

City of Shelby

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2009

PREPARED BY

**CITY OF SHELBY
FINANCE DEPARTMENT**

**THEODORE B. PHILLIPS
FINANCE DIRECTOR**



CITY OF SHELBY, NORTH CAROLINA

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INTRODUCTORY SECTION



December 9, 2009

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

State law requires that all municipal governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Shelby for the fiscal year ended June 30, 2009.

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

The independent certified public accounting firm of Dixon Hughes PLLC has audited the City of Shelby's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Shelby for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of

Shelby's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's 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 Col. Isaac Shelby, who fought in the Revolutionary War and was a hero at the Battle of Kings Mountain and later became the governor of Kentucky. The City has a population of approximately 20,808 and presently covers a land area of 21.08 square miles. The City of Shelby is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

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

The City provides a wide range of services for its citizens, including law enforcement, fire protection, public safety, planning and developmental services, sanitation, street maintenance, cemeteries, airport operations, cultural and recreational activities, general administration, planning and development services, and housing. In addition to these general government activities, the City provides and maintains water, sewer, electric, and natural gas utilities for the benefit of its citizens. This report includes all of the City's fiscal activities in maintaining these services. The City also extends financial support to certain boards, agencies and commissions to assist their efforts in

serving citizens. Among these are the Cleveland County Arts Council, Destination Cleveland County, Chamber of Commerce, Advance Shelby Unlimited, and the Uptown Shelby Association.

The annual budget serves as the foundation for the City of Shelby's financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager who is also the City's Budget Officer in accordance with NCGS 159-9. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed balanced 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 the County seat of Cleveland and is situated between two of the largest metropolitan areas of the Carolinas – the Charlotte region and the Greenville/Spartanburg region. Four-lane US Highway 74 transects the County and provides direct access to Charlotte and Asheville, four interstate highways, and four major seaports. The City's proximity to Charlotte, the region's commercial, financial and trucking center, also provides access to one of the nation's largest international airports.

The County has a diverse industrial base with no dependence on any one industry. Products manufactured in the County include textiles, fiberglass, truck cabs, transmissions, aircraft parts, fabrications, boats, and electric motors and production equipment. Large manufacturers with facilities located in the County include PPG Industries, KOSA, Eaton Corporation, Ticona, Ultra Machine & Fabrication and FAS Controls. Several of these are located inside the City and most of these industries are served by at least one of the City's utilities. The City is served by Cleveland Regional Medical Center, a 240 bed medical facility with approximately 1,000 employees that is one of the City's top five utility customers. The availability of an educated work force is always a concern to any new business or industry desiring to locate within the

County. Vocational education programs offered through the public schools, Cleveland Community College, and Gardner Webb University support job training in the County.

The County, having a traditional manufacturing base, has been hit especially hard by the current recession. During FY 2009, Shelby like the rest of the nation has seen a number of lay-offs in its manufacturing base.

The City of Shelby and Cleveland County have entered into a partnership to develop a 152 acre tract of property purchased by the City in January 2009 as a business and industrial park. The joint venture is now known as the Foothills Commerce Center. This partnership was born out of the current lack of available and developable property within the western part of Cleveland County. Economic developers at the local, regional and state levels advised County and City leaders that without a product to sell it was unlikely Shelby and western Cleveland County would attract new jobs and investment. A November 2004 Strategic Economic Development plan conducted by the Sanford Holshouser Business Development Group, LLC for the City concluded that “the priority initiative for the City of Shelby should be the development of a business park.” This property was acquired with the full intent to actively make it available and to market the site to existing and prospective business and industry looking to invest in Shelby and Cleveland County.

The Foothills Commerce Center is currently owned by the City of Shelby with a preliminary agreement from County Commissioners that the County will share one half of the land and development cost for the Foothills Commerce Center. It is intended that development costs will be funded by economic development grant programs. The property is currently served with water, sewer, and natural gas service from the City of Shelby. The City has approved an electric service extension to the property as well. It was submitted to the NC Department of Commerce for site certification in October 2009 and approved later that same month. The City of Shelby has worked for a number of years to provide our community with the economic development resources necessary to make our City and County more competitive in recruiting new and expanding industry. This property and the approved site certification is an important part of this effort.

Progress continued in the residential development of The Villages of Hallelujah Acres. Phase I of this project will include 22 estate home sites, 50 garden home sites and 24 condominiums on 42 acres of land. The residential community will be developed to encourage a commitment to optimum health through the programs of Hallelujah Acres. At the end of FY 2009 Hallelujah Acres had almost completed the infrastructure for this residential development. The City will also serve this development with all four utilities.

The City continues to work with a non-profit agency, Advance Shelby Unlimited, and a private developer to renovate the old farmer’s market building. The renovations done by the private developer are anticipated to increase the tax value of the building by almost \$7,000,000. The renovations will create retail and residential space in the building. This will not only increase the tax base for the City but also add new utility customers to all four of our utilities.

A volunteer group known as Destination Cleveland County, Inc. (a non profit 501c(3) corporation) working with the City has refurbished the old State Theater in uptown Shelby and turned it into the new Don Gibson Theater. Destination Cleveland County has spent close to three million dollars to create a state of the art 400 seat venue that will act primarily as a very intimate concert hall. Don Gibson was a one of the most influential forces in the county music industry in the 1950's and 1960's was born and raised in Shelby. Two of Mr. Gibson's most famous compositions were *Sweet Dreams*, and *I Can't Stop Loving You*. The theater will have a significant economic impact on the region, drawing in locals and visitors for regular performances and benefiting are restaurants, retail and lodging facilities.

Construction continues on both the Westside Sewer Project and the Westside Water Improvement Project. The City was awarded two grants for the Westside Sewer Project, one in the amount of \$2,867,500 from the Clean Water Management Trust Fund, and the other in the amount of \$1,000,000 from the North Carolina Rural Center. The Balance of the project budget of \$1,867,500 will be financed by the City in FY 2010. The Westside Sewer Project will be complete in the first quarter of 2010. The project proposes to improve water quality through the elimination of three existing wastewater treatment point source discharges. All City funds will be reimbursed by the issuance of debt in FY 2010. The Westside Water Improvement Project includes new water mains, the replacement of a booster pump station and a new elevated storage tank on the west side of our service area. The Westside Water Improvement Project will be complete in the first quarter of 2010. Funds spent on this project will also be reimbursed by the issuance of debt in FY 2010.

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. It is anticipated that the city will receive a \$500,000 grant from the North Carolina Trust Fund to match with over \$800,000 of city money to begin construction on Phase I of this plan in FY 2010.

In FY 2009 the City was awarded a \$175,000 Weed and Seed Grant. This was the third year of the four year cycle for this grant. The Weed and Seed Grant involves a two-pronged approach: law enforcement agencies and prosecutors cooperate in "weeding out" violent criminals and drug abusers and public agencies and community-based private organizations collaborate to "seed" much-needed human services, including prevention, intervention, treatment, and neighborhood restoration programs. A community-oriented policing component bridges the weeding and seeding elements.

Cash Management. The City's temporary idle cash is invested in interest bearing demand deposits, certificates of deposit, obligations of the US Treasury and federal agencies, banker's acceptances, commercial paper, and the North Carolina Capital Management Trust. All revenues received are deposited the same day in a consolidated interest bearing account. This bank account is drawn upon to meet all payroll and payable obligations, and the City maintains in this account only as much money as is required to meet current obligations. All other idle cash is invested in instruments authorized by the North Carolina General Statutes. The maturities of the investments range from 1 day to 6 years, with the average maturity of less than 3 years.

The City's investment policy emphasizes safety and liquidity while maintaining a competitive yield on its portfolio. Accordingly, deposits are either insured by federal depository insurance or collateralized as required by North Carolina General Statutes. All collateral on deposits is held either by the City or its agent.

Risk Management. The City participates in three insurance pools developed by the North Carolina League of Municipalities ("NCLM"). These pools provide coverage for property damage, general liability and workers' compensation. Major policies and their limits of coverage include the following: real and personal property (\$69,280,732), general liability (\$2,000,000), vehicle liability (\$2,000,000) and workers' compensation (\$1,000,000). As part of its overall risk management program, the City practices various risk control techniques including an employee safety program emphasizing accident prevention to minimize losses and an employee wellness program.

Pension and other post employment benefits. The City of Shelby provides retirement benefits to its employees through the Local Government Employees' Retirement System (LGERS). The City has no obligation for employee benefits, except for the annual required contribution to the LGERS.

Law enforcement officers are provided an additional retirement benefit through the Law Enforcement Officers Separation Allowance, a single-employer defined benefit plan. Each year an independent actuary calculates the annual contribution to ensure the "Plan" will be able to meet its obligations to retired employees on a timely basis. The City has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund.

The City also contributes each month an amount equal to five percent of each employee's salary and employees can make voluntary contributions. All amounts are vested immediately.

The State of North Carolina contributes, on behalf of the City, an amount to the Firemen's and Rescue Squad Workers' Pension Fund. The City has no liability for the funding of this pension fund.

The City provides post retirement health care benefits to retirees of the City, provided they participate in the North Carolina Local Government Employee Retirement System and have at least twenty-two years of creditable continuous service with the City. The City pays the full cost of coverage for these benefits until the retiree reaches the qualifying age for Medicare. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. The City also allows former elected officials, with a minimum of eight years of service to the City, to remain on the City's health insurance plan until they reach the qualifying age for Medicare to purchase coverage. To obtain this benefit, the former elected official must declare their intent to stay on the City's plan before their term expires and there must be no break in coverage for as long as the individual remains on the City plan. The former elected official is responsible for the payment of the premium for this coverage.

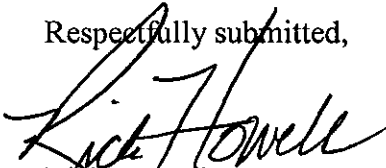
AWARDS AND ACKNOWLEDGMENTS

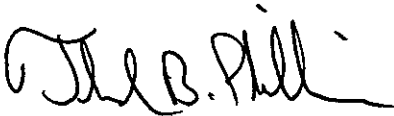
The Governmental Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Shelby for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the eleventh consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

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

Respectfully submitted,


Rick Howell
City Manager


Theodore B. Phillips, CPA
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Shelby
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



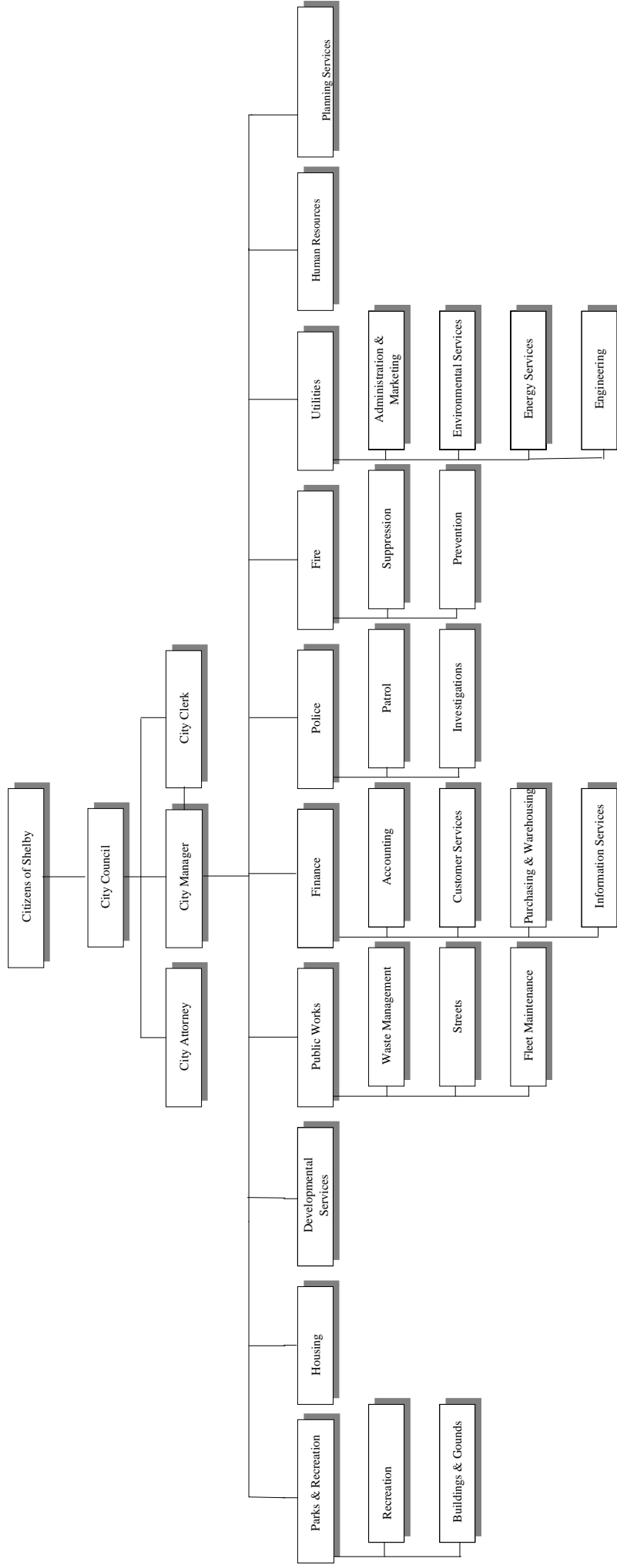
A stylized handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director

City of Shelby Organization Chart



City of Shelby, North Carolina

List of Principal Officials

June 30, 2009

Elected Officials

W. Ted Alexander
Mayor

Christopher H. Mabry

Michael R. (Mike) Royster
Mayor Pro Tem

Joel R. Shores, Jr.

Andrew Hopper, Sr.

Jeanette Patterson

Larry Ware

City Administration

Rick Howell
City Manager

Theodore B. Phillips, CPA
Finance Director

Bernadette A. Parduski
City Clerk

Brad Cornwell
Director of Utilities

Deb Jolly
Human Resources Director

Jeff Ledford
Police Chief

Charles K. Holtzclaw
Director of Parks & Recreation

Daniel C. Darst
Director of Public Works

William P. Hunt
Fire Chief

Bryan T. Howell
Director of Housing

Walter Scharer, AICP
Director Planning Services

Brian Pruett
Director Development Services

Robert (Bob) Yelton
City Attorney

FINANCIAL SECTION



- Independent Auditors' Report -

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Shelby, North Carolina, as of and for the year ended June 30, 2009, which collectively comprise the City of Shelby's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Shelby's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the City of Shelby's ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Shelby's ABC Board, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Shelby, North Carolina as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(1)

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Independent Auditors' Report
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2009, on our consideration of the City of Shelby's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Accordingly, we express no opinion. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Shelby, North Carolina. The introductory section, combining and individual non-major fund financial statements and schedules, statistical tables, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the State Single Audit Implementation Act and the Financial Data Schedule as required by the U.S. Department of Housing and Urban Development are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and schedules and the schedule of expenditures of federal and State awards information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 9, 2009

Dixon Hughes PLLC

CITY OF SHELBY, NORTH CAROLINA

Management's Discussion and Analysis

June 30, 2009

As management of the City of Shelby, we offer readers of the City of Shelby's financial statements this narrative overview and analysis of the financial activities of the City of Shelby for the fiscal year ended June 30, 2009. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

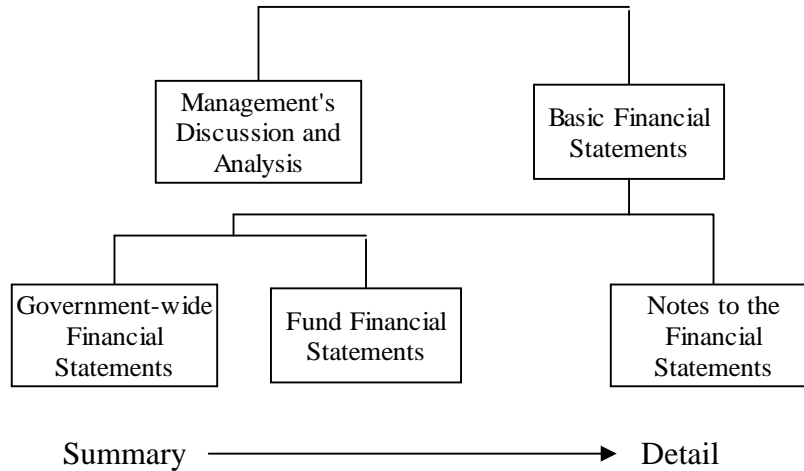
- The assets of the City of Shelby exceeded its liabilities at the close of the fiscal year by \$109,574,783 (*net assets*). Of this amount, \$24,716,972 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$7,110,146. \$2,214,159 was due to increases in the governmental activities net assets, and \$4,895,987 was due to increases in the business-type activities net assets.
- As of the close of the current fiscal year, the City of Shelby's governmental funds reported combined ending fund balances of \$8,972,264, an increase of \$1,690,030 in comparison with the prior year. Approximately 47 percent of this total amount, or \$4,194,281, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,851,344, or 22.30 percent of total general fund expenditures for the fiscal year.
- In FY 2009 the City entered into two financing agreements for the purchase of equipment; the first was for rolling stock and the loan proceeds received amounted to \$688,496. The loan term is five years with annual payments beginning in June 2010 with an interest rate of 3.20 percent. The second was for the purchase of new communication equipment and equipment for a new fueling station in the amount of \$1,250,000. The term of this loan is 10 years with an interest rate of 3.64 percent. Semi-annual payments begin December 2010.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Shelby's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

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

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 10,681,946	\$ 8,835,890	\$ 23,488,111	\$ 29,301,340	\$ 34,170,057	\$ 38,137,230
Capital assets	30,529,606	28,775,063	83,408,633	74,939,383	113,938,239	103,714,446
Total assets	<u>41,211,552</u>	<u>37,610,953</u>	<u>106,896,744</u>	<u>104,240,723</u>	<u>148,108,296</u>	<u>141,851,676</u>
Long-term liabilities						
outstanding	1,270,052	4,000,936	3,767,183	30,329,287	5,037,235	34,330,223
Other liabilities	5,219,265	1,101,941	28,277,013	3,954,875	33,496,278	5,056,816
Total liabilities	<u>6,489,317</u>	<u>5,102,877</u>	<u>32,044,196</u>	<u>34,284,162</u>	<u>38,533,513</u>	<u>39,387,039</u>
Net assets:						
Invested in capital assets, net of related debt	26,976,641	25,834,368	56,416,361	46,892,380	83,393,002	72,726,748
Restricted	1,464,809	1,183,308	-	-	1,464,809	1,183,308
Unrestricted	<u>6,280,785</u>	<u>5,490,400</u>	<u>18,436,187</u>	<u>23,064,181</u>	<u>24,716,972</u>	<u>28,554,581</u>
Total net assets	<u>\$ 34,722,235</u>	<u>\$ 32,508,076</u>	<u>\$ 74,852,548</u>	<u>\$ 69,956,561</u>	<u>\$ 109,574,783</u>	<u>\$ 102,464,637</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Shelby exceeded liabilities by \$109,574,783 as of June 30, 2009. The City's net assets increased by \$7,110,146 for the fiscal year ended June 30, 2009. However, a large portion (76%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The City of Shelby uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Shelby's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Shelby's net assets (less than 1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24,716,972 is unrestricted.

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

- Continued diligence in the collection of ad valorem taxes by maintaining a tax collection percentage of 95.93%.
- The City will issue debt in FY 2010 to reimburse itself for construction cost that occurred in FY 2009.
- Continued low cost of debt due to the City's good credit rating and market conditions.

City of Shelby Changes in Net Assets
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 1,618,713	\$ 1,422,796	\$ 43,880,906	\$ 45,098,724	\$ 45,499,619	\$ 46,521,520
Operating grants and contributions	528,076	254,574	430,498	425,373	958,574	679,947
Capital grants and contributions	2,711,955	2,050,996	2,942,504	284,449	5,654,459	2,335,445
General revenues:						
Property taxes	7,856,439	7,277,092	-	-	7,856,439	7,277,092
Other taxes	4,684,666	4,768,414	-	-	4,684,666	4,768,414
Other	467,840	568,058	440,872	996,432	908,712	1,564,490
Total revenues	<u>17,867,689</u>	<u>16,341,930</u>	<u>47,694,780</u>	<u>46,804,978</u>	<u>65,562,469</u>	<u>63,146,908</u>
Expenses:						
General government	2,403,130	2,402,618	-	-	2,403,130	2,402,618
Public safety	9,564,562	8,898,841	-	-	9,564,562	8,898,841
Transportation	2,108,454	2,159,989	-	-	2,108,454	2,159,989
Environmental protection	1,562,873	1,426,640	-	-	1,562,873	1,426,640
Culture and recreation	2,140,498	2,039,077	-	-	2,140,498	2,039,077
Housing and redevelopment	191,950	102,710	-	-	191,950	102,710
Interest on long-term debt	74,983	129,990	-	-	74,983	129,990
Water	-	-	3,604,646	3,333,865	3,604,646	3,333,865
Sewer	-	-	3,522,314	2,975,995	3,522,314	2,975,995
Electric	-	-	15,980,363	15,814,498	15,980,363	15,814,498
Gas	-	-	16,221,691	18,403,928	16,221,691	18,403,928
Housing assistance	-	-	1,118,729	1,030,070	1,118,729	1,030,070
Total expenses	<u>18,046,450</u>	<u>17,159,865</u>	<u>40,447,743</u>	<u>41,558,356</u>	<u>58,494,193</u>	<u>58,718,221</u>
Increase (decrease) in net assets before transfers	(178,761)	(817,935)	7,247,037	5,246,622	7,068,276	4,428,687
Contributions to permanent fund:						
Principal	41,870	25,223	-	-	41,870	25,223
Transfers	<u>2,351,050</u>	<u>2,091,050</u>	<u>(2,351,050)</u>	<u>(2,091,050)</u>	<u>-</u>	<u>-</u>
Increase in net assets	2,214,159	1,298,338	4,895,987	3,155,572	7,110,146	4,453,910
Net assets, July 1	<u>32,508,076</u>	<u>31,209,738</u>	<u>69,956,561</u>	<u>66,800,989</u>	<u>102,464,637</u>	<u>98,010,727</u>
Net assets, June 30	<u>\$ 34,722,235</u>	<u>\$ 32,508,076</u>	<u>\$ 74,852,548</u>	<u>\$ 69,956,561</u>	<u>\$ 109,574,783</u>	<u>\$ 102,464,637</u>

Governmental activities -Governmental activities increased the City's net assets by \$2,214,159. Key elements of this increase are as follows:

- The revenue category with the largest increase was property taxes, which saw an increase of \$579,347 that was in large part due to the tax foreclosure sales of the Doran Textile Mill. That lead to an increase in prior year tax collections and increased interest and penalties collections.

- Increases in capital grants were due to the continued improvements at the Cleveland Regional Airport fund through grants.
- There were also increases in transfers of \$200,000 from the Natural Gas Fund to the General Fund in FY 2009.
- The decrease in other taxes was related to a decrease in sales tax revenues.
- The large increase in expenditures in public safety was related to the communication equipment upgrades made in FY 09. This was a one-time capital expenditures.

Business-type activities - Business-type activities increased the City of Shelby's net assets by \$4,895,987. Key elements of this increase are as follows:

- Four of the five proprietary funds have a net asset increase in FY 09. The major funds are as follows: Water Fund's net assets decreased \$155,012; Sewer Fund's net assets increased \$2,224,796; Electric Fund's net assets increased \$1,706,868; and the Gas Fund's net assets increased \$618,378.
- The City's Water Fund incurred cost in the construction of the Westside Water Line Improvement Project and the Westside Elevated Tank Project that it will reimburse itself for in FY 2010 with issued debt.
- The City's Sewer Fund received \$1,670,000 in capital grants from NC Clean Water Management Trust Fund in FY 2009 for its Westside Sewer Project.
- The City's Sewer Fund incurred cost in the construction of the Westside Sewer Line Project and the Hallelujah Communities Sewer Project that it will reimburse itself for in FY 2010 with issued debt.
- The City's Electric Fund received \$599,500 from the North Carolina Power Agency to be used towards expanding the City's electric system.

Financial Analysis of the City's Funds

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

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

The general fund is the chief operating fund of the City of Shelby. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,851,344, while total fund balance reached \$7,344,636. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22.30 percent of total General Fund expenditures, while total fund balance represents 42.51 percent of that same amount.

At June 30, 2009, the governmental funds of City of Shelby reported a combined fund balance of \$8,972,264, a 23 percent increase over last year. Included in this change in fund balance are increases in fund balances in the General, Special Revenue, Capital Projects and Permanent 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. The General Fund had three large budget amendments during FY 2009. The first was an appropriation of fund balance in the amount of \$111,000 that was used as required match on airport grants. The second was to receive a grant of \$154,000 from North Carolina Power Agency 1 to help fund software upgrades. The third was an appropriation of fund balance in the amount of \$250,000 from local occupancy tax.

Revenues were \$453,659 more than the final budget and \$735,189 more than the original budget. Expenditures were \$1,436,355 less than the final budget and \$469,169 more than the original budget.

Proprietary Funds - The City of Shelby's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets at the fiscal year-end in the Water Fund were \$(139,494); the Sewer Fund's were \$(1,063,181); the Electric Fund's were \$7,566,050; and the Gas Fund's were \$10,170,144. Factors concerning the finances of these funds have already been addressed in the discussion of the City of Shelby's business-type activities.

Capital Asset and Debt Administration

Capital assets - The City of Shelby's investment in capital assets for its governmental and business-type activities as of June 30, 2009, totals \$113,938,239 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

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

- Construction in progress of the Airport Parallel Taxiway Project \$1,323,940.
- Construction in progress of Communication Upgrade Project \$752,873.
- Construction in progress of Westside Water Line Improvements Project \$ 1,444,806.
- Construction in progress of Westside Sewer Line Project \$3,330,026.
- Construction in progress of the Westside Elevated Tank Project \$1,193,174.
- Construction in progress of the Foothills Commerce Center Project \$1,400,589.
- No major demolitions were recorded this year.

City of Shelby's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 4,982,070	\$ 4,982,070	\$ 449,199	\$ 449,199	\$ 5,431,269	\$ 5,431,269
Buildings and system Improvements other than buildings	6,042,479	5,990,545	23,874,593	23,877,709	29,917,072	29,868,254
Machinery and equipment	4,658,492	5,014,380	47,121,001	45,710,210	51,779,493	50,724,590
Infrastructure	1,424,184	1,027,880	1,956,958	1,992,430	3,381,142	3,020,310
Vehicles and motorized equipment	8,424,145	8,599,603	-	-	8,424,145	8,599,603
Construction in progress	1,920,281	2,334,257	305,799	419,164	2,226,080	2,753,421
	3,077,955	826,328	9,701,083	2,490,671	12,779,038	3,316,999
Total	<u>\$ 30,529,606</u>	<u>\$ 28,775,063</u>	<u>\$ 83,408,633</u>	<u>\$ 74,939,383</u>	<u>\$ 113,938,239</u>	<u>\$ 103,714,446</u>

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

Long-Term Debt - As of June 30, 2009, the City of Shelby had total bonded debt outstanding of \$22,773,111. All of this debt is secured solely by specified revenue sources (i.e. revenue bonds).

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

Figure 5

	Business-type Activities	
	2009	2008
Revenue bonds	<u>\$ 22,773,113</u>	<u>\$ 24,545,500</u>

In FY 2009 the City entered into two financing agreements for the purchase of equipment; the first was for rolling stock and the loan proceeds received amounted to \$688,496. The loan term is 59 month with annual payments, beginning June 2010, with an interest rate of 3.20 percent. The second was for the purchase of new communication equipment and equipment for a new fueling station in the amount of \$1,250,000. The term of this loan is 10 years with an interest rate of 3.64 percent and semi-annual payments beginning in December 2010.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for City of Shelby is \$136,728,971.

Additional information regarding the City of Shelby's long-term debt can be found in Note 2B of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

- The State of NC unemployment numbers changed from 5.9% in June 2008 to 11.0% in June 2009. Cleveland County's numbers changed from 7.9% in June 2008 to 15.4% in June 2009. Cleveland County's industrial base has been hard hit during the current recession.
- The City continued to work on recommendation include in the Center City Master Plan that was approved by City Council 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 serves 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 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 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. It is anticipated that the city will receive a \$500,000 grant from the North Carolina Trust Fund to match with over \$800,000 of city money to begin construction on Phase I of this plan in FY 2010.
- The City continues working with a non-profit agency, Advance Shelby Unlimited and a private developer will be renovating the old farmer's market building. The renovations done by the private developer are anticipated to increase the tax value of the building by almost \$7 million. The renovations will create retail and residential space in the building. The City will also serve the building with all four utilities.
- Destination Cleveland County continues their work in community revitalization with heritage tourism. Plans for The Don Gibson Theatre and The Earl Scruggs Center – Songs and Stories of the Carolina Foothills, continue to progress. The Don Gibson Theatre will be located in the former State/Flick Theatre, an Art Deco theatre built in the heart of the Central Shelby Historic District in 1939. The estimated \$3 million of improvements that are being made are

almost complete and the theatre is planning its opening date in November of 2009. The Earl Scruggs Center will be located in the beautiful historic Cleveland County Courthouse on Uptown Shelby's court square. The Center's theme, "Songs and Stories of the Carolina Foothills" will be communicated via interactive exhibits that will enable the visitor to appreciate and experience not only Earl Scruggs' innovative contribution to the music world, but will highlight all genres of music from the region and understand how they reflect local traditions.

- The City of Shelby and Cleveland County have entered into a partnership to develop a 152 acre tract of property purchased by the City in January 2009 as a business and industrial park. The joint venture is now known as the Foothills Commerce Center. This partnership was born out of the current lack of available and developable property within the western part of Cleveland County. Economic developers at the local, regional and state levels advised County and City leaders that without a product to sell it was unlikely Shelby and western Cleveland County would attract new jobs and investment. The property is currently served with water, sewer, and natural gas service from the City of Shelby. The City has approved an electric service extension to the property as well. The City plans to submit to the NC Department of Commerce for site certification in October 2009 and anticipates approval later that same month.

Budget Highlights for the Fiscal Year Ending June 30, 2010

Governmental Activities - The City tax rate of 43.5 cent remained the same for FY 10. Budgeted expenditures in the General Fund are expected to increase just under 1% to \$17,216,872 in FY 10.

Business-type Activities - There were no increases in rates for the City's Electric Water or Sewer customers in FY 10. The City will remain on the margin-based rate structure implemented in July 2001 with its Gas fund. The margins will not increase in FY 2010.

Requests for Information

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



BASIC FINANCIAL STATEMENTS

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



CITY OF SHELBY, NORTH CAROLINA

Statement of Net Assets

June 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	City of Shelby ABC Board
Assets:				
Current assets:				
Cash and cash equivalents	\$ 6,810,696	\$ 14,190,662	\$ 21,001,358	\$ 166,949
Taxes receivables (net)	370,495	-	370,495	-
Accounts receivable (net)	297,816	4,014,333	4,312,149	-
Interest receivable	59,063	-	59,063	-
Loans receivable	91,224	-	91,224	-
Due from other governments	2,327,892	2,670,351	4,998,243	-
Internal balances	1,785	(1,785)	-	-
Inventories	65,712	1,686,372	1,752,084	582,250
Prepays	287,558	37,190	324,748	4,915
Restricted assets:				
Cash and cash equivalents	369,705	890,988	1,260,693	-
Capital assets:				
Land and construction in progress	8,060,025	10,150,282	18,210,307	182,567
Other capital assets, net of depreciation	22,469,581	73,258,351	95,727,932	191,390
Total assets	41,211,552	106,896,744	148,108,296	1,128,071
Liabilities:				
Current liabilities:				
Accounts payable and accrued liabilities	1,215,859	3,036,746	4,252,605	157,399
Accrued interest payable	8,958	172,463	181,421	-
Due to other governments	1,200	-	1,200	-
Unearned revenue	44,035	81,141	125,176	-
Customer deposits	-	476,833	476,833	-
Long-term liabilities:				
Due within one year	1,248,525	2,829,811	4,078,336	-
Due in more than one year	3,970,740	25,447,202	29,417,942	-
Total liabilities	6,489,317	32,044,196	38,533,513	157,399
Net assets:				
Invested in capital assets, net of related debt	26,976,641	56,416,361	83,393,002	373,957
Restricted for:				
Highways and streets	1,083,821	-	1,083,821	-
Contributions held in perpetuity - expendable	24,645	-	24,645	-
Contributions held in perpetuity - nonexpendable	356,343	-	356,343	-
Unrestricted	6,280,785	18,436,187	24,716,972	596,715
Total net assets	\$ 34,722,235	\$ 74,852,548	\$ 109,574,783	\$ 970,672

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

CITY OF SHELBY, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 2,403,130	\$ 2,391	\$ 154,000	\$ 31,825
Public safety	9,564,562	228,320	267,642	250,117
Transportation	2,108,454	194,595	25,875	2,236,424
Environmental protection	1,562,873	873,245	-	-
Cultural and recreation	2,140,498	320,162	-	-
Housing and redevelopment	191,950	-	80,559	193,589
Interest on long-term debt	74,983	-	-	-
Total governmental activities	<u>18,046,450</u>	<u>1,618,713</u>	<u>528,076</u>	<u>2,711,955</u>
Business-type activities:				
Water	3,604,646	3,371,908	-	-
Sewer	3,522,314	4,029,877	-	1,670,001
Electric	15,980,363	17,397,799	-	696,085
Gas	16,221,691	18,517,467	-	-
Housing assistance	1,118,729	563,855	430,498	576,418
Total business-type activities	<u>40,447,743</u>	<u>43,880,906</u>	<u>430,498</u>	<u>2,942,504</u>
Total primary government	<u>\$ 58,494,193</u>	<u>\$ 45,499,619</u>	<u>\$ 958,574</u>	<u>\$ 5,654,459</u>
Component unit:				
ABC Board	<u>\$ 2,684,462</u>	<u>\$ 2,705,355</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

 Property taxes, levied for general purpose

 Sales tax

 Franchise tax

 Other taxes

Unrestricted investment earnings

Miscellaneous

Contributions to permanent fund principal

Transfers

 Total general revenues, contributions to permanent fund principal, and transfers

Change in net assets

Net assets--beginning

Net assets--ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	City of Shelby ABC Board
\$ (2,214,914)	\$ -	\$ (2,214,914)	\$ -
(8,818,483)	-	(8,818,483)	-
348,440	-	348,440	-
(689,628)	-	(689,628)	-
(1,820,336)	-	(1,820,336)	-
82,198	-	82,198	-
(74,983)	-	(74,983)	-
<u>(13,187,706)</u>	<u>-</u>	<u>(13,187,706)</u>	<u>-</u>
-	(232,738)	(232,738)	-
-	2,177,564	2,177,564	-
-	2,113,521	2,113,521	-
-	2,295,776	2,295,776	-
-	452,042	452,042	-
<u>-</u>	<u>6,806,165</u>	<u>6,806,165</u>	<u>-</u>
<u>(13,187,706)</u>	<u>6,806,165</u>	<u>(6,381,541)</u>	<u>-</u>
-	-	-	20,893
7,856,439	-	7,856,439	-
2,830,915	-	2,830,915	-
1,550,877	-	1,550,877	-
302,874	-	302,874	-
197,448	440,872	638,320	-
270,392	-	270,392	-
41,870	-	41,870	-
<u>2,351,050</u>	<u>(2,351,050)</u>	<u>-</u>	<u>-</u>
<u>15,401,865</u>	<u>(1,910,178)</u>	<u>13,491,687</u>	<u>-</u>
<u>2,214,159</u>	<u>4,895,987</u>	<u>7,110,146</u>	<u>20,893</u>
<u>32,508,076</u>	<u>69,956,561</u>	<u>102,464,637</u>	<u>949,779</u>
<u>\$ 34,722,235</u>	<u>\$ 74,852,548</u>	<u>\$ 109,574,783</u>	<u>\$ 970,672</u>

CITY OF SHELBY, NORTH CAROLINA

Balance Sheet Governmental Funds

June 30, 2009

	General Fund	Non-Major Funds	Total Governmental Funds
Assets:			
Cash and investments	\$ 6,110,854	\$ 699,842	\$ 6,810,696
Receivables, net:			
Taxes	345,532	24,963	370,495
Accounts	286,033	11,783	297,816
Interest	56,540	2,523	59,063
Loans	-	91,224	91,224
Due from other funds	2,396	-	2,396
Due from other governments	1,388,496	939,396	2,327,892
Inventories	65,712	-	65,712
Prepays	287,558	-	287,558
Cash and investments--restricted	-	369,705	369,705
	\$ 8,543,121	\$ 2,139,436	\$ 10,682,557
Liabilities:			
Accounts payable and accrued liabilities	\$ 846,418	\$ 369,441	\$ 1,215,859
Due to other funds	-	611	611
Due to other governments	-	1,200	1,200
Deferred revenue	352,067	140,556	492,623
Total liabilities	1,198,485	511,808	1,710,293
Fund balances:			
Reserved for:			
State statute	1,733,465	903,703	2,637,168
Encumbrances	597,369	-	597,369
Prepays	287,558	-	287,558
Inventories	65,712	-	65,712
Streets--Powell Bill	809,150	-	809,150
Contributions held in perpetuity	-	380,988	380,988
Unreserved, designated for subsequent year's expenditures:			
General fund	145,447	-	145,447
Special revenue funds	-	15,350	15,350
Unreserved, reported in:			
General fund	3,705,935	-	3,705,935
Special revenue funds	-	327,587	327,587
Total fund balances	7,344,636	1,627,628	8,972,264
Total liabilities and fund balances	\$ 8,543,121	\$ 2,139,436	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	30,529,606
Liabilities for earned but deferred revenues in fund statements.	448,588
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Other financing agreements	(3,552,965)
Net pension obligation	(188,808)
Compensated absences	(997,522)
Other postemployment benefits	(479,970)
Accrued interest payable	(8,958)
	(5,628,223)
Net assets of governmental activities	\$ 34,722,235

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

CITY OF SHELBY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2009

	General Fund	Non-Major Funds	Total Governmental Funds
Revenues:			
Ad valorem taxes	\$ 7,841,040	\$ 109,873	\$ 7,950,913
Other taxes and licenses	2,858,384	-	2,858,384
Unrestricted intergovernmental	1,886,753	-	1,886,753
Restricted intergovernmental	1,126,614	2,045,368	3,171,982
Permits and fees	213,352	-	213,352
Sales and services	1,405,361	-	1,405,361
Investment earnings	179,467	17,981	197,448
Donations	-	41,870	41,870
Miscellaneous	187,078	-	187,078
Total revenues	<u>15,698,049</u>	<u>2,215,092</u>	<u>17,913,141</u>
Expenditures:			
Current:			
General government	2,488,012	76,832	2,564,844
Public safety	8,771,667	898,917	9,670,584
Transportation	1,772,921	1,567,079	3,340,000
Environmental protection	1,267,009	-	1,267,009
Culture and recreation	1,891,594	-	1,891,594
Housing and redevelopment	-	385,920	385,920
Debt service:			
Principal retirement	1,003,666	-	1,003,666
Interest and other charges	79,279	-	79,279
Total expenditures	<u>17,274,148</u>	<u>2,928,748</u>	<u>20,202,896</u>
Revenues under expenditures	<u>(1,576,099)</u>	<u>(713,656)</u>	<u>(2,289,755)</u>
Other financing sources (uses):			
Transfers from other funds	2,335,000	360,111	2,695,111
Transfers to other funds	(344,061)	-	(344,061)
Installment purchase contract	365,936	1,250,000	1,615,936
Proceeds from sale of capital assets	12,799	-	12,799
Total other financing sources (uses)	<u>2,369,674</u>	<u>1,610,111</u>	<u>3,979,785</u>
Net change in fund balances	793,575	896,455	1,690,030
Fund balances--beginning	<u>6,551,061</u>	<u>731,173</u>	<u>7,282,234</u>
Fund balances--ending	<u>\$ 7,344,636</u>	<u>\$ 1,627,628</u>	<u>\$ 8,972,264</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

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

Net changes in fund balances--total governmental funds	\$ 1,690,030
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts are as follows:	
Capital outlay expenditures	3,216,249
Depreciation	(1,461,706)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue	(16,381)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt:	
Issuance of long-term debt	(1,615,936)
Repayment of principal of long-term debt	1,003,666
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Change in accrued interest payable	4,296
Change in compensated absences	(94,911)
Change in net pension obligation	(31,178)
Change in other postemployment benefits	(479,970)
Total changes in net assets of governmental activities	<u>\$ 2,214,159</u>

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

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Ad valorem taxes	\$ 7,435,050	\$ 7,435,050	\$ 7,841,040	\$ 405,990
Other taxes and licenses	3,010,850	3,010,850	2,858,384	(152,466)
Unrestricted intergovernmental	1,789,650	1,789,650	1,886,753	97,103
Restricted intergovernmental	922,950	1,196,750	1,126,614	(70,136)
Permits and fees	195,600	195,600	213,352	17,752
Sales and services	1,219,560	1,224,490	1,405,361	180,871
Investment earnings	240,000	240,000	179,467	(60,533)
Miscellaneous	149,200	152,000	187,078	35,078
Total revenues	14,962,860	15,244,390	15,698,049	453,659
Expenditures:				
Current:				
General government	2,255,167	2,956,536	2,488,012	468,524
Public safety	8,956,650	9,131,054	8,771,667	359,387
Transportation	2,169,850	2,226,900	1,772,921	453,979
Environmental protection	1,294,550	1,306,850	1,267,009	39,841
Cultural and recreation	1,955,100	1,977,163	1,891,594	85,569
Debt service:				
Principal retirement	1,007,650	1,007,650	1,003,666	3,984
Interest and other charges	104,350	104,350	79,279	25,071
Total expenditures	17,743,317	18,710,503	17,274,148	1,436,355
Revenues under expenditures	(2,780,457)	(3,466,113)	(1,576,099)	1,890,014
Other financing sources (uses):				
Transfers from other funds	2,335,000	2,335,000	2,335,000	-
Transfers to other funds	(63,700)	(364,700)	(344,061)	20,639
Installment debt issued	358,500	383,000	365,936	(17,064)
Proceeds from the sale of capital assets	10,000	10,000	12,799	2,799
Total other financing sources (uses)	2,639,800	2,363,300	2,369,674	6,374
Revenues and other sources over (under) expenditures and other uses	(140,657)	(1,102,813)	793,575	1,896,388
Appropriated fund balance	140,657	1,102,813	-	(1,102,813)
Net change in fund balance	\$ -	\$ -	793,575	\$ 793,575
Fund balance--beginning			6,551,061	
Fund balance--ending			\$ 7,344,636	

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

CITY OF SHELBY, NORTH CAROLINA

Statement of Net Assets
Proprietary Funds

June 30, 2009

	Major Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Non-major Fund	
Assets:						
Current assets:						
Cash and investments	\$ 111,488	\$ -	\$ 5,452,974	\$ 6,591,784	\$ 2,034,416	\$ 14,190,662
Accounts receivable (net of estimated uncollectible accounts)	429,835	567,558	2,157,044	844,428	15,468	4,014,333
Due from other funds	-	-	-	3,013,621	-	3,013,621
Due from other governments	131,722	1,816,619	697,689	23,127	1,194	2,670,351
Inventories	264,557	72,413	990,175	359,227	-	1,686,372
Prepays	10,707	5,755	7,506	7,792	5,430	37,190
Total current assets	948,309	2,462,345	9,305,388	10,839,979	2,056,508	25,612,529
Non-current assets:						
Restricted assets:						
Cash and investments	236,706	19,884	374,122	260,276	-	890,988
Capital assets:						
Land	49,483	36,133	75,683	53,489	234,411	449,199
Buildings	12,041,720	15,551,039	4,158,645	475,462	7,746,299	39,973,165
Other improvements	16,912,188	17,113,578	13,341,993	21,932,355	664,131	69,964,245
Machinery and equipment	1,261,885	1,557,265	997,608	874,616	170,212	4,861,586
Vehicles	231,571	503,097	713,168	527,244	133,210	2,108,290
Construction in progress	2,982,321	4,230,684	2,461,201	26,877	-	9,701,083
	33,479,168	38,991,796	21,748,298	23,890,043	8,948,263	127,057,568
Less accumulated depreciation	(11,038,319)	(11,545,222)	(7,918,374)	(8,949,052)	(4,197,968)	(43,648,935)
Capital assets, net	22,440,849	27,446,574	13,829,924	14,940,991	4,750,295	83,408,633
Total non-current assets	22,677,555	27,466,458	14,204,046	15,201,267	4,750,295	84,299,621
Total assets	23,625,864	29,928,803	23,509,434	26,041,246	6,806,803	109,912,150

(continued)

CITY OF SHELBY, NORTH CAROLINA

Statement of Net Assets
Proprietary Funds

June 30, 2009

	Major Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Non-major Fund	
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 941,310	\$ 328,593	\$ 1,290,437	\$ 439,618	\$ 36,788	\$ 3,036,746
Accrued interest payable	38,334	53,068	45,030	36,031	-	172,463
Deposits	19,502	11,296	327,971	79,833	38,231	476,833
Due to other funds	390	3,014,061	399	259	297	3,015,406
Unearned revenue	-	47,388	-	-	33,753	81,141
Compensated absences	36,000	25,000	28,000	35,000	22,000	146,000
Revenue bond payable--current	736,128	209,819	363,055	529,026	-	1,838,028
Other debt, current	17,366	712,685	81,786	33,946	-	845,783
Total current liabilities	1,789,030	4,401,910	2,136,678	1,153,713	131,069	9,612,400
Non-current liabilities:						
Compensated absences	23,717	15,539	26,391	44,610	10,464	120,721
Other postemployment benefits	30,767	30,767	24,614	36,921	12,307	135,376
Revenue bond payable--non-current	4,569,773	4,711,403	6,150,000	5,503,909	-	20,935,085
Other debt--non-current	39,362	3,926,001	210,816	79,841	-	4,256,020
Total non-current liabilities	4,663,619	8,683,710	6,411,821	5,665,281	22,771	25,447,202
Total liabilities	6,452,649	13,085,620	8,548,499	6,818,994	153,840	35,059,602
Net assets:						
Invested in capital assets, net of related debt	17,312,709	17,906,364	7,394,885	9,052,108	4,750,295	56,416,361
Unrestricted	(139,494)	(1,063,181)	7,566,050	10,170,144	1,902,668	18,436,187
Total net assets	\$ 17,173,215	\$ 16,843,183	\$ 14,960,935	\$ 19,222,252	\$ 6,652,963	\$ 74,852,548

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

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	Major Funds					Total Proprietary Funds
	Water Fund	Sewer Fund	Electric Fund	Gas Fund	Non-major Fund	
Operating revenues:						
Charges for services	\$ 3,209,784	\$ 3,854,507	\$ 16,325,884	\$ 18,436,858	\$ 557,901	\$ 42,384,934
Other fees	93,079	51,600	220,617	27,959	-	393,255
Other operating revenues	69,045	123,770	851,298	52,650	5,954	1,102,717
Total operating revenues	3,371,908	4,029,877	17,397,799	18,517,467	563,855	43,880,906
Operating expenses:						
Administration	673,322	614,593	904,519	1,184,273	363,263	3,739,970
Operations and maintenance	678,907	474,266	14,426,367	14,265,638	549,526	30,394,704
Treatment plant	1,307,899	1,264,936	-	-	-	2,572,835
Housing assistance payments	-	-	-	-	6,680	6,680
Depreciation	670,567	794,182	505,521	536,359	199,260	2,705,889
Total operating expenses	3,330,695	3,147,977	15,836,407	15,986,270	1,118,729	39,420,078
Operating income (loss)	41,213	881,900	1,561,392	2,531,197	(554,874)	4,460,828
Non-operating revenues (expenses):						
Operating grants	-	-	-	-	430,498	430,498
Investment earnings	77,726	47,232	128,347	138,652	48,915	440,872
Interest and fiscal charges	(273,951)	(374,337)	(143,956)	(235,421)	-	(1,027,665)
Total non-operating revenues (expenses)	(196,225)	(327,105)	(15,609)	(96,769)	479,413	(156,295)
Income (loss) before capital contributions and transfers	(155,012)	554,795	1,545,783	2,434,428	(75,461)	4,304,533
Capital contributions	-	1,670,001	696,085	-	576,418	2,942,504
Transfers to other funds	-	-	(535,000)	(1,816,050)	-	(2,351,050)
Change in net assets	(155,012)	2,224,796	1,706,868	618,378	500,957	4,895,987
Net assets, beginning of year	17,328,227	14,618,387	13,254,067	18,603,874	6,152,006	69,956,561
Net assets, end of year	\$ 17,173,215	\$ 16,843,183	\$ 14,960,935	\$ 19,222,252	\$ 6,652,963	\$ 74,852,548

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

CITY OF SHELBY, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds

For the Year Ended June 30, 2009

	Major Funds				Non-Major Fund	Totals
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Cash flows from operating activities:						
Cash received from customers	\$ 3,263,338	\$ 3,898,300	\$ 16,555,349	\$ 19,352,290	\$ 598,590	\$ 43,667,867
Cash paid for goods and services	(899,055)	(1,445,458)	(14,845,611)	(15,371,594)	(557,840)	(33,119,558)
Cash paid to or on behalf of employees	(868,656)	(867,637)	(627,325)	(947,197)	(325,238)	(3,636,053)
Net cash provided (used) by operating activities	<u>1,495,627</u>	<u>1,585,205</u>	<u>1,082,413</u>	<u>3,033,499</u>	<u>(284,488)</u>	<u>6,912,256</u>
Cash flows from non-capital financing activities:						
Proceeds from operating grants	-	-	-	-	430,498	430,498
Advances to other funds	-	-	-	(1,684,901)	-	(1,684,901)
Advances from other funds	390	2,014,061	399	259	297	2,015,406
Transfers to other funds	-	-	(535,000)	(1,816,050)	-	(2,351,050)
Net cash provided by (used in) non-capital financing activities	<u>390</u>	<u>2,014,061</u>	<u>(534,601)</u>	<u>(3,500,692)</u>	<u>430,795</u>	<u>(1,590,047)</u>
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(3,838,713)	(4,110,654)	(2,408,441)	(240,913)	(576,418)	(11,175,139)
Proceeds from long-term debt	38,996	45,865	181,574	56,125	-	322,560
Principal paid on long-term debt	(759,513)	(895,593)	(411,908)	(545,822)	-	(2,612,836)
Interest paid on long-term debt	(280,264)	(382,588)	(146,660)	(240,289)	-	(1,049,801)
Proceeds from capital grants	-	-	696,085	-	576,418	1,272,503
Net cash used in capital and related financing activities	<u>(4,839,494)</u>	<u>(5,342,970)</u>	<u>(2,089,350)</u>	<u>(970,899)</u>	<u>-</u>	<u>(13,242,713)</u>
Cash flows from investing activities:						
Net cash flows from investments	3,108,662	1,692,608	3,600,503	4,866,625	(44,370)	13,224,028
Investment earnings	79,735	51,096	144,300	155,702	44,429	475,262
Net cash provided by investing activities	<u>3,188,397</u>	<u>1,743,704</u>	<u>3,744,803</u>	<u>5,022,327</u>	<u>59</u>	<u>13,699,290</u>
Net change in cash and cash equivalents	<u>(155,080)</u>	<u>-</u>	<u>2,203,265</u>	<u>3,584,235</u>	<u>146,366</u>	<u>5,778,786</u>
Cash and cash equivalents--beginning	<u>266,568</u>	<u>-</u>	<u>106,299</u>	<u>62,340</u>	<u>9,062</u>	<u>444,269</u>
Cash and cash equivalents--ending	<u>\$ 111,488</u>	<u>\$ -</u>	<u>\$ 2,309,564</u>	<u>\$ 3,646,575</u>	<u>\$ 155,428</u>	<u>\$ 6,223,055</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Statement of Cash Flows
Proprietary Funds, Continued

For the Year Ended June 30, 2009

	Major Funds				Non-Major Fund	Totals
	Water Fund	Sewer Fund	Electric Fund	Gas Fund		
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 41,213	\$ 881,900	\$ 1,561,392	\$ 2,531,197	\$ (554,874)	\$ 4,460,828
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	670,567	794,182	505,521	536,359	199,260	2,705,889
Bad debt allowance	690	11,618	15,637	(1,869)	10,988	37,064
Change in assets and liabilities:						
(Increase) decrease in receivables	(128,762)	(122,827)	(773,662)	756,859	(11,457)	(279,849)
(Increase) decrease in inventories	(18,862)	(9,962)	(27,712)	(19,296)	-	(75,832)
(Increase) decrease in prepaids	(2,115)	(3,525)	(2,304)	660	(1,006)	(8,290)
Increase (decrease) in accounts payable and accrued liabilities	864,077	6,942	(160,797)	(915,994)	10,470	(195,302)
Increase (decrease) in unearned revenue	-	(31,664)	-	-	33,753	2,089
Increase (decrease) in customer deposits	19,502	11,296	(84,425)	79,833	1,451	27,657
Increase in compensated absences	18,550	16,478	24,149	28,829	14,620	102,626
Increase in other postemployment benefits	30,767	30,767	24,614	36,921	12,307	135,376
Total adjustments	1,454,414	703,305	(478,979)	502,302	270,386	2,451,428
Net cash provided (used) by operating activities:	\$ 1,495,627	\$ 1,585,205	\$ 1,082,413	\$ 3,033,499	\$ (284,488)	\$ 6,912,256
Reconciliation of cash and cash equivalents:						
Cash and investments	\$ 348,194	\$ 19,884	\$ 5,827,096	\$ 6,852,060	\$ 2,034,416	\$ 15,081,650
Less: investments	(236,706)	(19,884)	(3,517,532)	(3,205,485)	(1,878,988)	(8,858,595)
Cash and cash equivalents	\$ 584,900	\$ 39,768	\$ 9,344,628	\$ 10,057,545	\$ 3,913,404	\$ 23,940,245

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

CITY OF SHELBY, NORTH CAROLINA

Notes to the Financial Statements

June 30, 2009

1. **Summary of Significant Accounting Policies**

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

A. **Reporting Entity**

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

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

B. **Basis of Presentation**

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

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

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

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

The City reports the following major governmental fund:

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

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

The City reports the following non-major governmental funds:

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

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

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

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

The City reports the following major enterprise funds:

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

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

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

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

The City reports the following non-major enterprise fund:

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

C. **Measurement Focus and Basis of Accounting**

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

Government-wide and Proprietary Fund Financial Statements - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related

cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

The City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Cleveland County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the City of Shelby. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Cleveland County from March 1, 2008 through February 2009 apply to the fiscal year ended June 30, 2009. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annually registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the staggered into the annual registration, the initial 2006 registration renewals will vary from 7 to 18 months after December 31, 2006. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are recognized as revenue when received and are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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

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

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

D. Management Estimates

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

E. Budgetary Data

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

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

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

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

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

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

time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

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

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

Ad Valorem Taxes Receivable - In accordance with State law [G.S.105-347 and G.S.159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

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

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

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

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

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

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

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

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

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

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

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

Employees of the ABC Board receive vacation pay based on a scale determined by the Board. Vacation is earned in one year to be taken in the following year. If it is not taken by the end of the following year, it is paid to the employee. No liability for vacation pay existed as of June 30, 2009.

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

Employees of the ABC Board can accumulate up to 130 days of sick leave at the rate of one day per month. Sick leave may be used in the determination of length of service for retirement benefit purposes. Since the ABC Board has no obligations for accumulated sick leave until it is actually taken, no accrual for sick leave for the ABC Board employees has been made.

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

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

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

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

The governmental fund type classifies fund balances as follows:

RESERVED

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriations under State law [G.S.159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables that have not been offset by deferred revenues.

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

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

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

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

Reserved for contributions held in perpetuity - portion of fund balance that consists of donations received which the earnings are to be used for the redevelopment, revitalization, and beautification of downtown Shelby and for the perpetual care of the municipal cemetery. The donations are to be invested in perpetuity.

UNRESERVED

Designated for subsequent year's expenditures - portion of the general fund and non-major special revenue fund balance available for appropriation that has been designated for the adopted 2009-2010 budget ordinance.

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

G. Revenues, Expenditures, and Expenses

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

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

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

2. Detail Notes on All Funds**A. Assets**

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

component unit, these deposits are considered to be held by the City's and the component unit's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City or its component unit under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City and its component unit have no policy regarding custodial credit risks for deposits.

At June 30, 2009, the City's deposits had a carrying amount of \$7,011,827 and a bank balance of \$7,666,211. The ABC Board's deposits had a carrying amount of \$159,869 and a bank balance of \$178,046.

Of the City's bank balance, \$1,889,752 was covered by federal depository insurance and \$5,776,479 was covered by collateral held under the Pooling Method.

The City had petty cash of \$4,645 at June 30, 2009 and the ABC Board had cash on hand of \$7,080.

Investments - As of June 30, 2009 the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than Six Months</u>	<u>Six Months to Three Years</u>	<u>Three to Seven Years</u>
US government agencies	\$ 9,107,973	\$ -	\$ 2,063,158	\$ 7,044,815
First National Bank CD	4,562,961	4,562,961	-	-
Shelby Savings CD	1,297,084	1,297,084	-	-
NCCMT	277,561	277,561	-	-
Total	<u>\$ 15,245,579</u>	<u>\$ 6,137,606</u>	<u>\$ 2,063,158</u>	<u>\$ 7,044,815</u>

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

Credit Risk. The City has no formal policy regarding credit risk, but has internal management procedures that limit the City's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The City's investments in US agencies (Federal Home Loan Bank, Ginnie Mae and Fannie Mae) are rated AAA by Standard & Poors and Aaa by Moody's Investors Service. The City's investment in the North Carolina Capital Management Trust cash portfolio carried a credit rating of AAAM by Standard & Poors as of June 30, 2009. All certificates of deposit are issued by banks organized under the laws of the state of North Carolina and are fully collateralized using the pooling method with the North Carolina Department of State Treasurer.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2009 the City had no investments for which the securities are held by counterparty or by a trust department not in the City's name.

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

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Taxes receivable	\$ 179,000	\$ -	\$ 179,000
Pledges receivable	1,900	-	1,900
Customers	18,131	338,832	356,963
	<u>\$ 199,031</u>	<u>\$ 338,832</u>	<u>\$ 537,863</u>

Capital Assets - Capital asset activity for the year ended June 30, 2009, was as follows:

Primary Government	Beginning Balances	Additions	Deletions	Transfers	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 4,982,070	\$ -	\$ -	\$ -	\$ 4,982,070
Construction in progress	826,328	2,841,438	-	(589,811)	3,077,955
Total capital assets not being depreciated	5,808,398	2,841,438	-	(589,811)	8,060,025
Capital assets being depreciated:					
Buildings	10,377,552	117,284	-	195,389	10,690,225
Improvements other than buildings	5,972,617	986	-	(195,389)	5,778,214
Machinery and equipment	4,077,468	113,129	-	589,811	4,780,408
Vehicles	6,897,485	143,412	(62,585)	-	6,978,312
Infrastructure	11,484,875	-	-	-	11,484,875
Total capital assets being depreciated	38,809,997	374,811	(62,585)	589,811	39,712,034
Less accumulated depreciation for:					
Buildings	(4,387,007)	(260,739)	-	-	(4,647,746)
Improvements other than buildings	(958,237)	(161,485)	-	-	(1,119,722)
Machinery and equipment	(3,049,588)	(306,636)	-	-	(3,356,224)
Vehicles	(4,563,228)	(557,388)	62,585	-	(5,058,031)
Infrastructure	(2,885,272)	(175,458)	-	-	(3,060,730)
Total accumulated depreciation	(15,843,332)	(1,461,706)	62,585	-	(17,242,453)
Total capital assets being depreciated, net	22,966,665	(1,086,895)	-	589,811	22,469,581
Governmental activities capital assets, net	\$ 28,775,063	\$ 1,754,543	\$ -	\$ -	\$ 30,529,606
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 449,199	\$ -	\$ -	\$ -	\$ 449,199
Construction in progress	2,490,671	9,697,595	-	(2,487,183)	9,701,083
Total capital assets not being depreciated	2,939,870	9,697,595	-	(2,487,183)	10,150,282
Capital assets being depreciated:					
Buildings and system	39,318,686	812,930	-	-	40,131,616
Improvements other than buildings	67,005,995	482,076	-	2,317,723	69,805,794
Machinery and equipment	4,633,854	108,032	(49,760)	169,460	4,861,586
Vehicles	2,033,784	74,506	-	-	2,108,290
Total capital assets being depreciated	112,992,319	1,477,544	(49,760)	2,487,183	116,907,286
Less accumulated depreciation for:					
Buildings and system	(15,440,977)	(816,046)	-	-	(16,257,023)
Improvements other than buildings	(21,295,785)	(1,389,008)	-	-	(22,684,793)
Machinery and equipment	(2,641,424)	(312,964)	49,760	-	(2,904,628)
Vehicles	(1,614,620)	(187,871)	-	-	(1,802,491)
Total accumulated depreciation	(40,992,806)	(2,705,889)	49,760	-	(43,648,935)
Total capital assets being depreciated, net	71,999,513	(1,228,345)	-	2,487,183	73,258,351
Business-type activities capital assets, net	\$ 74,939,383	\$ 8,469,250	\$ -	\$ -	\$ 83,408,633

The following capital asset activity summary for the City's Electric Fund for the year ended June 30, 2009, is presented as additional information for reporting purposes by the State of North Carolina:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balances</u>
Capital assets not being depreciated:					
Land	\$ 75,683	\$ -	\$ -	\$ -	\$ 75,683
Construction in progress	830,558	2,147,776	-	(517,133)	2,461,201
Total capital assets not being depreciated	<u>906,241</u>	<u>2,147,776</u>	<u>-</u>	<u>(517,133)</u>	<u>2,536,884</u>
Capital assets being depreciated:					
Buildings and system	4,158,645	-	-	-	4,158,645
Improvements other than buildings	12,626,942	240,283	-	474,768	13,341,993
Machinery and equipment	934,861	20,382	-	42,365	997,608
Vehicles	713,168	-	-	-	713,168
Total capital assets being depreciated	<u>18,433,616</u>	<u>260,665</u>	<u>-</u>	<u>517,133</u>	<u>19,211,414</u>
Less accumulated depreciation for:					
Buildings and system	(1,354,934)	(97,476)	-	-	(1,452,410)
Improvements other than buildings	(5,028,689)	(253,038)	-	-	(5,281,727)
Machinery and equipment	(520,661)	(70,013)	-	-	(590,674)
Vehicles	(508,569)	(84,994)	-	-	(593,563)
Total accumulated depreciation	<u>(7,412,853)</u>	<u>(505,521)</u>	<u>-</u>	<u>-</u>	<u>(7,918,374)</u>
Total capital assets being depreciated, net	<u>11,020,763</u>	<u>(244,856)</u>	<u>-</u>	<u>517,133</u>	<u>11,293,040</u>
Business-type activities capital assets, net	<u>\$ 11,927,004</u>	<u>\$ 1,902,920</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,829,924</u>

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

Governmental activities:	
General government	\$ 120,279
Public safety	449,653
Transportation	311,139
Environmental protection	323,012
Culture and recreation	257,623
Total depreciation expense--governmental activities	<u>\$ 1,461,706</u>
Business-type activities:	
Water	\$ 670,567
Sewer	794,182
Electric	505,521
Gas	536,359
Housing assistance	199,260
Total depreciation expense--business-type activities	<u>\$ 2,705,889</u>

Construction Commitments - The City has active construction projects as of June 30, 2009. At year-end, the City of Shelby's commitments with contractors are as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Eastside Water Tank	\$ 138,200
Westside Elevated Tank	792,114
Westside Line Improvement	709,484
Westside Sewer	1,643,902
PPG Meter Station Upgrade	7,683
Hallelujah Communities Sewer	76,431
Fueling Station	391,713
Airport 7.1	2,262
Airport 8.1	28,272
Airport Parallel Taxiway	877,647
Airport Terminal Building	60,829
Communication Upgrade	436,730
	<hr/>
Total	\$ 5,165,267

Activity for the ABC Board for the year ended June 30, 2009 was as follows:

<u>Component Unit</u>	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 182,567	\$ -	\$ -	\$ 182,567
Capital assets being depreciated:				
Buildings	677,115	-	-	677,115
Office and store equipment	247,239	47,113	-	294,352
Vehicle	35,000	-	-	35,000
Total capital assets being depreciated	<hr/> 959,354	<hr/> 47,113	<hr/> -	<hr/> 1,006,467
Less accumulated depreciation for:				
Buildings	(544,390)	(17,103)	-	(561,494)
Office and store equipment	(201,754)	(16,830)	-	(218,583)
Vehicle	(35,000)	-	-	(35,000)
Total accumulated depreciation	<hr/> (781,144)	<hr/> (33,933)	<hr/> -	<hr/> (815,077)
Total ABC capital assets being depreciated	<hr/> 178,210	<hr/> 13,180	<hr/> -	<hr/> 191,390
ABC capital assets, net	<hr/> \$ 360,777	<hr/> \$ 13,180	<hr/> \$ -	<hr/> \$ 373,957

B. Liabilities and Net Assets

Accounts Payable and Accrued Liabilities - Accounts payable and accrued liabilities at the fund and government-wide level at June 30, 2009, were as follows:

	Governmental I <u>Activities</u>	Business-type <u>Activities</u>
Accounts payable	\$ 677,508	\$ 1,290,563
Accrued gas and electric purchases	-	1,624,211
Accrued payroll liabilities	538,351	122,502
	<u> </u>	<u> </u>
Total accounts payable and accrued liabilities	<u>\$ 1,215,859</u>	<u>\$ 3,036,746</u>

Long-Term Obligations

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

The outstanding balances on these bonds at June 30, 2009, are as follows:

	<u>Interest Rates</u>	<u>Date Series Matures</u>	<u>Amount of Original Issue</u>	<u>Balance Outstanding June 30, 2009</u>
Combined Enterprise System, Series 2004	3.00 - 5.00	5/2029	\$ 18,465,000	\$ 14,470,000
Combined Enterprise System, Series 2005	3.29	5/2017	6,605,000	4,585,000
Combined Enterprise System, Series 2008	3.69	5/2028	3,835,500	3,718,113
				<u> </u>
				<u>\$ 22,773,113</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Business-type Activities	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 1,838,028	\$ 910,078
2011	1,568,168	828,658
2012	1,418,500	777,929
2013	1,469,031	730,907
2014	1,514,768	681,269
2015-2019	6,242,652	2,358,379
2020-2024	4,001,732	1,609,970
2025-2029	4,720,234	615,834
Total	<u>\$ 22,773,113</u>	<u>\$ 8,513,024</u>

The City has pledged future water, sewer, electric and gas customer revenues, net of specified operating expenses, to repay \$28,905,500 revenue bonds issued in 2004, 2005 and 2008. Proceeds from the bonds provided financing for various capital improvements. The bonds are payable solely from water, sewer, electric and gas customer net revenues and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$31,286,137. Principal and interest paid for the current year and total customer net revenues were \$2,777,391 and \$43,317,051, respectively.

Other Debt - In June 2009 the City entered into a financing agreement for the acquisition of several pieces of equipment in the amount of \$688,496. The terms call for five annual payments through June 2014 at an interest rate of 3.20%.

In June 2009 the City entered into a financing agreement in the amount of \$1,250,000 for new capital projects. The terms call for ten annual payments through June 2019 at an interest rate of 3.64%.

In previous years, the City has entered into a revolving loan agreement as well as several financing agreements. All other financing arrangements that have an outstanding balance at June 30, 2009 are summarized as follows:

<u>Financing Agreements:</u>	<u>Interest Rate</u>	<u>Date Debt Matures</u>	<u>Amount of Original Debt</u>	<u>Balance Outstanding at June 30, 2009</u>	
				<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Fire house construction	5.27%	11/2014	\$ 835,000	\$ 306,167	\$ -
Sewer extension	5.56%	03/2015	300,000	-	120,000
State revolving loan	2.89%	05/2015	11,800,000	-	4,097,586
Purchase of equipment	3.13%	06/2010	1,520,966	297,008	26,884
Park and recreation improvements	3.24%	04/2015	1,352,345	811,407	-
Purchase of equipment	3.78%	05/2011	696,655	215,189	79,348
Purchase of equipment	4.01%	06/2012	283,577	107,526	69,261
Purchase of equipment	3.25%	05/2013	720,945	199,732	386,164
Purchase of equipment	3.20%	06/2014	688,496	365,936	322,560
Capital projects	3.64%	6/2019	1,250,000	1,250,000	-
				<u>\$ 3,552,965</u>	<u>\$ 5,101,803</u>

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

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 868,967	\$ 125,627	\$ 845,783	\$ 153,650
2011	581,412	97,329	826,244	127,548
2012	476,950	77,955	791,778	102,222
2013	443,800	62,256	773,262	77,863
2014	393,770	39,989	673,994	54,769
2015-2019	788,066	66,582	1,190,742	51,586
Total	<u>\$ 3,552,965</u>	<u>\$ 469,738</u>	<u>\$ 5,101,803</u>	<u>\$ 567,638</u>

Changes in Long-Term Liabilities - Long-term liability activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Governmental activities:					
Other debt	\$ 2,940,695	\$ 1,615,936	\$ 1,003,666	\$ 3,552,965	\$ 868,967
Net pension obligations	157,630	99,649	68,471	188,808	-
Compensated absences	902,611	559,093	464,181	997,522	379,558
Other postemployment benefits	-	479,970	-	479,970	-
Governmental activity long-term liabilities	<u>\$ 4,000,936</u>	<u>\$ 2,754,648</u>	<u>\$ 1,536,318</u>	<u>\$ 5,219,265</u>	<u>\$ 1,248,525</u>
Business-type activities:					
Revenue bonds	\$ 24,545,500	\$ -	\$ 1,772,387	\$ 22,773,113	\$ 1,838,028
Other debt	5,619,692	322,560	840,449	5,101,803	845,783
Compensated absences	164,095	238,423	135,797	266,721	146,000
Other postemployment benefits	-	135,376	-	135,376	-
Business-type activity long-term liabilities	<u>\$ 30,329,287</u>	<u>\$ 560,983</u>	<u>\$ 2,748,633</u>	<u>\$ 28,277,013</u>	<u>\$ 2,829,811</u>

At June 30, 2009, the City of Shelby has a legal debt margin of \$136,728,971.

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

	Governmental Funds	Accrual Adjustment	Government- Wide	Business-type Activities
Taxes receivable	\$ 370,495	\$ (370,495)	\$ -	\$ -
Privilege licenses	6,535	-	6,535	-
Loans	78,093	(78,093)	-	-
Special assessment	-	-	-	47,388
Grants	37,500	-	37,500	33,753
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>\$ 492,623</u>	<u>\$ (448,588)</u>	<u>\$ 122,128</u>	<u>\$ 81,141</u>

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

Governmental activities:

Capital assets, net of accumulated depreciation	\$ 30,529,606
Outstanding balance on related debt	<u>(3,552,965)</u>

Total governmental activities	<u>\$ 26,796,641</u>
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Business-type activities:

Capital assets, net of accumulated depreciation	\$ 22,440,849
Outstanding balance on related debt	(5,362,629)
Unspent debt proceeds	<u>234,489</u>

Total water	<u>\$ 17,312,709</u>
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Capital assets, net of accumulated depreciation	\$ 27,446,574
Outstanding balance on related debt	(9,559,908)
Unspent debt proceeds	<u>19,698</u>

Total sewer	<u>\$ 17,906,364</u>
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Capital assets, net of accumulated depreciation	\$ 13,829,924
Outstanding balance on related debt	(6,805,657)
Unspent debt proceeds	<u>370,618</u>

Total electric	<u>\$ 7,394,885</u>
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(continued)

Capital assets, net of accumulated depreciation	\$ 14,940,991
Outstanding balance on related debt	(6,146,722)
Unspent debt proceeds	<u>257,839</u>
Total gas	<u>\$ 9,052,108</u>
Capital assets, net of accumulated depreciation	<u>\$ 4,750,295</u>
Total housing assistance	<u>\$ 4,750,295</u>

3. Pension Plan and Postemployment Obligations

A. Local Governmental Employees' Retirement System

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

Funding Policy - Plan members are required to contribute six percent of their annual covered salary. The City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 74.90% and 4.86%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 4.92% of annual covered payroll. The contribution requirements of members and of the City of Shelby and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2009, 2008, and 2007 were \$570,180, \$541,914, and \$533,522, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2009, 2008, and 2007 were \$32,874, \$32,736, and \$30,465, respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

B. Law Enforcement Officers' Special Separation Allowance

Plan Description - The City of Shelby administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Separate financial statements are not issued for the Plan.

All full-time law enforcement officers of the City are covered by the Separation Allowance. At December 31, 2008, the Separation Allowance's membership consisted of:

Retirees receiving benefits and terminated plan members entitled to but not yet receiving benefits	7
Active plan members	<u>78</u>
Total	<u><u>85</u></u>

Summary of Significant Accounting Policies

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

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

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

The annual required contribution for the current year was determined as part of the December 31, 2008, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The

assumptions did not include post-retirement benefit increases. The amortization period is the level percent of pay closed. The remaining amortization period is 22 years.

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

Annual required contribution	\$ 97,858
Interest on net pension obligation	11,428
Adjustment to annual required contribution	<u>(9,637)</u>
Annual pension cost	99,649
Contributions made	<u>68,471</u>
Increase in net pension obligation	31,178
Net pension obligation beginning of year	<u>157,630</u>
 Net pension obligation end of year	 <u>\$ 188,808</u>

3 Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	\$ 94,582	86.38%	\$ 132,506
6/30/08	\$ 100,860	75.09%	\$ 157,630
6/30/09	\$ 99,649	68.71%	\$ 188,808

Funded Status and Funding Progress - As of December 31, 2008, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$941,730. The covered payroll (annual payroll of active employees covered by the plan) was \$3,133,929, and the ratio of the UAAL to the covered payroll was 30.05 percent.

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

C. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy - Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. The City has elected to include all other City employees in the Plan at the same contribution rate. All amounts contributed are vested immediately. Also, the other City employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2009 were \$754,275, which consisted of \$579,258 from the City and \$175,017 from the covered employees.

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

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

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

E. **Other Postemployment Benefits**

Healthcare Benefits

Plan Description - Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides postemployment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty-two years of creditable service with the City. The City pays the full cost of coverage for these benefits through private insurers. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>	<u>Firefighters</u>
Active plan members	42	-	-
The City has 42 retirees receiving benefits	193	78	58

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

The current ARC rate is 8.5% of annual covered payroll. For the current year, the City contributed \$420,870 or 3.5% of annual covered payroll. The City obtains healthcare coverage through private insurers. There were no contributions made by employees, except for dependent coverage. The City's obligation to contribute to HCB Plan is established and may be amended by the City Council.

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

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

Annual required contribution	\$ 1,036,216
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,036,216</u>
Contributions made	(420,870)
Increase (decrease) in net OPEB obligation	615,346
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u><u>\$ 615,346</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 were as follows:

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

Funded Status and Funding Progress - As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$12,186,718. The covered payroll (annual payroll of active employees covered by the plan) was \$12,197,685, and the ratio of the UAAL to the covered payroll was 99.9 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend

information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included a 3.75 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008, was 30 years.

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

All death benefit payments are made from the Death Benefit Plan. The ABC Board has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the ABC Board, the ABC Board does not determine the number of eligible participants. For the year ended June 30, 2009, the ABC Board made contributions to the State for death benefits of \$802. The ABC Board's required contributions for employees represented 0.12% of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

F. Other Employment Benefit

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

G. On Behalf of Payments for fringe Benefits and Salaries

For the year ended June 30, 2009, the City of Shelby has recognized on-behalf of payments for pension contributions made by the State as a revenue and an expenditure of \$3,080 for the 27 full-time firemen who perform fire-fighting duties for the City's fire department. The employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

Also, the City has recognized as a revenue and an expenditure on-behalf of payments for fringe benefits and salaries of \$26,775 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the year ended June 30, 2009. Under State law the local board of trustees for the Fund receives an amount each year that the board may use at its own discretion for eligible firemen or their dependents.

4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against

general liability, auto liability, police professionals liability and public officials liability in excess of \$1,000,000, property in excess of \$500,000 and \$100,000 workers' compensation for the fiscal year 2009 policy period.

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

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

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

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

In accordance with G.S. 18B-803, the ABC Board's employees that have access to \$250 or more at any given time of the Board's funds are performance bonded through a commercial surety bond. All employees including store managers are bonded for \$25,000. Board members are each individually bonded for \$5,000.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2009, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate effect of these legal matters will not have a material adverse effect on the City's financial position.

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

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

The composition of interfund balances as of June 30, 2009, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due to/from other funds:		
General Fund	Non-major funds	\$ 908
General Fund	Water Fund	390
General Fund	Sewer Fund	440
General Fund	Electric Fund	399
General Fund	Gas Fund	259
Gas Fund	Sewer Fund loan	1,000,000
Gas Fund	Sewer Fund	2,013,621

Amounts due to the general and gas funds from the non-major funds are for operating purposes.

The \$1 million loan between the Gas Fund and the Sewer Fund will be repaid over the next 20 years.

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

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Transfer To</u>
Electric Enterprise Fund	\$ 535,000	\$ -	\$ 535,000
Gas Enterprise Fund	1,800,000	16,050	1,816,050
General Fund	-	344,061	344,061
	<u> </u>	<u> </u>	<u> </u>
Transfers from	<u>\$ 2,335,000</u>	<u>\$ 360,111</u>	<u>\$ 2,695,111</u>

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

7. **Jointly Governed Organizations**

The City, in conjunction with twenty other local governments, is a member of the North Carolina Municipal Power Agency No. 1 (the "Agency"). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Agency's governing board. The twenty-one members, who receive power from the Agency, have signed power sales agreements to purchase a specified share of the power generated by the Agency. Except for the power sales purchase requirements,

no local government participant has any obligation, entitlement, or residual interest. The City's purchases of power for the year ended June 30, 2009, were \$12,508,963.

The City is a member of the Isothermal Planning & Development Commission, one of eighteen regional Councils of Government in North Carolina. Four counties and twenty-nine municipalities comprise the Commission. Participating governments established the Commission to coordinate various funding from federal and State agencies and to provide assistance for specific projects. Each participating unit of government appoints one member to the Commission's governing board. The City paid membership fees of approximately \$5,842 to the Commission during the year ended June 30, 2009.

8. **Joint Ventures**

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these monies to the local board of the Firemen's Relief Fund. These funds are used to assist firefighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the year ended June 30, 2009, the City reported revenues and expenditures for the payments of \$13,630 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2009. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC, 27828.



REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

CITY OF SHELBY, NORTH CAROLINA

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

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

Notes to the required schedules:

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

Valuation date	12/31/08
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	22 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5% to 12.3%
Includes inflation at	3.75%
Cost-of-living adjustments	None

CITY OF SHELBY, NORTH CAROLINA

Other Postemployment Benefits
Required Supplementary Information
Schedule of Funding Progress

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

CITY OF SHELBY, NORTH CAROLINA

Other Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions

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

Notes to the required schedules:

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

Valuation date	12/31/08
Actuarial cost method	Projected unit credit
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	10.5% to 5.00%
Includes inflation at	3.75%
Cost-of-living adjustments	None

GENERAL FUND

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



CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Current year	\$ 7,169,050	\$ 7,365,828	\$ 196,778
Prior years	240,000	368,145	128,145
Tax discounts	-	(14,342)	(14,342)
Interest and penalties	26,000	121,409	95,409
Total	<u>7,435,050</u>	<u>7,841,040</u>	<u>405,990</u>
Other taxes and licenses:			
Local option sales taxes	3,002,250	2,830,915	(171,335)
Privilege licenses	8,600	27,469	18,869
Total	<u>3,010,850</u>	<u>2,858,384</u>	<u>(152,466)</u>
Unrestricted intergovernmental revenues:			
Payment in lieu of taxes	56,100	57,461	1,361
Utility franchise tax	1,473,550	1,550,877	77,327
Beer and wine tax	95,000	93,190	(1,810)
ABC revenue	60,000	70,515	10,515
Wireless 911 grant	105,000	114,710	9,710
Total	<u>1,789,650</u>	<u>1,886,753</u>	<u>97,103</u>
Restricted intergovernmental revenues:			
Powell Bill allocation	718,950	669,053	(49,897)
Local occupancy tax	125,000	101,314	(23,686)
Federal and State grants	318,800	323,790	4,990
ABC Law Enforcement revenue	9,000	9,017	17
Rental vehicle gross receivable tax	25,000	23,440	(1,560)
Total	<u>1,196,750</u>	<u>1,126,614</u>	<u>(70,136)</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues, continued:			
Permits and fees:			
Building permits/inspection fees	\$ 175,000	\$ 169,694	\$ (5,306)
Other permits	20,100	41,567	21,467
Filing fees	500	2,091	1,591
Total	<u>195,600</u>	<u>213,352</u>	<u>17,752</u>
Sales and services:			
Parking penalties	-	949	949
Court costs and fees	12,000	12,720	720
Fire protection	1,500	411	(1,089)
Cemetery revenue	26,800	33,075	6,275
Golf cart rentals	70,000	73,649	3,649
Recreation revenue	246,590	246,513	(77)
Garbage disposal fees	604,700	630,290	25,590
Utility late fees	-	209,880	209,880
Other rent	262,900	197,874	(65,026)
Total	<u>1,224,490</u>	<u>1,405,361</u>	<u>180,871</u>
Investment earnings	<u>240,000</u>	<u>179,467</u>	<u>(60,533)</u>
Miscellaneous:			
Student resource officer	114,000	114,000	-
Public nuisance	25,000	50,787	25,787
Other	13,000	22,291	9,291
Total	<u>152,000</u>	<u>187,078</u>	<u>35,078</u>
Total revenue	<u>15,244,390</u>	<u>15,698,049</u>	<u>453,659</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General government:			
Mayor and council	\$ 45,440	\$ 33,498	\$ 11,942
Administration and general	203,411	172,503	30,908
Finance	314,123	280,754	33,369
Purchasing	28,375	17,228	11,147
Legal	22,450	22,440	10
Human resources	274,973	183,426	91,547
City Hall	133,900	100,326	33,574
Building and zoning	321,400	279,948	41,452
Community development	447,195	425,834	21,361
Special appropriations	1,165,269	972,055	193,214
Total general government	<u>2,956,536</u>	<u>2,488,012</u>	<u>468,524</u>
Public safety:			
Police department	5,798,222	5,585,135	213,087
Fire department	3,332,832	3,186,532	146,300
Total public safety	<u>9,131,054</u>	<u>8,771,667</u>	<u>359,387</u>
Transportation:			
Streets and highways	774,750	751,863	22,887
Street maintenance and repairs--Powell Bill	242,800	201,388	41,412
Street construction and improvement-- Powell Bill	474,400	195,069	279,331
Garage	370,250	342,054	28,196
Airport	364,700	282,547	82,153
Total transportation	<u>2,226,900</u>	<u>1,772,921</u>	<u>453,979</u>
Environmental protection:			
Sanitation	1,306,850	1,267,009	39,841
Cultural and recreational:			
Parks and recreation	1,977,163	1,891,594	85,569

(continued)

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Debt service:			
Principal retirement	\$ 1,007,650	\$ 1,003,666	\$ 3,984
Interest	104,350	79,279	25,071
	<u>1,112,000</u>	<u>1,082,945</u>	<u>29,055</u>
 Total expenditures	 <u>18,710,503</u>	 <u>17,274,148</u>	 <u>1,436,355</u>
 Revenues under expenditures	 <u>(3,466,113)</u>	 <u>(1,576,099)</u>	 <u>1,890,014</u>
 Other financing sources (uses):			
Transfers from other funds	2,335,000	2,335,000	-
Transfers to other funds	(364,700)	(344,061)	20,639
Installment purchase contract	383,000	365,936	(17,064)
Proceeds from the sale of capital assets	10,000	12,799	2,799
Total other financing sources (uses)	<u>2,363,300</u>	<u>2,369,674</u>	<u>6,374</u>
 Revenues and other financing sources over (under) expenditures and other financial uses	 (1,102,813)	 793,575	 1,896,388
 Appropriated fund balance	 <u>1,102,813</u>	 <u>-</u>	 <u>(1,102,813)</u>
 Net change in fund balance	 <u>\$ -</u>	 <u>793,575</u>	 <u>\$ 793,575</u>
 Fund balance:			
Beginning of year, July 1		<u>6,551,061</u>	
End of year, June 30		<u>\$ 7,344,636</u>	

See the accompanying Independent Auditors' Report.

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENTS AND SCHEDULES

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

Special Revenue Fund

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

Capital Projects Fund

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

Permanent Funds

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

CITY OF SHELBY, NORTH CAROLINA

Combining Balance Sheet
Non-major Governmental Funds

June 30, 2009

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>		<u>Total Non-major Governmental Funds</u>	
	<u>Economic Development Commission Fund</u>	<u>Capital Projects Fund</u>	<u>Powell Bill Capital Projects Fund</u>	<u>Raper Roark Trust Fund</u> <u>Cemetery Fund</u>		
<u>Assets</u>						
Assets:						
Cash and investments	\$ 277,256	\$ 356,905	\$ 65,681	\$ -	\$ -	\$ 699,842
Receivables (net of allowance for uncollectibles):						
Taxes	24,963	-	-	-	-	24,963
Accounts	500	-	-	11,283	-	11,783
Interest	2,523	-	-	-	-	2,523
Loans	91,224	-	-	-	-	91,224
Due from other governments	492	938,904	-	-	-	939,396
Cash and investments--restricted	-	-	-	276,164	93,541	369,705
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 396,958</u>	<u>\$ 1,295,809</u>	<u>\$ 65,681</u>	<u>\$ 287,447</u>	<u>\$ 93,541</u>	<u>\$ 2,139,436</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ -	369,441	\$ -	\$ -	\$ -	\$ 369,441
Due to other governments	-	1,200	-	-	-	1,200
Due to other funds	-	611	-	-	-	611
Deferred revenue	103,056	37,500	-	-	-	140,556
Total liabilities	<u>103,056</u>	<u>408,752</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>511,808</u>
Fund balances:						
Reserved by State statute	16,646	887,057	-	-	-	903,703
Reserved for contributions held in perpetuity	-	-	-	287,447	93,541	380,988
Unreserved, designated for subsequent year's budget	15,350	-	-	-	-	15,350
Unreserved	261,906	-	65,681	-	-	327,587
Total fund balances	<u>293,902</u>	<u>887,057</u>	<u>65,681</u>	<u>287,447</u>	<u>93,541</u>	<u>1,627,628</u>
Total liabilities and fund balances	<u>\$ 396,958</u>	<u>\$ 1,295,809</u>	<u>\$ 65,681</u>	<u>\$ 287,447</u>	<u>\$ 93,541</u>	<u>\$ 2,139,436</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ending June 30, 2009

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>		
	<u>Economic Development Commission Fund</u>	<u>Capital Projects Fund</u>	<u>Powell Bill Capital Projects Fund</u>	<u>Raper Roark Trust Fund</u>	<u>Cemetery Fund</u>
					<u>Total Non-major Governmental Funds</u>
Revenues:					
Ad valorem taxes	\$ 109,873	\$ -	\$ -	\$ -	\$ -
Restricted intergovernmental	2,466	2,042,902	-	-	-
Investment earnings	7,858	-	-	10,123	-
Donations	-	-	-	9,820	32,050
Total revenues	<u>120,197</u>	<u>2,042,902</u>	<u>-</u>	<u>19,943</u>	<u>32,050</u>
Expenditures:					
General government	-	73,637	-	3,195	-
Public safety	-	898,917	-	-	-
Transportation	-	1,567,079	-	-	-
Housing and redevelopment	191,950	193,970	-	-	-
Total expenditures	<u>191,950</u>	<u>2,733,603</u>	<u>-</u>	<u>3,195</u>	<u>-</u>
Excess of revenues over (under) expenditures	(71,753)	(690,701)	-	16,748	32,050
Other financing sources:					
Transfers from other funds	63,050	297,061	-	-	-
Installment purchase contract	-	1,250,000	-	-	-
Total other financing sources	<u>63,050</u>	<u>1,547,061</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(8,703)	856,360	-	16,748	32,050
Fund balances--beginning	<u>302,605</u>	<u>30,697</u>	<u>65,681</u>	<u>270,699</u>	<u>61,491</u>
Fund balances--ending	<u>\$ 293,902</u>	<u>\$ 887,057</u>	<u>\$ 65,681</u>	<u>\$ 287,447</u>	<u>\$ 93,541</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes	\$ 110,500	\$ 109,873	\$ (627)
Restricted intergovernmental	2,000	2,466	466
Investment earnings	9,000	7,858	(1,142)
Total revenues	<u>121,500</u>	<u>120,197</u>	<u>(1,303)</u>
Expenditures:			
Housing and redevelopment	<u>208,700</u>	<u>191,950</u>	<u>16,750</u>
Total expenditures	<u>208,700</u>	<u>191,950</u>	<u>16,750</u>
Revenues under expenditures	(87,200)	(71,753)	15,447
Other financing sources:			
Transfers from other funds	<u>53,050</u>	<u>63,050</u>	<u>10,000</u>
Revenues and other financing sources under expenditures	(34,150)	(8,703)	25,447
Appropriated fund balance	<u>34,150</u>	<u>-</u>	<u>(34,150)</u>
Net change in fund balance	<u>\$ -</u>	<u>(8,703)</u>	<u>\$ (8,703)</u>
Fund balance:			
Beginning of year, July 1		<u>302,605</u>	
End of year, June 30		<u>\$ 293,902</u>	

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

From Inception and for the Year Ended June 30, 2009

	Actual				Variance Positive (Negative)
	Project Authorization	Prior Years	Current Actual	Total to Date	
Revenues:					
Airport improvements grants	\$ 3,257,811	\$ 640,455	1,359,540	\$ 1,999,995	\$ (1,257,816)
Weed and seed grant	375,000	174,779	250,117	424,896	49,896
Single family rehabilitation program	400,000	206,141	193,589	399,730	(270)
Fit community program	56,000	2,879	26,832	29,711	(26,289)
Urban Forest management plan	6,500	1,450	4,993	6,443	(57)
Destination Cleveland County	145,000	144,695	-	144,695	(305)
Safe Routes to Schools	50,000	-	7,831	7,831	(42,169)
Fueling Station	200,000	-	200,000	200,000	-
Investment earnings	-	749	-	749	749
Total revenues	<u>4,490,311</u>	<u>1,171,148</u>	<u>2,042,902</u>	<u>3,214,050</u>	<u>(1,276,261)</u>
Expenditures:					
Airport improvements	3,589,572	522,635	1,542,269	2,064,904	1,524,668
Weed and seed grant	403,950	254,324	146,044	400,368	3,582
Single family rehabilitation program	400,000	205,832	193,970	399,802	198
Fit community program	56,000	2,879	26,832	29,711	26,289
Urban Forest management plan	7,400	1,731	5,012	6,743	657
Destination Cleveland County	261,000	218,773	41,793	260,566	434
Communication upgrade	1,160,000	-	752,873	752,873	407,127
Safe Routes to Schools	50,000	-	16,897	16,897	33,103
Fueling Station	450,000	-	7,913	7,913	442,087
Total expenditures	<u>6,377,922</u>	<u>1,206,174</u>	<u>2,733,603</u>	<u>3,939,777</u>	<u>2,438,145</u>
Revenues over expenditures	(1,887,611)	(35,026)	(690,701)	(725,727)	1,161,884
Other financing sources:					
Transfers from other funds	477,611	65,723	297,061	362,784	(114,827)
Installment purchase contract	1,410,000	-	1,250,000	1,250,000	(160,000)
Total other financing sources	<u>1,887,611</u>	<u>65,723</u>	<u>1,547,061</u>	<u>1,612,784</u>	<u>(274,827)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 30,697</u>	<u>856,360</u>	<u>\$ 887,057</u>	<u>\$ 887,057</u>
Fund balance:					
Beginning of year, July 1			<u>30,697</u>		
End of year, June 30			<u>\$ 887,057</u>		

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

From Inception and for the Year Ended June 30, 2009

	<u>Actual</u>				
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Actual</u>	<u>Total to Date</u>	<u>Variance Positive Negative)</u>
Revenues:					
CDBG grants	\$ 130,000	\$ 227,341	\$ -	\$ 227,341	\$ 97,341
Expenditures:					
Carolina Suttle Street project	594,651	291,660	-	291,660	302,991
Revenues under expenditures	(464,651)	(64,319)	-	(64,319)	400,332
Other financing sources:					
Transfers from other funds	334,651	130,000	-	130,000	(204,651)
Revenues and other financing sources over (under) expenditures	(130,000)	65,681	-	65,681	195,681
Appropriated fund balance	130,000	-	-	-	(130,000)
Net change in fund balance	<u>\$ -</u>	<u>\$ 65,681</u>	-	<u>\$ 65,681</u>	<u>\$ 65,681</u>
Fund balance:					
Beginning in year, July 1			<u>65,681</u>		
End of year, June 30			<u>\$ 65,681</u>		

See the accompanying Independent Auditors' Report.

PROPRIETARY FUNDS

ENTERPRISE FUNDS

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

Major Enterprise Funds

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

Non-major Enterprise Fund

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



CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Water charges	\$ 3,589,250	\$ 3,209,784	\$ (379,466)
Water taps	70,000	81,994	11,994
Water cutoffs	15,000	11,085	(3,915)
Other	49,350	69,045	19,695
Total operating revenues	<u>3,723,600</u>	<u>3,371,908</u>	<u>(351,692)</u>
Nonoperating revenues:			
Investment earnings	70,000	63,926	(6,074)
Total revenues	<u>3,793,600</u>	<u>3,435,834</u>	<u>(357,766)</u>
Operating expenditures:			
Administration	690,230	673,322	16,908
Operations and maintenance	679,496	678,907	589
Treatment plant	1,310,437	1,258,582	51,855
Capital outlay	263,771	196,352	67,419
Debt service:			
Principal	760,050	759,513	537
Interest	269,050	288,378	(19,328)
Total expenditures	<u>3,973,034</u>	<u>3,855,054</u>	<u>117,980</u>
Revenues under expenditures	<u>(179,434)</u>	<u>(419,220)</u>	<u>(239,786)</u>
Other financing sources:			
Installment debt issued	41,300	38,996	(2,304)
Contingency	138,134	-	(138,134)
Total other financing sources	<u>179,434</u>	<u>38,996</u>	<u>(140,438)</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues and other financing sources under expenditures	<u>\$ -</u>	<u>\$ (380,224)</u>	<u>\$ (380,224)</u>
Reconciling items:			
Debt principal		759,513	
Installment debt issued		(38,996)	
Capital outlay		196,352	
Capitalizable interest		14,427	
Increase in compensated absences		(18,550)	
Increase in other postemployment benefits		(30,767)	
Depreciation		(670,567)	
Net water capital projects fund activity		13,800	
Total reconciling items		<u>225,212</u>	
Change in net assets		<u>\$ (155,012)</u>	

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 4,121,450	\$ 3,854,507	\$ (266,943)
Other fees	43,000	51,600	8,600
Other operating revenues	29,000	123,770	94,770
Total operating revenues	<u>4,193,450</u>	<u>4,029,877</u>	<u>(163,573)</u>
Non-operating revenues:			
Investment earnings	30,000	18,893	(11,107)
Total revenues	<u>4,223,450</u>	<u>4,048,770</u>	<u>(174,680)</u>
Operating expenditures:			
Administration	619,195	614,593	4,602
Line operation	538,737	474,266	64,471
Treatment plant	1,316,863	1,217,691	99,172
Capital outlay	515,524	239,484	276,040
Debt service:			
Principal	912,300	895,593	16,707
Interest	370,650	374,337	(3,687)
Total expenditures	<u>4,273,269</u>	<u>3,815,964</u>	<u>457,305</u>
Revenues over (under) expenditures	<u>(49,819)</u>	<u>232,806</u>	<u>282,625</u>
Other financing sources (uses):			
Installment debt issued	46,000	45,865	(135)
Transfers from other funds	(93,764)	-	93,764
Total other financing sources (uses)	<u>(47,764)</u>	<u>45,865</u>	<u>93,629</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues over (under) expenditures and other financing sources (uses)	\$ (97,583)	\$ 278,671	\$ 376,254
Appropriated fund balance	<u>97,583</u>	<u>-</u>	<u>(97,583)</u>
Revenues, other financing sources, and appropriated fund balance over expenditures	<u>\$ -</u>	278,671	<u>\$ 278,671</u>
Reconciling items:			
Debt principal		895,593	
Installment debt issued		(45,865)	
Capital outlay		239,484	
Increase in compensated absences		(16,478)	
Increase in other postemployment benefits		(30,767)	
Depreciation		(794,182)	
Net sewer capital projects fund activity		<u>1,698,340</u>	
Total reconciling items		<u>1,946,125</u>	
Change in net assets		<u>\$ 2,224,796</u>	

See the accompanying Independent Auditors' Report

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 16,665,090	\$ 16,325,884	\$ (339,206)
Other fees	200,000	220,617	20,617
Other operating revenues	748,700	851,298	102,598
Total operating revenues	<u>17,613,790</u>	<u>17,397,799</u>	<u>(215,991)</u>
Nonoperating revenues:			
Investment earnings	150,000	20,797	(129,203)
Total revenues	<u>17,763,790</u>	<u>17,418,596</u>	<u>(345,194)</u>
Operating expenditures:			
Administration	951,240	904,519	46,721
Line operation	14,664,862	14,377,604	287,258
Capital outlay	505,039	260,665	244,374
Debt service:			
Principal	422,400	411,908	10,492
Interest	309,100	275,736	33,364
Total expenditures	<u>16,852,641</u>	<u>16,230,432</u>	<u>622,209</u>
Revenues over expenditures	<u>911,149</u>	<u>1,188,164</u>	<u>277,015</u>
Other financing sources (uses):			
Installment debt issued	182,000	181,574	(426)
Transfers to other funds	(1,133,850)	(1,134,500)	(650)
Total other financing uses	<u>(951,850)</u>	<u>(952,926)</u>	<u>(1,076)</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ (40,701)	\$ 235,238	\$ 275,939
Appropriated fund balance	<u>40,701</u>	<u>-</u>	<u>40,701</u>
Revenues, other financing sources, and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	235,238	<u>\$ 235,238</u>
Reconciling items:			
Debt principal		411,908	
Installment debt issued		(181,574)	
Capital outlay		260,665	
Capitalizable interest		131,780	
Increase in compensated absences		(24,149)	
Increase in other postemployment benefits		(24,614)	
Depreciation		(505,521)	
Net electric capital projects fund activity		787,191	
Net electric reserve fund activity		<u>615,944</u>	
Change in net assets		<u>\$ 1,706,868</u>	

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Charges for services	\$ 21,014,800	\$ 18,436,858	\$ (2,577,942)
Other fees	70,000	27,959	(42,041)
Other operating revenues	500	52,650	52,150
Total operating revenues	<u>21,085,300</u>	<u>18,517,467</u>	<u>(2,567,833)</u>
Non-operating revenues:			
Investment earnings	<u>200,000</u>	<u>127,253</u>	<u>(72,747)</u>
Total revenues	<u>21,285,300</u>	<u>18,644,720</u>	<u>(2,640,580)</u>
Operating expenditures:			
Administration	1,249,360	1,184,273	65,087
Line operation	17,290,959	14,199,888	3,091,071
Capital outlay	541,925	204,625	337,300
Debt service:			
Principal	510,150	545,822	(35,672)
Interest	197,350	236,667	(39,317)
Total expenditures	<u>19,789,744</u>	<u>16,371,275</u>	<u>3,418,469</u>
Revenues over expenditures	<u>1,495,556</u>	<u>2,273,445</u>	<u>777,889</u>
Other financing sources (uses)			
Proceeds from financing	66,000	56,125	(9,875)
Transfers from other funds	10,000	-	(10,000)
Transfers to other funds	<u>(1,816,050)</u>	<u>(1,816,050)</u>	<u>-</u>
Total other financing uses	<u>(1,740,050)</u>	<u>(1,759,925)</u>	<u>(19,875)</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues and other financing sources under expenditures and other financing uses	\$ (244,494)	\$ 513,520	\$ 758,014
Appropriated fund balance	<u>244,494</u>	<u>-</u>	<u>(244,494)</u>
Revenues, other financing sources, and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	513,520	<u>\$ 513,520</u>
Reconciling items:			
Debt principal		545,822	
Proceeds from financing		(56,125)	
Capital outlay		204,625	
Capitalizable interest		1,246	
Increase in compensated absences		(28,829)	
Increase in other postemployment benefits		(36,921)	
Depreciation		(536,359)	
Net gas capital projects fund activity		<u>11,399</u>	
Change in net assets		<u>\$ 618,378</u>	

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

From Inception and for the Fiscal Year Ended June 30, 2009

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Favorable (Unfavorable)
Revenues:					
Non-operating revenues:					
Investment earnings	\$ -	\$ -	\$ 13,800	\$ 13,800	\$ 13,800
Total revenues	-	-	13,800	13,800	13,800
Expenditures:					
Project #818--Westside pumpstation	2,440,000	199,786	1,445,812	1,645,598	794,402
Project #819--Westside Elevated Tank	2,000,000	134,750	1,193,174	1,327,924	672,076
Project #820--Eastside Water Line	1,023,500	31,856	905,925	937,781	85,719
Project #821--Water line extensions	423,000	270,451	74,223	344,674	78,326
Project #822--Eastside Water Tank	147,000		8,800	8,800	138,200
Total expenditures	6,033,500	636,843	3,627,934	4,264,777	1,768,723
Revenues under expenditures	(6,033,500)	(636,843)	(3,614,134)	(4,250,977)	1,782,523
Other financing sources:					
Transfers from other funds	570,000	-	-	-	(570,000)
Proceeds from financing	5,463,500	-	-	-	(5,463,500)
Total other financing sources	6,033,500	-	-	-	(6,033,500)
Revenues and other financing sources over (under) expenditures	\$ -	\$ (636,843)	\$ (3,614,134)	\$ (4,250,977)	\$ (4,250,977)

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

From Inception and for the Year Ended June 30, 2009

	Project Authorization	Actual		Total to Date	Variance Favorable (Unfavorable)
		Prior Years	Current Year		
Revenues:					
Project #843--Cleanwater management grant	\$ 2,890,000	\$ -	\$ 1,670,001	\$ 1,670,001	\$ (1,219,999)
Project #845--Hallelujah Communities	569,500	-	-	-	(569,500)
Project #856--EPA grant	192,900	-	-	-	(192,900)
Investment earnings	-	-	28,339	28,339	28,339
Total revenues	<u>3,652,400</u>	<u>-</u>	<u>1,698,340</u>	<u>1,698,340</u>	<u>(1,954,060)</u>
Expenditures:					
Project #840--Eastside Sewer Project	3,309,100	3,105,792	13,701	3,119,493	189,607
Project #843--Cleanwater management grant	5,735,000	328,586	3,330,026	3,658,612	2,076,388
Project #844--Spruce lift station replacement	121,000	96,284	20,161	116,445	4,555
Project #845--Hallelujah Communities	962,000	28,935	506,112	535,047	426,953
Project #856--Wastewater treatment plant upgrade	350,800	-	1,170	1,170	349,630
Total expenditures	<u>10,477,900</u>	<u>3,559,597</u>	<u>3,871,170</u>	<u>7,430,767</u>	<u>3,047,133</u>
Revenues under expenditures	<u>(6,825,500)</u>	<u>(3,559,597)</u>	<u>(2,172,830)</u>	<u>(5,732,427)</u>	<u>1,093,073</u>
Other financing sources:					
Proceeds from financing	5,546,600	2,761,231	-	2,761,231	(2,785,369)
Proceeds from gas fund loan	1,000,000	1,000,000	-	1,000,000	-
Transfers from other funds	278,900	-	-	-	(278,900)
Total other financing sources	<u>6,825,500</u>	<u>3,761,231</u>	<u>-</u>	<u>3,761,231</u>	<u>(3,064,269)</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 201,634</u>	<u>\$ (2,172,830)</u>	<u>\$ (1,971,196)</u>	<u>\$ (1,971,196)</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

From Inception and for the Year Ended June 30, 2009

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:					
Permits and fees revenue	\$ 75,000	\$ 75,000	\$ -	\$ 75,000	\$ -
Investment earnings	-	-	91,106	91,106	91,106
Project #859--Cleveland County grant	1,353,000	-	696,085	696,085	(656,915)
Project #860--NC DOT grant	39,100	-	-	-	(39,100)
Total revenues	<u>1,467,100</u>	<u>75,000</u>	<u>787,191</u>	<u>862,191</u>	<u>(604,909)</u>
Expenditures:					
Project #853--aerial mapping	1,771,000	1,470,813	163,254	1,634,067	136,933
Project #854--Earl Road Electric Line Extension	185,977	114,167	90,613	204,780	(18,803)
Project #855--Electric Walgreens	75,000	61,321	208	61,529	13,471
Project #857--Tremont Drive and Hickory Creek Shopping Center	265,300	185,093	273	185,366	79,934
Project #858--Cable replacement	416,800	113,710	361,059	474,769	(57,969)
Project #859--Westside Industrial Park	2,706,000	-	1,400,589	1,400,589	1,305,411
Project #860--DeKalb Street	39,100	-	-	-	39,100
Total expenditures	<u>5,459,177</u>	<u>1,945,104</u>	<u>2,015,996</u>	<u>3,961,100</u>	<u>1,498,077</u>
Revenues under expenditures	<u>(3,992,077)</u>	<u>(1,870,104)</u>	<u>(1,228,805)</u>	<u>(3,098,909)</u>	<u>893,168</u>
Other financing sources:					
Revenue bond issued	2,391,627	828,895	-	828,895	(1,562,732)
Transfers from other funds	1,600,450	247,500	-	247,500	(1,352,950)
Total other financing sources	<u>3,992,077</u>	<u>1,076,395</u>	<u>-</u>	<u>1,076,395</u>	<u>(2,915,682)</u>
Revenues and other financing sources under expenditures	<u>\$ -</u>	<u>\$ (793,709)</u>	<u>\$(1,228,805)</u>	<u>\$(2,022,514)</u>	<u>\$(2,022,514)</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

From Inception and for the Year Ended June 30, 2009

	Project Authorization	Actual			Variance Favorable (Unfavorable)
		Prior Years	Current Year	Total to Date	
Revenues:					
Investment earnings	\$ -	\$ -	\$ 11,399	\$ 11,399	\$ 11,399
Total revenues	<u>-</u>	<u>-</u>	<u>11,399</u>	<u>11,399</u>	<u>11,399</u>
Expenditures:					
Project #876--Airport road gas line	175,000	120,272	11,662	131,934	43,066
Project #877--PPG meter station upgrade	635,000	-	23,380	23,380	611,620
Total expenditures	<u>810,000</u>	<u>120,272</u>	<u>35,042</u>	<u>155,314</u>	<u>654,686</u>
Revenues under expenditures	<u>(810,000)</u>	<u>(120,272)</u>	<u>(23,643)</u>	<u>(143,915)</u>	<u>666,085</u>
Other financing sources:					
Proceeds from financing	810,000	-	-	-	(810,000)
Total other financing sources	<u>810,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(810,000)</u>
Revenues and other financing sources under expenditures	<u>\$ -</u>	<u>\$ (120,272)</u>	<u>\$ (23,643)</u>	<u>\$ (143,915)</u>	<u>\$ (143,915)</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Non-operating revenues:			
Investment earnings	<u>\$ 27,857</u>	<u>\$ 16,444</u>	<u>\$ (11,413)</u>
Other financing sources:			
Transfers from other funds	<u>599,500</u>	<u>599,500</u>	<u>-</u>
Revenues and other financing sources over expenditures	<u>\$ 627,357</u>	<u>\$ 615,944</u>	<u>\$ (11,413)</u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

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

For the Year Ended June 30, 2009

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Operating revenues:			
Charges for service	\$ 484,200	\$ 557,901	\$ 73,701
Other	4,500	5,954	1,454
Total operating revenues	<u>488,700</u>	<u>563,855</u>	<u>75,155</u>
Non-operating revenues:			
Operating and capital grants	1,024,864	1,006,916	(17,948)
Investment earnings	50,000	48,915	(1,085)
Total non-operating revenues	<u>1,074,864</u>	<u>1,055,831</u>	<u>(19,033)</u>
Total revenues	<u>1,563,564</u>	<u>1,619,686</u>	<u>56,122</u>
Operating expenditures:			
Administrative	349,600	336,336	13,264
Operating and maintenance	507,950	549,526	(41,576)
Housing assistance payments	-	6,680	(6,680)
Capital outlay	666,364	576,418	89,946
Total operating expenditures	<u>1,523,914</u>	<u>1,468,960</u>	<u>54,954</u>
Revenues over expenditures	39,650	150,726	111,076
Other financing uses:			
Contingency	<u>(39,650)</u>	-	<u>39,650</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	150,726	<u>\$ 150,726</u>
Reconciling items:			
Depreciation		(199,260)	
Capital Outlay		576,418	
Increase in compensated absences		(14,620)	
Increase in other postemployment benefits		(12,307)	
		<u>350,231</u>	
Change in net assets		<u>\$ 500,957</u>	

See the accompanying Independent Auditors' Report.

OTHER SUPPLEMENTAL INFORMATION

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



CITY OF SHELBY, NORTH CAROLINA

Schedule of Ad Valorem Taxes Receivable*

For the Fiscal Year Ended June 30, 2009

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2008</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2009</u>
2008-2009	\$ -	\$ 7,791,656	\$ 7,474,306	\$ 317,350
2007-2008	267,157	-	197,985	69,172
2006-2007	77,675	-	42,569	35,106
2005-2006	50,692	-	22,143	28,549
2004-2005	37,821	-	16,806	21,015
2003-2004	37,989	-	20,247	17,742
2002-2003	41,639	-	23,218	18,421
2001-2002	36,994	-	22,544	14,450
2000-2001	36,929	-	23,389	13,540
1999-2000	15,173	-	1,023	14,150
1998-1999	16,900	-	16,900	-
	<u>\$ 618,969</u>	<u>\$ 7,791,656</u>	<u>\$ 7,861,130</u>	549,495
Less allowance for uncollectible ad valorem taxes receivable:				<u>(179,000)</u>
Ad valorem taxes receivable--net				<u>\$ 370,495</u>
Reconciliation with revenues:				
Ad valorem taxes--General Fund				\$ 7,841,040
Ad valorem taxes--Special Revenue Fund				109,873
				<u>7,950,913</u>
Reconciling items:				
Interest collected				(123,204)
Discounts allowed				14,742
Amounts written off				16,900
Other adjustments				1,779
				<u>7,861,130</u>
Total collections and credits				<u>\$ 7,861,130</u>

*Schedule includes both citywide and municipal service district taxes

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Analysis of Current Tax Levy
Total

For the Fiscal Year Ended June 30, 2009

	Total		Total Levy		
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$1,687,528,708	0.435%	\$ 7,340,750	\$ 6,709,119	\$ 631,631
Municipal service district taxed at current year's rate	<u>50,647,398</u>	0.655%	<u>331,740</u>	<u>320,885</u>	<u>10,855</u>
Total	<u>1,738,176,106</u>		<u>7,672,490</u>	<u>7,030,004</u>	<u>642,486</u>
Discoveries:					
Property taxed at current year's rate	43,120,382	0.435%	187,574	186,520	1,054
Municipal service district taxed at current year's rate	<u>466,420</u>	0.655%	<u>3,055</u>	<u>2,951</u>	<u>104</u>
Total	<u>43,586,802</u>		<u>190,629</u>	<u>189,471</u>	<u>1,158</u>
Abatements:					
Property taxed at current year's rate	14,218,324	0.435%	61,850	37,273	24,577
Municipal service district taxed at current year's rate	<u>1,467,673</u>	0.655%	<u>9,613</u>	<u>9,521</u>	<u>92</u>
Total	<u>15,685,997</u>		<u>71,463</u>	<u>46,794</u>	<u>24,669</u>
Total property valuation	<u>\$1,766,076,911</u>				
Net levy			7,791,656	7,172,681	618,975
Uncollected taxes at June 30, 2009			<u>317,350</u>	<u>217,493</u>	<u>99,857</u>
Current year's taxes collected			<u>\$ 7,474,306</u>	<u>\$ 6,955,188</u>	<u>\$ 519,118</u>
Current levy collection percentage			<u>95.93%</u>	<u>96.97%</u>	<u>83.87%</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Analysis of Current Tax Levy
City-Wide Levy

For the Fiscal Year Ended June 30, 2009

	<u>City-Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$ 1,687,528,708	0.435%	\$ 7,340,750	\$ 6,709,119	\$ 631,631
Discoveries:					
Property taxed at current year's rate	43,120,382	0.435%	187,574	186,520	1,054
Abatements:					
Property taxed at current year's rate	<u>14,218,324</u>	0.435%	<u>61,850</u>	<u>37,273</u>	<u>24,577</u>
Total property valuation	<u><u>\$ 1,716,430,766</u></u>				
Net levy			7,466,474	6,858,366	608,108
Uncollected taxes at June 30, 2009			<u>311,030</u>	<u>211,836</u>	<u>99,194</u>
Current year's taxes collected			<u><u>\$ 7,155,444</u></u>	<u><u>\$ 6,646,530</u></u>	<u><u>\$ 508,914</u></u>
Current levy collection percentage			<u><u>95.83%</u></u>	<u><u>96.91%</u></u>	<u><u>83.69%</u></u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Analysis of Current Tax Levy
Municipal Service District Levy

For the Fiscal Year Ended June 30, 2009

	<u>Municipal Service District</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>	<u>Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$ 50,647,398	0.655%	\$ 331,740	\$ 320,885	\$ 10,855
Discoveries:					
Property taxed at current year's rate	466,420	0.655%	3,055	2,951	104
Abatements:					
Property taxed at current year's rate	<u>1,467,673</u>	0.655%	<u>9,613</u>	<u>9,521</u>	<u>92</u>
Total property valuation	<u><u>\$ 49,646,145</u></u>				
Net levy			325,182	314,315	10,867
Uncollected taxes at June 30, 2009			<u>6,320</u>	<u>5,657</u>	<u>663</u>
Current year's taxes collected			<u><u>\$ 318,862</u></u>	<u><u>\$ 308,658</u></u>	<u><u>\$ 10,204</u></u>
Current levy collection percentage			<u><u>98.06%</u></u>	<u><u>98.20%</u></u>	<u><u>93.90%</u></u>

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Financial Data Schedule--Balance Sheet

For the Year Ended June 30, 2009

Line Item #	Account Description	Low Rent 14.850	Section 8 14.856	CFP 14.872	Total
Assets:					
Current assets:					
Cash:					
111	Cash--unrestricted	\$ 83,444	\$ -	\$ 33,753	\$ 117,197
114	Cash--tenant security deposits	38,231	-	-	38,231
100	Total cash	<u>121,675</u>	<u>-</u>	<u>33,753</u>	<u>155,428</u>
Accounts and notes receivables:					
124	Accounts receivable--other governments	1,194	-	-	1,194
126	Accounts receivable--tenants--dwelling rents	12,673	-	-	12,673
126.1	Allowance for doubtful accounts--dwelling rents	(12,673)	-	-	(12,673)
129	Accrued interest receivable	15,468	-	-	15,468
120	Total receivables, net allowances for uncollectibles	<u>16,662</u>	<u>-</u>	<u>-</u>	<u>16,662</u>
131	Investments--unrestricted	1,878,988	-	-	1,878,988
142	Prepaid expenses and other assets	5,430	-	-	5,430
150	Total current assets	<u>2,022,755</u>	<u>-</u>	<u>33,753</u>	<u>2,056,508</u>
Non-current assets:					
Fixed assets:					
161	Land	234,411	-	-	234,411
162	Buildings	7,852,393	-	558,037	8,410,430
163	Furniture, equipment and machinery--dwellings	303,422	-	-	303,422
166	Accumulated depreciation	(4,197,968)	-	-	(4,197,968)
160	Total fixed assets, net of accumulated depreciation	<u>4,192,258</u>	<u>-</u>	<u>558,037</u>	<u>4,750,295</u>
180	Total non-current assets	<u>4,192,258</u>	<u>-</u>	<u>558,037</u>	<u>4,750,295</u>
190	Total assets	<u>\$ 6,215,013</u>	<u>\$ -</u>	<u>\$ 591,790</u>	<u>\$ 6,806,803</u>
Liabilities and equity:					
Liabilities:					
Current liabilities:					
312	Accounts payable ≤ 90 days	24,554	\$ -	\$ -	\$ 24,554
321	Accrued wages/payroll taxes payable	12,531	-	-	12,531
322	Accrued compensated absences	15,000	-	-	15,000
341	Tenant security deposits	38,231	-	-	38,231
342	Deferred revenues	-	-	33,753	33,753
310	Total current liabilities	<u>90,316</u>	<u>-</u>	<u>33,753</u>	<u>124,069</u>
Non-current liabilities:					
354	Accrued compensated absences--non-current	17,464	-	-	17,464
	Other postemployment benefits	12,307	-	-	12,307
350	Total non-current liabilities	<u>29,771</u>	<u>-</u>	<u>-</u>	<u>29,771</u>
300	Total liabilities	<u>120,087</u>	<u>-</u>	<u>33,753</u>	<u>153,840</u>
Net assets:					
508.1	Invested in capital assets, net of related debt	4,192,258	-	558,037	4,750,295
512.1	Unrestricted net assets	1,902,668	-	-	1,902,668
513	Total net assets	<u>6,094,926</u>	<u>-</u>	<u>558,037</u>	<u>6,652,963</u>
600	Total liabilities and net assets	<u>\$ 6,215,013</u>	<u>\$ -</u>	<u>\$ 591,790</u>	<u>\$ 6,806,803</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Financial Data Schedule--Revenues and Expenses

For the Year Ended June 30, 2009

Line Item #	Account Description	Low Rent 14.850	Section 8 14.856	CFP 14.872	Total
Revenue:					
703	Net tenant rental revenue	\$ 548,427	\$ -	\$ -	\$ 548,427
704	Tenant revenue--other	9,474	-	-	9,474
705	Total tenant revenue	<u>557,901</u>	<u>-</u>	<u>-</u>	<u>557,901</u>
706	HUD PHA operating grants	448,879	-	-	448,879
706.1	HUD PHA capital grants	-	-	558,037	558,037
711	Investment income--unrestricted	48,915	-	-	48,915
715	Other revenues	5,954	-	-	5,954
700	Total revenue	<u>1,061,649</u>	<u>-</u>	<u>558,037</u>	<u>1,619,686</u>
Expenses:					
Administrative:					
911	Administrative salaries	245,380	-	-	245,380
915	Employee benefit contributions--administrative	91,827	-	-	91,827
916	Other operating--administrative	11,436	-	-	11,436
Tenant services:					
924	Tenant services--other	2,459	-	-	2,459
Utilities:					
931	Water	91,723	-	-	91,723
932	Electricity	107,270	-	-	107,270
933	Gas	145,615	-	-	145,615
Ordinary maintenance and operation:					
942	Ordinary maintenance and operation--materials and other	72,308	-	-	72,308
943	Ordinary maintenance and operation--contract costs	38,468	-	-	38,468
General expenses:					
961	Insurance premiums	52,077	-	-	52,077
962	Other general expenses	12,221	-	-	12,221
962.1	Compensated absences	14,620	-	-	-
963	Payments in lieu of taxes	20,380	-	-	20,380
964	Bad debt--tenant rents	1,642	-	-	1,642
969	Total operating expenses	<u>907,426</u>	<u>-</u>	<u>-</u>	<u>907,426</u>
970	Excess operating revenue over operating expenses	<u>154,223</u>	<u>-</u>	<u>558,037</u>	<u>712,260</u>

(continued)

CITY OF SHELBY, NORTH CAROLINA

Financial Data Schedule--Revenues and Expenses

For the Year Ended June 30, 2009

Line Item #	Account Description	Low Rent 14.850	Section 8 14.856	CFP 14.872	Total
	Expenses, Continued:				
971	Extraordinary maintenance	\$ 5,363	\$ -	\$ -	\$ 5,363
973	Housing assistance payments	-	6,680	-	6,680
974	Depreciation expense	199,260	-	-	199,260
900	Total expenses	<u>1,112,049</u>	<u>6,680</u>	<u>-</u>	<u>1,118,729</u>
1000	Excess (deficiency) of revenue over expenses:	<u>\$ (50,400)</u>	<u>\$ (6,680)</u>	<u>\$ 558,037</u>	<u>\$ 500,957</u>
MEMO Account Information					
1103	Beginning equity	\$ 5,867,557	\$ -	\$ 284,449	\$ 6,152,006
1104	Prior period adjustments, equity transfers and corrections of errors	277,769	6,680	(284,449)	-
1120	Unit months available	2,064	552	-	2,616
1121	Number of unit months leased			-	-

See the accompanying Independent Auditors' Report.

CITY OF SHELBY, NORTH CAROLINA

Statement of Program Costs--Completed

Year ended June 30, 2009

<u>Program Name</u>	<u>CFDA #</u>	<u>Funds Approved</u>	<u>Funds Advanced</u>		
			<u>Ending Balance</u>	<u>Prior Audit</u>	<u>Current Year</u>
Capital Fund Program (CFP): NC19PO3450107	14.872	\$ 298,150	\$ 298,150	\$ 271,911	\$ 26,239
Capital Fund Program (CFP): NC19PO3450108	14.872	\$ 294,094	\$ 285,596	\$ -	\$ 285,596
Capital Fund Program (CFP): ARRA - NC19SO3450109	14.872	\$ 372,264	\$ 279,955	\$ -	\$ 279,955

See the accompanying Independent Auditors' Report.

Funds Expended			Excess (Deficiency of)	
Ending Balance	Prior Audit	Current Year	Funds Approved	Funds Advanced
\$ 298,150	\$ 271,911	\$ 26,239	\$ -	\$ -
\$ 285,596	\$ -	\$ 285,596	\$ 8,498	\$ -
\$ 246,202	\$ -	\$ 246,202	\$ 92,309	\$ 33,753



STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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



CITY OF SHELBY, NORTH CAROLINA

Net Assets by Component

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

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

CITY OF SHELBY, NORTH CAROLINA

Changes in Net Assets by Component

Last Six Fiscal Years

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

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

(continued)

CITY OF SHELBY, NORTH CAROLINA

Changes in Net Assets by Component, Continued

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

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

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			
	2000	2001	2002	2003
General fund:				
Reserved	\$ 3,861	\$ 2,038	\$ 1,653	\$ 2,291
Unreserved	2,063	4,040	3,543	3,689
	<u>2,063</u>	<u>4,040</u>	<u>3,543</u>	<u>3,689</u>
Total general fund	<u>\$ 5,924</u>	<u>\$ 6,078</u>	<u>\$ 5,196</u>	<u>\$ 5,980</u>
All other governmental funds:				
Reserved	\$ 888	\$ 220	\$ 230	\$ 232
Unreserved, reported in:				
Special revenue funds	224	462	473	386
Capital project funds	(61)	(98)	-	-
	<u>(61)</u>	<u>(98)</u>	<u>-</u>	<u>-</u>
Total all other governmental funds	<u>\$ 1,051</u>	<u>\$ 584</u>	<u>\$ 703</u>	<u>\$ 618</u>

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
\$ 2,535	\$ 2,566	\$ 3,215	\$ 3,003	\$ 3,127	\$ 3,493
<u>3,526</u>	<u>3,721</u>	<u>3,271</u>	<u>3,189</u>	<u>3,424</u>	<u>3,851</u>
<u>\$ 6,061</u>	<u>\$ 6,287</u>	<u>\$ 6,486</u>	<u>\$ 6,192</u>	<u>\$ 6,551</u>	<u>\$ 7,344</u>
\$ 238	\$ 275	\$ 262	\$ 541	\$ 445	\$ 1,285
326	315	262	324	286	328
<u>(517)</u>	<u>-</u>	<u>-</u>	<u>(88)</u>	<u>-</u>	<u>-</u>
<u>\$ 47</u>	<u>\$ 590</u>	<u>\$ 524</u>	<u>\$ 777</u>	<u>\$ 731</u>	<u>\$ 1,613</u>

CITY OF SHELBY, NORTH CAROLINA

Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years

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

	Fiscal Year			
	2000	2001	2002	2003
Revenues:				
Ad valorem taxes	\$ 4,974	\$ 5,006	\$ 5,217	\$ 5,160
Other taxes and licenses	1,977	2,173	1,896	2,055
Unrestricted intergovernmental	1,887	2,074	1,319	1,812
Restricted intergovernmental	1,740	1,496	1,088	1,723
Permits and fees	108	115	171	156
Sales and services	711	688	662	801
Investment earnings	210	317	186	180
Donations	-	-	-	-
Miscellaneous	198	208	84	87
Total revenues	11,805	12,077	10,623	11,974
Expenditures:				
Current:				
General government	1,819	2,059	1,803	1,499
Public safety	5,656	6,313	6,520	6,712
Transportation	1,845	1,486	1,522	2,317
Environmental protection	1,439	1,755	1,727	1,504
Cultural and recreation	1,617	1,756	2,191	1,780
Housing and redevelopment	265	270	274	196
Capital outlay	1,055	2,132	51	1,171
Debt service:				
Principal	253	351	365	317
Interest and other charges	100	134	143	127
Total expenditures	14,049	16,256	14,596	15,623
Revenues under expenditures	(2,244)	(4,179)	(3,973)	(3,649)
Other financing sources (uses):				
Transfers from other funds	3,424	2,830	3,026	3,060
Transfers from component unit	129	82	119	-
Transfers to other funds	(487)	(198)	-	(4)
Installment debt issued	835	1,000	-	494
Proceeds from sale of assets	413	130	37	84
Increase in inventory	9	-	-	-
Total other financing sources (uses)	4,323	3,844	3,182	3,634
Net change in fund balance	\$ 2,079	\$ (335)	\$ (791)	\$ (15)
Debt service as a percentage of non-capital expenditures	2.71%	3.44%	3.50%	3.07%

	2004	2005	2006	2007	2008	2009
\$	5,923	\$ 6,545	\$ 6,770	\$ 6,729	\$ 7,692	\$ 7,951
	2,403	2,524	2,762	2,976	2,969	2,858
	1,850	1,644	1,627	1,686	1,864	1,887
	2,340	1,400	1,307	2,415	2,328	3,172
	127	140	221	237	216	213
	809	926	913	910	1,207	1,405
	100	145	335	300	304	197
	11	7	17	69	25	42
	119	135	205	319	167	187
	<u>13,682</u>	<u>13,466</u>	<u>14,157</u>	<u>15,641</u>	<u>16,772</u>	<u>17,912</u>
	1,591	1,546	1,674	2,094	2,280	2,222
	6,829	7,824	7,706	8,336	8,598	8,677
	2,727	1,210	1,692	1,362	1,872	1,763
	1,367	1,901	1,158	1,078	1,111	1,225
	1,825	1,725	1,810	1,731	1,794	1,826
	523	826	287	855	103	192
	2,630	2,541	1,984	1,240	1,788	3,216
	425	612	1,027	1,147	1,124	1,004
	124	124	186	168	136	79
	<u>18,041</u>	<u>18,309</u>	<u>17,524</u>	<u>18,011</u>	<u>18,806</u>	<u>20,204</u>
	<u>(4,359)</u>	<u>(4,843)</u>	<u>(3,367)</u>	<u>(2,370)</u>	<u>(2,034)</u>	<u>(2,292)</u>
	3,182	2,982	2,936	2,381	2,155	2,695
	-	-	-	-	-	-
	(175)	(137)	(77)	(271)	(64)	(344)
	858	2,747	509	172	246	1,616
	6	21	131	47	11	13
	-	-	-	-	-	-
	<u>3,871</u>	<u>5,613</u>	<u>3,499</u>	<u>2,329</u>	<u>2,348</u>	<u>3,980</u>
\$	<u>(488)</u>	<u>770</u>	<u>132</u>	<u>(41)</u>	<u>314</u>	<u>1,688</u>
	<u>3.56%</u>	<u>4.67%</u>	<u>7.81%</u>	<u>7.84%</u>	<u>6.70%</u>	<u>6.38%</u>

CITY OF SHELBY, NORTH CAROLINA

General Government Tax Revenues by Source*

Last Ten Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>Ad Valorem</u>	<u>Sales</u>	<u>Intangibles</u>	<u>Utility Franchise</u>
2000	\$ 4,973,976	\$ 1,955,346	\$ 148,043	\$ 1,236,523
2001	5,005,998	2,146,321	156,368	1,385,916
2002	5,216,648	1,884,088	143,260	799,162
2003	5,160,019	2,038,604	-	1,358,970
2004	5,922,699	2,393,588	-	1,297,924
2005	6,545,205	2,521,613	-	1,128,509
2006	6,770,471	2,759,114	-	1,181,332
2007	6,729,415	2,971,686	-	1,263,696
2008	7,691,627	2,966,596	-	1,503,349
2009	7,950,913	2,830,915	-	1,550,877

*Includes General and Special Revenue Funds.

Beer and Wine	Inventory	Food Stamp	Licenses and CATV Franchise	Total
\$ 85,552	\$ 157,845	\$ 8,865	\$ 132,126	\$ 8,698,276
86,486	160,836	9,377	154,014	9,105,316
-	76,307	8,339	164,374	8,292,178
82,813	-	-	151,632	8,792,038
89,640	-	-	160,243	9,864,094
92,890	-	-	174,255	10,462,472
92,566	-	-	180,671	10,984,154
94,331	-	-	121,166	11,180,294
96,103	-	-	-	12,257,675
93,190	-	-	-	12,425,895

CITY OF SHELBY, NORTH CAROLINA

Assessed Value and Actual Value of Taxable Property

Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year	Real Property	Personal Property	Public Service Companies	Total Assessed Value*	Total Direct Tax Rate
2000**	\$ 758,159	\$ 251,564	\$ 20,881	\$ 1,030,604	0.47
2001	861,207	288,655	24,754	1,174,616	0.42
2002	877,479	306,710	24,370	1,208,559	0.42
2003	953,608	226,078	24,482	1,204,168	0.42
2004**	1,130,002	241,081	22,137	1,393,220	0.42
2005	1,158,263	327,398	38,729	1,524,390	0.42
2006	1,176,662	345,669	41,194	1,563,525	0.42
2007	1,191,948	427,287	46,759	1,665,994	0.42
2008	1,198,940	410,032	45,676	1,654,648	0.44
2009	1,285,067	434,154	46,856	1,766,077	0.44

Source: Cleveland County Tax Collectors Office

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

**A revaluation of real property is required by North Carolina General Statutes at least every eight years (Cleveland County conducts a revaluation every four years). The last revaluation was completed in 2003.

Note: Includes Municipal Service District

CITY OF SHELBY, NORTH CAROLINA

Property Tax Rates--Direct and Overlapping Governments

Last Ten Fiscal Years

Fiscal Year	City of Shelby	Uptown Shelby Municipal Service District	Cleveland County	City School District	County School District
2000	0.47	0.30	0.627	0.22	0.10
2001	0.42	0.27	0.62	N/A	0.16*
2002	0.42	0.27	0.62	N/A	0.16
2003	0.42	0.27	0.62	N/A	0.16
2004	0.42	0.27	0.62	N/A	0.16
2005	0.42	0.27	0.62	N/A	0.16
2006	0.42	0.27	0.58	N/A	0.15
2007	0.42	0.27	0.58	N/A	0.15
2008	0.43	0.22	0.58	N/A	0.15
2009	0.43	0.22	0.58	N/A	0.15

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

CITY OF SHELBY, NORTH CAROLINA

Principal Property Taxpayers

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

<u>Taxpayer</u>	<u>2009</u>			<u>2000</u>		
	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Assessed Valuation</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>
Wal-Mart	\$ 99,578	1	6.32%			
PPG Industries	88,210	2	5.60%			
Curtis Wright Controls Inc	16,424	3	1.04%	6,953	7	0.67%
Shelby Mall LLC	13,606	4	0.86%			
Lowe's Home Centers	12,000	5	0.76%			
Duke Energy Corp	10,583	6	0.70%	5,599	8	0.54%
Bell South Telephone Company	10,382	7	0.64%	12,832	5	1.25%
Ultra Machine & Fabrication	9,704	8	0.61%			
Carlisle at Delta Park LLC	7,254	9	0.46%			
Shelby Loan & Mortgage Co	5,906	10	0.37%	4,011	10	0.39%
Copeland Corp				41,464	1	4.02%
Kemet Electronics				40,185	2	3.90%
Fasco Inc				16,098	3	1.56%
Metropolitan Life Insurance Co				15,269	4	1.48%
Dicey Mills				8,631	6	0.84%
New Dover, Inc				5,775	9	0.56%
Totals	<u>\$ 273,647</u>		<u>17.36%</u>	<u>\$ 156,817</u>		<u>15.21%</u>

Source: Cleveland County Tax Assessors Office

CITY OF SHELBY, NORTH CAROLINA

Property Tax Levies and Collections

Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Current Outstanding Balance	Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy			Amount	Percentage of Levy
2000	\$ 4,969	\$ 4,738	95.35%	\$ 14	\$ 217	\$ 4,955	99.72%
2001	5,071	4,798	94.60%	14	260	5,057	99.72%
2002	5,261	5,028	95.57%	14	219	5,247	99.73%
2003	5,188	4,928	94.99%	18	242	5,170	99.65%
2004	5,984	5,711	95.45%	18	254	5,966	99.70%
2005	6,547	6,290	96.08%	21	236	6,526	99.68%
2006	6,723	6,467	96.20%	28	228	6,695	99.58%
2007	7,148	6,489	90.79%	35	624	7,113	99.51%
2008	7,300	7,033	96.34%	69	198	7,231	99.05%
2009	7,791	7,474	95.93%	317	-	7,474	95.93%

CITY OF SHELBY, NORTH CAROLINA

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(in thousands of dollars, except per capital amount)

Fiscal Year	Governmental	Business-Type Activities			
	Installment Purchase Obligations	General Obligation Bonds	Revenue Bonds	State Revolving Loans	Installment Purchase Obligations
2000	\$ 3,283	\$ 5,940	\$ 26,738	\$ 9,366	\$ 562
2001	2,932	5,330	26,203	8,781	509
2002	2,567	4,725	25,643	8,195	457
2003	2,743	4,130	25,058	7,610	889
2004	3,176	3,540	24,443	7,024	1,050
2005	5,311	955	24,670	6,439	968
2006	4,794	630	23,380	5,854	921
2007	3,819	310	22,055	5,268	760
2008	2,942	-	24,546	4,683	967
2009	3,553	-	22,773	4,098	1,004

N/A - Information not available.

Total Primary Government	(County) Personal Income (amounts expressed in thousands)	Percentage of Personal Income	(County) Per Capita Personal Income	Per Capita
\$ 45,889	\$ 2,210,718	2.08%	\$ 22,889	\$ 2,311
43,755	2,229,016	1.96%	22,941	2,246
41,587	2,250,644	1.85%	23,049	2,126
40,430	2,322,298	1.74%	23,656	1,963
39,233	2,457,323	1.60%	24,831	1,849
38,343	2,558,000	1.50%	26,104	1,830
35,579	2,645,000	1.35%	27,058	1,704
32,212	N/A	N/A	28,151	1,544
33,138	N/A	N/A	N/A	1,597
31,428	N/A	N/A	N/A	1,510

CITY OF SHELBY, NORTH CAROLINA

Ratios of General Bonded Debt Outstanding

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

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
2000	\$ 5,940	0.58%	\$ 299
2001	5,330	0.45%	274
2002	4,725	0.39%	242
2003	4,130	0.34%	200
2004	3,540	0.25%	167
2005	955	0.06%	46
2006	630	0.04%	30
2007	310	0.02%	15
2008	-	0.00%	N/A
2009	-	0.00%	N/A

CITY OF SHELBY, NORTH CAROLINA

Direct and Overlapping Governmental Activities Debt

As of June 30, 2009

	<u>Net General Obligation Bonded Debt</u>	<u>Percentage Applicable To City**</u>	<u>City of Shelby Share of Debt</u>
Direct debt--City of Shelby*	\$ -	100.00%	\$ -
Overlapping debt--Cleveland County	<u>3,925,000</u>	28.49%	<u>1,118,233</u>
Total direct and overlapping debt	<u>\$ 3,925,000</u>		<u>\$ 1,118,233</u>

*General obligation bonds only

**Percentage of Direct and Overlapping Debt is based on 2009 Assessed valuation of Cleveland County as compared to the 2009 Assessed Valuation of the City of Shelby.

CITY OF SHELBY, NORTH CAROLINA

Legal Debt Margin Information

Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year	Debt Limits 8% of Assessed Value	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to Limit as a Percentage of Debt Limit
2000	\$ 82,448	\$ 8,785	\$ 73,663	10.66%
2001	93,969	8,380	85,589	8.92%
2002	96,685	7,748	88,936	8.01%
2003	96,333	7,763	88,570	8.06%
2004	111,458	3,540	107,918	3.18%
2005	121,951	7,235	114,716	5.93%
2006	125,082	6,345	118,737	5.07%
2007	133,280	4,889	128,391	3.67%
2008	132,372	3,877	128,495	2.93%
2009	141,286	4,557	136,729	3.23%

CITY OF SHELBY, NORTH CAROLINA

Computation of Legal Debt Margin

June 30, 2009

Assessed value of taxable property			<u><u>\$ 1,766,076,911</u></u>
Debt limit--eight percent (8%) of assessed value			141,286,153
Gross debt:			
Revenue bonds	\$ 22,773,113		
State revolving loan	4,097,586		
Other financing agreements/notes payable	<u>4,557,182</u>	\$ 31,427,881	
Statutory deductions:			
Revenue bonds	22,773,113		
State revolving loan	<u>4,097,586</u>	26,870,699	
Total amount of debt applicable to debt limitation			<u>4,557,182</u>
Legal debt margin			<u><u>\$ 136,728,971</u></u>

CITY OF SHELBY, NORTH CAROLINA

Pledged Revenue Coverage

Last Ten Fiscal Years

Fiscal Year Ended June 30	Gross Revenues *	Operating Expenses**	Net Revenue Available For Debt Service
2000	\$ 42,807,503	\$ 35,197,268	\$ 7,610,235
2001	54,641,951	45,465,634	9,176,317
2002	38,449,284	32,448,248	6,001,036
2003	48,809,856	40,967,897	7,841,959
2004	48,754,821	40,363,242	8,391,579
2005	52,126,682	44,445,623	7,681,059
2006	59,087,999	51,392,662	7,695,337
2007	42,797,066	33,504,075	9,292,991
2008	44,577,279	37,208,269	7,369,010
2009	43,317,051	35,794,720	7,522,331

* Total operating revenues

** Total operating expenses exclusive of depreciation

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

Debt Service Requirements***

<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
\$ 510,000	\$ 766,446	\$ 1,276,446	5.96
535,000	743,496	1,278,496	7.18
560,000	718,886	1,278,886	4.69
585,000	692,566	1,277,566	6.14
615,000	664,486	1,279,486	6.56
645,000	634,351	1,279,351	6.00
1,290,000	971,269	2,261,269	3.40
1,325,000	931,264	2,256,264	4.12
1,345,000	1,097,683	2,442,683	3.02
1,772,387	1,175,118	2,947,505	2.55

CITY OF SHELBY, NORTH CAROLINA

Demographic and Economic Statistics

Last Ten Fiscal Years

Fiscal Year Ended June 30	(1) Population	(2) Per Capita Income	(2) Median Age	(3) School Enrollment	(4) Unemployment Rate	(5) Personal Income
2000	19,853	\$ 22,889	37.3	2,996	4.8%	\$ 2,229,016
2001	19,477	22,941	36.5	3,200	11.1%	2,250,644
2002	19,562	23,049	37.0	3,219	12.2%	2,322,298
2003	20,600	23,656	37.3	3,076	11.1%	2,457,323
2004	21,215	24,831	37.6	3,139	9.3%	2,507,661
2005	20,957	26,104	37.8	17,182	7.4%	2,558,000
2006	20,876	27,058	37.9	17,035	6.8%	2,645,000
2007	20,863	28,151	38.7	17,060	7.1%	N/A
2008	20,745	N/A	38.2	16,580	7.9%	N/A
2009	20,808	N/A	N/A	16,738	15.4%	N/A

Sources:

- (1) N.C. Department of Commerce/Office of State Planning
- (2) U.S. Bureau of Economic Analysis for Cleveland County
- (3) Cleveland County/Shelby City Schools Administrative Offices.
The two school systems merged in 2005.
- (4) Employment Security Commission
- (5) Amounts for Cleveland County expressed in thousands of dollars taken from www.fedstats.gov.

N/A - Information not available.

CITY OF SHELBY, NORTH CAROLINA

Principal Employers

Current Year and Two Year Previous

Employer	Industry	2008		2006	
		Rank	Employment Range	Rank	Employment Range
Cleveland County School District	Education	1	1000+	1	2000+
Cleveland Regional Medical Center	Health Services	2	1000+	5	500-999
Cleveland County Government	Public Administration	3	500-999	4	1000+
Wal-Mart Distribution Center	Retail Distribution	4	500-999	2	500-999
PPG Fiber Glass Products	Industrial Supplies	5	500-999	3	500-999
Cleveland Community College	Education	6	250-499	9	100-249
White Oak Manor Inc	Education & Health Services	7	250-499		
Curtis-Wright Controls	Transportation Equipment	8	250-499	8	250-499
City of Shelby	Public Administration	9	250-499	6	250-499
Cleveland Voctional Industries	Education & Heath Services	10	100-249		
Honeywell Sensing & Control	Transportation Equipment			7	250-499
Bernhardt Furniture	Furniture			10	100-249

Source: Cleveland County Chamber of Commerce

Note: Data not available prior to 2006.

Note: Data not available on percentage of total employment.

CITY OF SHELBY, NORTH CAROLINA

Full-Time Equivalent City Government Employees by Function

Last Ten Fiscal Years

Function	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
General government	30.5	30.5	32	33.5
Public safety:				
Police	80	81	82	82
Fire	56	56	56	56
Transportation	17	17	18.5	20
Environmental protection	42	46	46	42
Cultural and recreation	27	27	26	24
Housing and redevelopment	11.5	11.5	9.5	9.5
Business-type activities:				
Water	19.25	19.5	19.5	17.5
Sewer	20.25	21.5	21.5	19.5
Electric	11.75	11	11	9.5
Gas	16.75	17	17	17.5
Housing	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
Total	<u>338</u>	<u>344</u>	<u>345</u>	<u>337</u>

Source: City of Shelby's Finance Department

Fiscal Year					
2004	2005	2006	2007	2008	2009
33.5	32.5	31.5	30	38	38
82	83	86	86	87	87
56	56	56	54	53	53
21	20.5	20	18	19	19
38	38	19	17	17	17
24	24	23	19	19	19
9.5	10	8.5	8	9	9
17.2	17.75	18.5	18.5	17.5	17.5
19.75	19.5	19.5	21	18.5	18.5
10.88	11.25	12.5	11.5	10.5	10.5
18.67	19	20	20.5	18.5	18.5
6	6	6	6	6	6
336.5	337.5	320.5	309.5	313	313

CITY OF SHELBY, NORTH CAROLINA

Operating Indicators by Function

Last Ten Fiscal Years

Function		2000	2001	2002	2003
Public safety:					
Police:					
Number of calls for service	*	40,739	39,903	39,057	46,244
Uniform Crime Report Part I Crimes Reported	*	2,324	2,076	1,863	1,969
Uniform Crime Report Part II Crimes Reported	*	927	938	926	874
Fire:					
Number of responses		1,522	1,730	1,634	1,636
Number of inspections		1,427	1,750	1,912	2,028
Transportation:					
Miles of street repaved		3.4	2.2	0	2.5
Environmental Protection:					
Tons of Solid Waste Collected		9,472	9,008	8,957	9,233
Cultural and recreation:					
Number of Youth Sport Program Participants		N/A	N/A	1,460	1,488
Number of Adult Sport Program Participants		N/A	N/A	855	810
Number of Golf Rounds Played		13,417	12,441	11,548	9,497
Housing and redevelopment:					
Building inspections					
Number of permits issued	*	1,395	1,408	1,372	1,206
Number of inspections	*	7,180	6,080	6,836	6,112
Business-type activities:					
Water system:					
Customers at June 30		9,818	9,916	10,026	9,822
Average of daily consumption	**	4.76	4.62	5.32	4.28
Peak daily consumption	**	10.00	6.97	7.98	6.51
Sewer system:					
Customers at June 30		8,118	8,200	8,295	8,361
Average of daily treatment	**	3.19	2.88	2.74	2.68
Peak daily treatment	**	9.83	7.50	4.00	4.00
Electric system:					
Customers at June 30		8,132	8,136	8,166	7,939
Natural gas system:					
Customers at June 30		9,569	9,866	10,016	10,168

* Numbers are on a calendar year and not a fiscal year 2007 numbers are January-October

** Numbers in millions of gallons

Source: Various City Departments

Fiscal Year					
2004	2005	2006	2007	2008	2009
48,388	46,794	46,006	41,351	39,473	26,556
1,987	1,875	1,500	1,140	1,496	904
836	848	771	615	651	397
1,724	1,740	1,929	1,848	1,883	1,913
1,408	1,683	1,645	1,169	1,355	707
2.9	2.6	1.6	1.2	0	3
9,133	8,978	8,387	9,928	9,925	10,608
1,540	1,570	1,754	2,019	2,276	2,247
820	890	832	1,106	1,044	622
11,115	10,458	10,894	10,936	12,341	11,818
1,263	1,137	1,064	820	1,072	1,070
5,473	4,084	3,866	3,269	4,621	4,049
10,137	10,083	10,048	10,090	10,048	9,554
4.53	4.39	4.39	4.68	4.33	4.97
5.70	6.50	6.50	6.32	7.02	7.09
8,397	8,356	8,350	8,362	8,282	7,826
2.62	2.81	2.81	2.77	2.42	2.72
6.00	6.00	6.00	3.20	5.29	7.55
8,322	8,230	8,212	8,245	8,268	8,290
10,248	10,350	10,372	10,437	10,404	9,755

CITY OF SHELBY, NORTH CAROLINA

Capital Assets Statistics by Function

Last Ten Fiscal Years

Function	2000	2001	2002	2003
Public safety:				
Police				
Number of stations	1	1	1	1
Number of patrol units	19	23	23	23
Fire				
Number of stations	2	3	3	3
Transportation:				
Number of airports	1	1	1	1
Miles of paved roads	107.29	107.30	108.17	118.19
Miles of unpaved roads	1	0.80	0.80	0.87
Miles of sidewalks	36	36	36	36
Cultural and recreation:				
Number of parks	12	12	12	12
Acres of parks land	169	169	169	169
Swimming pools	1	1	1	1
Gymnasiums	2	2	2	2
Golf course (nine holes)	1	1	1	1
Business-type activities:				
Water system:				
Number of treatment plants	1	1	1	1
Plant capacity	12	12	12	12
Miles of water mains	207	208	216	216
Number of fire hydrants	1,273	1,280	1,280	1,280
Sewer system:				
Number of treatment plants	1	1	1	1
Plant capacity	6	6	6	6
Miles of sanitary sewers	158	159	178	178
Miles of storm sewers	6.5	6.5	6.5	6.5
Electric system:				
Number of sub-stations	3	3	3	3
System capacity	40.4	47	47	52
Miles of primary lines	133.5	136	204	207
Miles of secondary lines	170.9	173	173	173
Natural gas system:				
Miles of gas mains	452.3	480	486	493

* In millions gallons

** In mega-watts

Source: Various City Departments

Fiscal Year						
2004	2005	2006	2007	2008	2009	
1	1	1	1	1	1	1
22	22	22	31	32	43	
3	3	3	3	3	3	
1	1	1	1	1	1	1
120.09	121.55	120.82	121.14	121.33	121.52	
0.19	0.2	0.2	0.25	0.25	0.25	
36	36	36	27.8	27.8	27.8	
12	12	12	12	12	12	
169	169	169	169	169	169	
1	1	1	1	1	1	
2	2	2	2	2	2	
1	1	1	1	1	1	
1	1	1	1	1	1	
12	12	12	12	12	12	
216	220	220	206	206	215	
1,176	1,273	1,273	1,305	1,301	1,305	
1	1	1	1	1	1	
6	6	6	6	6	6	
178	178	178	181	191	202	
6.5	6.5	6.5	6.5	6.5	6.5	
3	3	4	4	4	4	
52	52	52	65	65	65	
207	207	207	133	134	135	
175	175	175	222	222	202	
450	462	462	463	465	496	



COMPLIANCE SECTION

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

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

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

Schedule of Findings and Questioned Costs

Corrective Action Plan

Summary Schedule of Prior Year Audit Findings

Schedule of Expenditures of Federal and State Awards

Note to Schedule of Expenditures of Federal and State Awards



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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregated remaining fund information of the City of Shelby, North Carolina (the “City”), as of and for the year ended June 30, 2009, which collectively comprises the City of Shelby’s basic financial statements, and have issued our report thereon dated December 9, 2009. We did not audit the financial statements of the City of Shelby ABC Board. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the City of Shelby ABC Board, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the City of Shelby ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

A control deficiency exists when designed or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the City’s financial statements

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

that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

We identified certain deficiencies in internal control that we consider to be control deficiencies and other operational matters that we reported to management and those charged with governance in a separate letter dated December 9, 2009.

Compliance and Other Matters

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

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

December 9, 2009

Dixon Hughes PLLC

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

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

Compliance

We have audited the compliance of the City of Shelby, North Carolina, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Shelby's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Shelby's management. Our responsibility is to express an opinion on the City of Shelby's compliance based on our audit.

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

In our opinion, the City of Shelby complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of a compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by an entity's internal control.

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

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

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

December 9, 2009

Dixon Hughes PLLC



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

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

Compliance

We have audited the compliance of the City of Shelby, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to its major State program for the year ended June 30, 2009. The City of Shelby's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Shelby's management. Our responsibility is to express an opinion on the City of Shelby's compliance based on our audit.

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

In our opinion, the City of Shelby complied, in all material respects, with the requirements referred to above that are applicable to its major State program for the year ended June 30, 2009.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance 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 non-compliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that non-compliance with a type of a compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a State program will not be prevented or detected by an entity's internal control.

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

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

December 9, 2009

Dixon Hughes PLLC

CITY OF SHELBY, NORTH CAROLINA

Schedule of Findings and Questioned Costs, Continued

For the Year Ended June 30, 2009

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

Identification of major federal programs:

Name of Federal Program or Cluster

<u>Program Name</u>	<u>CFDA #</u>
Community Development Block Grant/Small Public Housing Authority Owned Rental Housing	14.850
Capital Fund Program	14.872
Airport Improvement Program	20.106

Dollar threshold used to distinguish between Type A and Type B Programs. \$ 300,000

Auditee qualified as low risk auditee? _____ yes X no

State Awards

Internal control over major State programs:

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

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

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Findings and Questioned Costs, Continued

For the Year Ended June 30, 2009

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

_____ yes

_____ **X** _____ no

Identification of major State programs:

Name of State Program or Cluster

Program Name

Clean Water Management Trust Fund

Section II--Financial Statement Findings

None reported.

Section III--Federal Award Findings and Questioned Costs

None reported.

Section IV--State Award Findings and Questioned Costs

None reported.

CITY OF SHELBY, NORTH CAROLINA

Summary Schedule of Prior Year Audit Findings

For the Year Ended June 30, 2009

Finding 2007-1 Monthly Reconciliations

Status: Corrected

Finding 2007-2 Segregation of Duties

Status: Corrected

Finding 2008-1 Financial Reporting

Status: Corrected

Finding 2008-2 Utility Billing

Status: Corrected

CITY OF SHELBY, NORTH CAROLINA

Schedule of Expenditures of Federal and State Awards

For the Year Ended June 30, 2009

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass- Through Grantor's Number</u>	<u>Federal Direct and Pass- Through Expenditures</u>	<u>State Expenditures</u>
<u>U.S. Department of Agriculture</u>				
Passed through the N.C. Division of Forestry Resources:				
Urban and Community Forestry Grant Program	10.664	N/A	\$ 4,993	\$ -
<u>U.S. Department of Housing and Urban Development</u>				
Direct Program:				
Low Rent Housing Program:				
Public Housing Authority Owned Rental Housing	14.850	N/A	448,879	-
Capital Fund Program (CFP)--2007	14.872	N/A	26,239	-
Capital Fund Program (CFP)--2008	14.872	N/A	285,596	-
ARRA--Capital Fund Program (CFP)--2009	14.872	N/A	246,202	-
Passed-through the N.C. Housing Finance Agency				
Single Family Rehabilitation Program	14.239	N/A	188,215	-
<u>U.S. Department of Justice</u>				
Direct Program:				
Project Safe Neighborhoods	16.609	N/A	20,846	-
Weed and Seed Grant	16.595	N/A	250,117	-
Local law Enforcement Block Grant	16.592	N/A	30,062	-
Bulletproof Vest Partnership Program	16.607	N/A	5,990	-
<u>U.S. Department of Transportation</u>				
Passed-through N.C. Department of Transportation:				
Airport Improvement Program	20.106	36237.16.7.1	6,817	-
Airport Improvement Program	20.106	36237.16.8.2	1,191,546	-
Airport Improvement Program	N/A	36244.23.8.1	-	87,273
Airport Improvement Program	N/A	36237.16.9.1	-	57,204
State and Community Highway Safety--Governors Highway				
Safety Program	20.205	40922.1.11	7,831	-
Safety Program	20.600	57000.6.23	10,875	-
<u>U.S. Department of Homeland Security</u>				
Direct Program:				
Assistance to Firefighters Grant	97.044	N/A	72,000	-

(continued)

CITY OF SHELBY, NORTH CAROLINA

Schedule of Expenditures of Federal and State Awards (Continued)

For the Year Ended June 30, 2009

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/Pass- Through Grantor's Number</u>	<u>Federal Direct and Pass- Through Expenditures</u>	<u>State Expenditures</u>
<u>N.C. Department of Environment and Natural Resources</u> Clean Water Management Trust Fund	N/A	N/A	\$ -	\$1,670,001
<u>N.C. Department of Transportation</u> Powell Bill	N/A	32570	-	669,053
<u>N.C. Health and Wellness Trust Fund</u> Fit Community Program	N/A	N/A	-	29,711
Total federal and State awards			<u>\$2,796,208</u>	<u>\$2,513,242</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

See the accompanying Independent Auditors' Report.