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CITY OF SHELBY, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

DEC 13 2018

CITY OF SHELBY, MISSISSIPPI
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September 30, 2015

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**BANKS, FINLEY,
WHITE & CO.**
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Honorable Members of the Board of Aldermen
City of Shelby, Mississippi

Report on the Financial Statements

We have audited the accompanying 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 (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 *Governmental 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 City'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 City'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 opinion.

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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, and each major fund and the aggregate remaining fund information of the City of Shelby, Mississippi, as of September 30, 2015, and the respective changes in financial position and, where applicable, and budgetary comparison schedules for the year then ended in accordance with the basis of accounting described in Note 1.

Other Matters

Required Supplemental Information

The City of Shelby, Mississippi has not presented the Management's and 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2017, on our consideration of the City of Shelby, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Banks, Finley, White & Co.

Jackson, Mississippi
February 8, 2017

FINANCIAL STATEMENTS

CITY OF SHELBY, MISSISSIPPI
Statement of Activities and Net Position - Cash Basis
For the Year Ended September 30, 2015

	Program Revenues			Net (Expenses) Revenues Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Primary Government:						
Governmental activities:						
Administration	\$ 238,584	-	11,808	-	(226,776)	\$ (226,776)
Judicial	9,600	-	-	-	(9,600)	(9,600)
Public safety	429,771	-	12,128	-	(417,643)	(417,643)
Public works	211,843	-	16,906	72,160	(122,777)	(122,777)
Health and Sanitation	100,800	133,945	-	-	33,145	33,145
Library support	15,583	-	-	-	(15,583)	(15,583)
Community development	14,560	-	14,560	-	-	-
Summer feeding program	3,544	-	-	-	(3,544)	(3,544)
Principal payment on debt	35,000	-	-	-	(35,000)	(35,000)
Interest on long-term debt	7,350	-	-	-	(7,350)	(7,350)
Total governmental activities	<u>1,066,635</u>	<u>133,945</u>	<u>55,402</u>	<u>72,160</u>	<u>(805,128)</u>	<u>(805,128)</u>
Business-type activities:						
Water/Sewer	<u>200,204</u>	<u>452,046</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>251,842</u>
Total Business-type activities	<u>200,204</u>	<u>452,046</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>251,842</u>
Total Primary Government	<u>\$ 1,266,839</u>	<u>585,991</u>	<u>55,402</u>	<u>72,160</u>	<u>(805,128)</u>	<u>\$ (553,286)</u>
General Revenues:						
Property taxes				\$ 455,683	-	\$ 455,683
Sales taxes				116,585	-	116,585
Franchise taxes				51,727	-	51,727
Fines and report fees				25,047	-	25,047
License and permits				3,534	-	3,534
Miscellaneous				24,358	-	24,358
Unrestricted investment earnings				250	316	566
Transfers				<u>198,855</u>	<u>(198,855)</u>	<u>-</u>
Total general revenues, special items, and transfers				<u>876,039</u>	<u>(198,539)</u>	<u>677,500</u>
Change in net assets				<u>70,911</u>	<u>53,303</u>	<u>124,214</u>
Net Position - Beginning				422,926	399,363	822,289
Prior period adjustments				-	-	-
Net Position - Beginning as restated				<u>422,926</u>	<u>399,363</u>	<u>822,289</u>
Net Position - Ending				<u>\$ 493,837</u>	<u>452,666</u>	<u>\$ 946,503</u>

The Accompanying Notes are an intergal part of these Financial Statements.

CITY OF SHELBY, MISSISSIPPI
 Balance Sheet and Net Assets - Cash Basis
 Governmental Funds
 For the Year Ended September 30, 2015

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalent	\$ 83,265	-	-	\$ 83,265
Cash, restricted	<u>288,148</u>	<u>52</u>	<u>122,372</u>	<u>410,572</u>
TOTAL ASSETS	<u>\$ 371,413</u>	<u>52</u>	<u>122,372</u>	<u>\$ 493,837</u>
NET ASSETS				
Restricted for debt service	\$ -	-	122,372	\$ 122,372
Restricted for Mosquito control	63,265	-	-	63,265
Restricted for fire protection	215,471	-	-	215,471
Restricted for police activity	2,774	-	-	2,774
Restricted for other activity	6,638	-	-	6,638
Restricted for federal grants	-	52	-	52
Unassigned	<u>83,265</u>	<u>-</u>	<u>-</u>	<u>83,265</u>
Total Net Assets	<u>371,413</u>	<u>52</u>	<u>122,372</u>	<u>493,837</u>
TOTAL NET ASSETS	<u>\$ 371,413</u>	<u>52</u>	<u>122,372</u>	<u>\$ 493,837</u>

The Accompanying Notes are an intergral part of these Financial Statements.


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CITY OF SHELBY, MISSISSIPPI
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Cash Basis
 Governmental Funds
 For the Year Ended September 30, 2015

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
REVENUES:				
General property taxes	\$ 326,799	-	119,457	\$ 446,256
Privilege licenses and permits	5,334	-	-	5,334
Intergovernmental revenues	157,939	86,720	9,427	254,086
Franchise taxes	49,415	-	-	49,415
Charges for services	133,945	-	-	133,945
Fines and report fees	25,047	-	-	25,047
Interest income	209	-	41	250
Miscellaneous	24,353	5	-	24,358
Total Revenues	<u>723,041</u>	<u>86,725</u>	<u>128,925</u>	<u>938,691</u>
EXPENDITURES:				
General Government:				
Personnel and fringe benefits	93,083	-	-	93,083
Other service and charges	155,101	-	-	155,101
Public Safety - Police				
Personnel and fringe benefits	361,966	-	-	361,966
Other services and charges	54,526	-	-	54,526
Public Safety - Fire				
Personnel and fringe benefits	7,366	-	-	7,366
Other services and charges	5,913	-	-	5,913
Public Works - Streets				
Personnel and fringe benefits	96,705	-	-	96,705
Other services and charges	42,978	-	-	42,978
Health and Sanitation				
Other services and charges	100,800	-	-	100,800
Culture and Recreation				
Other services and charges	15,583	-	-	15,583
Summer Feeding Program				
Other services and charges	3,544	-	-	3,544
Community Development				
Other services and charges	-	14,560	-	14,560
Debt services:				
Principal	-	-	35,000	35,000
Interest and service charges	-	-	7,350	7,350
Capital outlay:				
Public works	-	72,160	-	72,160
TOTAL EXPENDITURES	<u>937,565</u>	<u>86,720</u>	<u>42,350</u>	<u>1,066,635</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(214,524)</u>	<u>5</u>	<u>86,575</u>	<u>(127,944)</u>
OTHER CASH SOURCES (USES):				
Operating transfers in	312,000	-	-	312,000
Operating transfers out	(33,145)	-	(80,000)	(113,145)
Total Other Financing Sources (Uses)	<u>278,855</u>	<u>-</u>	<u>(80,000)</u>	<u>198,855</u>
Excess (Deficiency) of Receipts and Other Cash Sources Over Disbursements and Other Cash Uses	<u>64,331</u>	<u>5</u>	<u>6,575</u>	<u>70,911</u>
Cash Basis Fund Balance, October 1	307,082	47	115,797	422,926
Cash Basis Fund Balance, September 30	<u>\$ 371,413</u>	<u>52</u>	<u>122,372</u>	<u>\$ 493,837</u>

The Accompanying Notes are an intergral part of these Financial Statements.

CITY OF SHELBY, MISSISSIPPI
 General Fund - Cash Basis
 Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended September 30, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:				
Property taxes	\$ 337,000	337,000	326,799	\$ (10,201)
Privilege licenses and permits	1,951	1,951	5,334	3,383
Intergovernmental revenues	151,883	151,883	157,939	6,056
Franchise taxes	45,000	45,000	49,415	4,415
Charges for services	133,945	133,945	133,945	-
Fines and report fees	28,000	28,000	25,047	(2,953)
Interest	-	-	209	209
Miscellaneous	<u>3,800</u>	<u>3,800</u>	<u>24,353</u>	<u>20,553</u>
TOTAL REVENUES	<u>701,579</u>	<u>701,579</u>	<u>723,041</u>	<u>21,462</u>
OPERATING DISBURSEMENTS:				
General Government				
Administration	303,817	303,817	248,184	55,633
Public Safety				
Police protection	465,866	465,866	416,492	49,374
Fire protection	12,250	12,250	13,279	(1,029)
Public Works				
Streets improvements	29,400	29,400	139,683	(110,283)
Health and Sanitation	100,800	100,800	100,800	-
Culture and Recreation	19,500	19,500	15,583	3,917
Summer feeding program	-	-	3,544	(3,544)
Total Expenditures	<u>931,633</u>	<u>931,633</u>	<u>937,565</u>	<u>(5,932)</u>
Excess (deficiency) of Revenues Over (Under) Expenditures	<u>(230,054)</u>	<u>(230,054)</u>	<u>(214,524)</u>	<u>15,530</u>
Other Financing Sources (Uses):				
Operating transfers in	332,000	332,000	312,000	(20,000)
Operating transfer out	-	-	(33,145)	(33,145)
Total Other Financing Sources (Uses)	<u>332,000</u>	<u>332,000</u>	<u>278,855</u>	<u>(53,145)</u>
Net Change in Fund Balances	101,946	101,946	64,331	(37,615)
Cash Basis Fund Balance, Oct. 1	<u>307,082</u>	<u>307,082</u>	<u>307,082</u>	<u>-</u>
Cash Basis Fund Balance, Sept, 30	<u>\$ 409,028</u>	<u>409,028</u>	<u>371,413</u>	<u>\$ (37,615)</u>

The Accompanying Notes are an intergral part of these Financial Statements.

CITY OF SHELBY, MISSISSIPPI
Statement of Net Position - Cash Basis
Proprietary Fund
For the Year Ended September 30, 2015

	<u>Water/Sewer Fund</u>	<u>Business Type Activities Nonmajor Enterprise Funds</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ 216,444	-	\$ 216,444
Cash, restricted	-	198,171	198,171
Total Assets	<u>\$ 216,444</u>	<u>198,171</u>	<u>\$ 414,615</u>
Net Position			
Restricted for debt service	\$ -	198,171	\$ 198,171
Unrestricted	216,444	-	216,444
Total Net Position	<u>216,444</u>	<u>198,171</u>	<u>414,615</u>
Total Net Position	<u>\$ 216,444</u>	<u>198,171</u>	<u>\$ 414,615</u>

The Accompanying Notes are an intergral part of these Financial Statements.

CITY OF SHELBY, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Net Position - Cash Basis
Proprietary Funds
For the Year Ended September 30, 2015

	<u>Business -Type Activities</u>		<u>Total</u>
	<u>Water/Sewer Fund</u>	<u>Nonmajor Enterprise Funds</u>	
Operating Revenues:			
Sales to customers	\$ 452,046	-	\$ 452,046
Total Operating Revenues	<u>452,046</u>	<u>-</u>	<u>452,046</u>
Operating Expenses:			
Personnel services	42,412	-	42,412
Other services and charges	<u>132,081</u>	<u>-</u>	<u>132,081</u>
Total Operating Expenses	<u>174,493</u>	<u>-</u>	<u>174,493</u>
Operating income (loss)	<u>277,553</u>	<u>-</u>	<u>277,553</u>
Nonoperating revenues (expenses)			
Other income	167	149	316
Principal payment on debt	-	(25,711)	(25,711)
Interest and service charges on long-term debt	-	<u>(38,051)</u>	<u>(38,051)</u>
Total nonoperating revenues	<u>167</u>	<u>(63,613)</u>	<u>(63,446)</u>
Net Income Before Operating Transfers	277,720	(63,613)	214,107
Operating Transfers In	33,145	79,452	112,597
Operating Transfers (Out)	<u>(311,452)</u>	<u>-</u>	<u>(311,452)</u>
Change in Net Position	(587)	15,839	15,252
Cash Basis Net Position, October 1	<u>217,031</u>	<u>182,332</u>	<u>399,363</u>
Cash Basis Net Position, September 30	<u>\$ 216,444</u>	<u>198,171</u>	<u>\$ 414,615</u>

The Accompanying Notes are an integral part of these Financial Statements.

CITY OF SHELBY, MISSISSIPPI
Notes to the Financial Statements
September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Shelby, Mississippi (the City) was incorporated under the provisions of Mississippi Law. The city is governed by its Mayor and a Board of Aldermen consisting of five members. Services provided to the citizens of Shelby include but are not limited to public safety (police and fire protection), streets, recreation, and utility services (water and sewer).

The City's accompanying policies conform to generally accepted accounting principals for governmental units. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Some of the City's more significant accounting policies are described as follows:

FINANCIAL REPORTING ENTITY

The accompanying financial statements reflect only the primary government of the City of Shelby. The primary government includes only those funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the City. The financial statements do not include the data of the component units necessary for financial reporting in conformity with generally accepted accounting principles.

FINANCIAL STATEMENTS

The financial statements include both government-wide and fund financial statements. Both government-wide and fund financial statements categorize activities as either governmental activities or business-type activities, which are described as follows:

1. Governmental activities involve government services that are normally supported by taxes and intergovernmental revenues.
2. Business-type activities rely on fees and charges for support and operate in a manner similar to private sector enterprises. Since proprietary funds operate in a manner similar to business enterprises, these funds follow certain pronouncements that are developed by the Financial Accounting Standards Board (FASB) for business enterprises. However, the City only applies those FASB pronouncement that were issued on or before November 30, 1989.

The government-wide and fund financial statements present the City's financial position and results of operations from differing perspectives which are described as follows:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities display information about the City as a whole. The effect of most interfund activity is eliminated from these financial statements. Furthermore, government-wide financial statements exclude any fiduciary activities which are reported in the fund financial statements.

CITY OF SHELBY, MISSISSIPPI
Notes to the Financial Statements
September 30, 2015

Program revenues reported in the Statement of Activities consist of amounts that are directly associated with a governmental service or business-type activity. Program revenues include charges for services, fines, court cost, contributions associated with a particular function and most grants.

FUND FINANCIAL STATEMENTS

Funds are separate accounting entities that are designed to assist with demonstrating legal compliance and segregating transactions by activity. Separate financial statements are provided for governmental funds and business-type (enterprise) funds. In addition, separate financial statements are presented for any fiduciary activities. Major individual funds are reported as separate columns in the fund financial statements. The City's major funds are described as follows:

MAJOR GOVERNMENTAL FUNDS

General Fund - The general fund is the primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - The fund is a special revenue fund used to account for the federal grant funds that are restricted for constructing, paving, resurfacing, improving and maintaining public streets, sidewalks and bridges.

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

MAJOR BUSINESS - TYPE FUNDS

Water System - The water system fund is used to account for the operation of the City's water system, which are supported by user charges.

Sewer System - The sewer system fund is used to account for the operation of the City's sewer system, which are supported by user charges and special taxes.

Business-Type funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with the funds ongoing operations. Principal operating revenues are charges to customers for water and sewer service.

BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The basis of accounting and measurement focus used for various financial statement presentations are described as follows:

<u>Financial Statement Presentation</u>	<u>Basis of Accounting</u>	<u>Measurement Focus</u>
Government-Wide Financial Statements	Accrual Basis	Economic Resources
Fund Financial Statements:		
Governmental Funds	Modified Accrual Basis	Current Financial Resources
Proprietary Funds	Accrual Basis	Economic Resources

CITY OF SHELBY, MISSISSIPPI
Notes to the Financial Statements
September 30, 2015

Under the accrual basis of accounting and the economic resources measurement focus, revenues are recorded when earned and expenses are recorded when a liability is incurred.

Under the modified accrual basis of accounting and the current financial resources measure focus revenue is recognized when it is considered measurable and available. Revenue is considered available if it is collected within 60 days of year end or if it is due under cost reimbursement arrangement. In addition, expenses are generally recorded when a liability has been incurred; however, debt service, claims and judgments are recorded as expenses when payment is made. Furthermore, when the current financial resources measure focus is used, amounts recorded as assets exclude capital assets and the acquisition of capital assets is treated as an expenditure. In addition, long-term debts are excluded from amounts reported as liabilities. Proceeds from issuing long-term debt is reported as an other financing source and repayment of long-term debt is reported as an expenditure.

BUDGETARY CONTROL

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The procedures detailed below are followed in establishing the budgetary data reflected in the financial statements.

The City Clerk and Mayor prepare a proposed budget based on an estimate of the revenues expected to be received in the next fiscal year and submits the proposal to the Board of Aldermen/Alderwomen. A summary of the proposed budget is published and the public is notified that the proposed budget is available for public inspection. At the same time, a public hearing is set.

A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing. After the holding of the public hearing and completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of an ordinance prior to the commencement of the fiscal year for which the budget is being adopted.

As required by state law, the budgets are amended whenever projected revenue fails to meet original expectations or when projected expenditures exceed original expectations. Budgetary amounts are presented as amended and all budgetary appropriations lapse at the end of the fiscal year.

CASH AND CASH EQUIVALENTS

The City deposits excess funds in financial institutions selected by the board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and savings accounts. Cash and other deposits are valued at cost.

CITY OF SHELBY, MISSISSIPPI
Notes to the Financial Statements
September 30, 2015

INTERNAL ACTIVITY

Resources belonging to particular funds are commonly shared with other funds that need access to additional resources. When resources are provided without expectation of repayment, the transaction is reported as a transfer. Transfers are treated as a source of income by the recipient and as an expense or expenditure by the provider. If repayment is eventually expected to occur, interfund receivables and payables are recorded.

In preparing the government-wide financial statement, transfers are eliminated to present net transfers for governmental activities and business-type activities. In addition, interfund receivables and payables are eliminated to present a net internal balance for each type of activity.

Restricted Assets - Restricted assets represent resources that must be expended in a specific manner. Restrictions of this nature are imposed by various contractual obligations including grant agreements and bond covenants. Whenever restricted assets can be used to satisfy an obligation, the restricted assets are typically consumed before utilizing any unrestricted resources.

Capital Assets - Capital assets, which include property, equipment and infrastructure acquired after October 1, 2003, are reported as assets in the applicable governmental or business-type columns in the government-wide financial statements and in the fund financial statements for proprietary funds. Assets reported in the fund financial statements for governmental funds exclude capital assets. Instead, the governmental funds report the acquisition of capital assets as expenditures rather than asset acquisitions.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value when received by the Town.

Capital assets, excluding land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	20
Heavy machinery and equipment	5-15
Computer equipment	3
Vehicles	3-10
Infrastructure	8-50

Interest is capitalized on proprietary funds assets constructed with the proceeds of tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on investment proceeds over the same period.

Compensated Absences - The City does not accumulate unpaid vacation, and other employee benefit amounts because employees are not allowed to carry over significant amounts.

CITY OF SHELBY, MISSISSIPPI
Notes to Financial Statements
September 30, 2015

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fund Balance Spending Policy - The City has not adopted a formal spending policy as it relates to the fund balance therefore, excess amounts are expended in the following manner in accordance with GSBA 54 default level: committed, assigned and unassigned.

NOTE 2 - CASH AND CASH EQUIVALENTS

The collateral for public entities, deposits in financial institutions is now 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, Mississippi 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 (FDIC).

The carrying amount of the City's deposits with financial institutions in the governmental activities and the business-type activities funds was \$493,837 and \$216,444, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$299,709 and Restricted Assets - \$410,572. The Restricted Assets represent the cash balance in the debt service fund which is legally restricted and may not be used for purposes that support the City's programs. The bank balance was \$944,239.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of a 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 Treasury manages the risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of *September 30, 2015*, none of the City's bank balance of \$944,239 was exposed to custodial credit risk.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The City does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as 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. The City does not have a formal investment policy that addresses custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the City. As of *September 30, 2015*, none of the City's bank balance of \$944,239 was exposed to custodial credit risk.

CITY OF SHELBY, MISSISSIPPI
Notes to the Financial Statements
September 30, 2015

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of September 30, 2015, the City had no investments.

NOTE 3 - AD VALOREM TAXES

Ad valorem taxes are assessed on a calendar year basis and are due on or before December 31 in the year in which the tax is levied. Property taxes are recognized when the revenue is measurable and available. Available means due or past due and collected no longer than 60 days after the close of the current period. For the year ended September 30, 2015, the City levied and collected 72.00 mills of taxes for following purposes of the City.

<u>Category</u>	<u>Mills Amount</u>
General Government	51.00
Debt Service	<u>21.00</u>
Total Mills	<u><u>72.00</u></u>

NOTE 4 - INTERFUND TRANSFERS

Individual fund interfund transfers are presented as of September 30, 2015 as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Funds:		
General Fund	\$ 312,000	\$ 33,145
Water/Sewer System Fund	33,145	311,452
Debt Service Fund	-	80,000
Nonmajor Enterprise Funds	<u>79,452</u>	<u>-</u>
	<u><u>\$ 424,597</u></u>	<u><u>\$ 424,597</u></u>

CITY OF SHELBY, MISSISSIPPI
Notes to the Financial Statements
September 30, 2015

NOTE 5 - LONG-TERM DEBT

A summary of long-term debt transactions for the year ended September 30, 2015, were as follows:

Governmental activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 150,777	-	(35,000)	115,777	\$ 37,000
Totals	<u>\$ 150,777</u>	<u>-</u>	<u>(35,000)</u>	<u>115,777</u>	<u>\$ 37,000</u>

The annual requirement to amortize this outstanding debt as of September 30, 2015 including interest payments of \$42,741 are as follows:

Year Ended September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 37,000	5,741	\$ 42,741
2017	39,000	3,840	42,840
2018	39,777	1,939	41,716
	<u>\$ 115,777</u>	<u>11,520</u>	<u>\$ 127,297</u>

The above debt has a variable interest rate.

Long-term debt activity for the year ended September 30, 2015, is presented as follows:

Business-type activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ 888,053	-	(25,711)	862,342	\$ 25,957
Totals	<u>\$ 888,053</u>	<u>-</u>	<u>(25,711)</u>	<u>862,342</u>	<u>\$ 25,957</u>

The annual requirement to amortize this outstanding debt as of September 30, 2015 including interest payments of \$62,770 are as follows:

Year Ended September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 25,957	36,813	\$ 62,770
2017	25,592	37,178	62,770
2018	26,770	36,000	62,770
2019	28,002	34,768	62,770
2020	29,197	33,573	62,770
2021-2025	167,857	145,993	313,850
2026-2030	210,225	103,625	313,850
2031-2035	263,290	49,440	312,730
2036-2037	85,452	2,888	88,340
	<u>\$ 862,342</u>	<u>480,278</u>	<u>\$ 1,342,620</u>

The above debt has an interest rate of 4.50%.

CITY OF SHELBY, MISSISSIPPI
Notes to the Financial Statements
September 30, 2015

NOTE 6 - DEFINED BENEFIT PENSION PLAN

A. General Information

Plan Description and Provisions: The City of Shelby, Mississippi contributes to the Public Employees 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. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Cods Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only the 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.

Plan Funding Policy: PERS members are required to contribute 9.00% of their annual covered salary and the City of Shelby, Mississippi is required to contribute at an actuarially determined rate. This rate was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Shelby, Mississippi contributions to PERS for the years ended September 30, 2015, 2014, and 2013 were \$65,230, \$61,709, and \$57,303, respectively, equal to the required contributions for each year.

NOTE 7 - FEDERAL GRANTS

During the fiscal year ended September 30, 2015, the City received federal grant funds in the amount of \$83,520 and incurred grant expenditures in the same amount.

Funding Source	Grant Name	Grant Number	CFDA Number	Amount Expended
Mississippi Dev. Authority	HOME Investment Partnership Program	1225-M13-SG-280-130	14.239	\$ 11,360
Mississippi Dev. Authority	Community Development Block Grant	1102-12-336-PF-01	14.228	72,160
				<u>\$ 83,520</u>

A single audit in accordance with OMB Circular A-133 was not required for the year ended September 30, 2015.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Federal Grants

The City has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the City. No provisions for any liability that may result has been recognized in the City's financial statements.

CITY OF SHELBY, MISSISSIPPI
Notes to the Financial Statements
September 30, 2015

NOTE 9 - RESERVED FUND BALANCES AND RETAINED EARNINGS

Various bond covenants require the City to maintain cash reserves that can only be used under specific circumstances. Since these funds are available only under specific circumstances, the amounts are presented as restricted.

NOTE 10 - 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. These risks of loss are covered by participation in a public entity risk pool that operates as a common insurance program and by acquiring commercial insurance coverage. Claims resulting from these risks have historically not exceeded insurance coverage.

A. 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 City's employees. MMWCG 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 obligation 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 \$83,520 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 the 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 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 11 - PROPERTY TAXES RECEIVABLE AND PROPERTY TAX CALENDAR

Property taxes receivable are recorded in the general fund after the general fund budget is approved by the Board of Aldermen/Alderwomen. At fiscal year-end, the receivable represent delinquent taxes.

Property taxes on real, personal and public utilities attach as an enforceable lien on the levy date or January 1 for the preceding calendar year. Shelby County bill and collect the real, personal and ad valorem taxes for the City of Shelby, Mississippi. The taxes are remitted to the City on a monthly basis.

CITY OF SHELBY, MISSISSIPPI
Notes to the Financial Statements
September 30, 2015

The taxes are due on or before February 1; however, installment payments can be made one-half of balance due February 1 and one-fourth each on May 1 and August 1. Major tax payments received February through May, are recognized as revenue in the year received. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received.

NOTE 12 - ECONOMIC DEPENDENCY

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

NOTE 13 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 20, 2016, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

10/13/2018

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



INDEPENDENT AUDITOR'S 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

The Honorable Mayor and
Honorable Members of the Board of Aldermen
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 (the City), as of and for the year ended September 30, 2015, 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 February 8, 2017.

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.

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 timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as finding 2015-01 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shelby, Mississippi'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 of Shelby, Mississippi Response to Finding

City of Shelby, Mississippi's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. City of Shelby, Mississippi's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Banks, Finley, White & Co.

Jackson, Mississippi
February 8, 2017

CITY OF SHELBY, MISSISSIPPI
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
Year Ended September 30, 2015

Finding 2015-01

Segregation of Duties

Finding

During our inquiry with City personnel, we found there is a lack of the segregation of duties in the City Clerk's Office. A good system of internal accounting controls requires that there be a segregation of duties between the performance, authorization, approval and the recording of accounting transactions. This is a repeated finding.

Auditor's Recommendation

The City should evaluate its current system of internal controls to determine a workable and economically feasible resolution in order to improve its system of internal controls.

Auditee's Response

Due to limited financial resources, the City is unable to hire an additional employee that will allow for a proper segregation of duties.

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CITY OF SHELBY, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended September 30, 2015

A. FINANCIAL STATEMENTS

Finding 14-1

Condition: Segregation of duties.

Current Status: Not Corrected

Finding 14-2

Condition: Lack of Skills and Knowledge to prepare financial statements and related notes.

Current Status: Corrected

B. STATE LEGAL COMPLIANCE

Finding 14-3

Finding: Paying all claims in the order of entry and claims not being identified by fund.

Current Status: Not Corrected

Finding 14-4

Finding: The state imposed court assessments were not always settled on a monthly basis.

Current Status: Not Corrected

STATE LEGAL COMPLIANCE



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS

To the Honorable Mayor and
Honorable Members of the Board of Aldermen
City of Shelby, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business activities, each major fund and the aggregate remaining fund information of the City of Shelby, Mississippi (the City) as of and for the year ended September 30, 2015, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 8, 2017. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

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

Going forward the City personnel will ensure that all claims are paid in the order of their entry on the claim docket and are identified by fund.

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 September 31, 2015.

Recommendation

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

Response

The City will adopt administrative control procedures to ensure that all state imposed court assessments are remitted and settled in a time manner.

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

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

This report is intended solely for the information of the Mayor, Board of Aldermen, management and federal awarding agencies and pass-through entities 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.

Banke Finley, White & Co.

Jackson, Mississippi
February 8, 2017

CITY OF SHELBY, MISSISSIPPI
Schedule of Investments
September 30, 2015

At September 30, 2015, the City of had no investments.

CITY OF SHELBY, MISSISSIPPI
 Schedule of Surety Bonds for Municipal Officials
 September 30, 2015

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

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CITY OF SHELBY, MISSISSIPPI
Schedule of Long-Term Debt
September 30, 2015

	<u>Authorized</u>	<u>Issued</u>	<u>Balance Outstanding Oct. 1, 2014</u>	<u>During Fiscal Year</u>		<u>Balance Outstanding Sept. 30, 2015</u>
				<u>Additions</u>	<u>Retired</u>	
<u>General Government:</u>						
General Obligation Bonds	\$ <u>527,500</u>	\$ <u>527,500</u>	\$ <u>150,777</u>	\$ <u>-</u>	\$ <u>35,000</u>	\$ <u>115,777</u>
<u>Proprietary:</u>						
Revenue Bonds						
Water/Sewer	<u>1,081,700</u>	<u>1,081,700</u>	<u>888,053</u>	<u>-</u>	<u>25,711</u>	<u>862,342</u>
Total Revenue Bonds	<u>1,081,700</u>	<u>1,081,700</u>	<u>888,053</u>	<u>-</u>	<u>25,711</u>	<u>862,342</u>
Total Long-Term Debt	\$ <u>1,609,200</u>	\$ <u>1,609,200</u>	\$ <u>1,038,830</u>	\$ <u>-</u>	\$ <u>60,711</u>	\$ <u>978,119</u>

CITY OF SHELBY, MISSISSIPPI
Schedule of Capital Assets
September 30, 2015

A. All Governmental Funds

	Beginning Balance	Additions	Disposals	Ending Balance
(Non Depreciable Capital Assets)				
Land	\$ 27,277	-	-	\$ 27,277
Total Non Depreciable Capital Assets	<u>27,277</u>	<u>-</u>	<u>-</u>	<u>27,277</u>
Depreciable Capital Assets				
Building and improvements	51,080	-	-	51,080
Machinery and equipment	94,815	-	-	94,815
Infrastructure	399,025	72,160	-	471,185
Total Depreciable Capital Assets	<u>544,920</u>	<u>72,160</u>	<u>-</u>	<u>617,080</u>
Total Governmental Activities Capital Assets	<u>\$ 572,197</u>	<u>-</u>	<u>-</u>	<u>\$ 572,197</u>

B. All Enterprise Funds

	Beginning Balance	Additions	Disposals	Ending Balance
Depreciable Capital Assets				
Water/sewer system	\$ 603,555	-	-	603,555
Total Business-Type Activities Capital Assets	<u>\$ 603,555</u>	<u>-</u>	<u>-</u>	<u>\$ 603,555</u>

CITY OF SHELBY, MISSISSIPPI
 Schedule of Cash Receipts and Disbursements
 Reserve Accounts Required by Rural Development
 Enterprise Fund
 Year Ended September 30, 2015

For the Rural Development loans, there are a number of limitations and restrictions contained in the revenue bond ordinances. The City is required to maintain certain reserve accounts as follows:

	Depreciation Fund	Contingency Fund	Bond Cushion Fund	Total
Cash and investment at beginning of year	\$ <u>66,954</u>	<u>33,661</u>	<u>67,422</u>	\$ <u>168,037</u>
Cash Receipts:				
Transfer from Operating account	6,360	3,180	6,360	15,900
Interest income	<u>53</u>	<u>27</u>	<u>54</u>	<u>134</u>
Total Receipts	<u>6,413</u>	<u>3,207</u>	<u>6,414</u>	<u>16,034</u>
Total cash and investments available	<u>73,367</u>	<u>36,868</u>	<u>73,836</u>	<u>184,071</u>
Cash Disbursements:				
Transfer to other funds	-	-	-	-
Total cash disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and Investment at End of Year	\$ <u>73,367</u>	<u>36,868</u>	<u>73,836</u>	\$ <u>184,071</u>
Amount of Reserve Required at Year End	\$ <u>36,841</u>	<u>36,841</u>	<u>69,910</u>	\$ <u>143,592</u>
Reserve Excess or (Deficiency)	\$ <u>36,526</u>	<u>27</u>	<u>3,926</u>	\$ <u>40,479</u>