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**City of Shelby**  
Financial Statements  
September 30, 2014

**Ellis & Hirsberg**  
Certified Public Accountants, PLLC  
Clarksdale, Mississippi

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**CITY OF SHELBY, MISSISSIPPI  
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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Aldermen  
City of Shelby  
Shelby, Mississippi

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the City of Shelby, Mississippi as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash receipts and disbursement basis, which is a comprehensive basis of accounting other than principles generally accepted in the United States of America. See Note 1. This basis includes the designing, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Mississippi, as of September 30, 2014, and the respective changes in financial position for the year then ended in conformity with the basis of accounting described in Note 1.

### **Other Matters**

#### *Required Supplementary Information*

The City of Shelby has not presented the management's discussion and analysis or budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational economic or historical context. Our opinion on the basic financial statements is not affected by the missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Shelby, Mississippi's financial statements taken as a whole. The supplemental information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information section, as listed on the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016 on our consideration of the City of Shelby, Mississippi'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. That report is an internal part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelby, Mississippi's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "SHERRY CARROLL".

Clarksdale, Mississippi  
January 29, 2016

CITY OF SHELBY, MISSISSIPPI  
 STATEMENTS OF ACTIVITIES AND NET ASSETS - CASH BASIS  
 AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Program Cash Receipts				Net (Disbursements) Revenue & Changes in Net Assets		
	Charges for Disbursements	Operating Grants & Contributions	Capital Grants & Contributions	Business-Type Activities	Governmental Activities	Business-Type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental Activities:							
General Government	\$ 239,112				(239,112)		(239,112)
Public Safety	468,560	7,200			(411,307)		(411,307)
Public Works	454,975		254,092		(200,883)		(200,883)
Health and Sanitation	103,755	159,178			55,423		55,423
Library	15,583				(15,583)		(15,583)
Total Governmental Activities	1,281,985	7,200	254,092		(811,462)		(811,462)
Business-type Activities:							
Water & Sewer	(229,940)	447,926				217,986	217,986
Total Business-type Activities	(229,940)	447,926	0	0	0	217,986	217,986
Total Primary Government	\$ 1,052,045	7,200	254,092		(811,462)	217,986	(593,476)

**GENERAL RECEIPTS:**

Taxes:	
Ad valorem taxes & vehicle taxes	\$ 384,508
Sales tax	113,773
Franchise taxes	55,948
	384,508
	113,773
	55,948

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CITY OF SHELBY, MISSISSIPPI  
 STATEMENTS OF ACTIVITIES AND NET ASSETS - CASH BASIS  
 AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Program Cash Receipts				Net (Disbursements) Revenue & Changes in Net Assets		
	Charges for Disbursements	Operating Grants & Contributions	Capital Grants & Contributions	Business-Type Activities	Governmental Activities	Business-Type Activities	Total
Homestead Exemption Reimbursement		29,707			29,707		29,707
Licenses & permits		3,974			3,974		3,974
Unrestricted investment income		472		868	472	868	1,340
Intergovernmental		36,803			36,803		36,803
Miscellaneous		9,751			9,751		9,751
Transfers		222,950		(222,950)	222,950	(222,950)	0
Total general receipts		837,886		(222,082)	837,886	(222,082)	635,804
Changes in net assets		46,424		(4,096)	46,424	(4,096)	42,328
Net assets at beginning of year		376,502		403,459	376,502	403,459	779,961
Net assets at end of year		\$ 422,926		399,363	\$ 422,926	399,363	822,289

The accompanying notes are an integral part of this statement.

CITY OF SHELBY, MISSISSIPPI  
 STATEMENTS OF ACTIVITIES & NET ASSETS - CASH BASIS - CONTINUED  
 AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental	Business-	
	Activities	type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash & cash equivalents	\$ 69,457	217,031	286,488
Restricted cash	<u>353,469</u>	<u>182,332</u>	<u>535,801</u>
 Total assets	 \$ <u><u>422,926</u></u>	 <u><u>399,363</u></u>	 <u><u>822,289</u></u>
 <b>NET ASSETS</b>			
Restricted for bond & interest	\$ 115,797	182,332	298,129
Restricted for mosquito control	46,319		46,319
Restricted for fire prevention	187,758		187,758
Restricted for police activity	2,774		2,774
Restricted for other	774		774
Restricted for capital projects	47		47
Unassigned	69,457		69,457
Unrestricted	<u>          </u>	<u>217,031</u>	<u>217,031</u>
 Total net assets	 \$ <u><u>422,926</u></u>	 <u><u>399,363</u></u>	 <u><u>822,289</u></u>

The accompanying notes are an integral part of this statement.

CITY OF SHELBY, MISSISSIPPI  
 STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND  
 CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
 AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Activities				Business-Type Activities		
	General Fund	Debt Service Fund	Federal Projects Fund	Total	Water & Sewer Fund	Total	Total
Taxes - Ad Valorem	\$ 217,653	89,622		307,275			
Taxes - Vehicles	54,794	22,439		77,233			
Franchise Fees - Utilities & Cable	55,948			55,948			
Licenses & Permits	3,974			3,974			
Homestead Exemption Reimbursement	21,043	8,664		29,707			
ABC - Permit	1,800			1,800			
General Sales Tax	113,773			113,773			
Municipal Aid	1,111			1,111			
Motor Vehicle Fuel Taxes	5,817			5,817			
Fire Insurance Premium Taxes	12,147			12,147			
Grand Gulf	13,860			13,860			
City Utility Tax	2,068			2,068			
Charges for Services:							
Garbage	137,055			137,055			
Water & Sewer				0	447,926	447,926	
Fines & Forfeits	28,770			28,770			
Interest	406		1	472	868	868	
Mosquito Fees	22,123			22,123			
Life Fees	21,283			21,283			

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CITY OF SHELBY, MISSISSIPPI  
 STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND  
 CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
 AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Activities			Business-Type Activities		
	General Fund	Debt Service Fund	Federal Projects Fund	Total	Water & Sewer Fund	Total
Cemetery Lot Sales	1,500			1,500		
Road Maintenance - Tax Levy Transfer	4,521			4,521		
Law Enforcement - Assistance Grants	7,200			7,200		
CDBG - Storm Sewer Improvement			254,092	254,092		
Rents	583			583		
Other	3,147			3,147		
<b>Total Receipts</b>	<b>730,576</b>	<b>120,790</b>	<b>254,093</b>	<b>1,105,459</b>	<b>448,794</b>	<b>448,794</b>

**DISBURSEMENTS**

General Government:					
Salaries & Employee Benefits	81,921			81,921	
Municipal Judge	9,600			9,600	
Insurance	102,943			102,943	
Other Services & Charges	43,148			43,148	
Public Safety - Police:					
Salaries & Employee Benefits	395,469			395,469	
Fine Settlements	3,908			3,908	
Other Services & Charges	37,819			37,819	
Public Safety - Fire:					
Salaries & Employee Benefits	6,901			6,901	

CITY OF SHELBY, MISSISSIPPI  
 STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND  
 CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
 AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Activities			Business-Type Activities	
	General Fund	Debt Service Fund	Federal Projects Fund	Total	Water &
					Sewer Fund
Other Services & Charges	13,218			13,218	
Capital Outlay - Equipment	11,245			11,245	
Public Works - Streets:					
Salaries & Employee Benefits	93,740			93,740	
Other Services & Charges	65,184			65,184	
Health & Sanitation:					
Garbage Fees	100,800			100,800	
Mosquito Control	2,955			2,955	
Library Support	15,583			15,583	
Cemetery Support	1,500			1,500	
Interest		8,959		8,959	
Enterprises - Water & Sewer:					
Salaries & Employee Benefits					39,332
Other Services & Charges					115,560
Capital Outlay					6,200
Federal Expenditures:					
CDBG - Storm Sewer Improvements			254,092	254,092	40,472
Total Disbursements	985,934	8,959	254,092	1,248,985	201,564
Excess of Receipts Over (Under) Disbursements	(255,358)	111,831	1	(143,526)	247,230
					253,430

CITY OF SHELBY, MISSISSIPPI  
 STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND  
 CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
 AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Activities			Business-Type Activities		
	General Fund	Debt	Federal	Total	Water &	Sewer
		Service Fund	Projects Fund		Fund	Fund
OTHER CASH SOURCES (USES)						
Debt Repaid - Principal		(33,000)		(33,000)	(28,376)	(28,376)
Transfers In	339,205			339,205	36,255	36,255
Transfers Out	(36,255)	(80,000)		(116,255)	(259,205)	(259,205)
Total Other Cash Sources (Uses)	302,950	(113,000)	0	189,950	(251,326)	(251,326)
Excess (Deficiency) of Receipts and Other Cash Sources Over Disbursements and Other Cash Uses	47,592	(1,169)	1	46,424	(4,096)	2,104
Cash Basis Fund Balance - Beginning of Year	259,490	116,966	46	376,502	403,459	403,459
Cash Basis Fund Balance - End of Year	\$ 307,082	115,797	47	422,926	399,363	405,563

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CITY OF SHELBY, MISSISSIPPI  
 STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES AND  
 CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
 AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Governmental Activities			Business-Type Activities		
	General Fund	Debt Service Fund	Federal Projects Fund	Total	Water & Sewer Fund	Total
Cash Basis Assets - End of Year						
Cash and Cash Equivalents	\$ 69,457			69,457	217,031	217,031
Restricted Cash	237,625	115,797	47	353,469	182,332	182,332
Total Cash Basis Assets	\$ 307,082	115,797	47	422,926	399,363	399,363
Cash Basis Fund Balance - End of Year						
Restricted	\$ 237,625	115,797	47	353,469	182,332	182,332
Unassigned / Unrestricted	69,457			69,457	217,031	217,031
Total Cash Basis Fund Balances	\$ 307,082	115,797	47	422,926	399,363	399,363

**CITY OF SHELBY, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City operates under a Mayor-Board of Aldermen form of government and provides all of the rights and privileges provided by statute for municipalities.

**A. Government-wide and Fund Financial Statements**

Basic financial statements consist of the following:

- Statement of activities and net assets - cash basis
- Statement of cash basis assets and fund balances and cash receipts, disbursements and changes in cash basis fund balances

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City combines the statement of activities and statement of net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct disbursements are those that are clearly identifiable with a specific function or segment. Program receipts include 1) receipts from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program receipts are reported instead as general receipts.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements as well as the governmental fund financial statements are reported using the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when collected and expenditures are recorded when cash is spent.

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**CITY OF SHELBY, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

The City reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other specialized funds.

**Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt including principal, interest and related costs.

**Federal Project Fund** - This fund is used to account for all federal funds. The source of these funds is mostly federal grants or loans used for acquisition and/or construction of major capital facilities. This fund is also used to account for various federal programs which do not involve major capital facilities.

The City reports the following major proprietary funds:

The **Water and Sewer Fund** accounts for the activities of providing water and sewer services to citizens of the City.

Amounts reported as *program receipts* include 1) receipts from 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 receipts* rather than as program receipts.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The City's Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

**C. Assets and Net Assets or Equity**

Cash and Investments

The government's cash and cash equivalents are considered to be cash on hand or invested in certificates of deposit.

**CITY OF SHELBY, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

Net Assets

The City's government-wide and proprietary net assets are divided into the following components:

**Restricted net assets** - consist of net assets that are restricted by the City's creditors (for example through debt covenants), by state enabling legislation (through restrictions or shared revenues), by grantors (both Federal and state), and by contributors.

**Unassigned net assets** - all other net assets of governmental activities not meeting the definition of restricted are reported in this category.

**Unrestricted net assets** - all other net assets of business-type activities not meeting the definition of restricted are reported in this category.

- D. **Budgetary Data** - Formal budgetary accounting is employed as a management control for all funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for government and proprietary funds. For governmental funds, receipts are budgeted on the cash basis.

Expenditures are budgeted on the modified cash basis of accounting. This is consistent with the applicable laws of Mississippi for municipalities. Budgets for Capital Projects Funds are made on a project basis, spanning more than one fiscal year. Budgetary control is exercised at the departmental level or by projects.

All unencumbered budget appropriations, except project budgets, lapse at the end of the fiscal year.

**NOTE 2 - PROPERTY TAXES**

The City uses the county tax rolls for the assessment of its ad valorem tax. Property is assessed in January of each year and the tax levy is set in September of each year. Property taxes attach an enforceable lien on property as of January of the next year and are delinquent after February 1. The millage rate for the City for the fiscal year ended September 30, 2014 was 51 mills for general purposes and 21 mills for bond and interest.

**NOTE 3 - 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. Except as described

**CITY OF SHELBY, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

below, the City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool.

The City is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the Town's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MMWCG contributes quarterly to a fund held in trust. The trust pays statutory amounts. The funds in the trust account are used to pay any claim up to \$750,000 for police and fire fighters and \$500,000 on all others. For a claim exceeding \$750,000 for police and fire fighters and \$500,000 on all others, MMWCG has reinsurance. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The City has not had an additional assessment for excess losses incurred by the pool.

The City is a member of the Mississippi Municipal Liability Plan (MMLP). This is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMLP covers liability claims against the City. Each member of the MMLP contributes to a fund held in trust account. The funds held in the trust account are used to pay claims of \$500,000 for torts and \$1,000,000 on federal claims. The City has not had an additional assessment for excess losses.

**NOTE 4 - LONG TERM DEBT**

The following is a schedule of long-term debt:

	Balance Outstanding 10-1-13	Issued (Retired) During 2014	Balance Outstanding 9-30-14
<u>General Obligation Bonds</u>			
City of Shelby General Obligation Street Bond	\$ 183,777	(33,000)	150,777
<u>Total General Obligation Bonds</u>	<u>183,777</u>	<u>(33,000)</u>	<u>150,777</u>

**CITY OF SHELBY, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

Revenue Bonds

City of Shelby Combined Water & Sewer

System Revenue Bonds	916,429	(28,376)	888,053
<u>Total Revenue Bonds</u>	916,429	(28,376)	888,053
<u>Totals</u>	\$ 1,100,206	(61,376)	1,038,830

The following schedule reflects the debt service requirements of the long-term debt for the next five years and thereafter:

GENERAL OBLIGATIONS

	FYE 9-30-15	FYE 9-30-16	FYE 9-30-17	FYE 9-30-18	FYE 9-30-19	FYE 9-30-20 Thru 9-30-24	FYE 9-30-25 Thru 9-30-29
Street Bond							
Principal	35,000	37,000	39,000	39,777			
Interest	7,350	5,741	3,840	1,939			
Interest Rate	Variable	Variable	Variable	Variable	Variable		

REVENUE OBLIGATIONS

Water & Sewer Revenue Bond							
Principal	22,807	23,834	24,906	26,027	27,198	155,490	193,768
Interest	39,963	38,936	37,864	36,743	35,572	158,359	120,081
Interest Rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

**CITY OF SHELBY, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

(Continuation of Maturities)

	FYE 9-30-30 Thru <u>9-30-34</u>	FYE 9-30-35 Thru <u>9-30-37</u>
Water & Sewer Revenue Bond Principal	241,471	172,552
Interest	72,378	15,757
Interest Rate	4.50%	4.50%

There are a number of limitations and restrictions contained in the revenue bond ordinances. There are requirements that a reserve account be maintained as follows:

	Amount of Reserve Requirement <u>At 9/30/14</u>	Amount of Reserve <u>9/30/14</u>
Bond Cushion Fund	63,550	67,422
Contingent Fund	31,775	33,661
Depreciation Fund	31,775	66,954

**NOTE 5 - CASH AND OTHER DEPOSITS**

The carrying amount of the City's deposits with financial institutions at September 30, 2014, was \$822,289, and the bank balance was \$866,259. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

**Custodial Credit Risk - Deposits.** Custodial credit risk is a risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

**CITY OF SHELBY, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**NOTE 6 - OPERATING TRANSFERS**

Operating transfers during the year between funds were as follows:

<u>Remitter Fund</u>	<u>Amount</u>	<u>Recipient Fund</u>	<u>Amount</u>
Enterprise	259,205	General	259,205
Debt Service	80,000	General	80,000
General Fund	36,255	Enterprise	36,255

Operating transfers were necessary from the enterprise fund to the general fund to avoid borrowing from outside sources.

**NOTE 7 - DEFINED PENSION PLAN - PERS**

Plan Description. The City contributes to the Public Employee’s Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information.

That report may be obtained by writing to Public Employees’ Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 15.25% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City’s contribution to PERS for the current fiscal year and the prior two fiscal years was \$61,709, \$57,303, and \$50,260, respectfully, which equaled the required contributions for those years. The City did not participate in PERS prior to the fiscal year ended September 30, 2000.

**NOTE 8 - ECONOMIC DEPENDENCY**

The City is a rural community in the Mississippi Delta. It is dependent on ad valorem taxes and uses fees from its residents to remain viable.

**CITY OF SHELBY, MISSISSIPPI  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**NOTE 9 - SUBSEQUENT EVENTS**

Events that occurred after the statements of activities and net assets, cash basis, date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statements of activities and net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statements of activities and net assets date require disclosures in the accompanying notes.

Management of the City of Shelby evaluated the activity of the City through January 29, 2016 and determined that there was one subsequent event as outlined below which had occurred and would require disclosure in the notes to the financial statements for its year end September 30, 2014.

On October 6, 2015, the mayor and the board of aldermen unanimously authorized the purchase of a new fire truck for approximately \$395,000.00. This purchase would require financing of approximately \$195,000.00 payable over a 12 to 15 year period of time, with the annual payment being approximately \$18,000.00 per year.

Schedule 1  
"Unaudited"

CITY OF SHELBY, MISSISSIPPI  
SCHEDULE OF INVESTMENTS  
SEPTEMBER 30, 2014

Governmental Type Activity Funds	None
Business Type Activity Funds	None

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CITY OF SHELBY, MISSISSIPPI  
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS  
SEPTEMBER 30, 2014

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount</u>
Dan Harris, Jr.	Mayor	Zurich	\$ 50,000
Patrick Johnson	Police Chief	Zurich	50,000
Carmere Scott	Clerk	Zurich	50,000
James Reed	Deputy City Clerk	Zurich	50,000
Cecelia Bland	Court Clerk	Zurich	50,000
Curtis Hooper	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	50,000
Eunice Sanders	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	50,000
Peggy Mengarelli	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	50,000
Nathaniel Boss	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	50,000
Harold Billings	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	50,000

CITY OF SHELBY, MISSISSIPPI  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets:				
Land	\$ 27,277			27,277
Buildings	56,082		5,002	51,080
Machinery and Equipment	99,614	11,245	16,044	94,815
Infrastructure	<u>462,800</u>		<u>63,775</u>	<u>399,025</u>
Total Governmental Activities Capital Assets	<u>\$ 645,773</u>	<u>11,245</u>	<u>84,821</u>	<u>572,197</u>
Business-type Activities:				
Capital Assets:				
Water and Sewer System	<u>\$ 657,827</u>	<u>6,200</u>	<u>60,472</u>	<u>603,555</u>
Total Business-type Activities Capital Assets	<u>\$ 657,827</u>	<u>6,200</u>	<u>60,472</u>	<u>603,555</u>

**INDEPENDENT AUDITORS' 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***

Honorable Mayor and Aldermen  
City of Shelby  
Shelby, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Mississippi as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Shelby, Mississippi's basic financial statements and have issued our report thereon dated January 29, 2016. Our report differed from the standard report due to the basis of accounting. All governmental and proprietary funds contained in this report are accounted for using the cash receipts and disbursements basis of accounting, as permitted by the Mississippi State Department of Audit. This basis of accounting differs from generally accepted accounting principles in that revenues are recognized when received rather than when measurable and available as net current assets and expenditures are generally recognized when the related fund expense is disbursed rather than when the related fund liability is incurred. Consequently, these financial statements are not intended to present financial position or results of operations in accordance with generally accepted accounting principles. The City of Shelby has not presented the management's discussion and analysis or budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational economic or historical context. Our opinion on the basic financial statements is not affected by the missing information.

## **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 14-1 and 14-2 to be material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **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 and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **City's Response to Findings**

The City of Shelby, Mississippi's response to the findings identified in our audit are described in the Schedule of Findings and Responses. We did not audit the City of Shelby, Mississippi's response and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

A handwritten signature in black ink, appearing to read "E. D. ... CPA, P. C.", is written over the printed text.

Clarksdale, Mississippi  
January 29, 2016

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CITY OF SHELBY, MISSISSIPPI  
SCHEDULE OF FINDINGS AND RESPONSES  
SEPTEMBER 30, 2014

Section 1: Summary of Auditors' Results

Financial Statements:

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditors' report issued on the primary government financial statements:           | Unqualified   |
| 2. | Internal control over financial reporting:  |               |
|    | a. Material weaknesses identified?  | Yes           |
|    | b. Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| 3. | Noncompliance material to the financial statements?                                       | No            |

Section 2: Financial Statement Findings

14-1 Finding:

There is a lack of segregation of duties in the City Clerk's office. Internal accounting controls of the City of Shelby are inadequate because of a lack of segregation of duties due to limited personnel and limited funding. Good internal controls call for the segregation of duties between the performance, approval and record keeping of a transaction. This finding was reported in the prior year.

Recommendation:

An evaluation of the internal control structure of the City of Shelby, Mississippi to determine a workable and economically feasible improvement in the internal control structure.

Response:

The City of Shelby, Mississippi is unable to hire additional employees to properly segregate the duties due to the limited funding resources of a small municipality.

14-2 Finding:

The person responsible for the City of Shelby's accounting and reporting function lacks the skills and knowledge to prepare financial statements with full disclosures.

Recommendation:

Evaluate the abilities of the current staff of the City of Shelby and provide continuing education when available to enhance the knowledge of the staff.

Response:

The City of Shelby is unable to upgrade their personnel to a skill level necessary to eliminate this finding due to limited funding resources.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS**

Honorable Mayor and Aldermen  
City of Shelby  
Shelby, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Shelby, Mississippi as of and for the year ended September 30, 2014, which collectively comprise the City of Shelby, Mississippi's basic financial statements and have issued our report thereon dated January 29, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of the procedures and our audit of the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities disclosed the following instances of noncompliance with state laws and regulations. Our findings and recommendations are as follows:

Finding

The City did not comply with MCA § 21-39-9 Mississippi Code Annotated (1972), which requires that all claims should be paid in the order of their entry in the claims docket. This was a finding in the prior year and was not corrected in the current year. Also the claims docket does not always identify the fund from which each warrant is to be issued (MCA § 21-39-7).

Recommendation

We strongly suggest that the City comply with MCA § 21-39-9 and MCA § 21-39-7, Mississippi Code Annotated (1972).

Response

The City plans to comply with these requirements in the future.

Finding

The City did not comply with MCA § 83-39-31, which requires that state imposed court assessments be settled monthly. This condition existed during the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2015.

Recommendation

We strongly suggest that the City immediately settle all state imposed court assessments which have been collected.

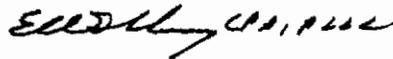
Response

The City is presently taking actions to correct this matter.

These items will be reviewed in subsequent audits to determine that corrective actions have been taken.

City of Shelby's responses to the findings included in this report was not audited and, accordingly, we express no opinion on them.

This report is intended for the information of the City of Shelby, Mississippi's management and Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Clarksdale, Mississippi  
January 29, 2016