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City of Shelby
Financial Statements
September 30, 2008

Ellis & Hirsberg
Certified Public Accountants, PLLC
Clarksdale, Mississippi

**CITY OF SHELBY, MISSISSIPPI
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Aldermen
City of Shelby, Mississippi

We have audited the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities of the City of Shelby, Mississippi, as of and for the year ended September 30, 2008. This financial statement is the responsibility of the City of Shelby, Mississippi's management. Our responsibility is to express an opinion on this financial statement 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 statement referred to above is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


As described more fully in Note 1, the City of Shelby, Mississippi has prepared their financial statements using accounting practices permitted by the Mississippi State Department of Audit, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effect of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of each fund of the City of Shelby, Mississippi as of September 30, 2008, or changes in financial position or cash flows thereof for the year then ended. Further, the City has not presented management's discussion and analysis nor required supplemental information that accounting principles generally accepted in the United States has determined is necessary to supplement, although they are not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of each fund of the City of Shelby, Mississippi, as of September 30, 2008, and their respective cash receipts and disbursements, for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities of the City of Shelby, Mississippi taken as a whole. Schedules 1 - 2 are presented for the purposes of additional analysis and are not a required part of the financial statement. The information in those schedules has been subjected to the auditing procedures applied in the audit of the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities and, in our opinion, is fairly presented in all material respects in relation to the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009 on our consideration of the City of Shelby's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 internal part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink, appearing to read "E. J. ... CPA", is written over the end of the third paragraph.

November 13, 2009

CITY OF SHELBY, MISSISSIPPI
 STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS,
 GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
 YEAR ENDED SEPTEMBER 30, 2008

	Governmental Activities Types			Memorandum Only Total	Business-type Activities Enterprise
	General	Debt Service	Capital Project		
REVENUE RECEIPTS:					
General Property Taxes:					
Current levy	211,838.09	105,918.84		317,756.93	
Prior years levy, penalty and interest	2,299.41			2,299.41	
Vehicles	45,554.75	22,777.37		68,332.12	
Total taxes	259,692.25	128,696.21	0.00	388,388.46	0.00
Licenses and Permits:					
Licenses and permits	4,483.85			4,483.85	
Franchise fees - utilities	42,460.59			42,460.59	
Total licenses and permits	46,944.44	0.00	0.00	46,944.44	0.00
Intergovernmental Revenue:					
Federal grants:					
CDBG - Public Facility			3,000.00	3,000.00	
Total federal funds	0.00	0.00	3,000.00	3,000.00	0.00
State grants:					
Homestead exemption reimbursement	22,868.50	11,434.26		34,302.76	
Total state grants	22,868.50	11,434.26	0.00	34,302.76	0.00
State shared revenues:					
Law enforcement	1,458.90			1,458.90	
Fire prevention funds	15,154.37			15,154.37	
General sales tax	101,492.27			101,492.27	
Utility tax	4,908.77			4,908.77	
Municipal aid	1,539.83			1,539.83	
Motor vehicles fuel taxes	7,678.36			7,678.36	

CITY OF SHELBY, MISSISSIPPI
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS,
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008

	Governmental Activities Types			Memorandum Only Total	Business-type Activities Enterprise
	General	Debt Service	Capital Project		
Liquor privilege license	1,800.00			1,800.00	
Grand Gulf	15,017.21			15,017.21	
Total state shared revenues	149,049.71	0.00	0.00	149,049.71	0.00
County shared revenues:					
Road maintenance - tax levy transfer	1,297.72			1,297.72	
Total county shared revenues	1,297.72	0.00	0.00	1,297.72	0.00
Charges for Services:					
Garbage	84,000.00			84,000.00	413,578.10
Water & Sewer				0.00	413,578.10
Total charges for services	84,000.00	0.00	0.00	84,000.00	
Fines and Forfeits:					
Police fines	100,968.50			100,968.50	
Miscellaneous:					
Insurance refund	8,879.00			8,879.00	
Cemetery	3,000.00			3,000.00	
Payments in lieu of taxes	6,033.54			6,033.54	
Interest income	145.45			145.45	766.91
Miscellaneous & rents	41,472.46			41,472.46	
Total miscellaneous	59,530.45	0.00	0.00	59,530.45	766.91
Total cash receipts	724,351.57	140,130.47	3,000.00	867,482.04	414,345.01

CITY OF SHELBY, MISSISSIPPI
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS,
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008

	Governmental Activities Types			Memorandum Only Total	Business-type Activities
	General	Debt Service	Capital Project		
DISBURSEMENTS:					
General Government:					
Financial administration:					
Salaries and employee benefits	55,999.69			55,999.69	
Insurance	98,677.80			98,677.80	
Other services and charges	81,277.72			81,277.72	
Total general government	<u>235,955.21</u>	<u>0.00</u>	<u>0.00</u>	<u>235,955.21</u>	<u>0.00</u>
Public Safety:					
Police:					
Salaries and employee benefits	339,345.32			339,345.32	
Other services and charges	59,956.07			59,956.07	
State share fine assessments	44,710.75			44,710.75	
Total police	<u>444,012.14</u>	<u>0.00</u>	<u>0.00</u>	<u>444,012.14</u>	<u>0.00</u>
Fire:					
Other services and charges	9,549.75			9,549.75	
Total fire	<u>9,549.75</u>	<u>0.00</u>	<u>0.00</u>	<u>9,549.75</u>	<u>0.00</u>
Public Works:					
Streets:					
Capital outlay	8,419.00			8,419.00	
Salaries and employee benefits	74,022.58			74,022.58	
Other services and charges	52,742.45			52,742.45	
Total streets	<u>135,184.03</u>	<u>0.00</u>	<u>0.00</u>	<u>135,184.03</u>	<u>0.00</u>
Cemetery:					
Maintenance	3,800.00			3,800.00	
Total Public Works	<u>138,984.03</u>	<u>0.00</u>	<u>0.00</u>	<u>138,984.03</u>	<u>0.00</u>

CITY OF SHELBY, MISSISSIPPI
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS,
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008

	Governmental Activities Types				Memorandum Only Total	Business-type Activities
	General	Debt Service	Capital Project			
Sanitation:						
Garbage fees	84,000.00			84,000.00		
Total sanitation	84,000.00	0.00	0.00	84,000.00		0.00
Cultural / Parks and Recreation:						
Library support	17,000.04			17,000.04		
Total parks and recreation	17,000.04	0.00	0.00	17,000.04		0.00
Other Disbursements:						
Enterprise Funds:						
Salaries, labor and employee benefits				0.00		37,240.05
Other services and charges				0.00		99,729.02
Total enterprise funds	0.00	0.00	0.00	0.00		136,969.07
Federal Expenditures						
Public Facilities - CDBG			3,000.00	3,000.00		
Total federal expenditures	0.00	0.00	3,000.00	3,000.00		0.00
Debt Service:						
Principal retirement - notes		89,000.00		89,000.00		18,410.30
Interest and fees		26,249.05		26,249.05		45,141.70
Total debt service	0.00	115,249.05	0.00	115,249.05		63,552.00
Total cash disbursements	929,501.17	115,249.05	3,000.00	1,047,750.22		200,521.07
OTHER FINANCING SOURCES - (USES):						
Proceeds - line of credit - tax anticipation	80,000.00			80,000.00		
Payments - line of credit - tax anticipation	(40,000.00)			(40,000.00)		

CITY OF SHELBY, MISSISSIPPI
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS,
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008

	Governmental Activities Types				Memorandum Only Total	Business-type Activities
	General	Debt Service	Capital Project	Enterprise		
Operating transfers in	201,925.73				201,925.73	
Operating transfers out					0.00	(201,925.73)
Total other financing sources, (uses)	<u>241,925.73</u>	<u>0.00</u>	<u>0.00</u>		<u>241,925.73</u>	<u>(201,925.73)</u>
Excess cash receipts and other financing sources over/(under) cash disbursements	36,776.13	24,881.42	0.00		61,657.55	11,898.21
Cash and investments balance - beginning of year	<u>32,051.79</u>	<u>72,745.56</u>	<u>29.39</u>		<u>104,826.74</u>	<u>147,972.61</u>
Cash and investments balance - end of year	<u><u>68,827.92</u></u>	<u><u>97,626.98</u></u>	<u><u>29.39</u></u>		<u><u>166,484.29</u></u>	<u><u>159,870.82</u></u>

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

**CITY OF SHELBY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Shelby operates under a Mayor-Board of Aldermen form of government. City's population on the 2000 census was 2,926. The accounting policies of the City of Shelby conform to the laws of Mississippi for a municipality with a population of less than 3,000. The following is a summary of the more significant policies.

Reporting Entity - This report includes all of the funds and account groups of the City of Shelby. The City has developed criteria to determine whether outside agencies or authorities with activities which benefit the citizens of the City should be included within its financial reporting entity. The criteria include, but are not limited to, whether the City exercises oversight responsibility on financial inter-dependency, selection of governing authority, and accountability for fiscal matter, scope of public service and special financing relationships. No component unit was identified for inclusion or potential inclusion utilizing the criteria indicated.

Basis of Presentation - Fund Accounting - The accounts of the City of Shelby are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The City has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

Basis of Accounting - All governmental and proprietary funds 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. Financial statements issued following accounting principles generally accepted in the United States of America normally contain Government-Wide Financial Statements, Fund Financial Statements, Management Discussion and Analysis (MD&A), Required Supplemental Information (Budgetary Reporting), and other Supplemental Information.

The following funds and groups of accounts are used by the City:

Governmental Fund Types:

General Fund - This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all cost of operating the government for which a separate fund has not been established.

**CITY OF SHELBY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Special Revenue Fund - The special revenue fund is used to account for special revenues, most of which are federal grants or awards for special purposes.

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.

Capital Project Fund - Capital project funds are used to account for financial resources to be used for acquisition and/or construction of major capital facilities.

Proprietary Fund Types:

Enterprise Funds - These funds account for operations that are organized to be self-supporting through user charges. Included in this category is the Water and Sewer Fund.

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 governmental 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 each fiscal year.

Cash - Cash in excess of current requirements is invested in various interest-bearing bank deposits and disclosed as part of the City's investments when applicable.

Revenues and Expenditures/Expenses - Revenue for governmental and proprietary funds are recorded when they are received. Expenditures for governmental funds are recorded when the warrant is issued.

Property Tax Revenues - Property taxes are levied on January 1 based on the assessed value of property per the County Tax Bills. Assessed values are an approximation of market value.

Property taxes are recognized as revenue when they are received.

Encumbrances - The City of Shelby does not use encumbrance accounting.

**CITY OF SHELBY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Vacation, Sick Leave, and Other Compensated Absences - It is the City's policy to have all employees take their vacation in the year it is earned. Upon termination, employees are paid for any unused vacation time. Sick leave may only be taken for bonafide sickness and is lost upon termination of employment.

Total Columns - The Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities includes a total column that is described as memorandum only. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with receipts and disbursements basis of accounting, as permitted by the Mississippi State Department of Audit. Interfund transactions have not been eliminated from the total column of this financial statement.

NOTE 2 - PROPERTY TAXES

Property taxes attach an enforceable lien on property as of January 1. Taxes are levied as of January 1 and payable on or before February 1. Funds for payments of principal and interest on General Obligation Bonds are provided by collection of 24 mills from the total of 72 mills assessed on real property, personal property and public utilities.

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 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 City'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.

**CITY OF SHELBY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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

GENERAL OBLIGATIONS

	FYE <u>9-30-09</u>							FYE 9-30-14	FYE 9-30-19
	FYE <u>9-30-09</u>	FYE <u>9-30-10</u>	FYE <u>9-30-11</u>	FYE <u>9-30-12</u>	FYE <u>9-30-13</u>	FYE Thru <u>9-30-18</u>	FYE Thru <u>9-30-23</u>		
1989 Refunding Bond Series A									
Principal	55,000.00								
Interest	2,131.25								
Interest Rate	Variable								
1989 Refunding Bond Series B									
Principal	20,000.00								
Interest	775.00								
Interest Rate	Variable								
Street Bond									
Principal	26,000.00	27,000.00	29,000.00	30,000.00	31,000.00	183,777.10			
Interest	15,930.38	14,662.88	13,346.63	11,932.88	10,470.38	27,719.95			
Interest Rate	Variable	Variable	Variable	Variable	Variable	Variable			

REVENUE OBLIGATIONS

Water & Sewer Revenue Bond							
Principal	18,496.00	19,346.00	20,235.00	21,164.00	22,137.00	126,904.00	158,858.00
Interest	45,054.00	44,204.00	43,315.00	42,386.00	41,413.00	190,846.00	158,892.00
Interest Rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

**CITY OF SHELBY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

(Continuation of Maturities)

	FYE 9-30-24 Thru <u>9-30-28</u>	FYE 9-30-29 Thru <u>9-30-33</u>	FYE 9-30-34 Thru <u>9-30-36</u>
Water & Sewer Revenue Bond Principal	198,858.00	248,929.00	174,675.88
Interest	118,892.00	68,821.00	12,137.00
Interest Rate	4.50%	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 9/30/08</u>	Amount of Reserve <u>9/30/08</u>
Bond Cushion Fund	17,755.00	28,970.00
Contingent Fund	8,899.00	14,435.00
Depreciation Fund	12,079.00	28,505.00

NOTE 5 - DEPOSITS

The carrying amount of the City's deposits with financial institutions at September 30, 2008, was \$326,355.11, and the bank balance was \$374,654.29. 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.

Public funds were not collateralized in the amount of \$146.75.

**CITY OF SHELBY, MISSISSIPPI
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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	201,925.73	General	201,925.73

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 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 11.85% 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 \$46,046.81, \$35,151.04, and \$28,904.58, 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 - NOTES PAYABLE

On July 3, 2007, the City of Shelby obtained a \$100,000.00 line of credit from the Bank of Bolivar County. The loan was secured by anticipated tax collections of the City. The note was at an interest rate of 9.5% and was to be repaid on or before March 15, 2008. During the current fiscal year \$40,000.00 was borrowed and timely repaid on this line of credit.

On April 1, 2008 the City of Shelby obtained a \$100,000.00 line of credit from the Bank of Bolivar County. This note is secured by anticipated tax collections of the City. In August 2008 \$40,000.00 was drawn on this line of credit with interest of 7% being charged.

CITY OF SHELBY, MISSISSIPPI
SCHEDULE OF LONG-TERM DEBT
SEPTEMBER 30, 2008

	Balance Outstanding <u>10-1-07</u>	Issued (Retired) <u>During 2008</u>	Balance Outstanding <u>9-30-08</u>
<u>General Obligation Bonds</u>			
City of Shelby General Obligation Street Bond	350,777.10	(24,000.00)	326,777.10
City of Shelby General Obligation Refunding Bond Series A-1989	105,000.00	(50,000.00)	55,000.00
Refunding Bond Series B-1989	<u>35,000.00</u>	<u>(15,000.00)</u>	<u>20,000.00</u>
<u>Total General Obligation Bonds</u>	<u>490,777.10</u>	<u>(89,000.00)</u>	<u>401,777.10</u>
<u>Revenue Bonds</u>			
City of Shelby Combined Water & Sewer System Revenue Bonds	<u>1,028,013.18</u>	<u>(18,410.30)</u>	<u>1,009,602.88</u>
<u>Total Revenue Bonds</u>	<u>1,028,013.18</u>	<u>(18,410.30)</u>	<u>1,009,602.88</u>
<u>Totals</u>	<u><u>1,518,790.28</u></u>	<u><u>(107,410.30)</u></u>	<u><u>1,411,379.98</u></u>

CITY OF SHELBY, MISSISSIPPI
 SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
 SEPTEMBER 30, 2008

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount</u>
Honorable Dorothy Grim	Mayor	Fidelity & Deposit Company of Maryland	50,000.00
Marion Bedford	Police Chief	Fidelity & Deposit Company of Maryland	50,000.00
Carmere Scott	Clerk	Fidelity & Deposit Company of Maryland	50,000.00
James Reed	Deputy City Clerk	Fidelity & Deposit Company of Maryland	50,000.00
Cecelia Bland	Court Clerk	Fidelity & Deposit Company of Maryland	25,000.00
Curtis Hooper	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	25,000.00
Dan Harris, Jr.	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	25,000.00
Elvie Billups	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	25,000.00
Nathaniel Boss	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	25,000.00
Preston Billings	Alderman	MS Municipal Bond Program C/O Scott Municipal Insurance	25,000.00

**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 the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities of the City of Shelby, Mississippi as of and for the year ended September 30, 2008, and have issued our report thereon dated November 13, 2009. 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. Financial statements issued following accounting principles generally accepted in the United States of America normally contain Government-Wide Financial Statements, Fund Financial Statements, Management Discussion and Analysis (MD&A), Required Supplemental Information (Budgetary Reporting), and other Supplemental Information. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash receipts and disbursement method of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiencies described in the accompanying Schedule of Findings as Findings 07-1 through 07-3 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 07-1 through 07-3 to be material weaknesses.

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*. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated November 13, 2009 which is included in this report.

This report is intended solely for the information and use of the Mayor and the Board of Aldermen 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.

November 13, 2009



**CITY OF SHELBY, MISSISSIPPI
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2008**

07-1 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.

07-2 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.

07-3 Finding:

Test of receipts for the fiscal year indicated that receipts for police fines were issued totaling approximately \$1,900 more than was deposited. It also appeared that receipts were issued after hours by authorized personnel other than the city clerk or court clerk without proper controls being maintained by the city clerk.

Recommendation:

Receipts for police fines should be issued only by the city clerk or court clerk during normal business hours.

Response:

Receipts for police fines are currently being issued only by the city clerk or court clerk during normal business hours.

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

Honorable Mayor and Aldermen
City of Shelby, Mississippi

We have audited the Statement of Cash Receipts and Disbursements, Governmental and Business-type Activities of the City of Shelby, Mississippi as of and for the year ended September 30, 2008, and have issued our report thereon dated November 13, 2009. 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. Financial statements issued following accounting principles generally accepted in the United States of America normally contain Government-Wide Financial Statements, Fund Financial Statements, Management Discussion and Analysis (MD&A), Required Supplemental Information (Budgetary Reporting), and other Supplemental Information. 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.

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 Section 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.

Recommendation

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

Response

The City will comply with this requirement in the future.

Finding

The municipal clerk did not always submit monthly, a report of expenditures against each budget item for the preceding month and fiscal year to date and the unexpended balance of each budget item. Information when presented was not in a comparable format.

Recommendation

We strongly suggest this procedure be done monthly so city management will be more aware of the financial condition of the City and that information be presented in a comparable format.

Response

The clerk will follow this procedure in the future.

These items will be reviewed in subsequent audits to determine that corrective action has been taken.

This report is intended for the information of the Mayor and Board of Aldermen and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "S. D. G. CAP 12/1/09".

November 13, 2009