923
Capital Projects Fund	-	-	-	-	309	-	-	-	-	-
Unassigned										
Capital Projects Fund	-	-	(730)	(272)	-	-	(513)	(666)	-	(622)
Total all other governmental funds	<u>\$ 1,613</u>	<u>\$ 734</u>	<u>\$ 808</u>	<u>\$ 1,179</u>	<u>\$ 3,208</u>	<u>\$ 1,809</u>	<u>\$ 2,401</u>	<u>\$ 3,182</u>	<u>\$ 3,320</u>	<u>\$ 6,525</u>

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

Note: For a clearer understanding, Fund Balance Reporting and Governmental Fund Balance type definitions can be found in GASB 54.

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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
Ad valorem taxes	\$ 7,951	\$ 7,755	\$ 7,686	\$ 7,731	\$ 7,721	\$ 8,020	\$ 8,298	\$ 8,326	\$ 9,015	\$ 10,351
Other taxes and licenses	2,858	2,682	2,733	2,866	2,863	2,808	2,980	3,061	3,501	3,972
Unrestricted intergovernmental revenues	1,887	1,793	1,837	1,733	1,761	1,741	2,007	2,221	2,149	2,265
Restricted intergovernmental revenues	3,172	2,338	1,933	2,006	2,390	2,746	1,933	2,259	1,737	3,272
Permits and fees	213	254	272	174	149	207	232	327	347	267
Sales and services	1,405	1,396	1,472	1,694	1,822	1,968	1,783	1,698	1,893	1,943
Investment earnings	197	173	143	212	(115)	186	143	114	(4)	213
Donations	42	108	47	58	62	74	61	53	61	306
Miscellaneous	187	189	206	260	400	455	500	362	357	327
Total revenues	17,912	16,688	16,329	16,734	17,053	18,205	17,936	18,422	19,056	22,916
Expenditures										
General government	2,222	2,067	3,034	2,141	2,077	2,282	1,639	1,825	2,020	1,279
Public safety	8,677	8,877	9,814	9,497	9,092	9,164	9,613	9,978	10,430	10,576
Transportation	1,763	2,034	2,490	3,205	3,771	2,502	2,977	2,853	2,991	2,505
Environmental protection	1,225	1,219	1,277	1,925	1,635	1,593	1,537	1,502	1,485	1,596
Cultural and recreational	1,826	1,703	2,083	1,979	1,944	2,062	1,999	1,876	1,656	2,011
Housing and redevelopment	192	209	267	321	222	1,134	1,529	3,456	1,334	1,804
Capital outlay	3,216	3,356	-	-	-	3,822	3,254	4,128	2,077	10,034
Debt service										
Principal	1,004	869	716	713	822	923	959	934	973	1,493
Interest and other charges	79	95	82	68	79	25	13	58	66	242
Total expenditures	20,204	20,429	19,763	19,849	19,642	23,507	23,520	26,611	23,033	31,540
Excess of revenues over (under) expenditures	(2,292)	(3,741)	(3,434)	(3,115)	(2,589)	(5,302)	(5,302)	(8,189)	(3,977)	(8,624)
Other financing sources (uses)										
Transfers from other funds	2,695	2,886	3,685	3,367	4,375	3,727	6,983	4,303	5,377	4,902
Transfers to other funds	(344)	(536)	(404)	(933)	(1,815)	(512)	(1,399)	(299)	(1,402)	(1,047)
Installment debt issued	1,616	707	510	812	658	560	1,515	828	8,371	1,259
Proceeds from sale of assets	13	28	54	21	1,721	29	11	2,849	44	35
Total other financing sources (uses)	3,980	3,085	3,845	3,267	4,939	3,804	7,110	4,682	12,390	5,149
Net change in fund balance	\$ 1,688	\$ (656)	\$ 411	\$ 152	\$ 2,350	\$ (1,498)	\$ 1,526	\$ (507)	\$ 8,413	\$ (3,475)
Debt services as a percentage of non-capital expenditures	6.38%	5.65%	4.04%	3.93%	4.59%	4.82%	4.80%	4.41%	4.96%	8.07%

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

<u>Year Ended June 30</u>	<u>Ad Valorem</u>	<u>Sales</u>	<u>Intangibles</u>	<u>Utility Franchise</u>	<u>Beer and Wine</u>	<u>Inventory</u>	<u>Food Stamp</u>	<u>Licenses and CATV Franchise</u>	<u>Total</u>
2009	7,950,913	2,830,915	-	1,550,877	93,190	-	-	-	12,425,895
2010	7,754,894	2,669,105	-	1,540,052	31,178	-	-	-	11,995,229
2011	7,685,528	2,732,493	-	1,581,881	93,593	-	-	-	12,093,495
2012	7,730,801	2,865,854	-	1,559,642	89,706	-	-	-	12,246,003
2013	7,692,762	2,862,052	-	1,571,869	84,396	-	-	-	12,211,079
2014	7,991,528	2,789,957	-	1,586,083	88,147	-	-	-	12,455,715
2015	8,242,626	2,972,202	-	1,834,935	96,241	-	-	-	13,146,004
2016	8,307,608	3,053,826	-	2,008,127	88,688	-	-	-	13,458,249
2017	9,000,184	3,494,500	-	1,929,904	90,926	-	-	-	14,515,514
2018	10,344,689	3,964,274	-	1,974,948	86,972	-	-	-	16,370,883

* 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>
2009**	1,285,067	434,154	46,856	1,766,077	0.435
2010	1,214,457	469,579	47,324	1,731,360	0.435
2011	1,346,266	351,316	32,284	1,729,866	0.435
2012	1,353,708	350,630	36,011	1,740,349	0.435
2013	1,366,296	356,518	36,057	1,758,871	0.435
2014	1,378,377	402,035	40,898	1,821,310	0.435
2015	1,339,357	394,320	42,347	1,776,024	0.435
2016	1,381,884	357,761	45,619	1,785,264	0.435
2017**	1,457,683	540,022	48,773	2,046,478	0.4972
2018	1,716,983	529,666	51,626	2,298,275	0.4972

Source: Cleveland County Tax Collector's Office

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

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

Notes: Includes Municipal Service District

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

<u>Year Ended June 30</u>	<u>City of Shelby</u>	<u>Uptown Shelby Municipal Service District</u>	<u>Cleveland County</u>	<u>County School District</u>
2009	0.435	0.220	0.580	0.150
2010	0.435	0.220	0.570	0.150
2011	0.435	0.220	0.570	0.150
2012	0.435	0.220	0.570	0.150
2013	0.435	0.220	0.570	0.150
2014	0.435	0.220	0.570	0.150
2015	0.435	0.220	0.570	0.150
2016	0.435	0.220	0.570	0.150
2017	0.4972	0.250	0.570	0.150
2018	0.4972	0.250	0.570	0.150

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

Taxpayer	2018			2009		
	Assessed Valuation	Rank	Percentage of Total Assessed Valuation	Assessed Valuation	Rank	Percentage of Total Assessed Valuation
Clearwater Paper Corporation	\$ 206,277	1	8.98%			
NEG (Formerly PPG)	109,274	2	4.75%	\$ 88,210	2	5.60%
Wal-Mart Stores	89,078	3	3.88%	99,578	1	6.32%
KSM Castings NC Inc.	53,983	4	2.35%			
Greenheck Fan Corp & Real Estate Holdings	24,897	5	1.08%			
Cleveland Yutaka Corporation	24,610	6	1.07%			
Curtis Wright Controls, Inc.	19,609	7	0.85%	16,424	3	1.04%
Schletter Inc.	18,333	8	0.80%			
Baldor Electric Company	17,381	9	0.76%			
Duke Energy Carolina	16,193	10	0.70%	10,583	6	0.67%
Shelby Mall LLC	-		0.00%	13,606	4	0.86%
Lowe's Home Centers, Inc.				12,000	5	0.76%
Bell South Telephone Company				10,382	7	0.66%
Ultra Machine & Fabrication				9,704	8	0.62%
Carlisle at Delta Park LLC				7,254	9	0.46%
Shelby Loan & Mortgage Co.				5,906	10	0.37%
Totals	<u>\$ 579,635</u>		<u>16.25%</u>	<u>\$ 273,647</u>		<u>17.37%</u>
Total Taxable Assessed Value	<u>\$ 2,298,275</u>			<u>\$ 1,575,601</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
2009	7,791	7,474	95.93%	15	311	7,773	99.81%
2010	7,641	7,398	96.82%	19	230	7,617	99.73%
2011	7,635	7,403	96.96%	17	219	7,612	99.71%
2012	7,688	7,460	97.03%	18	213	7,658	99.63%
2013	7,759	7,486	96.48%	30	191	7,677	98.97%
2014	7,670	7,437	96.96%	37	15	7,452	97.15%
2015	7,543	7,385	97.91%	35	32	7,417	97.84%
2016	7,756	7,604	98.04%	51	112	7,716	98.04%
2017	8,356	8,204	98.18%	152	84	8,287	99.18%
2018	9,666	9,523	98.53%	142	-	9,523	98.52%

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	(1) (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 Personal Income	
2009	\$ 3,553	\$ -	\$ 22,773	\$ 4,098	\$ 1,004	\$ 31,428	\$ 2,947,603	1.07%	\$ 30,205	\$ 1,510
2010	3,391	-	29,282	3,512	925	37,110	3,026,601	1.23%	29,990	1,785
2011	3,185	-	27,299	2,927	1,117	34,528	3,202,220	1.08%	31,046	1,699
2012	3,283	-	25,449	2,341	1,406	32,479	3,268,534	0.99%	20,003	1,608
2013	3,119	-	25,921	-	1,301	30,341	3,618,414	0.84%	21,036	1,502
2014	2,756	-	23,224	-	2,022	28,002	3,829,655	0.73%	N/A	1,378
2015	3,312	-	20,462	-	11,165	34,939	3,739,455	0.93%	20,504	1,697
2016	3,207	-	20,046	-	14,302	37,555	3,892,854	0.96%	20,003	1,852
2017	10,605	-	20,545	-	13,723	44,873	N/A	N/A	N/A	2,235
2018	10,371	-	18,928	-	23,891	53,190	N/A	N/A	20,789	2,657

N/A - information not available.

(1) Cleveland County

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>
2009	-	0.00%	N/A
2010	-	0.00%	N/A
2011	-	0.00%	N/A
2012	-	0.00%	N/A
2013	-	0.00%	N/A
2014	-	0.00%	N/A
2015	-	0.00%	N/A
2016	-	0.00%	N/A
2017	-	0.00%	N/A
2018	-	0.00%	N/A

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

Year Ended June 30	Debt Limits 8% of Assessed Value	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to Limit as a Percentage of Debt Limit
2009	141,286	4,557	136,729	3.23%
2010	138,508	4,316	134,192	3.12%
2011	138,389	4,302	134,087	3.11%
2012	132,489	1,947	130,542	1.47%
2013	140,710	4,436	136,274	3.15%
2014	145,705	4,778	117,703	4.06%
2015	145,123	33,939	111,184	30.53%
2016	149,831	37,445	112,386	33.32%
2017	143,174	44,874	98,301	45.65%
2018	164,978	53,191	111,787	47.58%

City of Shelby, North Carolina
Computation of Legal Debt Margin
June 30, 2018

Assessed value of taxable property					\$	<u>2,062,224</u>
Debt limit - eight percent (8%) of assessed value					\$	164,978
Gross debt						
Revenue bonds	\$	18,928				
Other financing agreements/notes payable		34,263	\$	53,191		
Total amount of debt applicable to debt limitation						<u>53,191</u>
Legal debt margin					\$	<u>111,787</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	
2009	\$ 43,317,051	\$ 35,794,720	\$ 7,522,331	\$ 1,772,387	\$ 1,175,118	\$ 2,947,505	255%
2010	40,568,116	32,886,694	7,681,422	1,838,028	910,078	2,748,106	280%
2011	41,539,114	32,635,437	8,903,677	1,982,814	1,283,712	3,266,526	273%
2012	36,726,720	30,290,507	6,436,213	1,850,024	1,263,076	3,113,100	207%
2013	43,169,216	34,043,599	9,125,617	2,198,610	868,377	3,066,987	298%
2014	50,319,644	39,613,948	10,705,696	2,021,676	56,389	2,078,065	515%
2015	51,197,509	41,830,970	9,366,539	2,761,394	908,417	3,669,811	255%
2016	47,457,107	37,476,271	9,980,836	3,490,674	856,321	4,346,995	230%
2017	48,351,028	37,529,836	10,821,192	2,520,169	760,365	3,280,534	330%
2018	50,661,722	38,473,490	12,188,232	1,617,647	701,826	2,319,473	525%

* Total operating revenues

** Total operating expenses exclusive of depreciation

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

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

Year Ended June 30	(1) Population	(2) Per Capita Income	(2) Median Age	(3) School Enrollment	(4) Unemployment Rate	(5) Personal Income
2009	20,808	\$ 29,692	39.2	16,738	15.4%	\$ 2,947,603
2010	20,793	29,990	N/A	15,997	13.2%	2,939,629
2011	20,323	31,046	39.0	15,721	12.1%	3,026,601
2012	20,202	20,003	40.5	15,374	10.9%	3,202,220
2013	20,270	21,036	40.8	15,259	10.5%	3,268,534
2014	20,325	N/A	41.4	16,420	7.40%	3,118,566
2015	20,586	20,504	41.7	14,916	6.90%	3,265,967
2016	20,283	20,003	40.3	14,822	6.50%	3,341,809
2017	(July 2016) 20,080	20,585	40.1	14,548	5.60%	32,500 *
2018	20,018	20,789	40.2	14,452	4.30%	33,451

- (1) NC Department of Budget & Management nc.gov/demog/ <http://worldpopulationreview.com/us-cities/shelby-nc/>
- (2) U.S. Bureau of Economic Analysis for Cleveland County, NC Department of Commerce for Shelby
www.bestplaces.net/economy/city/north_carolina/shelby www.northcarolina.hometownlocator.com/zip-codes
- (3) Cleveland County/Shelby City Schools Administrative Offices, NC Department of Commerce.
[www.ncpublicschools.org/fbs/accounting/data - Final Average Daily Membership](http://www.ncpublicschools.org/fbs/accounting/data-Final-Average-Daily-Membership)
- (4) Employment Security Commission www.nccommerce.com Cleveland County US Bureau of Labor Statistics
- (5) Amounts for Cleveland County expressed in thousands of dollars taken from www.fedstats.gov. <https://fred.stlouisfed.org>
Amounts for Shelby, NC from www.bea.gov www.bestplaces.net/economy/city/north_carolina/shelby
NC HomeTownLocator
- N/A - information not available. *Median Household Income

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

Employer	Industry	2018		2014	
		Rank	Employment Range	Rank	Employment Range
Cleveland County School District	Education	1	1000+	1	1000+
Atrium Health (Formerly Cleveland Regional)	Health services	2	1000+	2	1000+
Wal-Mart Distribution Center	Retail distribution	3	1000+	3	1000+
Cleveland County Government	Public administration	4	500-999	4	500-999
Gardner-Webb University	Education	5	500-999		
Ingles Markets	Trade/Transportation/Utilities	6	500-999		
Cleveland Community College	Education	7	250-499	7	500-999
NEG (Formerly PPG Fiber Glass Products)	Industrial supplies	8	250-499	6	500-999
ABB (Formerly Baldor Electric Company)	Manufacturing	9	250-499	5	500-999
Eaton Corporation	Manufacturing	10	250-499		
City of Shelby	Public administration			10	250-499
Curtiss-Wright Flight Systems, Inc.	Transportation equipment			8	250-499
White Oak Manor, Inc.	Education and health services			9	250-499

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

Notes: Data not available on percentage of total employment.

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

Function	Fiscal Year Ended June 30									
	2009	2010	2011	2012	2013	2014	2015	2016	2017*	2018
General government	38.0	38.0	38.0	39.0	40.0	35.0	35.0	34.0	34.0	34.0
Public safety										
Police	87.0	87.0	86.0	86.0	86.0	97.0	97.0	95.0	88.0	88.0
Fire	53.0	53.0	53.0	58.0	57.0	58.0	58.0	56.0	53.0	54.0
Transportation	19.0	19.0	19.0	17.0	22.0	21.0	21.0	24.0	23.0	22.0
Environmental protection	17.0	17.0	17.0	19.0	16.0	17.0	17.0	16.0	16.0	16.0
Cultural and recreational	19.0	19.0	19.0	22.0	32.0	30.0	30.0	32.0	22.0	22.0
Housing and redevelopment	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Business-type activities										
Water	17.5	17.5	17.5	19.0	17.0	18.0	16.0	16.5	16.0	18.0
Sewer	18.5	18.5	18.3	21.0	19.0	21.0	21.0	23.0	24.0	22.0
Electric	10.5	10.5	10.4	14.0	12.0	12.0	12.0	14.0	15.0	15.0
Gas	18.5	18.5	18.7	18.0	17.0	18.0	18.0	19.0	19.0	19.0
Stormwater	-	-	-	-	-	-	2.0	2.0	2.0	3.0
Housing	6.0	6.0	6.0	7.0	7.0	7.0	7.0	7.5	7.0	7.0
Total	<u>313.0</u>	<u>313.0</u>	<u>312.0</u>	<u>329.0</u>	<u>334.0</u>	<u>343.0</u>	<u>343.0</u>	<u>348.0</u>	<u>328.0</u>	<u>329.0</u>

Source: City of Shelby's Finance Department

* Full-Time positions approved by budget - no part-time equivalencies included.

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

Function	Fiscal Year Ended June 30									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public safety										
Police:										
Number of calls for service	40,251	39,741	37,303	39,068	35,877	35,877	36,173	36,186	46,592	39,097
Uniform Crime Report Part I crimes reported	1,149	1,149	1,039	1,025	887	761	861	771	816	708
Uniform Crime Report Part II crimes reported	625	625	529	554	475	453	525	517	483	519
Fire										
Number of responses	1,913	1,976	2,179	1,945	1,984	1,935	2,112	2,250	2,285	2,199
Number of inspections	707	1,426	1,502	1,530	1,365	1,185	1,258	1,355	1,423	1,103
Transportation										
Miles of street repaved	3.00	-	1.60	1.61	1.83	2.38	2.57	4.13	2.01	3.22
Environmental protection										
Tons of solid waste collected	10,608	7,937	7,233	6,930	6,354	4,884	6,632	7,045	6,960	7,174
Tons of recycling collected					728	710	955	996	959	1,050
Tons of yard waste collected									5,635	7,665
Cultural and recreational										
Number of youth sport program participants	2,247	3,566	2,309	3,130	3,385	3,881	4,009	4,114	4,188	4,390
Number of adult sport program participants	622	758	944	1,026	1,141	1,230	1,351	1,762	1,966	2,268
Number of golf rounds played	11,818	11,240	10,283	10,491	9,761	8,704	7,529	6,506	6,583	6,138
Housing and redevelopment										
Building inspections:										
Number of permits issued	1,057	919	1,076	1,261	1,167	1,007	1,138	1,066	1,202	1,428
Number of inspections	4,343	4,205	4,376	5,437	3,634	3,395	3,935	4,384	4,187	4,256
Business-type activities										
Water system										
Customers at June 30	9,554	9,601	9,587	9,691	9,746	9,739	9,874	9,927	9,996	10,036
Average of daily consumption **	4.97	4.06	4.41	3.87	4.73	5.57	5.84	5.67	6.07	6.22
Peak daily consumption **	7.09	5.78	6.10	7.64	7.65	8.15	8.45	8.45	9.33	8.95
Sewer system										
Customers at June 30	7,826	7,866	7,840	7,952	8,031	8,016	8,136	8,201	8,264	8,319
Average of daily treatment **	2.72	2.26	2.25	2.41	2.95	3.57	3.07	3.47	3.04	3.22
Peak daily treatment **	7.55	9.98	6.61	5.86	12.86	10.59	10.25	11.77	8.52	9.51
Electric system										
Customers at June 30	8,290	7,432	7,409	7,414	7,504	7,505	7,605	7,671	7,729	7,750
Natural gas system										
Customers at June 30	9,755	9,793	9,649	9,615	9,582	9,588	9,643	9,617	9,624	9,647

** 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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public safety										
Police										
Number of stations	1	1	1	1	1	1	1	2	2	2
Number of patrol units	43	43	47	47	47	50	50	50	50	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	122	122	122	123	123	124	124	124	124	124
Miles of unpaved roads	0	0	0	0	0	0	0	0	0	0
Miles of sidewalks	28	28	28	28	28	28	29	30	30	30
Cultural and recreation										
Number of parks	12	12	12	12	12	12	12	12	12	12
Acres of parks land ***	169	169	169	169	340	340	340	340	340	340
Swimming pools	1	1	1	1	1	1	1	1	1	1
Gymnasiums	2	2	2	2	2	2	2	2	2	2
Golf course (nine holes)	1	1	1	1	1	1	1	1	1	1
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	215	214	219	218	221	222	223	221	221	221
Number of fire hydrants	1,305	1,343	1,271	1,241	1,358	1,376	1,389	1,394	1,412	1,416
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	202	204	203	195	190	190	191	191	191	191
Miles of force main										25
Miles of storm sewers	7	7	7	-	10	10	25	26	26	26
Electric system										
Number of sub-stations	4	4	4	4	4	4	4	4	4	4
System capacity **	65	65	65	65	65	65	65	65	65	65
Miles of primary lines	135	141	141	141	146	147	148	148	149	152
Miles of secondary lines	202	203	204	163	210	211	211	211	211	211
Natural gas system										
Miles of gas mains	496	473	506	479	482	504	501	501	502	502

* In millions of gallons

** In mega-watts

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

Source: Various City Departments



COMPLIANCE SECTION

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

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

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

Schedule of Findings, Responses, and Questioned Costs

Corrective Action Plan

Summary Schedule of Prior Year's Audit Findings

Schedule of Expenditures of Federal and State Awards



MARTIN STARNES & ASSOCIATES, CPAs, P.A.

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

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Shelby, North Carolina, as of and for the year ended June 30, 2018, 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 25, 2018. Our report includes a reference to other auditors who audited the financial statements of the City of Shelby ABC Board, as described in our report on the City of Shelby's financial statements. The financial statements of the City of Shelby ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and; therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings, Responses, and Questioned Costs, 2018-001, which we consider to be a material weakness.

Compliance and Other Matters

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

City of Shelby's Response to Finding

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

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 25, 2018

MARTIN STARNES & ASSOCIATES, CPAs, P.A.

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

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Shelby, North Carolina's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the City of Shelby's major federal programs for the year ended June 30, 2018. The City of Shelby's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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PO Box 5729 ♦ Statesville, NC 28687 ♦ 1710 Wilkesboro Hwy ♦ Statesville, NC 28625 ♦ 704-872-8923 ♦ Fax 704-872-4982
800-948-0585 ♦ www.martinstarnes.com

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, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 25, 2018

MARTIN STARNES & ASSOCIATES, CPAs, P.A.

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

Report On Compliance For Each Major State Program And Report On Internal Control Over Compliance Required By The Uniform Guidance; And the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

We have audited the City of Shelby, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the City of Shelby's major state programs for the year ended June 30, 2018. The City of Shelby's major state programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state programs.

Auditor's Responsibility

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

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13 South Center Street ♦ Taylorsville, NC 28681 ♦ 828-632-9025 ♦ Fax 828-632-9085
PO Box 5729 ♦ Statesville, NC 28687 ♦ 1710 Wilkesboro Hwy ♦ Statesville, NC 28625 ♦ 704-872-8923 ♦ Fax 704-872-4982
800-948-0585 ♦ www.martinstarnes.com

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

Opinion on Each Major State Program

In our opinion, the City of Shelby complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 25, 2018

CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

1. Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

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

Non-compliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

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

Type of auditor’s report issued on compliance for major federal programs Unmodified

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

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – Clearwater Paper Sewer Project	14.228

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

Auditee qualified as low-risk auditee? No

CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

State Awards

Internal control over major state programs:

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

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

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

Identification of major state programs:

Program Name

Powell Bill
E-911 PSAPA Grant

CITY OF SHELBY, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2018

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

Material Weakness

Finding 2018-001:

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

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

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

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2017-001, modified.

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

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

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

CITY OF SHELBY, NORTH CAROLINA

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2018**

2. Financial Statement Findings

Material Weakness

Finding 2018-001

Contact Person: Justin Merritt, Finance Director

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

Proposed Completion Date: The City will implement the above procedure in Fiscal Year 2019.

3. Federal Award Findings and Questioned Costs

None reported

4. State Awards Findings and Questioned Costs

None reported

CITY OF SHELBY, NORTH CAROLINA

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Finding: 2017-001

Status: Repeated as 2018-001.

Finding: 2017-002

Status: Corrected.

CITY OF SHELBY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Fed. (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Pass-Through to Subrecipients</u>
Federal Grants:					
<u>U.S. Dept. of Housing and Urban Development</u>					
Direct Program:					
Low Rent Housing Program:					
Public and Indian Housing	14.850	NC034-00000111D	\$ 466,210	\$ -	\$ -
Public Housing Capital Fund--2017	14.872	NC19P034501-17	5,007	-	-
Public Housing Capital Fund--2016	14.872	NC19P034501-16	241,482	-	-
Public Housing Capital Fund--2015	14.872	NC19P034501-15	1,510	-	-
Passed Through the NC Department of Commerce:					
Community Development Block Grants/State's program and Non-Entitlement					
Grants in Hawaii - Clearwater Paper Sewer Project	14.228	CDBG ED 16-E-2909	3,000,000	-	-
Total U.S. Dept. of Housing and Urban Development			<u>3,714,209</u>	<u>-</u>	<u>-</u>
<u>U.S. Dept. of Justice</u>					
Direct Program:					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	JAG16 / 2016-DJ-BX-0453	5,221	-	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	GCC16 / 2016-DJ-BX-1052	16,228	-	-
Passed-through U.S. Dept. of Defense:					
Bulletproof Vest Partnership Program	16.607	2018	6,378	-	-
Equitable Sharing Program	16.922	NC0230200	23,053	-	-
Total U.S. Dept. of Justice			<u>50,880</u>	<u>-</u>	<u>-</u>
<u>U.S. Environmental Protection Agency</u>					
Passed-through the N.C. Department of Environmental Quality:					
Clean Water State Revolving Fund Cluster					
Capitalization Grants for Clean Water State Revolving Funds -					
Compost Facility	66.458	³ E-SRF-T-15-0411	261,890	-	-
Total Clean Water State Revolving Fund Cluster			<u>261,890</u>	<u>-</u>	<u>-</u>
Total N.C. Department of Environmental Quality			<u>261,890</u>	<u>-</u>	<u>-</u>
Total assistance - federal programs			<u>4,026,979</u>	<u>-</u>	<u>-</u>
State Grants:					
<u>NC Department of Transportation:</u>					
Powell Bill	N/A	32570	-	804,965	-
State Aid to Airports Program - APLEA	DOT-8	36244.23.11.1	-	342,266	-
Total N.C. Department of Transportation			<u>-</u>	<u>1,147,231</u>	<u>-</u>
<u>NC Department of Commerce:</u>					
Industrial Development Fund - Clearwater Paper Company Sewer Project	N/A	ID #U-476	-	48,606	-
Passed-through NC Rural Economic Development:					
CDBG Downtown Revitalization Fund - Campbell & Sterchi Bldg	N/A	E-1, CDBG 15-E-2771	-	215,699	215,699
Total NC Department of Commerce			<u>-</u>	<u>264,305</u>	<u>215,699</u>
<u>NC Office of Management and Budget:</u>					
Passed-through NC Department of Commerce:					
Downtown Revitalization - Session Law 2017-57 - Uptown Fallen Hero	N/A	2018-070-1257-1534 1	-	17,380	-
<u>NC E911 Board:</u>					
E-911 PSAPA Grant - Shelby Police Communications Regional Initiative	N/A	G2017-15	-	918,464	-
<u>NC Department of Cultural and Natural Resources</u>					
Passed-through NC Division of Parks and Recreation:					
Connect NC Bond Grant Program - All Aboard Park!	N/A	2017CNC13	-	229,974	-

CITY OF SHELBY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-Through Grantor's Number</u>	<u>Fed. (Direct and Pass-Through) Expenditures</u>	<u>State Expenditures</u>	<u>Pass-Through to Subrecipients</u>
<u>N.C. Rural Economic Development Center, Inc.:</u>					
2017 Community Waste Reduction & Recycling Grant	N/A	Contract #7199	-	14,546	-
NC Infrastructure Unit:					
Sewer Asset Inventory & Assessment	N/A	E-AIA-W-17-0044	-	150,000	-
Total NC Rural Economic Development Center, Inc.			-	164,546	-
Total assistance - state programs			-	2,741,900	215,699
Total assistance			\$ 4,026,979	\$ 2,741,900	\$ 215,699

Notes to the Schedule of Expenditures of Federal and State Awards:**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State awards (SEFSA) includes the federal and state grant activity of the City of Shelby under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the SEFSA presents only a selected portion of the operations of the City of Shelby, it is not intended to, and does not, present the financial position, changes in net position or cash flows of the City of Shelby.

2. Summary of Significant Accounting Principles

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

3. Loans Outstanding

City of Shelby had expenditures of \$261,890 at 6/30/18 under the Capitalization Grants for Clean Water State Revolving Funds. However, at fiscal year-end, no draw downs had been made for the debt; therefore, there is a zero debt balance at 6/30/18. The City plans to make a draw in FY 2019.

4. Indirect Cost Rate

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