

CITY OF SHELBY
TOOLE COUNTY, MONTANA
AUDIT REPORT
AS OF
JUNE 30, 2015 AND 2014

Our reports are issued with the understanding that, without our consent, they may be reproduced only in their entirety. Should it be desired to issue or publish a condensation or a portion of this report and our name is to be used in connection therewith, our approval must first be secured.

Douglas Wilson & Company, P.C.

TABLE OF CONTENTS

ORGANIZATION	4
INDEPENDENT AUDITOR'S REPORT	5-7
MANAGEMENT DISCUSSION & ANALYSIS JUNE 30, 2015 AND 2014 AND 2013 AND 2013 AND 2013 AND 2013 AND 2013	8-21
STATEMENT OF NET POSITION JUNE 30, 2015	22
STATEMENT OF NET POSITION JUNE 30, 2014	23
STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2015	24
STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2014	25
BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2015	26
BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2014	27
RECONCILIATION OF THE GOVERNMENTAL FUNDS, BALANCE SHEET TO THE STATEMENTS OF NET ASSETS JUNE 30, 2015	28
RECONCILIATION OF THE GOVERNMENTAL FUNDS, BALANCE SHEET TO THE STATEMENTS OF NET ASSETS JUNE 30, 2014	29
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2015	30
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2014	31
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2015	32
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2014	33

STATEMENT OF NET POSITION PROPRIETARY FUNDS JUNE 30, 2015.....	34
STATEMENT OF NET POSITION PROPRIETARY FUNDS JUNE 30, 2014.....	35
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2015.....	36
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2014.....	37
STATEMENT OF CASH FLOWS PROPRIETARY FUND TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2015.....	38
STATEMENT OF CASH FLOWS PROPRIETARY FUND TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2014.....	39
STATEMENT OF NET POSITION FIDUCIARY FUNDS JUNE 30, 2015.....	40
STATEMENT OF NET POSITION FIDUCIARY FUNDS JUNE 30, 2014.....	41
NOTES TO THE FINANCIAL STATEMENTS.....	42-75
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
BUDGETARY COMPARISON SCHEDULE JUNE 30, 2015.....	76
BUDGETARY COMPARISON SCHEDULE JUNE 30, 2014.....	77-79
BUDGETARY COMPARISON SCHEDULE BUDGET-TO-GAAP RECONCILIATION FOR THE YEAR ENDED JUNE 30, 2015.....	80
BUDGETARY COMPARISON SCHEDULE BUDGET-TO-GAAP RECONCILIATION FOR THE YEAR ENDED JUNE 30, 2014.....	81
REQUIRED SUPPLEMENTAL INFORMATION SCHEDULE OF FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2015.....	82
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – PERS FOR THE YEAR ENDED JUNE 30, 2015.....	83
SCHEDULE OF CONTRIBUTIONS - PERS FOR THE YEAR ENDED JUNE 30, 2015.....	84
NOTES TO SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS-PERS FOR THE YEAR ENDED JUNE 30, 2015.....	85

SUPPLEMENTARY INFORMATION:

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEARS
ENDED JUNE 30, 2015 AND 2014 86

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*..... 87-88

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133..... 89-91

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014 92

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2015
AND 2014 93-103

STATUS OF PRIOR FINDINGS AND QUESTIONED COSTS..... 104-107

**CITY OF SHELBY
TOOLE COUNTY, MONTANA
ORGANIZATION
FISCAL YEARS ENDED JUNE 30, 2015 AND 2014**

Larry J. Bonderud

Mayor

CITY COUNCIL

John A. "Chip" Miller, Jr.
Eugene Haroldson
Don R. Lee
Cindy Doane
Lyle Kimmet
Harvey R. Hawbaker

Council Member
Council Member
Council Member
Council Member
Council Member
Council Member

CITY OFFICIALS

William E. Hunt, Jr.
Joe Rapkoch
Jade Goroski
Donna Matoon
Loren Skartved

Attorney
City Judge
Finance Director
Chief of Police
City Superintendent



WILSON

Randal J. Boysun, CPA
Gerard K. Schmitz, CPA
Michael A. Diekhans, CPA
Myra L. Bakke, CPA

Douglas N. Wilson, CPA
Bruce H. Gaare, CPA

To the Mayor and City Council
City of Shelby
Toole County
Shelby, Montana

INDEPENDENT AUDITOR'S REPORT

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, Toole County, Montana, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the City of Shelby's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinions 2014

Opinion Unit

Governmental Activities
Business-Type Activities
General Fund

Type of Opinion

Qualified
Unmodified
Qualified

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Street Maintenance District No. 1	Qualified
Disaster-Flood Williamson Park	Unmodified
Aggregate Remaining Fund Information	Qualified
Water Fund	Unmodified
Sewer Fund	Unmodified
Solid Waste Fund	Unmodified

Basis for Qualified Opinions for 2014

Adequate documentation and reconciliations supporting the taxes receivable balances in the General Fund, Street Maintenance District No. 1, Aggregate Remaining Fund Information and Governmental Activities was not provided. We were unable to determine the accuracy of the taxes receivable amounts reported on the accounting records when compared to the Toole County report for these opinion units.

Qualified Opinions for 2014

In our opinion, except for the effects of the matter described in the "Basis of Qualified Opinion for 2014" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, General Fund, Street Maintenance District No. 1, and the aggregate remaining fund information of the City of Shelby, Toole County, Montana, as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund other than the General Fund and Street Maintenance District No. 1, and other than the governmental activities and the aggregate remaining fund information of the City of Shelby, Toole County, Montana, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Shelby, Toole County, Montana, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The City of Shelby, Toole County, Montana's financial position has been negatively affected by several funds with negative fund balances as of June 30, 2015 and 2014. As shown in Note 13 to the financial statements, the City of Shelby, Toole County, Montana is addressing the negative balances. As discussed in Note 7, the City of Shelby is not in compliance with applicable covenants for its revenue bonds. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules, the schedule of funding progress for other post-employment benefits other than pensions, schedule of proportionate share of the net pension liability and the schedules of contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an

appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelby's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2016, on our consideration of the City of Shelby, Toole County, Montana'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelby, Toole County, Montana's internal control over financial reporting and compliance.



Great Falls, Montana
June 28, 2016

MANAGEMENT DISCUSSION & ANALYSIS

Our discussion and analysis of the City of Shelby's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015 and 2014.

FINANCIAL HIGHLIGHTS

- The City of Shelby general fund continues to incur increased cash requirements from public safety and street departments.
- The assets of the City of Shelby exceeded its liabilities at the close of FY 14-15 by \$10.48 million (net assets).

USING THIS ANNUAL REPORT

This discussion and analysis are intended to serve as an introduction to the City of Shelby's basic financial statements. The City of Shelby's basic financial statements comprise three components: 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City of Shelby's finances, in a manner similar to a private-sector business.

The **statement of net position** presents information on all of the City of Shelby's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Shelby is improving or deteriorating.

The **statement of activities** presents information showing how the City of Shelby's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Shelby that are principally supported by taxes and intergovernmental revenues (*Governmental Activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*Business-type Activities*). The Governmental Activities of the City of Shelby include general government, public safety (police & fire), streets, planning and economic development, and parks and recreation. The Business-type Activities of The City of Shelby include Water, Sewer and Solid Waste.

The government-wide financial statements can be found on pages 22 through 25.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law and bond covenants, however, City Council establishes other funds to help control and manage money for particular purposes. All of the City's funds can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

Governmental funds - Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end are available for spending. The funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view to cash, the governmental fund operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of net position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

Proprietary funds - When the City charges customers for the services it provides - whether to outside customers or to other units of the City - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Fiduciary Responsibilities - All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on page 40 and 41. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for its intended purpose.

Notes to Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 42 through 75.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* on pages 76 through 85. The combining and individual fund statements and schedules can be found on pages 26 through 39

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Shelby, assets exceeded liabilities by approximately \$10.21 million as of year end June 30, 2015.

NET ASSETS

Combined net position of the City of Shelby as of June 30, 2015 were:

<u>June 30, 2015</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Activities</u>
<u>ASSETS</u>			
Current and other Assets	\$ 773,212	\$ 2,546,604	\$ 3,319,816
Capital Assets	8,213,422	14,155,342	22,368,764
Total Assets	<u>8,986,634</u>	<u>16,701,946</u>	<u>25,688,580</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>22,305</u>	<u>44,570</u>	<u>66,875</u>

June 30, 2015

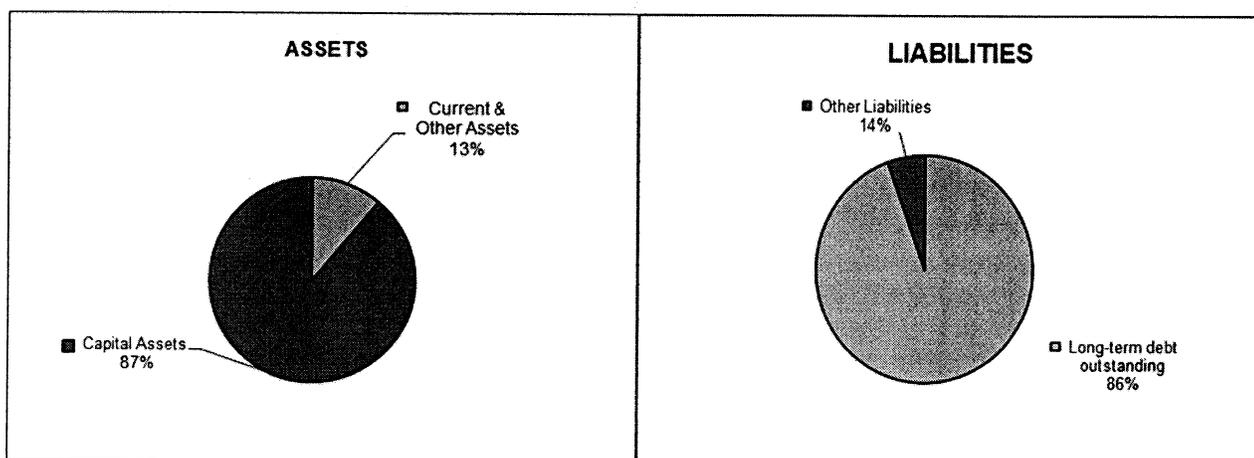
	Governmental Activities	Business-Type Activities	Total Activities
Long-term debt outstanding	1,516,634	11,126,470	12,643,104
Other liabilities	300,309	1,745,067	2,045,376
Total Liabilities	1,816,943	12,871,537	14,688,480

DEFERRED INFLOWS OF RESOURCES

	435,503	144,193	579,696
--	---------	---------	---------

NET POSITION

Net Investment in capital assets	6,969,124	4,002,142	10,971,266
Restricted	1,319,090	330,455	1,649,545
Unrestricted (deficit)	(1,531,721)	(601,811)	(2,133,532)
Total net assets	\$ 6,756,493	\$ 3,730,786	\$ 10,487,279



As the charts show, the largest portion of the City of Shelby's net assets is capital assets at 87%. The City of Shelby uses these capital assets to provide services to citizens.

Combined net position of the City of Shelby as of June 30, 2014 were:

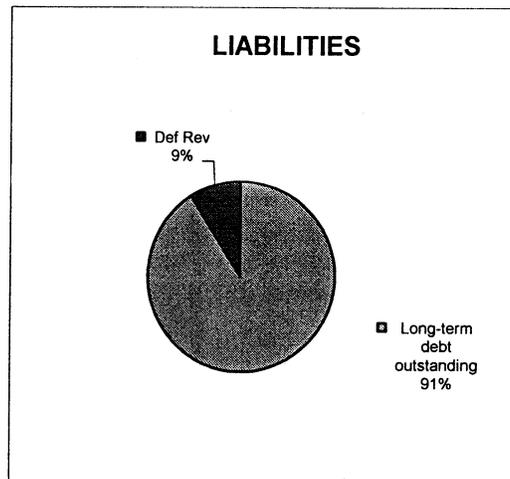
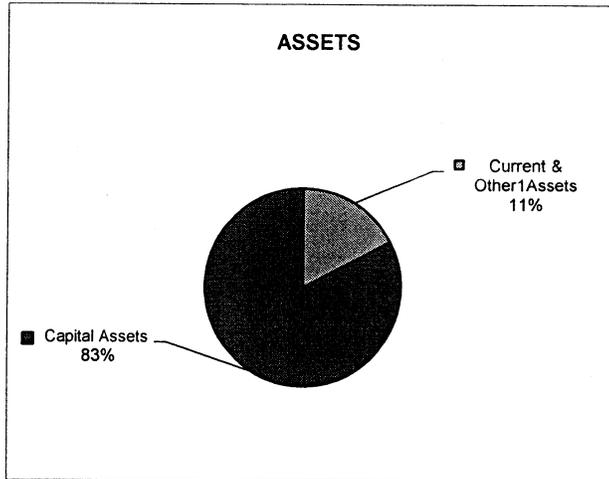
June 30, 2014

	Governmental Activities	Business-Type Activities	Total Activities
ASSETS			
Current and other Assets	\$ 213,256	\$ 4,196,634	\$ 4,409,890
Capital Assets	9,274,136	11,877,121	21,151,257
Total Assets	9,487,392	16,073,755	25,561,147
LIABILITIES			
Long-term debt outstanding	1,968,585	10,718,495	12,687,080
Other liabilities	301,023	1,017,007	1,318,030
Total Liabilities	2,269,608	11,735,502	14,005,110
DEFERRED INFLOWS OF RESOURCES	402,282	-	402,282

June 30, 2014

NET POSITION

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Activities</u>
Net Investment in capital assets	7,219,120	1,528,951	8,748,071
Restricted	972,788	1,351,961	2,324,749
Unrestricted (deficit)	(1,376,346)	1,457,341	80,995
Total net assets	<u>\$ 6,815,562</u>	<u>\$ 4,338,253</u>	<u>\$ 11,153,815</u>



As the charts show, the largest portion of the City of Shelby's net assets is capital assets at 83%. The City of Shelby uses these capital assets to provide services to citizens.

Combined net position of the City of Shelby as of June 30, 2013 were:

June 30, 2013

ASSETS

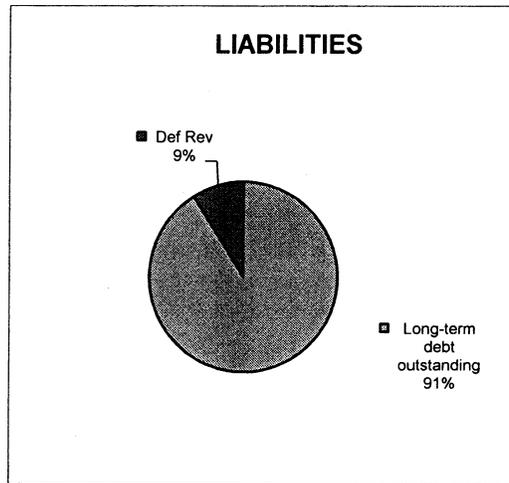
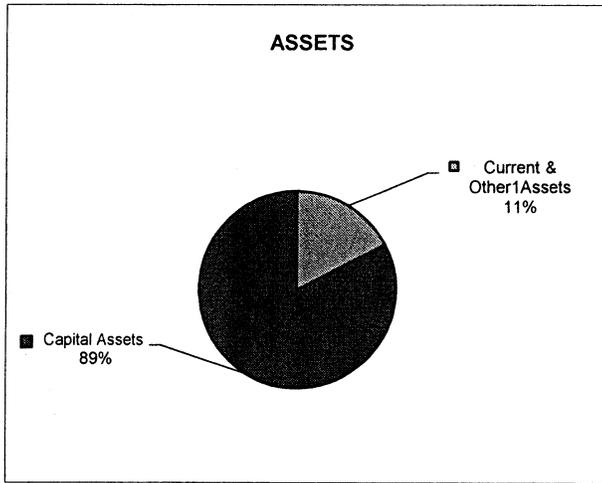
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Activities</u>
Current and other Assets	\$ 306,619	\$ 1,856,825	\$ 2,163,444
Capital Assets	9,164,229	9,076,267	18,240,496
Total Assets	<u>9,470,848</u>	<u>10,933,092</u>	<u>20,403,940</u>

LIABILITIES

Long-term debt outstanding	2,139,164	5,752,258	7,891,422
Other liabilities	171,063	647,835	818,898
Total Liabilities	<u>2,310,227</u>	<u>6,400,093</u>	<u>8,710,320</u>

NET POSITION

Net Investment in capital assets	7,186,319	3,506,169	10,692,488
Restricted	1,494,929	930,354	2,425,283
Unrestricted (deficit)	(1,520,627)	96,476	(1,424,151)
Total net assets	<u>\$ 7,160,621</u>	<u>\$ 4,532,999</u>	<u>\$ 11,693,620</u>



As the charts show, the largest portion of the City of Shelby's net assets is capital assets at 89%. The City of Shelby uses these capital assets to provide services to citizens.

Statement of Activities
Governmental Activities

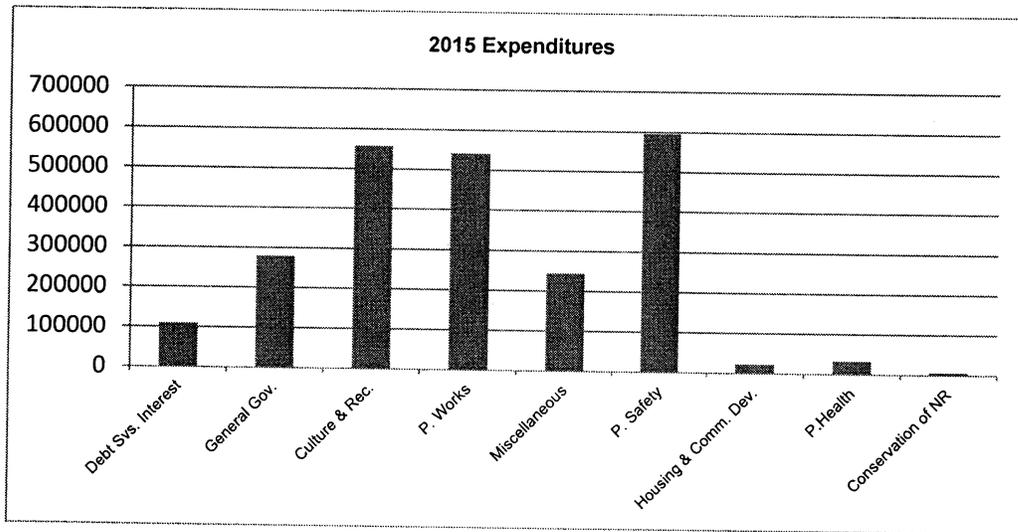
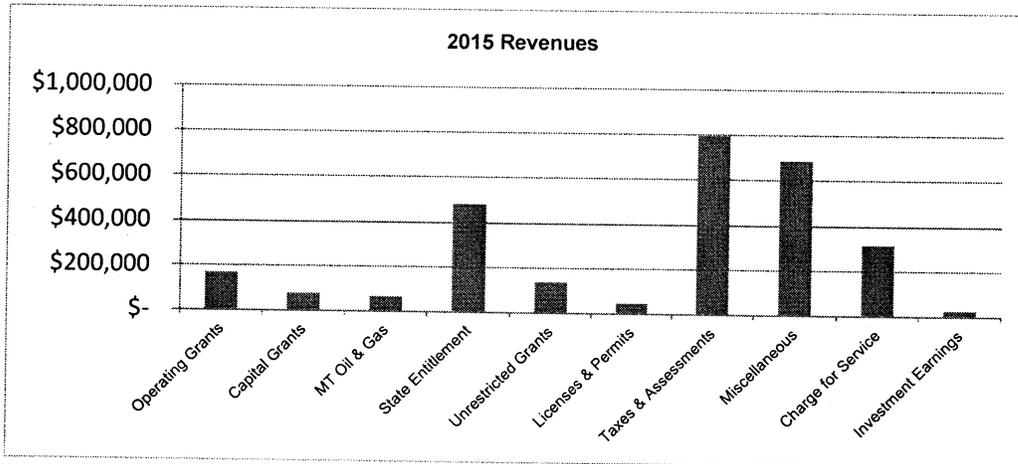
June 30, 2015

Revenues

Operating Grants and Contributions	\$ 168,965
Capital Grants and Contributions	79,508
Montana Oil and Gas Tax	65,585
State Entitlement	481,521
Unrestricted Grants and Entitlements	137,036
Licenses and Permits	46,609
Taxes and Assessments	793,284
Miscellaneous	685,472
Charges for Services	317,078
Investment Earnings	26,064
Total	2,801,122

Debt Service Interest	110,209
General Government	278,865
Culture and Recreation	557,397
P Works	541,453
Miscellaneous	243,735
P Safety	596,006
Housing and Community Development	23,400
P Health	34,237
Conservation of Natural Resources	5,960
Total	2,391,262

Change in Net Position **\$ 409,860**



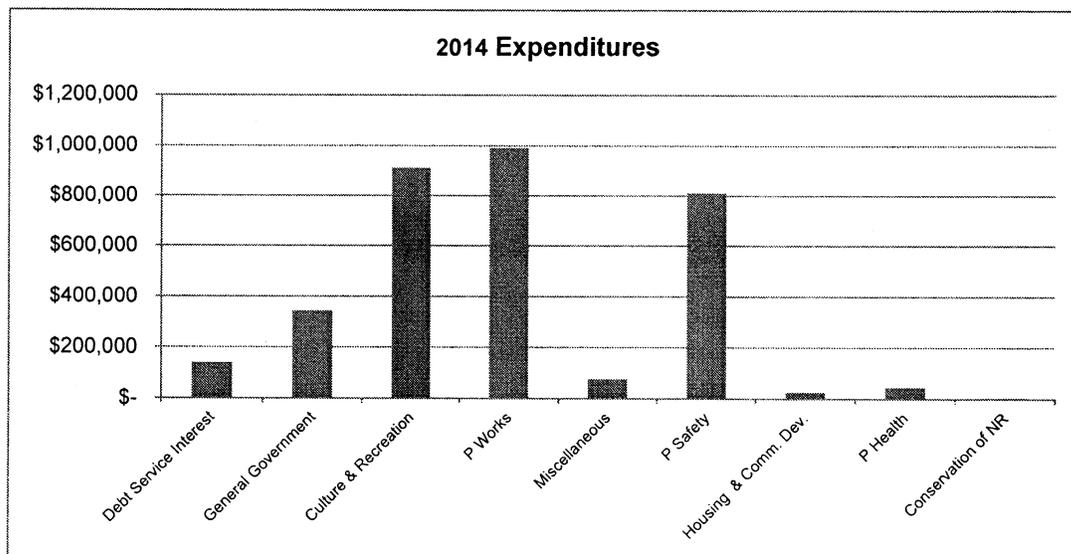
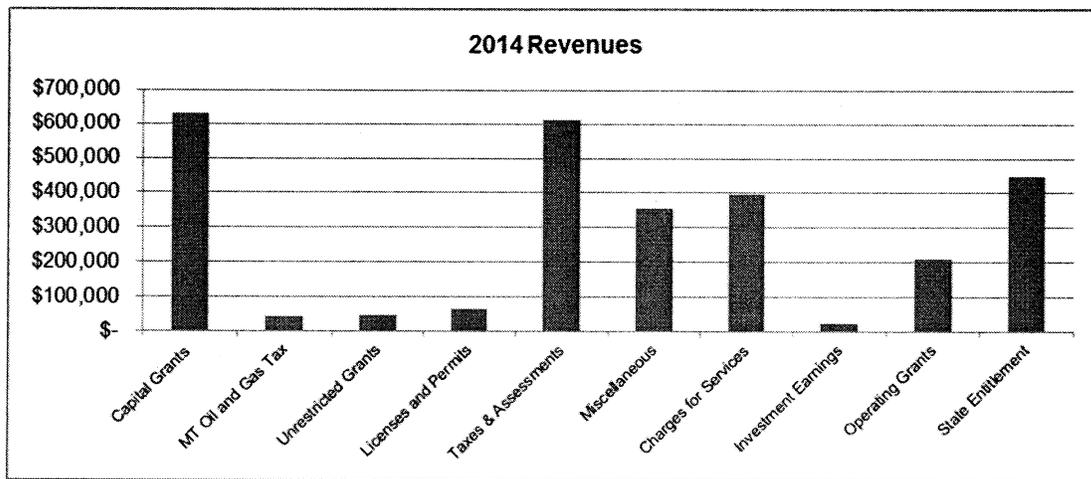
June 30, 2014

Revenues

Capital Grants and Contributions	\$ 631,222
Montana Oil and Gas Tax	44,711
Unrestricted Grants	48,351
Licenses and Permits	65,159
Taxes and Assessments	612,698
Miscellaneous	354,217
Charges for Services	397,363
Investment Earnings	23,731
Operating Grants	211,366
State Entitlement	449,505
Total	2,838,323

Debt Service Interest	\$ 139,799
General Government	345,015
Culture & Recreation	909,982
P Works	990,660
Miscellaneous	76,990
P Safety	812,046
Housing & Community Development	27,990
P Health	44,948
Conservation of Natural Resources	5,306
Total	3,352,736

Change in Net Position **\$ (514,413)**



June 30, 2013

Revenues

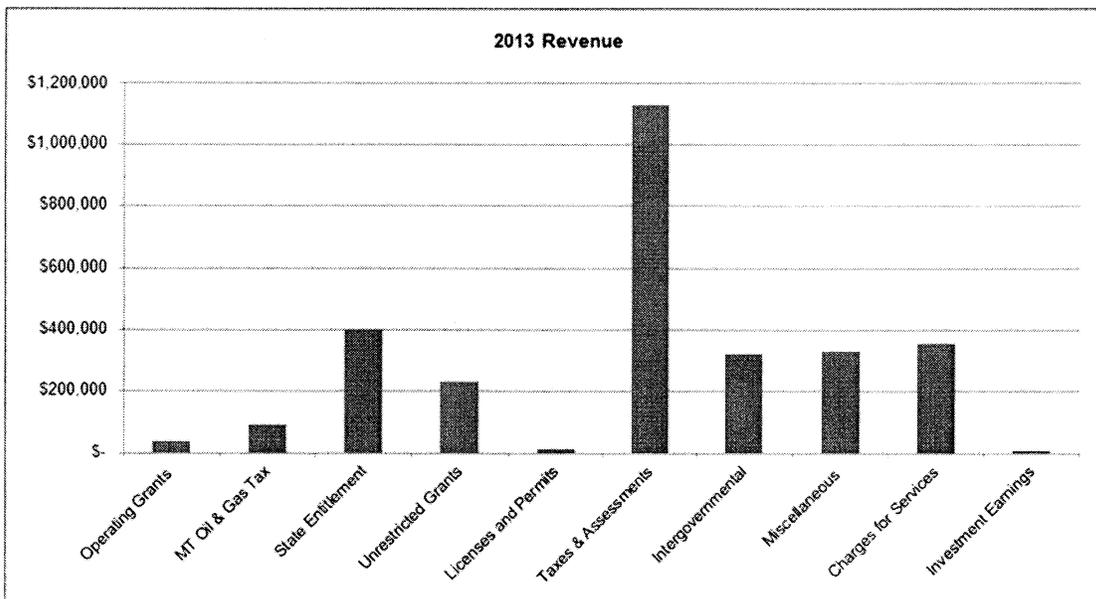
Operating Grants and Contributions	\$ 35,974
Montana Oil and Gas Tax	92,311
State Entitlement	400,670
Unrestricted Grants and Entitlements	232,253
Licenses and Permits	14,030
Taxes and Assessments	1,128,134
Intergovernmental	323,239
Miscellaneous	329,766
Charges for Services	357,184
Investment Earnings	6,933
Total	2,920,494

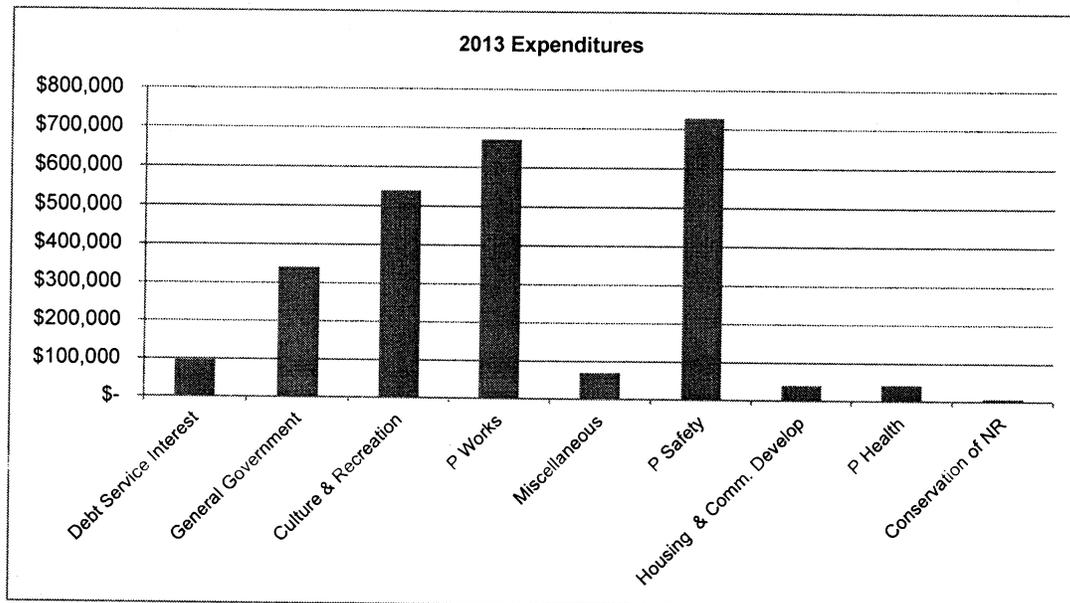
Expenditures

Debt Service Interest	\$ 96,599
General Government	340,751
Culture & Recreation	540,037
P Works	670,589
Miscellaneous	70,149
P Safety	729,286
Housing & Community Development	40,009
P Health	41,981
Conservation of Natural Resources	6,083
Total	2,535,484

Change in Net Position

\$ 385,010





BUSINESS-TYPE ACTIVITIES

Net position in Business-type Activities decreased \$607,466 from last year. Business-type Activities include Water, Sewer and Solid Waste Utilities.

The following report and chart shows the total revenues, expenses and year end net position for the year ending June 30, 2015.

Statement of Revenues, Expenses, and Changes in Net Position Proprietary Funds

June 30, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Revenues				
Charges for Services	\$ 988,444	\$ 473,211	\$ 796,582	\$ 2,258,237
Interest	139,513	213,597	20,728	373,838
Miscellaneous	69,749	48,874	62,807	181,430
Total	<u>1,197,706</u>	<u>735,682</u>	<u>880,117</u>	<u>2,813,505</u>
Expenditures				
Total	<u>1,333,333</u>	<u>802,105</u>	<u>775,602</u>	<u>2,911,040</u>
Transfers	60,000	60,000	-	120,000
Loss on sale of assets	(622)	(624)	(623)	(1,869)
Change in Net Position	<u>(76,249)</u>	<u>(7,047)</u>	<u>103,892</u>	<u>20,596</u>
Net Assets-Beginning of the Year	2,206,223	2,528,218	(396,188)	4,338,253
Restatements	(217,039)	(136,528)	(274,495)	(628,062)
Net Assets-Beginning of Year Restated	<u>1,989,184</u>	<u>2,391,690</u>	<u>(670,683)</u>	<u>3,710,191</u>
Net Assets-End of the Year	<u>\$ 1,912,935</u>	<u>\$ 2,384,643</u>	<u>\$ (566,791)</u>	<u>\$ 3,730,787</u>

Net position in Business-type Activities decreased \$194,746 from last year. Business-type Activities include Water, Sewer and Solid Waste Utilities.

The following report and chart shows the total revenues, expenses and year end net position for the year ending June 30, 2014.

<u>June 30, 2014</u>	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Revenues				
Charges for Services	\$ 952,504	\$ 454,465	\$ 737,000	\$ 2,143,969
Interest	13,787	20,877	22,393	57,057
Miscellaneous	1,516	-	6,818	8,334
Total	<u>967,807</u>	<u>475,342</u>	<u>766,211</u>	<u>2,209,360</u>
Expenditures				
Total	<u>1,120,471</u>	<u>523,445</u>	<u>678,652</u>	<u>2,322,568</u>
Transfers	(210,000)	(290,000)	-	(500,000)
Special Item	416,300	-	-	416,300
Change in Net Position	<u>53,636</u>	<u>(338,103)</u>	<u>87,559</u>	<u>(196,908)</u>
Net Assets-Beginning of the Year	2,150,425	2,866,321	(483,747)	4,532,999
Restatements	2,162	-	-	2,162
Net Assets-Beginning of the Year-Restated	<u>2,152,587</u>	<u>2,866,321</u>	<u>(483,747)</u>	<u>4,535,161</u>
Net Assets-End of the Year	<u><u>\$ 2,206,223</u></u>	<u><u>\$ 2,528,218</u></u>	<u><u>\$ (396,188)</u></u>	<u><u>\$ 4,338,253</u></u>

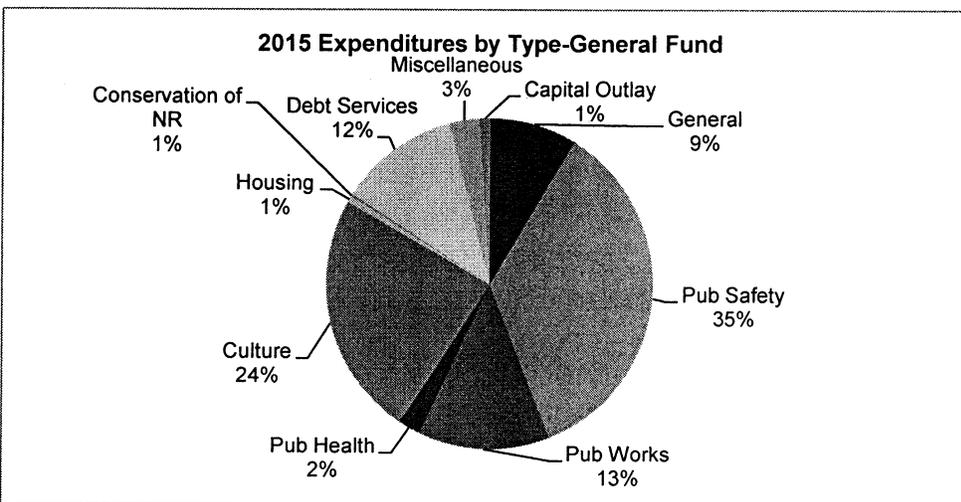
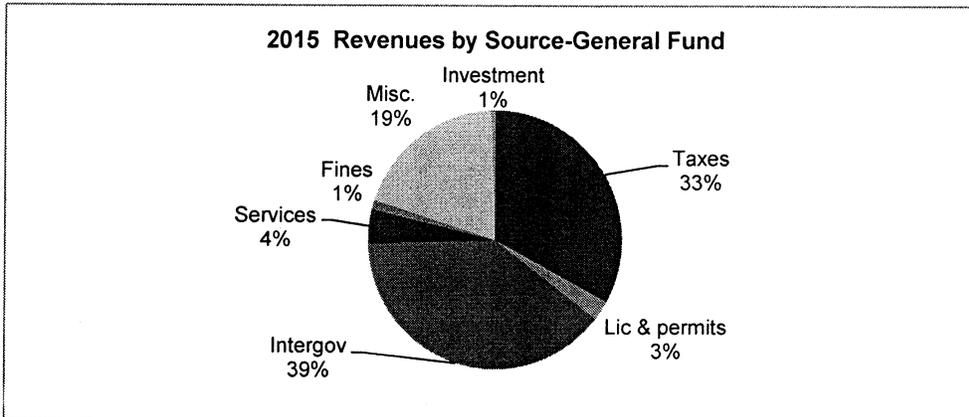
Net position in Business-type Activities increased \$65,111 from last year. Business-type Activities include Water, Sewer and Solid Waste Utilities.

The following report and chart shows the total revenues, expenses and year end net position for the year ending June 30, 2013.

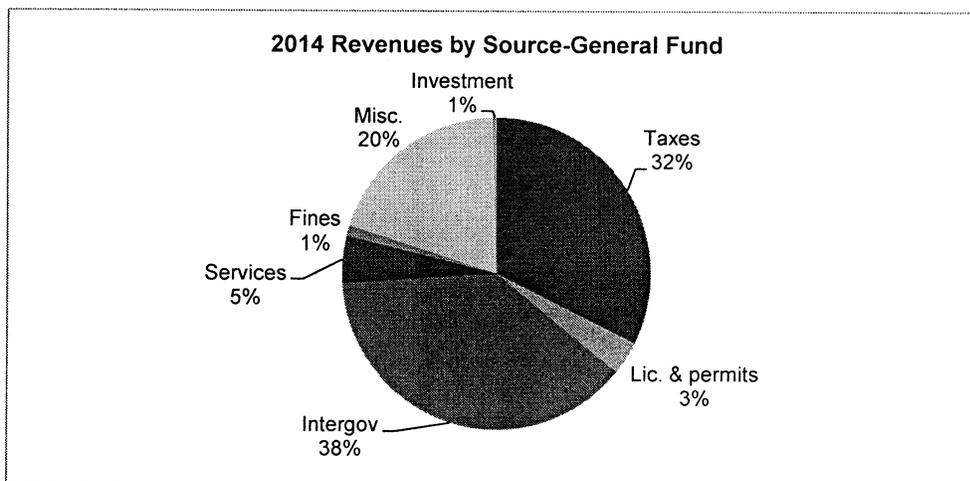
<u>June 30, 2013</u>	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Revenues				
Charges for Services	\$ 988,109	\$ 475,298	\$ 588,671	\$ 2,052,078
Interest	121	(2,745)	14,049	11,425
Miscellaneous	15,193	15,750	1,075	32,018
Total	<u>1,003,423</u>	<u>488,303</u>	<u>603,795</u>	<u>2,095,521</u>
Expenditures				
Total	<u>898,536</u>	<u>418,234</u>	<u>713,640</u>	<u>2,030,410</u>
Net Assets - Beginning of Year	104,887	70,069	(109,845)	65,111
	<u>2,045,538</u>	<u>2,796,252</u>	<u>(373,902)</u>	<u>4,467,888</u>
Net Assets-End of the Year	<u><u>\$ 2,150,425</u></u>	<u><u>\$ 2,866,321</u></u>	<u><u>\$ (483,747)</u></u>	<u><u>\$ 4,532,999</u></u>

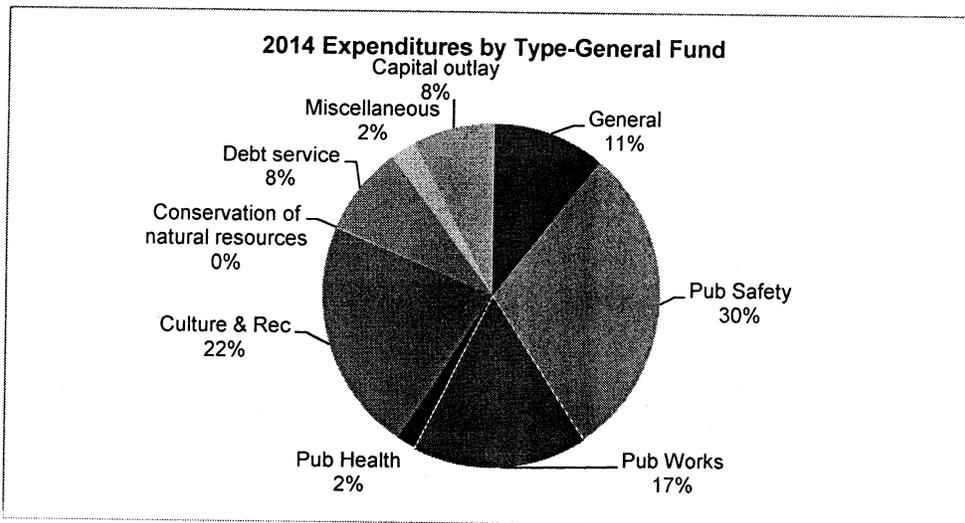
The City's Funds

The General Fund accounts for all of the general services provided by the City of Shelby at June 30, 2015.

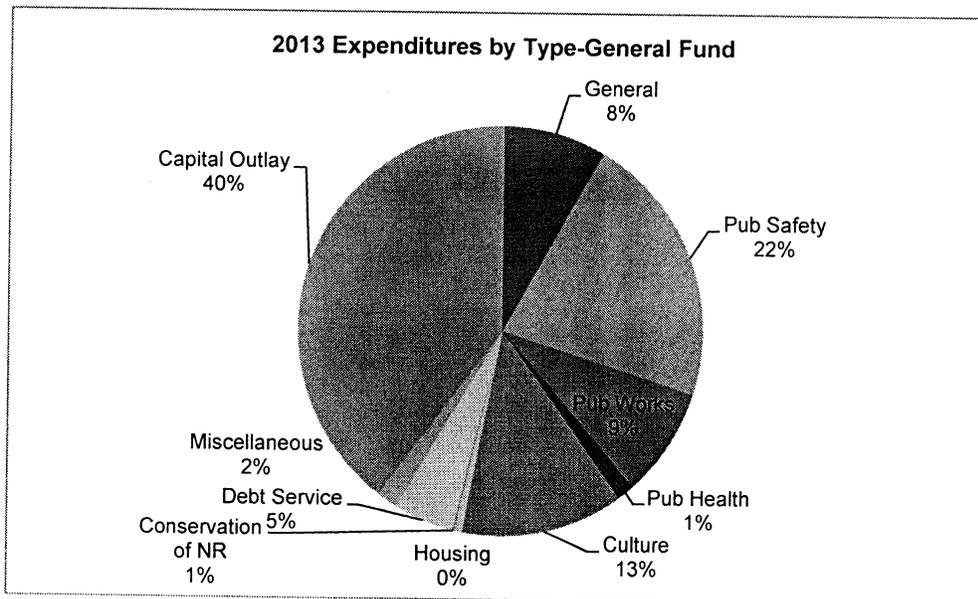
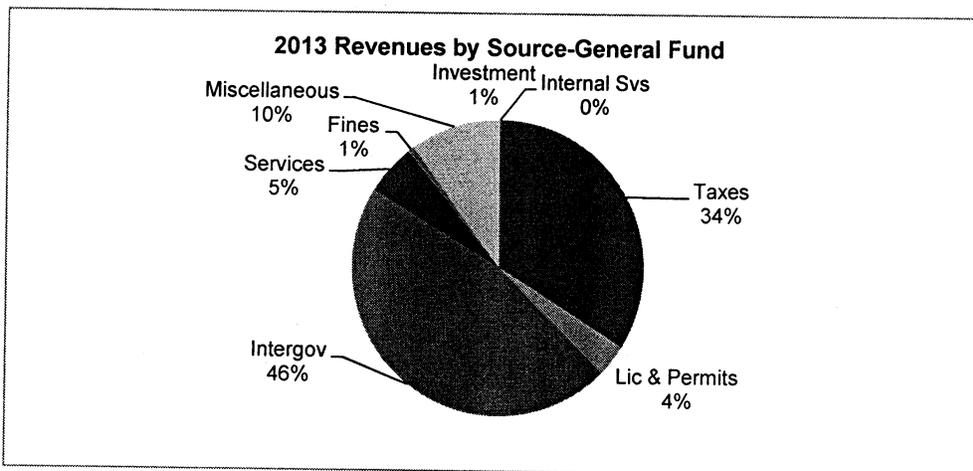


The General Fund accounts for all of the general services provided by the City of Shelby at June 30, 2014.





The General Fund accounts for all of the general services provided by the City of Shelby at June 30, 2013.



GENERAL FUND BUDGETARY COMPARISONS SCHEDULE

<u>June 30, 2015</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Resources (Inflows)	\$ 2,772,934	\$ 1,904,671	\$ (868,263)
Charges to Appropriations (Outflows)	2,378,074	1,579,859	798,215
Other Financing Sources (Uses)	155,601	4,484	(151,117)
Net Change in Fund Balance	\$ 329,296		
Restatements	(284)		
Fund Balance-Beginning of the Year	(1,270,599)		
Fund Balance-End of the Year	(941,587)		

<u>June 30, 2014</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Resources (Inflows)	\$ 2,965,131	\$ 1,866,833	\$ (1,098,298)
Charges to Appropriations (Outflows)	2,907,959	2,425,168	482,791
Other Financing Sources (Uses)	187,446	652,557	465,111
Net Change in Fund Balance	\$ 94,222		
Fund Balance-Beginning of the Year	(1,364,821)		
Fund Balance-End of the Year	(1,270,599)		

<u>June 30, 2013</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Resources (Inflows)	\$ 2,901,926	\$ 1,889,250	\$ (1,012,676)
Charges to Appropriations (Outflows)	3,207,033	3,045,830	161,203
Other Financing Sources (Uses)	860,601	434,728	(425,873)
Net Change in Fund Balance	\$ (721,852)		
Restatements	31		
Fund Balance-Beginning of the Year	(643,000)		
Fund Balance-End of the Year	(1,364,821)		

DEBT

Pages 52 through 57 and Note 7 to the financial statements provides a summary of the City's long-term debt.

Governmental Activities

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
General Obligation Bonds	\$ 500,000	\$ 570,000	\$ 640,000
SID Bonds	365,000	400,000	462,950
Intercap Loans	-	42,575	85,672
Contracted Debt	379,298	1,042,441	789,288
Compensated Absences	32,705	32,155	66,471
Net Pension Liability	279,227	-	-
Other Post Employment Benefits	152,607	123,695	94,783
	<u>\$ 1,708,837</u>	<u>\$ 2,210,866</u>	<u>\$ 2,139,164</u>

Business-Type Activities

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Revenue Bonds	\$ 9,931,000	\$ 10,291,000	\$ 5,478,300
Compensated Absences	99,308	93,078	76,803
Intercap Loans	222,200	57,170	91,798
Net Pension Liability	557,971	-	-
Landfill Closure/Post Closure	605,948	589,282	570,597
Other Post Employment Benefits	178,953	142,155	105,357
	<u>\$ 11,595,380</u>	<u>\$ 11,172,685</u>	<u>\$ 6,322,855</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to show the City's accountability for the funds and assets it receives. If you have any questions about this report, or need additional financial information, contact the City Finance Officer, Jade Goroski, or Mayor, Larry Bonderud at Shelby City Hall, 112 1st St. So., Shelby, MT 59474.

City of Shelby,
Toole County, Montana
Statement of Net Position
June 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current assets:			
Cash & Investments	\$ 1,290,968	\$ 38,177	\$ 1,329,145
Taxes & Assessments receivable, net	323,239	103	323,342
Internal Balances	(1,535,572)	1,535,572	-
Special Assessments receivable	10,472	-	10,472
Account Receivable - Net	-	182,451	182,451
Notes & Loans Receivable	50,736	-	50,736
Due from other Governments	157,600	357,360	514,960
Total Current Assets	<u>297,443</u>	<u>2,113,663</u>	<u>2,411,106</u>
Noncurrent Assets			
Restricted Cash & Investments	116,876	330,455	447,331
Investment in joint ventures	46,285	102,486	148,771
Special Assessments Receivable Deferred	312,608	-	312,608
Capital Assets - land	868,783	539,124	1,407,907
Capital Assets - construction in progress	1,111,471	5,680,926	6,792,397
Capital Assets - depreciable, net	6,233,168	7,935,292	14,168,460
Total noncurrent Assets	<u>8,689,191</u>	<u>14,588,283</u>	<u>23,277,474</u>
Total Assets	<u>8,986,634</u>	<u>16,701,946</u>	<u>25,688,580</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	22,305	44,570	66,875
Total Deferred Outflows of Resources	<u>22,305</u>	<u>44,570</u>	<u>66,875</u>
LIABILITIES			
Current liabilities:			
Accounts Payable	58,108	841,072	899,180
Accrued Payroll	18,604	50,859	69,463
Due to other governments	31,394	384,225	415,619
Current portion of long-term capital liabilities	168,827	405,696	574,523
Current portion of compensated absences payable	23,376	63,215	86,591
Total current Liabilities	<u>300,309</u>	<u>1,745,067</u>	<u>2,045,376</u>
Noncurrent Liabilities			
Landfill closure postclosure liability	-	605,948	605,948
Noncurrent portion of long-term liabilities	152,607	178,953	331,560
Noncurrent portion of long-term capital liabilities	1,075,471	9,747,504	10,822,975
Noncurrent portion of compensated absences	9,329	36,093	45,422
Net Pension Liability	279,227	557,971	837,198
Total noncurrent liabilities	<u>1,516,634</u>	<u>11,126,469</u>	<u>12,643,103</u>
Total Liabilities	<u>1,816,943</u>	<u>12,871,536</u>	<u>14,688,479</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	72,159	144,193	216,352
Deferred inflows of resources - assessments	312,608	-	312,608
Deferred inflows of resources - Loans	50,736	-	50,736
Total Deferred Inflows of Resources	<u>435,503</u>	<u>144,193</u>	<u>579,696</u>
Net Position			
Net Investment in capital assets	6,969,124	4,002,142	10,971,266
Restricted for capital projects	12,374	-	12,374
Restricted for debt service	71,470	-	71,470
Restricted for special projects	1,235,246	-	1,235,246
Restricted for other purposes	-	330,455	330,455
Unrestricted	(1,531,721)	(601,810)	(2,133,531)
Total net position	<u>\$ 6,756,493</u>	<u>\$ 3,730,787</u>	<u>\$ 10,487,280</u>

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current assets:			
Cash & Investments	\$ 1,079,319	\$ 120,043	\$ 1,199,362
Taxes & Assessments receivable, net	382,381	103	382,484
Internal Balances	(1,745,812)	1,745,812	-
Account Receivable - Net	-	175,761	175,761
Notes & Loans Receivable	57,081	-	57,081
Due from other Governments	54,283	712,117	766,400
Total Current Assets	<u>(172,748)</u>	<u>2,753,836</u>	<u>2,581,088</u>
Noncurrent Assets			
Restricted Cash & Investments	-	1,351,962	1,351,962
Investment in joint ventures	40,803	90,836	131,639
Special Assessments Receivable Deferred	345,201	-	345,201
Capital Assets - land	869,793	446,449	1,316,242
Capital Assets - construction in progress	959,493	3,259,927	4,219,420
Capital Assets - depreciable, net	7,444,850	8,170,745	15,615,595
Total noncurrent Assets	<u>9,660,140</u>	<u>13,319,919</u>	<u>22,980,059</u>
Total Assets	<u>9,487,392</u>	<u>16,073,755</u>	<u>25,561,147</u>
LIABILITIES			
Current liabilities:			
Accounts Payable	26,693	330,935	357,628
Accrued Interest Payable	-	44,049	44,049
Accrued Payroll	31,989	28,331	60,320
Due to other governments	-	156,688	156,688
Revenues collected in advance	-	2,814	2,814
Current portion of long-term capital liabilities	219,445	394,970	614,415
Current portion of compensated absences payable	22,896	59,220	82,116
Total current Liabilities	<u>301,023</u>	<u>1,017,007</u>	<u>1,318,030</u>
Noncurrent Liabilities			
Landfill closure postclosure liability	-	589,282	589,282
Noncurrent portion of long-term liabilities	123,695	142,155	265,850
Noncurrent portion of long-term capital liabilities	1,835,571	9,953,200	11,788,771
Noncurrent portion of compensated absences	9,259	33,858	43,117
Total noncurrent liabilities	<u>1,968,525</u>	<u>10,718,495</u>	<u>12,687,020</u>
Total Liabilities	<u>2,269,548</u>	<u>11,735,502</u>	<u>14,005,050</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - Assessments	345,201	-	345,201
Deferred inflows of resources - Notes and loans receivable	57,081	-	57,081
Total Deferred Inflows of Resources	<u>402,282</u>	<u>-</u>	<u>402,282</u>
Net Position			
Net Investment in capital assets	7,219,120	1,528,951	8,748,071
Restricted	-	1,017,546	1,017,546
Restricted for debt service	67,433	334,415	401,848
Restricted for general government	269,427	-	269,427
Restricted for public safety	4,484	-	4,484
Restricted for public works	297,820	-	297,820
Restricted for social & economic services	172,701	-	172,701
Restricted for culture & recreation	160,923	-	160,923
Unrestricted	(1,376,346)	1,457,341	80,995
Total net position	<u>\$ 6,815,562</u>	<u>\$ 4,338,253</u>	<u>\$ 11,153,815</u>

See accompanying notes to the financial statements

**City of Shelby
Toole County, Montana
Statement of Activities
For the Year Ended June 30, 2015**

Functions/Programs	Program Revenues					Changes in Net Position		
	Expenses	Indirect Expense Allocation	Charges for services	Operating Grants & Contributions	Capital Grants and Contributions	Primary Government		Total
						Governmental Activities	Business-Type Activities	
Primary Government:								
Governmental Activities:								
General Government	\$ 278,865	\$ (49,320)	\$ 216,605	\$ -	\$ -	\$ (12,940)	\$ -	\$ (12,940)
Public Safety	596,006	49,320	21,780	-	-	(623,546)	-	(623,546)
Public Works	541,453	-	3,625	-	-	(537,828)	-	(537,828)
Public Health	34,237	-	-	675	-	(33,562)	-	(33,562)
Culture & Recreation	557,397	-	75,068	119,663	79,508	(283,158)	-	(283,158)
Housing & Community Development	23,400	-	-	40,000	-	16,600	-	16,600
Conservation of natural resources	5,960	-	-	8,627	-	2,667	-	2,667
Debt service - interest	110,209	-	-	-	-	(110,209)	-	(110,209)
Miscellaneous	243,735	-	-	-	-	(243,735)	-	(243,735)
Total governmental activities	2,391,262	-	317,078	168,965	79,508	(1,825,711)	-	(1,825,711)
Business-type activities								
Water	1,333,333	-	988,444	-	-	-	(344,889)	(344,889)
Sewer	802,105	-	473,211	-	-	-	(328,894)	(328,894)
Solid Waste	775,602	-	796,582	-	-	-	20,980	20,980
Total business-type activities	2,911,040	-	2,258,237	-	-	-	(652,803)	(652,803)
Total primary government	\$ 5,302,302	\$ -	\$ 2,575,315	\$ 168,965	\$ 79,508	\$ (1,825,711)	\$ (652,803)	\$ (2,478,514)
General Revenues:								
Property taxes for general purposes						\$ 793,284	\$ -	\$ 793,284
Licenses and permits						46,609	-	46,609
Video poker						12,850	-	12,850
Miscellaneous						672,622	181,430	854,052
Interest/Investment earnings						26,064	373,838	399,902
Montana oil and gas production tax						65,585	-	65,585
State Entitlement						481,521	-	481,521
Grants and entitlements not restricted to specific programs						137,036	-	137,036
Gain (loss) on sale of capital assets						-	(1,869)	(1,869)
Transfers - net						(120,000)	120,000	-
Total general revenues, special items and transfers						2,115,571	673,399	2,788,970
Change in net position						289,860	20,596	310,456
Net position - beginning						6,815,562	4,338,253	11,153,815
Restatements						(348,929)	(628,062)	(976,991)
Net position - beginning - restated						6,466,633	3,710,191	10,176,824
Net position - end						\$ 6,756,493	\$ 3,730,787	\$ 10,487,280

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net (Exp)Revenues & Changes in Net Position		
	Expenses	Charges for services	Operating Grants & Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 345,015	\$ 129,246	\$ -	\$ -	\$ (215,769)	\$ -	\$ (215,769)
Public Safety	812,046	186,581	-	-	(625,465)	-	(625,465)
Public Works	990,660	4,063	-	-	(986,597)	-	(986,597)
Public Health	44,948	-	-	-	(44,948)	-	(44,948)
Culture & Recreation	909,982	77,473	207,716	631,222	6,429	-	6,429
Housing & Community Development	27,990	-	3,650	-	(24,340)	-	(24,340)
Conservation of natural resources	5,306	-	-	-	(5,306)	-	(5,306)
Debt service - interest	139,799	-	-	-	(139,799)	-	(139,799)
Miscellaneous	76,990	-	-	-	(76,990)	-	(76,990)
Total governmental activities	3,352,736	397,363	211,366	631,222	(2,112,785)	-	(2,112,785)
Business-type activities							
Water	1,120,471	952,504	-	-	-	(167,967)	(167,967)
Sewer	523,445	454,465	-	-	-	(68,980)	(68,980)
Solid Waste	678,652	737,000	-	-	-	58,348	58,348
Total business-type activities	2,322,568	2,143,969	-	-	-	(178,599)	(178,599)
Total primary government	\$ 5,675,304	\$ 2,541,332	\$ 211,366	\$ 631,222	\$ (2,112,785)	\$ (178,599)	\$ (2,291,384)
General Revenues:							
Property taxes for general purposes					\$ 612,698	\$ -	\$ 612,698
Licenses and permits					65,159	-	65,159
Video poker					13,375	-	13,375
Miscellaneous					340,842	8,334	349,176
Interest/Investment earnings					23,731	57,057	80,788
Montana oil and gas production tax					44,711	-	44,711
State Entitlement					449,505	-	449,505
Grants and entitlements not restricted to specific programs					48,351	-	48,351
Special Item					-	416,300	416,300
Transfers - net					500,000	(500,000)	-
Total general revenues, special items and transfers					2,098,372	(18,309)	2,080,063
Change in net position					(14,413)	(196,908)	(211,321)
Net position - beginning					7,160,621	4,532,999	11,693,620
Restatements					(330,646)	2,162	(328,484)
Net position - beginning - restated					6,829,975	4,535,161	11,365,136
Net position - end					\$ 6,815,562	\$ 4,338,253	\$ 11,153,815

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Balance Sheet Government Funds
June 30, 2015

	General	Other Governmental Funds	Total Government Funds
ASSETS			
Current Assets			
Cash & Investments	\$ 425,859	\$ 865,109	\$ 1,290,968
Taxes & Assessments Receivable, Net	79,349	243,890	323,239
Special Assessments receivable	-	10,472	10,472
Notes & Loans receivable	-	50,736	50,736
Due from other funds	132,923	-	132,923
Due from other governments	102,833	54,767	157,600
Total currents assets	<u>740,964</u>	<u>1,224,974</u>	<u>1,965,938</u>
Noncurrent assets:			
Restricted cash and investments	93,376	23,500	116,876
Advances to other funds	22,641	292,376	315,017
Investment in joint ventures	50,243	-	50,243
Special Assessments Receivable - Deferred	-	312,608	312,608
Total noncurrent assets	<u>166,260</u>	<u>628,484</u>	<u>794,744</u>
Total assets	<u>907,224</u>	<u>1,853,458</u>	<u>2,760,682</u>
Current Liabilities:			
Accounts Payable	-	58,108	58,108
Accrued payroll	18,604	-	18,604
Due to other funds	1,093,876	93,509	1,187,385
Due to other governments	31,394	-	31,394
Total current liabilities	<u>1,143,874</u>	<u>151,617</u>	<u>1,264,097</u>
Noncurrent liabilities:			
Advances payable	625,588	170,539	796,127
Total noncurrent liabilities	<u>625,588</u>	<u>170,539</u>	<u>796,127</u>
Total liabilities	<u>1,769,462</u>	<u>322,156</u>	<u>2,060,224</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources -taxes	79,349	243,890	323,239
Deferred inflows of resources - Assessments	-	323,080	323,080
Deferred inflows of resources - Loans	-	50,736	50,736
Total deferred inflows of resources	<u>79,349</u>	<u>617,706</u>	<u>697,055</u>
FUND BALANCES			
Restricted for:			
Debt Service	-	58,928	58,928
General Government	-	345,335	345,335
Public Safety	-	4,160	4,160
Public works	93,376	350,459	443,835
Culture and recreation	-	191,913	191,913
Housing and community development	-	197,011	197,011
Committed for:			
General Government	-	15,582	15,582
Assigned for:			
Unassigned fund balance	(1,034,963)	(249,792)	(1,284,755)
Total fund balance	<u>\$ (941,587)</u>	<u>\$ 913,596</u>	<u>\$ (27,991)</u>

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Balance Sheet Government Funds
June 30, 2014

	General	Street Maint Dist. No. 1	Disaster-Flood Wlmsn Park	Other Governmental Funds	Total Government Funds
ASSETS					
Current Assets					
Cash & Investments	\$ 424,734	\$ -	\$ -	\$ 654,585	\$ 1,079,319
Taxes & Assessments Receivable, Net	130,604	85,511	854	165,412	382,381
Notes & Loans receivable	-	-	-	57,081	57,081
Due from other funds	132,923	-	-	-	132,923
Due from other governments	54,283	-	-	-	54,283
Total current assets	<u>742,544</u>	<u>85,511</u>	<u>854</u>	<u>877,078</u>	<u>1,705,987</u>
Noncurrent assets:					
Advances to other funds	22,641	182,753	-	135,887	341,281
Investment in joint ventures	44,761	-	-	-	44,761
Special Assessments Receivable - Deferred	-	-	-	345,201	345,201
Total noncurrent assets	<u>67,402</u>	<u>182,753</u>	<u>-</u>	<u>481,088</u>	<u>731,243</u>
Total assets	<u>809,946</u>	<u>268,264</u>	<u>854</u>	<u>1,358,166</u>	<u>2,437,230</u>
Current Liabilities:					
Accounts Payable	18,728	-	-	7,965	26,693
Accrued payroll	30,005	1,984	-	-	31,989
Due to other funds	1,134,386	87,562	2,369	58,338	1,282,655
Total current liabilities	<u>1,183,119</u>	<u>89,546</u>	<u>2,369</u>	<u>66,303</u>	<u>1,341,337</u>
Noncurrent liabilities:					
Advances payable	766,822	-	-	170,539	937,361
Total noncurrent liabilities	<u>766,822</u>	<u>-</u>	<u>-</u>	<u>170,539</u>	<u>937,361</u>
Total liabilities	<u>1,949,941</u>	<u>89,546</u>	<u>2,369</u>	<u>236,842</u>	<u>2,278,698</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources - Taxes	130,604	85,511	854	165,412	382,381
Deferred inflows of resources - Assessments	-	-	-	345,201	345,201
Deferred inflows of resources - Notes & loans receivable	-	-	-	57,081	57,081
Total deferred inflows of resources	<u>130,604</u>	<u>85,511</u>	<u>854</u>	<u>567,694</u>	<u>784,663</u>
FUND BALANCES					
Restricted	-	93,207	-	721,738	814,945
Committed	-	-	-	15,582	15,582
Unassigned fund balance	(1,270,599)	-	(2,369)	(183,690)	(1,456,658)
Total fund balance	<u>\$ (1,270,599)</u>	<u>\$ 93,207</u>	<u>\$ (2,369)</u>	<u>\$ 553,630</u>	<u>\$ (626,131)</u>

**City of Shelby
Toole County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2015**

Total fund Balances - governmental funds	\$ (27,991)
Deferred outflow of resources relating to the net pension liability are shown in the governmental activities and are not reported in the individual funds	22,305
The Net Pension Liability is reported in the government wide financials and not in the individual funds	(279,227)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	8,213,422
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds	261,552
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds	(1,429,610)
Change in the investment in Tri-City Interlocal is not reported in the fund financials	<u>(3,958)</u>
Total net position - governmental activities	<u><u>\$ 6,756,493</u></u>

City of Shelby
Toole County, Montana
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2014

Total fund Balances - governmental funds	\$ (626,131)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	9,274,136
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds	382,381
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds	(2,210,866)
Change in the investment in Tri-City Interlocal is not reported in the fund financials	(3,958)
Total net position - governmental activities	<u><u>\$ 6,815,562</u></u>

City of Shelby
Toole County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes and assessments	\$ 626,720	\$ 525,950	\$ 1,152,670
Licenses and permits	46,608	-	46,608
Intergovernmental	746,113	159,351	905,464
Charges for services	82,533	-	82,533
Fines and forfeitures	21,780	120,860	142,640
Miscellaneous	369,958	115,960	485,918
Investment earnings	10,959	15,105	26,064
Total Revenues	<u>1,904,671</u>	<u>937,226</u>	<u>2,841,897</u>
Expenditures			
General government	137,606	4,239	141,845
Public Safety	556,263	-	556,263
Public Works	208,829	144,482	353,311
Public Health	34,496	-	34,496
Culture and recreation	376,249	75,840	452,089
Housing and community development	9,348	14,070	23,418
Conservation of natural resources	4,186	-	4,186
Debt service - principal	114,445	105,000	219,445
Debt service - interest	73,679	36,530	110,209
Miscellaneous	47,991	15,155	63,146
Capital outlay	16,767	138,419	155,186
Total Expenditures	<u>1,579,859</u>	<u>533,735</u>	<u>2,113,594</u>
Excess (deficiency) of rev over exp	<u>324,812</u>	<u>403,491</u>	<u>728,303</u>
Other Financing Sources (Uses)			
Transfers in	4,484	-	4,484
Transfers out	-	(124,484)	(124,484)
Total other financing sources (uses)	<u>4,484</u>	<u>(124,484)</u>	<u>(120,000)</u>
Net Change in Fund Balance	<u>329,296</u>	<u>279,007</u>	<u>608,303</u>
Fund Balance - beginning	(1,270,599)	644,468	(626,131)
Restatements	(284)	(9,879)	(10,163)
Fund Balance - beginning - restated	<u>(1,270,883)</u>	<u>634,589</u>	<u>(636,294)</u>
Fund Balance - ending	<u>\$ (941,587)</u>	<u>\$ 913,596</u>	<u>\$ (27,991)</u>

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Statement of Revenues, Expenditures, and changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General	Street Maint Dist. No. 1	Disaster- Flood Wlmsn Park	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes and assessments	\$ 601,459	\$ -	\$ 5,874	\$ 188,113	\$ 795,446
Licenses and permits	65,160	-	-	-	65,160
Intergovernmental	714,612	-	349,347	250,123	1,314,082
Charges for services	89,815	-	-	-	89,815
Fines and forfeitures	20,524	-	-	-	20,524
Miscellaneous	365,964	201,904	-	193,418	761,286
Investment earnings	9,299	6,500	-	7,932	23,731
Total Revenues	<u>1,866,833</u>	<u>208,404</u>	<u>355,221</u>	<u>639,586</u>	<u>3,070,044</u>
Expenditures					
General government	261,488	-	-	9,000	270,488
Public Safety	724,661	-	-	-	724,661
Public Works	406,421	349,136	-	45,398	800,955
Public Health	44,948	-	-	-	44,948
Culture and recreation	531,045	-	263,935	13,625	808,605
Housing and community development	-	-	-	27,990	27,990
Conservation of natural resources	3,532	-	-	-	3,532
Debt service - principal	109,061	36,324	-	140,000	285,385
Debt service - interest	92,508	816	-	46,475	139,799
Miscellaneous	60,203	-	-	16,787	76,990
Capital outlay	191,301	-	153,566	225,212	570,079
Total Expenditures	<u>2,425,168</u>	<u>386,276</u>	<u>417,501</u>	<u>524,487</u>	<u>3,753,432</u>
Excess (deficiency) of rev over exp	<u>(558,335)</u>	<u>(177,872)</u>	<u>(62,280)</u>	<u>115,099</u>	<u>(683,388)</u>
Other Financing Sources (Uses)					
Proceeds of general long term debt	31,845	-	-	-	31,845
Transfers in	620,712	-	-	-	620,712
Transfers out	-	-	-	(120,712)	(120,712)
Total other financing sources (uses)	<u>652,557</u>	<u>-</u>	<u>-</u>	<u>(120,712)</u>	<u>531,845</u>
Net Change in Fund Balance	94,222	(177,872)	(62,280)	(5,613)	(151,543)
Fund Balance - beginning	<u>(1,364,821)</u>	<u>271,079</u>	<u>59,911</u>	<u>559,243</u>	<u>(474,588)</u>
Fund Balance - ending	<u>\$ (1,270,599)</u>	<u>\$ 93,207</u>	<u>\$ (2,369)</u>	<u>\$ 553,630</u>	<u>\$ (626,131)</u>

City of Shelby
Toole County, Montana
Reconciliation of the statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds	\$	608,303
---	-----------	----------------

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of assets:

Capital assets purchased		155,186
Depreciation expense		(443,028)

In the Statement of Activities the revenues and expenses relating to recording the Net Pension Liability for the implementation of GASB #68 are as follows:

Revenues		7,895
Expenses		780

In the Statement of Activities, the loss or gain on the sale or disposal of capital assets is recognized. The fund financial statements recognize only the proceeds from the sale of these assets:

Loss on the sale of capital assets		(771,862)
------------------------------------	--	-----------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Long-term receivables (deferred revenue)		(48,670)
--	--	----------

The change in compensated absences is shown as an expense in the Statement of Activities		(550)
--	--	-------

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:

Long-term debt principal payments		810,718
-----------------------------------	--	---------

Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

Post-employment benefits other than retirement liability		(28,912)
--	--	----------

Change in net position - Statement of Activities	\$	<u>289,860</u>
---	-----------	-----------------------

City of Shelby
Toole County, Montana
Reconciliation of the statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$	(151,543)
---	-----------	------------------

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of assets:

Capital assets purchased		570,079
Depreciation expense		(460,172)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Long-term receivables (deferred revenue)		(231,721)
--	--	-----------

The change in compensated absences is shown as an expense in the Statement of Activities		34,316
--	--	--------

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the Statement of Net Position:

Long-term debt principal payments		285,385
-----------------------------------	--	---------

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position:

Proceeds from the sale of long-term debt		(31,845)
--	--	----------

Termination benefits are shown as an expense in the Statement of Activities and not reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:

Post-employment benefits other than retirement liability		(28,912)
--	--	----------

Change in net position - Statement of Activities	\$	(14,413)
---	-----------	-----------------

City of Shelby
Toole County, Montana
Statement of Net Position - Proprietary Funds
June 30, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Non Major</u>	<u>Totals</u>
Assets					
Current Assets:					
Cash & investments	\$ 19,134	\$ -	\$ 19,043	\$ -	\$ 38,177
Taxes & assessments receivable, net	-	103	-	-	103
Accounts receivable - net	81,402	41,789	59,260	-	182,451
Due from other funds	550,047	1,249,741	-	-	1,799,788
Due from other governments	357,360	-	-	-	357,360
Total current assets	<u>1,007,943</u>	<u>1,291,633</u>	<u>78,303</u>	<u>-</u>	<u>2,377,879</u>
Noncurrent assets:					
Restricted cash and investments	-	-	330,455	-	330,455
Advances to other funds	202,878	544,170	-	-	747,048
Investment in joint ventures	26,646	75,840	-	-	102,486
Capital assets - land	217,543	111,477	210,104	-	539,124
Capital assets - construction in progress	3,225,031	1,821,695	-	634,200	5,680,926
Capital assets - depreciable, net	4,931,318	2,548,970	455,004	-	7,935,292
Total noncurrent assets	<u>8,603,416</u>	<u>5,102,152</u>	<u>995,563</u>	<u>634,200</u>	<u>15,335,331</u>
Total assets	<u>9,611,359</u>	<u>6,393,785</u>	<u>1,073,866</u>	<u>634,200</u>	<u>17,713,210</u>
Deferred Outflows of Resources					
Deferred outflows of resources	16,237	9,998	18,335	-	44,570
Total deferred outflows of resources	<u>16,237</u>	<u>9,998</u>	<u>18,335</u>	<u>-</u>	<u>44,570</u>
Liabilities					
Current liabilities					
Accounts payable	-	269,228	-	571,844	841,072
Accrued payroll	16,831	13,735	20,293	-	50,859
Due to other funds	-	550,047	132,923	62,356	745,326
Due to other governments	69,960	314,265	-	-	384,225
Current portion of long-term capital liabilities	278,000	76,000	51,696	-	405,696
Current portion of compensated absences payable	27,378	15,382	20,455	-	63,215
Total current liabilities	<u>392,169</u>	<u>1,238,657</u>	<u>225,367</u>	<u>634,200</u>	<u>2,490,393</u>
Noncurrent liabilities					
Advances payable	-	-	265,938	-	265,938
Landfill closure postclosure liability	-	-	605,948	-	605,948
Noncurrent portion of long-term liabilities	60,309	28,497	90,147	-	178,953
Noncurrent portion of long-term capital liabilities	6,992,500	2,584,500	170,504	-	9,747,504
Noncurrent portion of compensated absences	13,871	9,975	12,247	-	36,093
Net pension liability	203,280	125,165	229,526	-	557,971
Total noncurrent liabilities	<u>7,269,960</u>	<u>2,748,137</u>	<u>1,374,310</u>	<u>-</u>	<u>11,392,407</u>
Total liabilities	<u>7,662,129</u>	<u>3,986,794</u>	<u>1,599,677</u>	<u>634,200</u>	<u>13,882,800</u>
Deferred Inflows of Resources					
Deferred inflows of resources	52,532	32,346	59,315	-	144,193
Total deferred inflows of resources	<u>52,532</u>	<u>32,346</u>	<u>59,315</u>	<u>-</u>	<u>144,193</u>
Net Position					
Net investment in capital assets	1,103,392	1,821,642	442,908	634,200	4,002,142
Restricted for other purposes	-	-	330,455	-	330,455
Unrestricted	809,543	563,001	(1,340,154)	(634,200)	(601,810)
Total net position	<u>1,912,935</u>	<u>2,384,643</u>	<u>(566,791)</u>	<u>-</u>	<u>3,730,787</u>
Total liabilities and net position	<u>\$ 9,575,064</u>	<u>\$ 6,371,437</u>	<u>\$ 1,032,886</u>	<u>\$ 634,200</u>	<u>\$ 17,613,587</u>

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Statement of Net Position - Proprietary Funds
June 30, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
Assets				
Current Assets:				
Cash & investments	\$ 119,969	\$ -	\$ 74	\$ 120,043
Taxes & assessments receivable, net	-	103	-	103
Accounts receivable - net	80,576	39,549	55,636	175,761
Due from other funds	357,589	1,141,873	140,782	1,640,244
Due from other governments	287,622	424,495	-	712,117
Total current assets	<u>845,756</u>	<u>1,606,020</u>	<u>196,492</u>	<u>2,648,268</u>
Noncurrent assets:				
Restricted cash and investments	1,267,923	-	84,039	1,351,962
Advances to other funds	202,878	685,405	-	888,283
Investment in joint ventures	23,618	67,218	-	90,836
Capital assets - land	158,517	77,828	210,104	446,449
Capital assets - construction in progress	2,665,664	594,263	-	3,259,927
Capital assets - depreciable, net	5,195,856	2,668,721	306,168	8,170,745
Total noncurrent assets	<u>9,514,456</u>	<u>4,093,435</u>	<u>600,311</u>	<u>14,208,202</u>
Total assets	<u>10,360,212</u>	<u>5,699,455</u>	<u>796,803</u>	<u>16,856,470</u>
Liabilities				
Current liabilities				
Accounts payable	330,935	-	-	330,935
Accrued interest payable	28,848	14,871	330	44,049
Accrued payroll	10,236	4,490	13,605	28,331
Due to other funds	-	357,589	132,923	490,512
Due to other governments	156,688	-	-	156,688
Revenues collected in advance	-	-	2,814	2,814
Current portion of long-term capital liabilities	271,000	89,000	34,970	394,970
Current portion of compensated absences payable	25,313	13,159	20,748	59,220
Total current liabilities	<u>823,020</u>	<u>479,109</u>	<u>205,390</u>	<u>1,507,519</u>
Noncurrent liabilities				
Advances payable	-	-	292,203	292,203
Landfill closure postclosure liability	-	-	589,282	589,282
Noncurrent portion of long-term liabilities	47,824	22,583	71,748	142,155
Noncurrent portion of long-term capital liabilities	7,270,500	2,660,500	22,200	9,953,200
Noncurrent portion of compensated absences	12,645	9,045	12,168	33,858
Total noncurrent liabilities	<u>7,330,969</u>	<u>2,692,128</u>	<u>987,601</u>	<u>11,010,698</u>
Total liabilities	<u>8,153,989</u>	<u>3,171,237</u>	<u>1,192,991</u>	<u>12,518,217</u>
Net Position				
Net investment in capital assets	478,537	591,312	459,102	1,528,951
Restricted for debt service	250,376	-	84,039	334,415
Restricted	1,017,546	-	-	1,017,546
Unrestricted	459,764	1,936,906	(939,329)	1,457,341
Total net position	<u>2,206,223</u>	<u>2,528,218</u>	<u>(396,188)</u>	<u>4,338,253</u>
Total liabilities and net position	<u>\$ 10,360,212</u>	<u>\$ 5,699,455</u>	<u>\$ 796,803</u>	<u>\$ 16,856,470</u>

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Net Position
Proprietary Funds
For The Fiscal Year Ended June 30, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
Operating Revenues				
Charges for services	\$ 988,444	\$ 473,211	\$ 796,582	\$ 2,258,237
Miscellaneous revenues	69,749	48,874	62,807	181,430
Total Operating Revenues	<u>1,058,193</u>	<u>522,085</u>	<u>859,389</u>	<u>2,439,667</u>
Operating Expenses				
Personal services	344,636	267,763	406,685	1,019,084
Supplies	47,391	15,682	47,584	110,657
Purchased services	252,594	174,000	206,731	633,325
Building Materials	33,444	33,444	-	66,888
Fixed charges	19,661	19,661	49,261	88,583
Loss/bad debt expense	495	495	495	1,485
Depreciation	299,245	155,808	55,603	510,656
Total Operating Expenses	<u>997,466</u>	<u>666,853</u>	<u>766,359</u>	<u>2,430,678</u>
Operating Income (loss)	<u>60,727</u>	<u>(144,768)</u>	<u>93,030</u>	<u>8,989</u>
Non-operating Revenues (Expenses)				
Interest revenue	139,513	213,597	20,728	373,838
Debt service interest expense	(335,867)	(135,252)	(9,243)	(480,362)
Total non-operating revenues (expenses)	<u>(196,354)</u>	<u>78,345</u>	<u>11,485</u>	<u>(106,524)</u>
Income (loss) before contributions and transfers	<u>(135,627)</u>	<u>(66,423)</u>	<u>104,515</u>	<u>(97,535)</u>
Transfers In	60,000	60,000	-	120,000
Special & Extraordinary Items				
Gain (loss) on sale of capital assets	(622)	(624)	(623)	(1,869)
Change in net position	<u>(76,249)</u>	<u>(7,047)</u>	<u>103,892</u>	<u>20,596</u>
Net Position - Beginning of the year	2,206,223	2,528,218	(396,188)	4,338,253
Restatements	(217,039)	(136,528)	(274,495)	(628,062)
Net Position - Beginning of the year - Restated	<u>1,989,184</u>	<u>2,391,690</u>	<u>(670,683)</u>	<u>3,710,191</u>
Net Position - End of year	<u>\$ 1,912,935</u>	<u>\$ 2,384,643</u>	<u>\$ (566,791)</u>	<u>\$ 3,730,787</u>

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Statement of Revenues, Expenditures, and Changes in Fund Net Position
Proprietary Funds
For The Fiscal Year Ended June 30, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Totals</u>
Operating Revenues				
Charges for services	\$ 952,504	\$ 454,465	\$ 737,000	\$ 2,143,969
Miscellaneous revenues	1,516	-	6,818	8,334
Total Operating Revenues	<u>954,020</u>	<u>454,465</u>	<u>743,818</u>	<u>2,152,303</u>
Operating Expenses				
Personal services	258,759	118,494	331,495	708,748
Supplies	67,673	25,778	65,522	158,973
Purchased services	117,321	62,842	178,121	358,284
Fixed charges	21,356	21,356	51,814	94,526
Loss/bad debt expense	431	431	431	1,293
Depreciation	296,150	151,951	40,864	488,965
Total Operating Expenses	<u>761,690</u>	<u>380,852</u>	<u>668,247</u>	<u>1,810,789</u>
Operating Income (loss)	<u>192,330</u>	<u>73,613</u>	<u>75,571</u>	<u>341,514</u>
Non-operating Revenues (Expenses)				
Interest revenue	13,787	20,877	22,393	57,057
Debt service interest expense	(358,781)	(142,593)	(10,405)	(511,779)
Total non-operating revenues (expenses)	<u>(344,994)</u>	<u>(121,716)</u>	<u>11,988</u>	<u>(454,722)</u>
Income (loss) before contributions and transfers	<u>(152,664)</u>	<u>(48,103)</u>	<u>87,559</u>	<u>(113,208)</u>
Transfers out	(210,000)	(290,000)	-	(500,000)
Special & Extraordinary Items				
Special item	416,300	-	-	416,300
Change in net position	53,636	(338,103)	87,559	(196,908)
Net Position - Beginning of the year	2,150,425	2,866,321	(483,747)	4,532,999
Restatements	2,162	-	-	2,162
Net Position - Beginning of the year - Restated	<u>2,152,587</u>	<u>2,866,321</u>	<u>(483,747)</u>	<u>4,535,161</u>
Net Position - End of year	<u>\$ 2,206,223</u>	<u>\$ 2,528,218</u>	<u>\$ (396,188)</u>	<u>\$ 4,338,253</u>

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Statement of Cash Flows
Proprietary Fund Types
For The Fiscal Year Ended June 30, 2015

	<u>Business - Type Activities</u>				<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Storm Drain</u>	
Cash flows from operating activities					
Cash received from providing services	\$ 992,870	\$ 474,015	\$ 796,145	\$ -	\$ 2,263,030
Cash received from misc sources	64,002	45,335	56,316	-	165,653
Cash payments to suppliers	(431,429)	200,443	(44,772)	-	(275,758)
Cash payments for fixed charges	-	-	(49,261)	-	(49,261)
Cash payments for professional services	(252,594)	(174,000)	(190,065)	-	(616,659)
Cash payments to employees	(328,579)	(253,339)	(388,943)	-	(970,861)
Net cash provided (used) by operating activities	<u>44,270</u>	<u>292,454</u>	<u>179,420</u>	<u>-</u>	<u>516,144</u>
Cash flows from capital & related financings activities					
Acquisition & construction of capital assets	(653,722)	(1,297,762)	(205,067)	(62,356)	(2,218,907)
Principal paid on debt	(271,000)	(89,000)	(34,970)	-	(394,970)
Interest paid on debt	(335,867)	(135,252)	(9,243)	-	(480,362)
Proceeds from bonds, loans and advances	-	-	200,000	-	200,000
Net cash provided (used) by capital & financing	<u>(1,260,589)</u>	<u>(1,522,014)</u>	<u>(49,280)</u>	<u>(62,356)</u>	<u>(2,894,239)</u>
Cash flows from non-capital financing activities					
Due from other governments	(69,738)	424,495	-	-	354,757
Advances and due to/from governmental funds	(132,458)	285,825	114,517	62,356	330,240
Due to other governments	(86,728)	314,265	-	-	227,537
Net cash provided (used) from non capital financing	<u>(288,924)</u>	<u>1,024,585</u>	<u>114,517</u>	<u>62,356</u>	<u>912,534</u>
Cash flows from investing activities					
Interest on investments	136,485	204,975	20,728	-	362,188
Net cash provided (used) by investing activities	<u>136,485</u>	<u>204,975</u>	<u>20,728</u>	<u>-</u>	<u>362,188</u>
Net increase(decrease) in cash & cash equivalents	(1,368,758)	-	265,385	-	(1,103,373)
Cash & cash equivalents at beginning	1,387,892	-	84,113	-	1,472,005
Cash & cash equivalents at end	<u>\$ 19,134</u>	<u>\$ -</u>	<u>\$ 349,498</u>	<u>\$ -</u>	<u>\$ 368,632</u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 60,727	\$ (144,768)	\$ 93,030	\$ -	\$ 8,989
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation	299,245	155,808	55,603	-	510,656
Other post-employment benefits	12,485	5,914	18,399	-	36,798
Changes in assets & liabilities:					
Change in accounts receivable	826	(2,238)	(3,619)	-	(5,031)
Change in Pension Liability	(6,314)	(3,888)	(7,131)	-	(17,333)
Change in accrued payables	(332,585)	269,228	(330)	-	(63,687)
Change in accrued payroll	6,595	9,245	6,688	-	22,528
Closure post-closure liability	-	-	16,666	-	16,666
Change in compensated absences	3,291	3,153	(214)	-	6,230
Change in revenues collected in advance	-	-	(2,814)	-	(2,814)
Change in assessments receivable	-	-	3,142	-	3,142
Net cash provided (used) by operating activities	<u>\$ 44,270</u>	<u>\$ 292,454</u>	<u>\$ 179,420</u>	<u>\$ -</u>	<u>\$ 516,144</u>

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Statement of Cash Flows
Proprietary Fund Types
For The Fiscal Year Ended June 30, 2014

Business - Type Activities

	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Cash flows from operating activities				
Cash received from providing services	\$ 952,120	\$ 454,616	\$ 735,119	\$ 2,141,855
45	1,616	-	6,817	8,433
Cash payments to suppliers	241,906	(47,134)	(117,336)	77,436
Cash payments for fixed charges	-	-	-	-
Cash payments for professional services	(117,321)	(62,842)	(159,436)	(339,599)
Cash payments to employees	(239,671)	(104,289)	(313,759)	(657,719)
Net cash provided (used) by operating activities	<u>838,650</u>	<u>240,351</u>	<u>151,405</u>	<u>1,230,406</u>
Cash flows from capital & related financings activities				
Acquisition & construction of capital assets	(2,641,803)	(648,011)	-	(3,289,814)
Principal paid on debt	(265,000)	(106,000)	(34,628)	(405,628)
Interest paid on debt	(358,781)	(142,593)	(10,404)	(511,778)
Proceeds from bonds, loans and advances	3,917,500	1,682,500	-	5,600,000
Net cash provided (used) by capital & financing	<u>651,916</u>	<u>785,896</u>	<u>(45,032)</u>	<u>1,392,780</u>
Cash flows from non-capital financing activities				
Due from other governments	(287,622)	(424,495)	-	(712,117)
Advances and due to/from governmental funds	(567,589)	(1,009,689)	(166,220)	(1,743,498)
Due to other governments	156,688	-	-	156,688
Net cash provided (used) from non capital financing	<u>(698,523)</u>	<u>(1,434,184)</u>	<u>(166,220)</u>	<u>(2,298,927)</u>
Cash flows from investing activities				
Interest on investments	15,755	24,730	22,393	62,878
Net cash provided (used) by investing activities	<u>15,755</u>	<u>24,730</u>	<u>22,393</u>	<u>62,878</u>
Net increase(decrease) in cash & cash equivalents	<u>807,798</u>	<u>(383,207)</u>	<u>(37,454)</u>	<u>387,137</u>
Cash & cash equivalents at beginning	<u>580,094</u>	<u>383,207</u>	<u>121,567</u>	<u>1,084,868</u>
Cash & cash equivalents at end	<u>\$ 1,387,892</u>	<u>\$ -</u>	<u>\$ 84,113</u>	<u>\$ 1,472,005</u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities

Operating income (loss)	\$ 192,330	\$ 73,613	\$ 75,571	\$ 341,514
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation	296,150	151,951	40,864	488,965
Other post-employment benefits	-	-	-	-
Changes in assets & liabilities				
Change in accounts receivable	(2,015)	582	(1,451)	(2,884)
Change in accrued payables	330,935	-	-	330,935
Change in accrued payroll	(145)	(178)	(1,722)	(2,045)
Closure post-closure liability	-	-	18,685	18,685
Change in OPEB liability	12,485	5,914	18,399	36,798
Change in compensated absences	6,748	8,469	1,059	16,276
Change in assessments receivable	2,162	-	-	2,162
Net cash provided (used) by operating activities	<u>\$ 838,650</u>	<u>\$ 240,351</u>	<u>\$ 151,405</u>	<u>\$ 1,230,406</u>

See accompanying notes to the financial statements

**City of Shelby
Toole County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2015**

	<u>Agency Funds</u>
Assets	
Cash & short-term investments	\$ 296,334
Taxes receivable	70
Total Assets	<u><u>\$ 296,404</u></u>
Liabilities	
Due to others	\$ 296,404
Total Liabilities	<u><u>\$ 296,404</u></u>

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Statement of Net Position
Fiduciary Funds
June 30, 2014

	<u>Agency Funds</u>
Assets	
Cash and short-term investments	\$ 276,578
Total Assets	<u>\$ 276,578</u>
Liabilities	
Warrants payable	\$ -
Due to others	276,578
Total Liabilities	<u>\$ 276,578</u>

See accompanying notes to the financial statements

**CITY OF SHELBY
TOOLE COUNTY, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

GASBS No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, adds the financial statement elements of deferred outflows of resources and deferred inflows of resources to the financial statements of all fund types and activities. A deferred outflow of resources represents the consumption of a government's net assets that is applicable to a future reporting period. A deferred inflow of resources represents the acquisition of net assets that is applicable to future reporting period. Because deferred outflows of resources and deferred inflows of resources are, by definition, neither assets nor liabilities, the title of the statement of net assets is changed to *statement of net position*.

Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of GASB statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the City appointed a voting majority of the component units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists. In addition, the City complies with GASB statement No. 39 *Determining Whether Certain Organizations Are Component Units* which relates to organizations that raise and hold economic resources for the direct benefit of the City.

Primary Government

The City is a political subdivision of the State of Montana governed by an elected Mayor and Council duly elected by the registered voters of the City. The City is considered a primary government because it is a general purpose local government. Further, it meets the following criteria: (a) It has a separately elected governing body (b) It is legally separate and (c) It is fiscally independent from the State and other local governments.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Government-wide Financial Statements:

Basis of Presentation

The Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole and its component units. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Eliminations have been made in the consolidation of business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function. The City does not charge indirect expenses to programs or functions. The types of transactions reported as program revenues include 1) charges

to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and 2) operating grants and contributions, and 3) capital grants and contributions. Revenues that are not classified as program revenues, including all property taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by GASB 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of the cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The City generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted net assets are available.

Fund Financial Statements:

Basis of Presentation

Fund financial statements of the reporting City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Funds are organized into three categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is displayed in a separate column in the governmental funds statements. All of the remaining funds are aggregated and reported in a single column as non-major funds. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise funds are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Measurement Focus and Basis of Accounting

Governmental Funds

Modified Accrual

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The City defined the length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements to be upon receipt. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources. General capital asset acquisitions are reported as expenditures in governmental funds and proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Major Funds:

The City reports the following major governmental funds:

- *General Fund* – This is the City's primary operating fund and it accounts for all financial resources of the City except those required to be accounted for in other funds.
- *Disaster-Flood Williamson Park* – This is a special revenue fund used to make repairs and improvements to the Williamson Park (only a major fund in fiscal year 2014).
- *Streed Maintenance District No. 1* – (only a major fund in fiscal year 2014). This is a special revenue fund used for the maintenance of all the streets, avenues and alleys within the designated district of the City.

Proprietary Funds:

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control.

Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues

for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Major Funds:

The City reports the following major proprietary funds:

- *Water Fund* – An enterprise fund that accounts for the activities of the City's water distribution operations.
- *Sewer Fund* – An enterprise fund that accounts for the activities of the City's sewer collection and treatment operations and includes the storm sewer system.
- *Solid Waste Fund* – An enterprise fund that accounts for the activities of the City's solid waste service.

Fiduciary Funds

Fiduciary funds presented using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans). The required financial statements are a statement of fiduciary net position and a statement of changes in fiduciary net assets. The fiduciary funds are:

Agency Funds – To report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). This fund primarily consist of assets held by the City as an agent for individuals, private organizations, other local governmental entities and the City's claims and payroll clearing funds

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition

Composition of cash, deposits and investments at fair value on June 30, 2015 and 2014, are as follows:

	6/30/15	6/30/14
Cash on hand and deposits:		
Petty Cash	\$ 1,125	\$ 1,125
Cash in banks:		
Demand deposits	490,688	199,299
Savings deposits	388,146	1,952,924
Time deposits	186,728	186,728
Investments:		
State Short-Term Investment Pool (STIP)	661,887	161,326
Federal Home Loan Bank Notes	73,335	74,230
U.S. Treasury Notes	86,927	83,484
Federal Home Loan Mortgage Bank Corporation	126,346	125,767
Federal Farm Credit Bank Notes	57,628	43,019
Total	\$ 2,072,810	\$ 2,827,902

Credit Risk

Section 7-6-202, MCA, limits investments of public money of a local government in the following eligible securities:

- a) United States government treasury bills, notes and bonds and in the United States treasury obligations, such as state and local government series (SLGLS), separate trading of registered interest and principal of securities (STRIPS), or similar United States treasury obligations;
- b) United States treasury receipts in a form evidencing the holder's ownership of future interest or principal payments on specific United States treasury obligations that, in the absence of payment default by the United States, are held in a special custody account by an independent trust company in a certificate or book entry form with the federal reserve bank of New York; or
- c) Obligations of the following agencies of the United States, subject to the limitations in subsection 2 (not included):
 - (iii) federal home loan bank;
 - (iv) federal national mortgage association;
 - (v) federal home mortgage corporation; and
 - (vi) federal farm credit bank.

With the exception of the assets of a local government group self-insurance program, investments may not have a maturity date exceeding 5 years except when the investment is used in an escrow account to refund an outstanding bond issue in advance.

Section 7-6-205 and Section 7-6-206, MCA, state that demand deposits may be placed only in banks and Public money not necessary for immediate use by a county, city, or town that is not invested as authorize in Section 7-6-202 may be place in time or savings deposits with a bank, savings and loan association, or credit union in the state or place in repurchase agreements as authorized in Section 7-6-213.

Short Term Investment Pool (STIP) Credit Quality ratings by the S&P's rating services as of June 30, 2015 and 2014:

June 30, 2015			
Security Investment Type	Amortized Cost	Credit Quality Rating	Weighted Average Maturity
Asset Backed Commercial Paper	\$ 779,579,000	A1	25
Corporate Commercial Paper	101,299,000	A1	102
Corporate Variable-Rate	571,672,000	A1+	42
Certificates of Deposit Fixed Rate	150,000,000	A1	259
Certificates of Deposit Variable-Rate	450,000,000	A1+	47
Other Asset Backed	27,821,000	NR	NA
U.S. Government Agency Fixed	54,498,000	A1+	236
U.S. Government Agency Variable Rate	239,008,000	A1+	42
Money Market Funds (Unrated)	161,592,000	NR	1
Money Market Funds (Rated)	3,000,000	A1+	1
Total Investments	<u>\$ 2,538,469,000</u>	A1	52
Securities Lending Collateral Investment Pool	<u>\$ 5,806,000</u>	NR	30*

*As of June 30, 2015, the Securities Lending Quality Trust liquidity pool had an average duration of 30 days and an average weighted final maturity of 115 days for U.S. dollar collateral. In March 2015, all holdings in the Securities Lending Duration Pool were sold.

June 30, 2014

<u>Security Investment Type</u>	<u>Amortized Cost</u>	<u>Credit Quality Rating</u>	<u>Weighted Average Maturity</u>
Asset Backed Commercial Paper	\$ 777,418,000	A1	30
Corporate Commercial Paper	138,958,000	A1	39
Corporate Variable-Rate	658,894,000	A1	38
Certificates of Deposit Fixed Rate	100,000,000	A1	219
Certificates of Deposit Variable-Rate	391,996,000	A1+	32
Other Asset Backed	38,441,000	NR	NA
U.S. Government Agency Fixed	75,003,000	A1+	194
U.S. Government Agency Variable Rate	200,003,000	A1+	31
Money Market Funds (Unrated)	133,440,000	NR	1
Money Market Funds (Rated)	21,000,000	A1+	1
Total Investments	<u>\$ 2,535,153,000</u>	A1	43
Securities Lending Collateral Investment Pool	<u>\$ 1,862,000</u>	NR	*

*As of June 30, 2014, the Securities Lending Quality Trust liquidity pool had an average duration of 41 days and an average weighted final maturity of 114 days for U.S. dollar collateral. The duration pool had an average duration of 33 days and an average weighted final maturity of 548 days for U.S. dollar collateral.

Audited financial statements for the State of Montana's Board of Investments are available at 555 Fuller Avenue in Helena, Montana.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. All deposits are carried at cost plus accrued interest. As of June 30, 2015 and 2014 the government's bank balance was exposed to custodial credit risk as follows:

<u>Depository Account</u>	<u>6/30/15</u>	<u>6/30/14</u>
Insured	\$ 638,146	\$ 998,359
Uninsured and uncollateralized	661,278	1,641,900
Total Deposits and investments	<u>\$ 1,299,424</u>	<u>\$ 2,640,259</u>

Deposit Security

Section 7-6-207, MCA, states (1) The local governing body may require security only for that portion of the deposits which is not guaranteed or insured according to law and, as to such unguaranteed or uninsured portion, to the extent of:

- a) 50% of such deposits if the institution in which the deposit is made has a net worth of total assets ratio of 6% or more; or
- b) 100% if the institution in which the deposit is made has a net worth of total assets ratio of less than 6%.

The amount of collateral held for the City of Shelby deposits at June 30, 2014 and 2015, did not meet the amount required by State statutes.

Interest Rate Risk

The government 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. The following is a list of individual investments as of June 30, 2015 alone with their related interest rates and maturity dates.

<u>June 30, 2015 - Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
US Treasury Notes	1.000%	10/31/16	\$ 11,083
US Treasury Notes	1.000%	10/31/16	12,091
US Treasury Notes	1.625%	03/31/19	28,335
US Treasury Notes	1.625%	03/31/19	35,418
Federal Farm Credit Bank Notes	1.000%	04/11/18	9,975
Federal Farm Credit Bank Notes	1.680%	01/23/20	21,820
Federal Farm Credit Bank Notes	1.000%	04/11/18	7,980
Federal Farm Credit Bank Notes	1.680%	02/26/19	17,853
Federal Home Loan Bank Notes	2.375%	12/11/15	10,093
Federal Home Loan Bank Notes	1.750%	09/11/15	10,032
Federal Home Loan Bank Notes	2.375%	12/11/15	10,093
Federal Home Loan Bank Notes	1.750%	09/11/15	13,041
Federal Home Loan Bank Notes	2.000%	11/19/18	15,038
Federal Home Loan Bank Notes	2.000%	11/19/18	15,038
Federal National Mortgage Association Notes	1.000%	07/28/17	22,102
Federal National Mortgage Association Notes	1.000%	09/29/27	31,073
Federal National Mortgage Association Notes	0.875%	12/20/17	10,990
Federal National Mortgage Association Notes	1.000%	07/28/17	25,116
Federal National Mortgage Association Notes	1.000%	09/29/27	30,071
Federal National Mortgage Association Notes	0.875%	12/20/17	6,994
Total Investments			<u>\$ 344,236</u>

The following is a list of individual investments as of June 30, 2014 alone with their related interest rates and maturity dates.

<u>June 30, 2014 - Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
US Treasury Notes	2.375%	02/28/15	\$ 10,151
US Treasury Notes	2.375%	02/28/15	10,151
US Treasury Notes	1.625%	03/31/19	28,081
US Treasury Notes	1.625%	03/31/19	35,101
Federal Farm Credit Bank Notes	1.000%	04/11/18	9,931
Federal Farm Credit Bank Notes	1.740%	02/26/19	13,074
Federal Farm Credit Bank Notes	1.000%	04/11/18	7,945
Federal Farm Credit Bank Notes	1.740%	02/26/19	12,069

<u>June 30, 2014 - Investment</u>	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Amount</u>
Federal Home Loan Bank Notes	2.500%	10/30/14	15,120
Federal Home Loan Bank Notes	1.750%	09/11/15	10,182
Federal Home Loan Bank Notes	2.375%	12/11/15	10,286
Federal Home Loan Bank Notes	2.500%	10/30/14	15,120
Federal Home Loan Bank Notes	1.750%	09/11/15	13,236
Federal Home Loan Bank Notes	2.375%	12/11/15	10,286
Federal National Mortgage Association Notes	1.000%	07/28/17	22,014
Federal National Mortgage Association Notes	1.000%	09/29/27	30,936
Federal National Mortgage Association Notes	0.875%	12/20/17	10,917
Federal National Mortgage Association Notes	1.000%	07/28/17	25,015
Federal National Mortgage Association Notes	1.000%	02/29/27	29,938
Federal National Mortgage Association Notes	0.875%	12/20/17	6,947
Total Investments			<u><u>\$ 326,500</u></u>

Cash equivalents

For purposes of the statement of cash flows, the enterprise funds consider all funds (including restricted assets) held in the City's cash management pool to be cash equivalents.

NOTE 3. RESTRICTED CASH/INVESTMENTS

The following restricted cash/investments were held by the City as of June 30, 2015 and 2014. These amounts are reported within the cash/investment account on the Statement of Net Position.

<u>Description</u>	<u>06/30/15</u>	<u>06/30/14</u>
Gas Tax Apportionment	\$ 93,376	\$ -
Revolving Loan Fund	23,500	-
Held by Trustee	330,455	84,039
Construction Reserve	-	1,267,923
	<u><u>\$ 447,331</u></u>	<u><u>\$ 1,351,962</u></u>

NOTE 4. RECEIVABLES

An allowance for uncollectible accounts was not maintained for real and personal property taxes and special assessments receivable. The direct write-off method is used for these accounts.

Property tax levies are set on or before the second Monday in August, in connection with the budget process. Real property (and certain attached personal property) taxes are billed within ten days after the third Monday in October and are due in equal installments on November 30 and the following May 31. After those dates, they become delinquent (and a lien upon the property). After three years, the County may exercise the lien and take title to the property. Special assessments are either billed in one installment due November 30 or two equal installments due November 30 and the following May 31. Personal property taxes (other than those billed with real estate) are generally billed no later than the second Monday in July (normally in May or June), based on the prior November's levies. Personal property taxes, other than mobile homes, are due thirty days after billing. Mobile home taxes are billed in two halves, the first due thirty days after billing; the second due September 30. The tax billings are considered past due after the respective due dates and are subject to penalty and interest charges.

NOTE 5. INVENTORIES

The costs of inventories are recorded as expenditures when purchased.

NOTE 6. CAPITAL ASSETS

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	40 years
Improvements	10 – 20 years
Equipment	5 – 10 years
Infrastructure	25 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure into the June 30, 2015 and 2014 Basic Financial Statements. The government has elected not to retroactively report general infrastructure assets.

A summary of changes in governmental capital assets for June 30, 2015 was as follows:

Governmental Activities:	Balance 07/01/14	Additions	Deletions	Transfers	Restatements	Balance 06/30/15
Capital assets not being depreciated:						
Land	\$ 869,793	\$ -	\$ -	\$ -	\$ (1,010)	\$ 868,783
Construction in progress	959,493	151,978	-	-	-	1,111,471
Total capital assets not being depreciated	1,829,286	151,978	-	-	(1,010)	1,980,254
Other capital assets:						
Buildings	4,901,825	-	(856,931)	-	-	4,044,894
Improvements other than buildings	3,747,682	-	-	-	-	3,747,682
Machinery and equipment	1,823,776	3,208	(3,107)	-	-	1,823,877
Infrastructure	1,799,622	-	-	-	-	1,799,622
Transmission and distribution	2,374	-	-	-	-	2,374
Total other capital assets at historical cost	12,275,279	3,208	(860,038)	-	-	11,418,449
Less: accumulated depreciation	(4,830,429)	(443,028)	88,176	-	-	(5,185,281)
Total	<u>\$ 9,274,136</u>	<u>\$ (287,842)</u>	<u>\$ (771,862)</u>	<u>\$ -</u>	<u>\$ (1,010)</u>	<u>\$ 8,213,422</u>

A summary of changes in governmental capital assets for June 30, 2014 was as follows:

Governmental Activities:	Balance					Balance 06/30/14
	07/01/13	Additions	Deletions	Transfers	Adjustments	
Capital assets not being depreciated:						
Land	\$ 1,154,089	\$ 1,010	\$ -	\$ -	\$ (285,306)	\$ 869,793
Construction in progress	800,396	297,430	-	(359,027)	220,694	959,493
Total capital assets not being depreciated	1,954,485	298,440	-	(359,027)	(64,612)	1,829,286
Other capital assets:						
Buildings	4,833,912	67,913	-	-	-	4,901,825
Improvements other than buildings	3,191,429	197,226	-	359,027	-	3,747,682
Machinery and equipment	1,817,276	6,500	-	-	-	1,823,776
Infrastructure	1,735,010	-	-	-	64,612	1,799,622
Transmission and distribution	2,374	-	-	-	-	2,374
Total other capital assets at historical cost	11,580,001	271,639	-	359,027	64,612	12,275,279
Less: accumulated depreciation	(4,370,257)	(460,172)	-	-	-	(4,830,429)
Total	<u>\$ 9,164,229</u>	<u>\$ 109,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,274,136</u>

Governmental activities depreciation expense was charged to functions as for June 30, 2015 and 2014 as follows:

Governmental Activities:	06/30/15 Amount	06/30/14 Amount
General government	\$ 58,528	\$ 79,931
Public safety	89,063	87,385
Public works	188,355	189,705
Culture and recreation	105,308	101,377
Conservation of Natural Resources	1,774	1,774
Total governmental activities depreciation expense	<u>\$ 443,028</u>	<u>\$ 460,172</u>

A summary of changes in business-type capital assets for June 30, 2015 was as follows:

Business-type activities:	Balance				Balance 06/30/15
	07/01/14	Additions	Restatements	Adjustments	
Capital assets not being depreciated:					
Land	\$ 446,449	\$ -	\$ -	\$ 92,675	\$ 539,124
Construction in progress	3,259,927	2,390,359	-	30,640	5,680,926
Total capital assets not being depreciated	3,706,376	2,390,359	-	123,315	6,220,050
Other capital assets:					
Buildings	527,564	-	-	-	527,564
Improvements other than buildings	765,327	-	-	-	765,327
Machinery and equipment	1,541,345	277,126	(166,339)	(54)	1,652,078
Source of supply	4,460,837	-	-	-	4,460,837
Pumping Plant	137,490	-	-	-	137,490
Treatment plant	968,382	-	-	-	968,382
Transmission and distribution	10,742,044	-	-	-	10,742,044
Total other capital assets at historical cost	19,142,989	277,126	(166,339)	(54)	19,253,722
Less: accumulated depreciation	(10,972,244)	(510,656)	164,470	-	(11,318,430)
Total	<u>\$ 11,877,121</u>	<u>\$ 2,156,829</u>	<u>\$ (1,869)</u>	<u>\$ 123,261</u>	<u>\$ 14,155,342</u>

A summary of changes in business-type capital assets for June 30, 2014 was as follows:

Business-type activities:	Balance 07/01/13	Additions	Deletions	Balance 06/30/14
Capital assets not being depreciated:				
Land	\$ 324,124	\$ 122,325	\$ -	\$ 446,449
Construction in progress	117,577	3,142,350	-	3,259,927
Total capital assets not being depreciated	441,701	3,264,675	-	3,706,376
Other capital assets:				
Buildings	527,564	-	-	527,564
Improvements other than buildings	765,327	-	-	765,327
Machinery and equipment	1,682,913	15,932	(157,500)	1,541,345
Source of supply	4,460,837	-	-	4,460,837
Pumping Plant	128,278	9,212	-	137,490
Treatment plant	968,382	-	-	968,382
Transmission and distribution	10,742,044	-	-	10,742,044
Total other capital assets at historical cost	19,275,345	25,144	(157,500)	19,142,989
Less: accumulated depreciation	(10,640,779)	(488,965)	157,500	(10,972,244)
Total	<u>\$ 9,076,267</u>	<u>\$ 2,800,854</u>	<u>\$ -</u>	<u>\$ 11,877,121</u>

NOTE 7. LONG TERM DEBT OBLIGATIONS

In the governmental-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, are expensed at the date of sale.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2015, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:	Balance 07/01/14	Additions	Deletions	Balance 06/30/15	Due Within One Year
General obligation bonds	\$ 570,000	\$ -	\$ (70,000)	\$ 500,000	\$ 75,000
Special assessment bond	400,000	-	(35,000)	365,000	35,000
Contracted debt	1,042,441	-	(663,143)	379,298	58,827
Compensated absences	32,155	550	-	32,705	23,376
Intercap loans	42,575	-	(42,575)	-	-
Net Pension Liability**	-	279,227	-	279,227	-
Other post-employment benefits*	123,695	28,912	-	152,607	-
Total	<u>\$ 2,210,866</u>	<u>\$ 308,689</u>	<u>\$ (810,718)</u>	<u>\$ 1,708,837</u>	<u>\$ 192,203</u>

* See Note 8

**See Note 11

Business-type Activities:	Balance 07/01/14	Additions	Deletions	Balance 06/30/15	Due Within One Year
Revenue bonds	\$ 10,291,000	\$ -	\$ (360,000)	\$ 9,931,000	\$ 354,000
Compensated absences	93,078	6,444	(214)	99,308	63,215
Intercap loans	57,170	200,000	(34,970)	222,200	51,696
Landfill closure/post closure	589,282	16,666	-	605,948	-
Net Pension Liability**	-	557,971	-	557,971	-
Other post-employment benefits*	142,155	36,798	-	178,953	-
Total	\$ 11,172,685	\$ 817,879	\$ (395,184)	\$ 11,595,380	\$ 468,911

* See Note 8

**See Note 11

Changes in Long-Term Debt Liabilities - During the year ended June 30, 2014, the following changes occurred in liabilities reported in long-term debt:

Governmental Activities:	Balance 07/01/13	Additions	Deletions	Restatements	Balance 06/30/14	Due Within One Year
General obligation bonds	\$ 640,000	\$ -	\$ (70,000)	\$ -	\$ 570,000	\$ 70,000
Special assessment bond	462,950	-	(70,000)	7,050	400,000	35,000
Contracted debt	1,112,884	31,845	(102,288)	-	1,042,441	71,870
Compensated absences	66,471	-	(34,316)	-	32,155	22,896
Intercap loans	85,672	-	(43,097)	-	42,575	42,575
Other post-employment benefits*	94,783	28,912	-	-	123,695	-
Total	\$ 2,462,760	\$ 60,757	\$ (319,701)	\$ 7,050	\$ 2,210,866	\$ 242,341

* See Note 8

Business-type Activities:	Balance 07/01/13	Additions	Deletions	Adjustments	Balance 06/30/14	Due Within One Year
Revenue bonds	\$ 5,478,300	\$ 5,600,000	\$ (371,000)	\$ (416,300)	\$ 10,291,000	\$ 360,000
Compensated absences	76,803	16,275	-	-	93,078	59,220
Intercap loans	91,798	-	(34,628)	-	57,170	34,970
Landfill closure/post closure	570,597	18,685	-	-	589,282	-
Other post-employment benefits*	105,357	36,798	-	-	142,155	-
Total	\$ 6,322,855	\$ 5,671,758	\$ (405,628)	\$ (416,300)	\$ 11,172,685	\$ 454,190

* See Note 8

In prior years the general fund was used to liquidate compensated absences and claims and judgments.

General Obligation Bonds - The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding as of June 30, 2015 were as follows:

Purpose	Origination Date	Interest Rate	Term	Maturity Date	Principal Amount	Annual Payment	Balance 06/30/15
Fire Hall	06/29/06	4-4.5%	15 yrs	07/01/21	\$1,030,000	Varies	\$500,000

(1) Reported in the governmental activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 75,000	\$ 21,033
2017	75,000	17,960
2018	80,000	14,885
2019	85,000	11,525
2020	90,000	7,955
2021	95,000	4,085
Total	<u>\$ 500,000</u>	<u>\$ 77,443</u>

Special Assessment Debt - Special assessment bonds are payable from the collection of special assessments levied against benefited property owners within defined special improvement districts. The bonds are issued with specific maturity dates, but must be called and repaid earlier, at par plus accrued interest, if the related special assessments are collected. Special assessment bonds outstanding as of June 30, 2015 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Annual Payment</u>	<u>Balance 06/30/15</u>
SID 2011-2012	06/29/06	1.2-4.0%	12 yrs	07/01/24	\$470,000	Varies	\$365,000

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 35,000	\$ 11,365
2017	35,000	10,622
2018	40,000	9,708
2019	40,000	8,598
2020	40,000	7,358
2021	40,000	5,998
2022	45,000	4,444
2023	45,000	1,080
2024	45,000	900
Total	<u>\$ 365,000</u>	<u>\$ 60,073</u>

Revenue Bonds - The City also issues bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding, net of an unamortized premium at year-end were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance 06/30/15</u>
Water System Revenue Refunding 2001	11/28/01	2.0%	20 yrs	07/01/21	866,000	Varies	283,000
Sewer System Revenue Refunding 2001	11/28/01	2.0%	20 yrs	07/01/19	453,000	Varies	146,000

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Bond Term</u>	<u>Maturity Date</u>	<u>Bonds Amount</u>	<u>Annual Payment</u>	<u>Balance 06/30/15</u>
2002 Water System DNRC	05/09/02	2.0%	20 yrs	07/01/22	677,000	Varies	312,000
2003 Drinking Water Revolving Fund Program	11/04/04	2.3%		07/01/24	700,000	Varies	407,000
Water - WRF-09136 Loan	01/09/09	3.0%	20 yrs	07/01/28	150,000	Varies	122,000
Water - WRF-09132	01/09/09	2.8%	20 yrs	07/01/28	500,000	Varies	395,000
2004 Drinking Water Revolving Fund Program	07/01/05	2.3%	20 yrs	07/01/25	709,000	Varies	512,000
Sewer - ARRA B SRF 10220	11/16/09	1.8%	20 yrs	07/01/25	359,300	Varies	280,000
Sewer - ARRA C SRF 11266	12/17/09	3.0%	20 yrs	07/01/25	670,000	Varies	552,000
Water - SRF 10 Drinking Water B	08/26/10	0.8%	20 yrs	07/01/30	333,700	Varies	263,000
Water - SFR 10 Drinking Water C	08/26/10	3.0%	20 yrs	07/01/30	1,247,000	Varies	1,059,000
Sewer System USDA	09/17/13	3.5%	42 yrs	07/01/55	1,682,500	Varies	1,682,500
Water System USDA	09/17/13	3.5%	42 yrs	07/01/55	3,917,500	Varies	3,917,500
Total					<u>\$ 12,265,000</u>		<u>\$ 9,931,000</u>

Revenue bond resolutions include various restrictive covenants. The more significant covenants 1) require that cash be restricted and reserved for operations, construction, debt service, and replacement and depreciation; 2) specify minimum required operating revenue; and 3) specific and timely reporting of financial information to bond holders and the registrar. The City was not in compliance with applicable covenants as of June 30, 2015 and 2014.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 354,000	\$ 99,340
2017	365,000	91,563
2018	445,700	279,548
2019	460,245	268,801
2020	419,878	257,701
2021	378,604	247,788
2022	386,425	238,285
2023	378,345	228,460
2024	365,367	218,921
2025	356,495	209,175
2026	314,732	199,865
2027	298,083	191,135
2028	305,551	182,432
2029	292,139	173,476
2030	272,854	165,175
2031	222,700	157,194
2032	117,679	151,021
2033	121,798	146,902
2034	126,061	142,639
2035	130,473	138,227
2036	135,039	133,661

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2037	139,766	128,934
2038	144,658	124,042
2039	149,721	118,979
2040	154,960	113,740
2041	160,385	108,315
2042	165,997	102,702
2043	171,808	96,892
2044	177,821	90,879
2045	184,045	84,655
2046	190,486	78,214
2047	197,153	71,547
2048	204,054	64,646
2049	211,196	57,504
2050	218,588	50,112
2051	226,238	42,461
2052	234,156	34,543
2053	242,352	26,348
2054	250,834	17,866
2055	259,614	9,086
Total	<u>\$ 9,931,000</u>	<u>\$ 5,342,774</u>

Loans/Contracted Debt

Loans/contracted debt outstanding as of June 30, 2015 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance 06/30/15</u>
MDOT Loan IND Park Trackage	09/01/10	0%	10 yrs	09/01/20	118,946	59,470
Firehall Improvement - USDA						
Rural Development	08/15/12	4%	20 yrs	08/05/33	350,000	319,828
Total					<u>\$ 468,946</u>	<u>\$ 379,298</u>

(1)Reported in the governmental activities.

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 58,827	\$ 4,366
2017	28,353	4,366
2018	28,353	4,366
2019	28,353	4,366
2020	28,348	4,365
2021	16,458	2,778
2022	16,458	2,778
2023	16,458	2,778
2024	16,458	2,778

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2025	16,458	2,778
2026	16,458	2,778
2027	16,458	2,778
2028	16,458	2,778
2029	16,458	2,778
2030	16,458	2,778
2031	16,458	2,778
2032	16,458	2,778
2033	9,568	2,785
Total	<u>\$ 379,298</u>	<u>\$ 57,950</u>

Intercept Loans

Intercept loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

Intercept loans outstanding as of June 30, 2015 were as follows:

<u>Purpose</u>	<u>Origination Date</u>	<u>Interest Rate</u>	<u>Term</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Balance 06/30/15</u>
Garbage Truck	02/19/15	4%	5 yrs	01/15/20	200,000	200,000
Landfill Land Purchase	07/21/06	1.95-4.85%	10 yrs	08/15/16	148,000	22,200
Total					<u>\$ 348,000</u>	<u>\$ 222,200</u>

Annual requirement to amortize debt:

<u>For Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 51,696	\$ 7,765
2017	45,787	6,200
2018	39,937	4,593
2019	41,551	2,980
2020	43,229	1,301
Total	<u>\$ 222,200</u>	<u>\$ 22,839</u>

Compensated Absences

Compensated absences are absences for which employees will be paid for time off earned for time during employment, such as earned vacation and sick leave. It is the City's policy and state law to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from City service. Employees are allowed to accumulate and carry over a maximum of two times their annual accumulation of vacation, but no more than 90 days into the new calendar year. There is no restriction on the amount of sick leave that may be accumulated. Upon separation, employees are paid 100 percent of accumulated vacation and 25 percent of accumulated sick leave. The liability associated with governmental fund-type employees is reported in the governmental activities, while the liability associated with proprietary fund-type employees is recorded in the business-type activities/respective proprietary fund.

NOTE 8. POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description. The healthcare plan provides for, and Montana State Law (2-18-704) requires local governments to allow employees with at least 5 years of service and who are at least age 50 along with surviving spouses and dependents to stay on the government's health care plan as long as they pay the same premium. Since retirees are usually older than the average age of the plan participants they receive a benefit of lower insurance rates. This benefit is reported as the Other Post-Employment Benefits (OPEB) liability. The government has less than 100 plan members and thus qualifies to use the "Alternative Measurement Method" for calculating the liability. The above described OPEB plan does not provide a stand-alone financial report.

Funding Policy. The government pays OPEB liability costs on a pay-as-you-go basis. A trust fund for future liabilities has not been established.

Funding Status and funding Progress. The funded status of the plan as of June 30, 2015, was as follows:

Actuarial Accrued Liability (AAL)	\$ 384,796
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 384,796</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 256,849
UAAL as a percentage of covered payroll	149.81%

Annual OPEB Cost and Net OPEB Obligation. The government's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameter of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the components of the government's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government's net OPEB obligation.

Annual Required Contribution (ARC)	\$ 65,710
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost (expense)	<u>65,710</u>
Contributions made	-
Increase in net OPEB obligation	<u>65,710</u>
Net OPEB obligation - beginning of year	265,850
Net OPEB obligation - end of year	<u>\$ 331,560</u>

Actuarial Methods and Assumptions - The following actuarial methods and assumptions were used:

Actuarial cost method	Unit Credit Cost Method
Average age of retirement (based on historical data)	61
Discount rate (average anticipated rate)	0.17%
Average salary increase (Consumer Price Index)	2.80%

Health care cost rate trend (Federal Office of the Actuary)

<u>Year</u>	<u>% Increase</u>
2012	3.8%
2013	4.0%
2014	7.8%
2015	6.4%
2016	6.2%
2017	6.0%
2018	6.4%
2019	6.8%
2020	6.9%
2021	6.7%
2022 and after	6.9%

NOTE 9. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal laws and regulations require that City of Shelby place a final cover on its landfill when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date the landfill stops accepting waste, the landfill reports a portion of these closure and post closure care costs as an operating expense each period. The costs expensed during a period are based on landfill capacity used as of each balance sheet date.

The \$589,282 reported as landfill closure and post closure liability at June 30, 2014 represents the cumulative amount reported to date based on the use of 66.92% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post closure care of \$291,321 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure in 2014. The City expects to close the landfill in the year 2048. Actual costs may be higher due to inflation, changes in technology, or changes in regulations

The \$605,948 reported as landfill closure and post closure liability at June 30, 2015, represents the cumulative amount reported to date based on the use of 67.86% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post closure care of \$286,984 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure in 2015. The City expects to close the landfill in the year 2052. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by State and Federal laws and regulations to demonstrate financial assurance for the costs of closure and post closure care costs by April 9, 1996. For the fiscal years ended June 30, 2014 and 2015, the City of Shelby demonstrated its ability to handle closure and post closure care costs by passing the local government financial test.

NOTE 10. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2015, was as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Short-term loan for negative cash balance	General-Major Governmental	Solid Waste-Major Proprietary	\$ 132,923
Short-term loan for negative cash balance	Sewer - Major Proprietary	Storm Drainage - Nonmajor Proprietary	62,356
Short-term loan for negative cash balance	Water - Major Proprietary	Sewer - Major Proprietary	550,047
Short-term loan for negative cash balance	Sewer - Major Proprietary	Firehall GO Bonds - Nonmajor Governmental	4,008
Short-term loan for negative cash balance	Sewer - Major Proprietary	Williamson Building Reno - Major Governmental	891,184
Short-term loan for negative cash balance	Sewer - Major Proprietary	Disaster-Flood Wlmsn Park - Major Governmental	31,081
Short-term loan for negative cash balances	Sewer - Major Proprietary	General Fund - Major Governmental	202,692
Short-term loan for negative cash balance	Sewer - Major Proprietary	Sidewalk SID 2012 - Nonmajor Governmental	52,092
Short-term loan for negative cash balances	Sewer - Major Proprietary	Rainbow Hotel Renovation - Nonmajor Governmental	6,328
			<u>\$ 1,932,711</u>

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Negative Cash	Water-Major Proprietary	General-Major Governmental	\$ 81,417
Negative Cash	Water-Major Proprietary	1992 SCG-Nonmajor Governmental	121,460
Negative Cash	Firehall-Nonmajor Governmental	CTEP-Nonmajor Governmental	49,079
Negative Cash	Sewer-Major Proprietary	General-Major Governmental	544,171
Negative Cash	General-Major Governmental	Solid Waste-Major Proprietary	22,641
Negative Cash	Permissive Health Levy-Nonmajor Governmental	Solid Waste-Major Proprietary	78,350
Negative Cash	Street Maintenance-Nonmajor Governmental	Solid Waste-Major Proprietary	164,947
			<u>\$ 1,062,065</u>

The composition of interfund balances as of June 30, 2014, was as follows:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Short-term loan for negative cash balance	General-Major Governmental	Solid Waste-Major Proprietary	\$ 132,923
Short-term loan for negative cash balance	Sewer - Major Proprietary	Williamson Building Reno - Major Governmental	907,515
Short-term loan for negative cash balance	Solid Waste - Major Proprietary	Firehall GO Bonds - Nonmajor Governmental	12,067
Short-term loan for negative cash balance	Sewer - Major Proprietary	Rainbow Hotel Renovation - Nonmajor Governmental	5,119
Short-term loan for negative cash balance	Solid Waste - Major Proprietary	Rainbow Hotel Renovation - Nonmajor Governmental	3,171
Short-term loan for negative cash balance	Solid Waste - Major Proprietary	Sidewalk SID 2012 - Nonmajor Governmental	37,981
Short-term loan for negative cash balances	Solid Waste - Major Proprietary	Street Maintenance District - Nonmajor Governmental	87,562
Short-term loan for negative cash balance	Water - Major Proprietary	Sewer - Major Proprietary	357,589
Short-term loan for negative cash balances	Sewer - Major Proprietary	Disaster-Flood Wlmsn Park - Major Governmental	2,369
Short-term loan for negative cash balances	Sewer - Major Proprietary	General Fund - Major Governmental	226,871
			<u>\$ 1,773,167</u>

Advances to/from other funds:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Negative Cash	Water-Major Proprietary	General-Major Governmental	\$ 81,417
Negative Cash	Water-Major Proprietary	1992 SCG-Nonmajor Governmental	121,460
Negative Cash	Firehall-Nonmajor Governmental	CTEP-Nonmajor Governmental	49,079
Negative Cash	Sewer-Major Proprietary	General-Major Governmental	685,405
Negative Cash	General-Major Governmental	Solid Waste-Major Proprietary	22,641
Negative Cash	Permissive Health Levy-Nonmajor Governmental	Solid Waste-Major Proprietary	86,808
Negative Cash	Street Maintenance-Nonmajor Governmental	Solid Waste-Major Proprietary	182,754
			<u>\$ 1,229,564</u>

Interfund Transfers

The following is an analysis of operating transfers in and out during fiscal year 2015:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
To pay Police Pension	General-Major Governmental	Police Pension & Training - Nonmajor Governmental	\$ 4,484
Reimbursement from NETA for incorrect billing to the City	Sewer - Major Proprietary	NETA - Nonmajor Governmental	60,000
Reimbursement from NETA for incorrect billing to the City	Water - Major Proprietary	NETA - Nonmajor Governmental	60,000
			\$ 124,484

The following is an analysis of operating transfers in and out during fiscal year 2014:

<u>Purpose</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Operating transfer to General Fund	General-Major Governmental	Water - Major Proprietary	\$ 210,000
Operating transfer to General Fund	General-Major Governmental	Sewer - Major Proprietary	290,000
To pay Health Insurance	General-Major Governmental	Health Insurance-Nonmajor Governmental	48,320
To pay Health Insurance	General-Major Governmental	Permissive Medical Levy - Nonmajor Governmental	43,952
To pay Police Pension	General-Major Governmental	Police Pension & Training - Nonmajor Governmental	4,139
To pay PERS	General-Major Governmental	PERS - Nonmajor Governmental	24,301
			\$ 620,712

NOTE 11. NET PENSION LIABILITY

Plan Descriptions

PERS

The PERS-Defined Benefit Retirement Plan (DBRP), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, local governments, certain employees of the Montana University System, and school districts.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the *defined contribution* and *defined benefit* retirement plans. For members that choose to join the PERS-DCRP, a percentage of the employer contributions will be used to pay down the liability of the PERS-DBRP.

The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service, and highest average compensation. Member rights are vested after five years of service.

Summary of Benefits

PERS

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months; Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months; Hired on or after July 1, 2013 – 110% annual cap on compensation considered as part of a member's highest average compensation.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011:

Age 60, 5 years of membership service;
Age 65, regardless of membership service; or
Any age, 30 years of membership service.

Hired on or after July 1, 2011:

Age 65, 5 years of membership service;
Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011:

Age 50, 5 years of membership service; or
Any age, 25 years of membership service.

Hired on or after July 1, 2011:

Age 55, 5 years of membership service.

Vesting

5 years of membership service

Monthly benefit formula

Members hired prior to July 1, 2011:

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011:

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)*

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired on or after July 1, 2007

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

**At this time, as a result of permanent injunction issued in the AMRPE vs State litigation, the GABA rate in effect is being used in the calculation. Clarification of the GABA rate for members hired on or after July 1, 2013 is pending.*

Overview of Contributions

PERS

- 1) Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend contribution rates to the plan.
- 2) Member contributions to the system:
 - a) Plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers.
 - b) The 7.90% member contributions is temporary and will be decreased to 6.9% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.
- 3) Employer contributions to the system:
 - a) Local government entities are required to contribution 8.17% of members' compensation.
 - b) School district employers contributed 7.90% of members' compensation.
 - c) Following the 2013 Legislative Session, PERS-employer contributions were temporarily increased. Effective July 1, 2013, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer and member contributions rates.
 - d) Effective July 1, 2013, the additional employer contributions for DCRP is allocated to the defined benefit plan's Plan Choice Rate unfunded liability.
 - e) Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required.
- 4) Non Employer Contributions
 - a) Special Funding
 - i. The State contributes 0.1% of members' compensation on behalf of local government entities.
 - ii. The State contributes 0.37% of members' compensation on behalf of school district entities.
 - b) Not Special Funding
 - i. The State contributes from the Coal Tax Severance fund

Stand-Alone Statements

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling Montana Public Employee Retirement Administration, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154. The PERS stand-alone financial statements, actuarial valuations and experience studies can be found online at <http://mpera.mt.gov/annualReports.shtml> and <http://mpera.mt.gov/actuarialValuations.asp>

Net Pension Liability

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System(PERS) Statement 68 became effective June 30, 2015 and includes requirements to record and report their proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with Statement 68, the System has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS that are used to provide pension benefits to the retired members. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax and interest to PERS. All employers are required to report the portion of Coal Tax Severance Tax and interest attributable to the employer.

	<u>PERS NPL as of 6/30/13</u>	<u>PERS NPL as of 6/30/14</u>	<u>Percent of Collective NPL</u>	<u>Total NPL as of 6/30/13</u>	<u>Total NPL as of 6/30/14</u>	<u>Percent of Collective NPL</u>
Employer Proportionate Share	\$ 1,077,347	\$ 837,198	0.0672%	\$ 1,077,347	\$ 837,200	0.0672%
State of Montana Proportionate Share Associated with the Employer	<u>13,156</u>	<u>10,223</u>	<u>0.0854%</u>	<u>13,156</u>	<u>10,223</u>	<u>0.0854%</u>
Total	<u><u>\$ 1,090,503</u></u>	<u><u>\$ 847,421</u></u>	<u><u>0.1526%</u></u>	<u><u>\$ 1,090,503</u></u>	<u><u>\$ 847,423</u></u>	<u><u>0.1526%</u></u>

At June 30, 2015, the employer recorded a liability of \$837,198 for its proportionate share of the Net Pension Liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the net pension liability was based on the employer's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS participating employers. At June 30, 2014, the employer's proportion was 0.0672 percent.

Changes in actuarial assumptions and methods:

There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability for PERS.

Pension Expense as of 6/30/14

	<u>PERS</u>	<u>Total</u>
Employer Proportionate Share	\$ 41,175	\$ 41,175
State of Montana Proportionate Share Associated with the Employer	<u>23,672</u>	<u>23,672</u>
Total	<u>\$ 64,847</u>	<u>\$ 64,847</u>

At June 30, 2015, the employer recognized a Pension Expense of \$41,175 for its proportionate share of the pension expense. The employer also recognized grant revenue of \$23,672 for the support provided by the State of Montana for its proportionate share of the pension expense that is associated with the employer.

Recognition of Beginning Deferred Outflow

At June 30, 2015, the employer recognized a beginning deferred outflow of resources for the employers FY 2014 contributions of \$66,875.

Deferred Inflows and Outflows

At June 30, 2015, the employer reported its proportionate share of PERS deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>PERS Deferred Outflows of Resources</u>	<u>PERS Deferred Inflows of Resources</u>	<u>Total Deferred Outflows of Resources</u>	<u>Total Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ -	\$ -	\$ -
Changes in actuarial assumptions	-	-	-	-
Difference between projected and actual investment earnings	-	216,316	-	216,316
Difference between actual and expected contributions	-	-	-	-
Changes in proportion	-	36	-	36
*Contributions paid to PERS subsequent to the measurement date (fiscal year 2015 contributions)	<u>66,875</u>	<u>-</u>	<u>66,875</u>	<u>-</u>
Total	<u>\$ 66,875</u>	<u>\$ 216,352</u>	<u>\$ 66,875</u>	<u>\$ 216,352</u>

*Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

PERS: Year ended June 30:	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount Recognized in Pension Expense as an increase or (decrease) to Pension Expense
2016	\$ -	\$ 54,092	\$ (54,092)
2017	-	54,092	(54,092)
2018	-	54,092	(54,092)
2019	-	54,080	(54,080)
2020	-	-	-
Thereafter	-	-	-

Actuarial Assumptions

The Total Pension Liability as of June 30, 2014, is based on the results of an actuarial valuation date of June 30, 2014. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the last actuarial experience study, dated May 2010 for the six year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

- General Wage Growth* 4.00%
- *includes Inflation at 3.00%
- Merit Increases - PERS 0% to 6%
- Investment Return 7.75%
- Postretirement Benefit Increases
 - 3% for members hired **prior to** July 1, 2007
 - 1.5% for members hired **on or after** July 1, 2007

PERS

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of other adjustments to the member's benefit.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non- employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated.

For PERS, the State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly.

Target Allocations

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.80%
Foreign Equity	18.00%	6.05%
Fixed Income	24.00%	1.68%
Private Equity	12.00%	8.50%
Real Estate	8.00%	4.50%
Total	100.00%	

The long-term expected return on pension plan assets is reviewed as part of the regular experience studies prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated May 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Best estimates are presented as the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2014, is summarized in the above table.

Sensitivity Analysis

	<u>1.0% Decrease (6.75%)</u>	<u>Current Discount Rate</u>	<u>1.0% Increase (8.75%)</u>
PERS	\$ 1,331,898	\$ 837,198	\$ 419,970

In accordance with GASB 68 regarding the disclosure of the sensitivity of the Net Pension Liability to changes in the discount rate, the above table presents the Net Pension Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Summary of Significant Accounting Policies

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements

NOTE 12. FUND BALANCE CLASSIFICATION POLICIES AND PROCEDURES

The government considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The government considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Restricted and Committed Fund Balance – June 30, 2015

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
General:	\$ 93,376	Reserved for Road Maintenance and Improvements
All other aggregate:	902	Reserved for Port Authority expenditures
	10,477	Reserved for Comprehensive Liability Insurance
	1,364	Reserved for Local Economic Development
	38,045	Reserved for PERS Employer Contributions
	294,547	Reserved for Employee Health Insurance
	39,427	Reserved for Marias Valley Golf 7 Country Club Maintenance and Improvements
	826	Reserved for Recreation Facilities Maintenance and Improvements
	197,011	Reserved for apartment renovations
	115,824	Reserved for street lighting maintenance and improvements
	234,635	Reserved for street maintenance and improvements
	107,681	Reserved for park maintenance and improvements
	4,160	Reserved for police pension and training
	43,979	Reserved for trails maintenance and improvements
	12,500	Reserved for Swimming Pool GOB debt
	45,071	Reserved for Fire Hall GOB debt
	1,357	Reserved for SID debt
	15,582	Committed for other capital projects
	<u>\$ 1,256,764</u>	

Restricted and Committed Fund Balance – June 30, 2014

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
All other aggregate:	\$ 42	Reserved for Port Authority expenditures
	7,536	Reserved for comprehensive liability insurance
	41,665	Reserved for local economic development
	14,021	Reserved for PERS employer contributions
	186,320	Reserved for employee health insurance

<u>Major Fund</u>	<u>Amount</u>	<u>Purpose of Restriction</u>
	38,227	Reserved for Marias Valley Golf & Country Club maintenance and improvements
	826	Reserved for recreation facilities maintenance and improvements
	172,701	Reserved for apartment renovations
	89,351	Reserved for street lighting maintenance and improvements
	93,207	Reserved for street maintenance and improvements
	73,961	Reserved for park maintenance and improvements
	4,484	Reserved for Police Pension and Training
	41,738	Reserved for Trails Maintenance and Improvements
	12,497	Reserved for Swimming Pool GOB debt
	37,012	Reserved for Fire Hall GOB Debt
	1,357	Reserved for SID Debt
	15,582	Committed for other Capital Projects
	<u>\$ 830,527</u>	

NOTE 13. DEFICIT FUND BALANCES/NET POSITION

June 30, 2015

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
General	\$ 941,587	Deficit cash balance from PY Williamson building renovation expenditures exceeding revenues	Possible sale of Williamson Building
Disaster-Flood Williamson Park	31,081	Flood repair expenditures exceeded revenues	Intergovernmental revenues receivable
Sidewalk SID 2012	52,096	Delinquent taxes	Collection of taxes
Rainbow Hotel Renovations	25,988	Expenditures exceeded revenues	Charges for services
Community Transportation Enhancement	49,079	Advance from another fund	Repayment of the advance
1992 Curb, Gutter, and Sidewalk	88,340	Delinquent taxes	Collection of taxes
Solid Waste	566,791	Deficit Cash balance; closure/post closure liability	Increased garbage and landfill rates
	<u>\$ 1,754,962</u>		

June 30, 2014

<u>Fund Name</u>	<u>Amount</u>	<u>Reason for Deficit</u>	<u>How Deficit will be Eliminated</u>
General	\$ 1,270,599	Williamson building renovation expenditures continue to exceed revenues	Possible sale of Williamson Building
Disaster-Flood Williamson Park	2,369	Flood repair expenditures exceeded revenues	Intergovernmental revenues receivable
Sidewalk SID 2012	37,981	Delinquent taxes	Collection of taxes
Rainbow Hotel Renovations	8,290	Expenditures for renovations exceeded revenues	Charges for services
Community Transportation Enhancement	49,079	Advance from another fund	Repayment of the advance
1992 Curb, Gutter, and Sidewalk	88,340	Delinquent taxes	Collection of taxes
Solid Waste	396,188	Deficit Cash balance; closure/post closure liability	Increased garbage and landfill rates
	<u>\$ 1,852,846</u>		

NOTE 14. RESTATEMENTS

During fiscal year 2015, the following adjustments relating to prior years' transactions were made to fund balance and net assets.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
General	\$ (284)	Adjust for the entries made in FY2014 for the overpayments made to NETA from the General Fund
Tax Increment Financing District	(1,786)	To restate taxes revenue from the PY
Tax Increment Financing District	(128)	To restate due to others from the PY
Revolving Loan Governmental	(7,965) (1,010)	To restate expenditures from PY To remove a portion of land that was added to capital assets in the PY
Governmental Water	(337,756) 28,850	To adjust for Net Pension Obligation To remove accrued interest payable that was sitting on the books for over two years
Sewer	14,873	To remove accrued interest payable that was sitting on the books for over two years
Solid Waste	329	To remove accrued interest payable that was sitting on the books for over two years
Water	(245,889)	To adjust for Net Pension Obligation
Sewer	(151,401)	To adjust for Net Pension Obligation
Solid Waste	(277,637)	To adjust for Net Pension Obligation
Solid Waste	2,813	To remove revenues collected in advance that were sitting on the books for over two years
	<u>\$ (976,991)</u>	

During fiscal year 2014, the following adjustments relating to prior years' transactions were made to fund balance and net assets.

<u>Fund</u>	<u>Amount</u>	<u>Reason for Adjustment</u>
Governmental	\$ (7,050)	Adjust balance of outstanding debt
Water	2,162	Adjust for negative taxes receivable
Governmental	(323,596)	Adjust for incorrect principal balance for the FBI Building Loan
	<u>\$ (328,484)</u>	

NOTE 15. JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose which are subject to joint control, in which the participating governments retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

Tri-City Interlocal Agreement

The Cities of Shelby, Cut Bank and Conrad entered into a joint venture agreement for the purpose of acquiring, maintaining, and operating major items of equipment which each city could not individually afford. The joint venture is administered by a nine member Board. Each city appoints three members to the Board, one of which is to be the Mayor.

Annually, each city contributes an amount agreed upon by all parties, but not less than \$20,000. The Board prepares an operating budget each year, and presents the budget to each of the cities. Monies approved by the cities are deposited in a fund controlled by the Board. This fund is held in a bank account separate from the accounts of any participating cities, and is accounted for within the records of the City of Shelby as an investment in joint venture that is reported both in the general fixed asset account group and in the proprietary funds. The title to the equipment purchased by the joint venture vests in the cities in direct proportion to their contributions. If any equipment is sold during the course of the joint venture, the proceeds realized from the sale will be distributed to the cities in direct proportion to their contributions.

The following is a summary of the Shelby/Cut Bank/Conrad Equipment Joint Venture operation for the fiscal year ended June 30, 2015:

	<u>Total</u>	<u>City of Shelby's Share</u>
Total Assets	<u>\$ 509,038</u>	<u>\$ 169,679</u>
Total Liabilities	<u>\$ 108,286</u>	<u>\$ 36,095</u>
Total Equity	<u>\$ 400,752</u>	<u>\$ 133,584</u>
Total Revenues	<u>\$ 76,973</u>	<u>\$ 25,658</u>
Total Expenses	<u>\$ 101,647</u>	<u>\$ 33,882</u>

At June 30, 2015, the City of Shelby's share of the joint venture capital assets was \$133,584. The joint venture capital assets include some related to the City's governmental fund operations and some related to the City's enterprise fund operations.

As required by generally accepted accounting principles, the equity method of accounting was adopted by the City for the enterprise fund's involvement in the joint venture. An investment in Tri-City Equipment Interlocal in the amount of \$102,486 was reported in the enterprise fund balance sheet at June 30, 2015 and \$50,243 in the general fund.

The following is a summary of the Shelby/Cut Bank/Conrad Equipment Joint Venture operation for the fiscal year ended June 30, 2014:

	<u>Total</u>	<u>City of Shelby's Share</u>
Total Assets	<u>\$ 509,038</u>	<u>\$ 169,679</u>
Total Liabilities	<u>\$ 108,286</u>	<u>\$ 36,095</u>
Total Equity	<u>\$ 400,752</u>	<u>\$ 133,584</u>
Total Revenues	<u>\$ 76,973</u>	<u>\$ 25,658</u>
Total Expenses	<u>\$ 101,647</u>	<u>\$ 33,882</u>

At June 30, 2014, the City of Shelby's share of the joint venture capital assets was \$133,584. The joint venture capital assets include some related to the City's governmental fund operations and some related to the City's enterprise fund operations.

As required by generally accepted accounting principles, the equity method of accounting was adopted by the City for the enterprise fund's involvement in the joint venture. An investment in Tri-City Equipment Interlocal in the amount of \$90,836 was reported in the enterprise fund balance sheet at June 30, 2014 and \$44,761 in the general fund.

Hot Mix Plant

The City entered into a joint ownership arrangement to operate a hot mix asphalt production plant. The City is a 50% owner in its operation with Century Companies which the City accounts for in the General Fund. Century Companies provides for the operation and accounting for the hot mix plant. On a calendar year basis, Century Companies provides and accounting for all plant expenses. Plant costs and income is credited or charged to the respective entities are year-end. The investment in the Hot Mix Plant as of June 30, 2015 is \$2,014, and as of June 30, 2014 is \$2,014.

Law Enforcement Services

The City participated in a law enforcement service agreement with Toole County for the fiscal years ended June 30, 2015 and 2014.

City-County Interlocal Fire Protection Agency

Toole County and the City of Shelby entered into a fire protection agreement effective December 16, 1996 where the City agrees to provide fire-fighting services as required by the County Fire Department. The only fire-fighting equipment obligated to proceed to any fire in South Toole County shall be owned by the County. The City has no obligation to furnish any more personnel with the equipment of the County than the minimum necessary to man such equipment contingent upon the volunteer firemen being available. The County in return agrees to pay the City an annual sum of \$36,000, maintain liability insurance in an amount sufficient to cover its indemnity obligations, but not less than \$1,000,000 and shall provide any fire equipment that it may have to the City for fires within the City limits.

Automated Sanitation Collection System

The Cities of Shelby and Cut Bank, and the Town of Sunburst entered into a joint venture agreement for the purpose of sharing the automated sanitation collection system in order to avoid the expensive duplication of said equipment or machinery.

North Central Montana Regional Water Authority Agreement

As of June 2015 and 2014, the City of Shelby and the North Central Montana Regional Water Authority entered into an agreement for the sale and purchase of water for the term of 30 years from the date of the initial delivery of any water. The City of Shelby has agreed to provide drinking water, not to exceed 1,847,000 gallons of potable drinking water per day to the Authority which will be used to provide drinking water to the City of Cut Bank, the Town of Kevin, the Oilmont County Water District, the Town of Sunburst, the Sweet Grass County Water District, and the Galata County Water District. In return, the Authority agrees to pay the City on a monthly basis from the following scheduled rates:

Usage	Rate
0 up to 79,240 gallons per month	\$153.10 per month, minimum rate
79,241 up to 1,728,000 gallons per month	\$0.91 per 1,000 gallons metered
Usage in excess of 1,728,000 gallons per month	\$1.23 per 1,000 gallons for the excess only

NOTE 16. SERVICES PROVIDED TO OTHER GOVERNMENTS

County Provided Services

The City is provided various financial services by Toole County. The County also serves as cashier and treasurer for the City for tax and assessment collections and other revenues received by the County which are subject to distribution to the various taxing jurisdictions located in the County. The collections made by the County on behalf of the City are accounted for in an agency fund in the City's name and are periodically remitted to the City by the County Treasurer. No service charges have been recorded by the City or the County.

NOTE 17. RISK MANAGEMENT

The City faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Policies:

Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the City has no coverage for potential losses from environmental damages.

Insurance Pools:

In 1986, the City joined together with other Montana cities to form the Montana Municipal Insurance Authority which established a workers' compensation plan and a tort liability plan. Both public entity risk pools currently operate as common risk management and insurance programs for the member governments. The liability limits for damages in tort action are \$750,000 per claim and \$1.5 million per occurrence with a \$3.750 deductible per occurrence. State tort law limits the City's liability to

\$1.5 million. The City pays an annual premium for its employee injury insurance coverage, which is allocated to the employer funds based on total salaries and wages. The agreements for formation of the pools provide that they will be self-sustaining through member premiums. The tort liability plan and worker's compensation program issued bonds in the necessary insurance reserves. All members signed a contingent note for a pro rata share of this liability in case operating revenues were insufficient to cover the debt service. Based on the plan's current financial position, the City does not expect to make any payments on these notes.

NOTE 18. COMPENSATION FOR EASEMENT

Effective October 2009, the City Council agreed to give Flesch Farms a credit to its city utility bill as compensation for the easement for the sewer line and rail line realignment projects. The credit for 5 years usage totaled \$9,206 and applies to water, sewer, and landfill services. Based on the effective date, total compensation applicable to fiscal year 2014 totals \$1,841.

City of Shelby
Toole County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2015

	General			
	Budgeted Amounts		Actual Amounts Budgetary Basis See Note A	Variance With Final Budget
	Original	Final		
Resources (Inflows)				
Taxes & assessments	\$ 660,114	\$ 660,114	\$ 626,720	\$ (33,394)
Licenses & permits	96,255	96,255	46,608	(49,647)
Intergovernmental	689,019	689,019	746,113	57,094
Charges for services	132,475	132,475	82,533	(49,942)
Fines and forfeitures	22,614	22,614	21,780	(834)
Miscellaneous	1,143,457	1,143,457	369,958	(773,499)
Investment earnings	29,000	29,000	10,959	(18,041)
Amounts available for appropriation	<u>2,772,934</u>	<u>2,772,934</u>	<u>1,904,671</u>	<u>(868,263)</u>
Charges to appropriations (outflows)				
General government	152,908	152,908	137,606	15,302
Public Safety	610,650	610,650	556,263	54,387
Public works	382,796	382,796	208,829	173,967
Public health	49,687	49,687	34,496	15,191
Culture & recreation	568,079	568,079	376,249	191,830
Housing & community development	25,000	25,000	9,348	15,652
Conservation of natural resources	5,000	5,000	4,186	814
Debt service - principal	199,212	199,212	114,445	84,767
Debt service - interest	75,948	75,948	73,679	2,269
Miscellaneous	85,000	85,000	47,991	37,009
Capital outlay	223,794	223,794	16,767	207,027
Total charges to appropriations	<u>2,378,074</u>	<u>2,378,074</u>	<u>1,579,859</u>	<u>798,215</u>
Other financing sources (uses)				
Transfers in	155,601	155,601	4,484	-
Total other financing sources (uses)	<u>155,601</u>	<u>155,601</u>	<u>4,484</u>	<u>-</u>
Net change in fund balance			<u>329,296</u>	
Fund balance - beginning of the year			(1,270,599)	
Restatements			<u>(284)</u>	
Fund balance - beginning of the year restated			<u>(1,270,883)</u>	
Fund balance - end of the year			<u><u>\$ (941,587)</u></u>	

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Budgetary Comparison Schedule
for the Fiscal Year Ended June 30, 2014

	General			
	Budgeted Amounts		Actual Amounts Budgetary Basis See Note A	Variance With Final Budget
	Original	Final		
Resources (Inflows)				
Taxes & assessments	\$ 643,007	\$ 643,007	\$ 601,459	\$ (41,548)
Licenses & permits	96,205	96,205	65,160	(31,045)
Intergovernmental	1,099,071	1,099,071	714,612	(384,459)
Charges for services	133,775	133,775	89,815	(43,960)
Fines and forfeitures	22,614	22,614	20,524	(2,090)
Miscellaneous	941,459	941,459	365,964	(575,495)
Investment earnings	29,000	29,000	9,299	(19,701)
Amounts available for appropriation	<u>2,965,131</u>	<u>2,965,131</u>	<u>1,866,833</u>	<u>(1,098,298)</u>
Charges to appropriations (outflows)				
General government	289,264	289,264	261,488	27,776
Public Safety	663,993	663,993	724,661	(60,668)
Public works	563,646	563,646	406,421	157,225
Public health	57,129	57,129	44,948	12,181
Social & economic services	5,000	5,000	-	5,000
Culture & recreation	692,298	692,298	531,045	161,253
Housing & community development	25,000	25,000	-	25,000
Conservation of natural resources	5,000	5,000	3,532	1,468
Debt service - principal	196,230	196,230	109,061	87,169
Debt service - interest	93,399	93,399	92,508	891
Miscellaneous	85,000	85,000	60,203	24,797
Capital outlay	232,000	232,000	191,301	40,699
Total charges to appropriations	<u>2,907,959</u>	<u>2,907,959</u>	<u>2,425,168</u>	<u>482,791</u>
Other financing sources (uses)				
Proceeds of general long term debt	31,845	31,845	31,845	-
Transfers in	155,601	155,601	620,712	465,111
Total other financing sources (uses)	<u>187,446</u>	<u>187,446</u>	<u>652,557</u>	<u>465,111</u>
Net change in fund balance			94,222	
Fund balance - beginning of the year			<u>(1,364,821)</u>	
Fund balance - end of the year			<u><u>\$ (1,270,599)</u></u>	

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	Disaster - Flood Williamson Park			
	Budgeted Amounts		Actual Amounts Budgetary Basis See Note A	Variance With Final Budget
	Original	Final		
Resources (Inflows)				
Taxes & assessments	\$ 5,171	\$ 5,171	\$ 5,874	\$ 703
Licenses & permits	-	-	-	-
Intergovernmental	349,900	349,900	349,347	(553)
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Investment earnings	-	-	-	-
Amounts available for appropriation	<u>355,071</u>	<u>355,071</u>	<u>355,221</u>	<u>150</u>
Charges to appropriations (outflows)				
General government	-	-	-	-
Public Safety	-	-	-	-
Public works	-	-	-	-
Public health	-	-	-	-
Social & economic services	-	-	-	-
Culture & recreation	355,071	355,071	263,935	91,136
Housing & community development	-	-	-	-
Conservation of natural resources	-	-	-	-
Debt service - principal	-	-	-	-
Debt service - interest	-	-	-	-
Miscellaneous	-	-	-	-
Capital outlay	-	-	153,566	(153,566)
Total charges to appropriations	<u>355,071</u>	<u>355,071</u>	<u>417,501</u>	<u>(62,430)</u>
Other financing sources (uses)				
Proceeds of general long term debt	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance			(62,280)	
Fund balance - beginning of the year			<u>59,911</u>	
Fund balance - end of the year			<u>\$ (2,369)</u>	

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2014

	Street Maintenance District No. 1			
	Budgeted Amounts		Actual Amounts Budgetary Basis See Note A	Variance With Final Budget
	Original	Final		
Resources (Inflows)				
Taxes & assessments	\$ -	\$ -	\$ -	\$ -
Licenses & permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	-
Miscellaneous	298,292	298,292	201,904	(96,388)
Investment earnings	-	-	6,500	6,500
Amounts available for appropriation	<u>298,292</u>	<u>298,292</u>	<u>208,404</u>	<u>(89,888)</u>
Charges to appropriations (outflows)				
General government	-	-	-	-
Public Safety	-	-	-	-
Public works	326,804	326,804	349,136	(22,332)
Public health	-	-	-	-
Social & economic services	-	-	-	-
Culture & recreation	-	-	-	-
Housing & community development	-	-	-	-
Conservation of natural resources	-	-	-	-
Debt service - principal	36,324	36,324	36,324	-
Debt service - interest	817	817	816	1
Miscellaneous	-	-	-	-
Capital outlay	7,000	7,000	-	7,000
Total charges to appropriations	<u>370,945</u>	<u>370,945</u>	<u>386,276</u>	<u>(15,331)</u>
Other financing sources (uses)				
Proceeds of general long term debt	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance			(177,872)	
Fund balance - beginning of the year			<u>271,079</u>	
Fund balance - end of the year			<u>\$ 93,207</u>	

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation
For the Year Ended June 30, 2015

Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures

	General
Sources/Inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,848,971
Combined funds (GASBS 54) revenues	55,700
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds	\$ 1,904,671
 Uses/Outflows of resources	
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 1,540,490
Combined funds (GASBS 54) expenditures	39,369
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	\$ 1,579,859

City of Shelby
Toole County, Montana
Budgetary Comparison Schedule
Budget-to-GAAP Reconciliation
For the Year Ended June 30, 2014

Note A - Explanation of differences between budgetary inflows and outflows and GAAP Revenues and Expenditures

	<u>General</u>	<u>Disaster- Flood Wimnsn Park</u>	<u>Street Maintenance District No. 1</u>
Sources/Inflows of resources			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 1,866,833	\$ 355,221	\$ 208,404
Combined funds (GASBS 54) revenues	<u>58,223</u>	-	-
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds	<u>\$ 1,925,056</u>	<u>\$ 355,221</u>	<u>\$ 208,404</u>
 Uses/Outflows of resources			
Actual amounts (Budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,425,168	\$ 417,501	\$ 386,276
Combined funds (GASBS 54) expenditures	<u>142,242</u>	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 2,567,410</u>	<u>\$ 417,501</u>	<u>\$ 386,276</u>

City of Shelby
Toole County, Montana
Required Supplemental Information
Schedule of Funding Progress for Other Post-Employment
Benefits other than Pensions
For the Year Ended June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit Credit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/(c))
July 1, 2012	\$ -	\$ 384,796	\$ 384,796	0%	\$ 256,849	150%

See accompanying notes to the financial statements

City of Shelby
Toole County, Montana
Required Supplementary Information
Schedule of Proportionate Share
of the Net Pension Liability
For the Year Ended June 30, 2015

	PERS 6/30/2015
Employer's proportion of the net pension liability	0.067190%
Employer's proportionate share of the net pension liability associated with the Employer	\$ 837,198
State of Montana's proportionate share of the net pension liability associated with the Employer	10,224
Total	\$ 847,422
Employer's covered employee payroll	\$ 760,594
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	110.072%
Plan fiduciary net pension as a percentage of the total pension liability	79.90%

*Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.*

City of Shelby
Toole County, Montana
Required Supplementary Information
Schedule of Contributions
For the Year Ended June 30, 2015

	<u>PERS</u> <u>6/30/2015</u>
Contractually required contributions	<u>\$ 64,967</u>
Contributions in relation to the contractually required contributions	<u>\$ 64,967</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered employee payroll	<u>\$ 760,594</u>
Contributions as a percentage of covered employee payroll	8.542%

*Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.*

City of Shelby, Toole County, Montana
Notes to Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability and
Schedule of Contributions
For the Year ended June 30, 2015

Public Employees' Retirement System of Montana (PERS)

Changes of assumptions: Assumptions related to future member contribution rates have been updated based on revised projections, which incorporate Plan experience over the year ending on the valuation date.

Assumptions related to the Guaranteed Annual Benefit Adjustment (GABA) for members hired on or after July 1, 2013 have been added, given new guidance on the GABA applicable to these members.

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates are determined on an annual basis for the fiscal year beginning July 1, 2014, determined as of June 30, 2014.

The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Open
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Inflation	3 percent
Rate of Increase in Total Payroll	4 percent
Investment rate of return	7.75 percent

City of Shelby
Toole County, Montana
Schedule of Expenditures of Federal Awards
for the Years Ended June 30, 2015 and 2014

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Project Number</u>	<u>Federal Expenditures</u>
DIRECT - FEDERAL:			
Department of Agriculture; Rural Housing Service Community Facilities Loans and Grants	10.766	n/a	\$ 5,600,000
PASSTHROUGH - FEDERAL:			
Department of Homeland Security Disaster Grants - Public Assistance Passed through from the State of Montana Department of Military Affairs	97.036	1473-0	\$ 175,629
PASSTHROUGH - FEDERAL:			
Department of Transportation: Highway Planning and Construction; Passed through from the State of Montana Department of Transportation:	20.205	n/a	2,365
DIRECT - FEDERAL:			
Environmental Protection Agency: Office of Solid Waste and Emergency Response Brownfields Assessment and Cleanup Cooperative Agreements:	66.818	BF96821501	173,583
PASSTHROUGH - FEDERAL:			
Department of Interior, National Park Service; Outdoor Recreation Acquisition, Development and Planning, Passthrough from the State of Montana Fish Wildlife and Parks	15.916	n/a	44,164
PASSTHROUGH - FEDERAL:			
Department of Housing and Urban Development; Office of Community Planning and Development; Community Development Block Grant, Passthrough State of Montana Department of Commerce	14.228	MT-CDBG-EDPG13-09	4,350
PASSTHROUGH - FEDERAL:			
Department of Transportation: Recreational Trails Program; passed through from the State of Montana Department of Fish Wildlife and Parks	20.219	RTP 2011-18 RTP 2012-35 RTP 2013-33	23,528
PASSTHROUGH - FEDERAL:			
Department of Agriculture, Forest Service Cooperative Forestry Assistance; Passthrough from the State of Montana Department of Natural Resources and Conservation	10.664	UCF-15-109	5,000
Total Expenditures of Federal Awards			<u>\$ 6,028,619</u>

Note 1: Basis of Accounting:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Nonprofit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



WILSON

To the Mayor and City Council
City of Shelby
Toole County
Shelby, Montana

Randal J. Boysun, CPA
Gerard K. Schmitz, CPA
Michael A. Diekhans, CPA
Myra L. Bakke, CPA

Douglas N. Wilson, CPA
Bruce H. Gaare, CPA

**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**

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, Toole County, Montana, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the City of Shelby, Toole County, Montana's basic financial statements and have issued our report thereon dated June 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Shelby, Toole County, Montana'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, Toole County, Montana's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Shelby, Toole County, Montana's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-001 through 2015-011 and 2015-018 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Shelby, Toole County, Montana's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-012 through 2015-017.

City of Shelby, Toole County, Montana's Response to Findings

City of Shelby, Toole County, Montana's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Shelby, Toole County, Montana's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Great Falls, Montana
June 28, 2016



WILSON

To the Mayor and City Council
City of Shelby
Toole County
Shelby, Montana

Randal J. Boysun, CPA
Gerard K. Schmitz, CPA
Michael A. Diekhans, CPA
Myra L. Bakke, CPA

Douglas N. Wilson, CPA
Bruce H. Gaare, CPA

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited City of Shelby's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Shelby's major federal programs for the years ended June 30, 2015 and 2014. City of Shelby's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Shelby's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Shelby's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion the City of Shelby complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2015 and 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-012 through 2015-017. Our opinion on each major federal program is not modified with respect to these matters.

City of Shelby's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Shelby's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of City of Shelby is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Shelby's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Shelby's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-008 that we consider to be a material weakness.

City of Shelby's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Shelby's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Douglas Wilson + Company, P.C." The signature is written in a cursive, flowing style.

Great Falls, Montana
June 28, 2016

**City of Shelby
Toole County, Montana
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015 and 2014**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified - 2015

Type of auditor's report issued: Qualified - 2014

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported

Noncompliance material to financial statements noted?	<u> X </u> Yes	<u> </u> No
---	------------------	----------------

Federal Awards:

Internal control over major programs:

Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, section 510(a)?	<u> X </u> Yes	<u> </u> No
--	------------------	----------------

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.766	U.S. Department of Agriculture, Rural Housing Service, Community Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
--	-----------

Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> X </u> No
--	-----------------	-----------------

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-001 to 2015-011, and 2015-018

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2015-008

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

The following is a schedule of findings and other matters which arose during the audits for the years ended June 30, 2015 and 2014:

2015-001: GENERAL FUND DEFICIT FUND BALANCE

CRITERIA: Internal control procedures require that fund balances be reviewed on a timely basis to ensure that adequate resources are available to cover expenditures that may arise.

CONDITION: The General Fund had deficit fund balances of \$(941,587) and \$(1,270,599) at June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, the General Fund had advances payable to other funds of \$625,588 and \$766,822

CAUSE: The City has allowed General Fund expenditures to exceed revenues.

EFFECT: The General Fund may not be able to repay other funds if the current trend continues. The poor financial position of the General Fund makes it difficult to fund the current operations of the City.

RECOMMENDATION: We recommend the City Council address the significant negative financial position of the General Fund.

CITY RESPONSE: The City's General Fund accounts 1000 thru 4000 and the non-enterprise or fiduciary funds have a total fund balance of \$498,150 as of 5/31/2016. All General Fund advances payable are either current or ahead of the repayment schedule. As of 5/31/2016 the City of Shelby General Fund is owed \$462,139 in delinquent taxes.

2015-002: 2012 CURB, GUTTER & SIDEWALK FUND DEFICIT FUND BALANCE

CRITERIA: Internal control procedures require that fund balances be reviewed on a timely basis to ensure that adequate resources are available to cover expenditures that may arise.

CONDITION: The 2012 Curb, Gutter & Sidewalk Fund had a deficit fund balance of \$(37,981) at June 30, 2015.

CAUSE: The City allowed 2012 Curb, Gutter & Sidewalk Fund expenditures to exceed revenues.

EFFECT: The 2012 Curb, Gutter & Sidewalk Fund may not be able to repay other funds.

RECOMMENDATION: We recommend the City Council address the significant negative financial position of the 2012 Curb, Gutter & Sidewalk Fund.

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

CITY RESPONSE: The City has repeatedly requested that Toole County collect taxes in a much more aggressive manner, strictly following state statutes in relationship to delinquent taxes. The city will continue their discussions with the Toole County Treasurer and the Toole County Commissioners.

2015-003: COMMUNITY TRANSPORTATION FUND DEFICIT FUND BALANCE

CRITERIA: Internal control procedures require that fund balances be reviewed on a timely basis to ensure that adequate resources are available to cover expenditures that may arise.

CONDITION: The Community Transportation Fund had a deficit fund balance of \$(49,079) at June 30, 2015 and 2014. In addition the fund had advances payable to other funds of \$(49,079) at June 30, 2015 and 2014.

CAUSE: The City allowed Community Transportation Fund expenditures to exceed revenues.

EFFECT: The Community Transportation Fund may not be able to repay other funds.

RECOMMENDATION: We recommend the City Council address the significant negative financial position of the Community Transportation Fund.

CITY RESPONSE: This fund has been closed to fund 2920 Trails Grant in December of 2010. The City requests that this audit finding be removed. This fund was setup for receipts of funding from the Montana Department of Transportation Community Enhancement Program.

2015-004: 1992 CURB, GUTTER & SIDEWALK FUND DEFICIT FUND BALANCE

CRITERIA: Internal control procedures require that fund balances be reviewed on a timely basis to ensure that adequate resources are available to cover expenditures that may arise.

CONDITION: The 1992 Curb, Gutter & Sidewalk Fund had a deficit fund balance of \$(88,340) and \$(89,705) at June 30, 2015 and 2014.

CAUSE: The City allowed 1992 Curb, Gutter & Sidewalk Fund expenditures to exceed revenues.

EFFECT: The 1992 Curb, Gutter & Sidewalk Fund may not be able to repay other funds.

RECOMMENDATION: We recommend the City Council address the significant negative financial position of the 1992 Curb, Gutter & Sidewalk Fund.

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

CITY RESPONSE: The City has repeatedly requested that Toole County collect taxes in a much more aggressive manner, strictly following state statutes in relationship to delinquent taxes. As of 5/31/2016 the County has been unable to collect \$84,481 in delinquent taxes which are delinquent to the 1992 curb, gutter and sidewalk fund.

2015-005: SOLID WASTE FUND DEFICIT FUND BALANCE

CRITERIA: Internal control procedures require that fund balances be reviewed on a timely basis to ensure that adequate resources are available to cover expenditures that may arise.

CONDITION: The Solid Waste Fund had deficit fund balances of \$(566,792) and \$(396,189) at June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, the Solid Waste Fund had cash balances of \$19,043 and \$74 respectively, and restricted cash balances of \$330,455 and \$84,039, respectively. At June 30, 2015 and 2014, the Solid Waste Fund had advances payable to other funds of \$(265,938) and \$(292,203); and due to other funds of \$(132,923), respectively.

CAUSE: The City allowed Solid Waste Fund expenditures to exceed revenues.

EFFECT: The Solid Waste Fund may not be able to repay other funds if the current trend continues.

RECOMMENDATION: We recommend the City Council address the significant negative financial position of the Solid Waste Fund.

CITY RESPONSE: The City is aware of the deficit and addressed rates in November of 2014. For fiscal year end 2015 the Solid Waste Fund increased total net position by \$103,892. All Solid Waste fund advances payable are current and being paid back as scheduled.

2015-006: RAINBOW HOTEL RENOVATIONS FUND DEFICIT FUND BALANCE

CRITERIA: Internal control procedures require that fund balances be reviewed on a timely basis to ensure that adequate resources are available to cover expenditures that may arise.

CONDITION: The Rainbow Hotel Renovations Fund had a deficit fund balance of \$(8,290) and \$(1,084) at June 30, 2015 and 2014.

CAUSE: The City allowed Rainbow Hotel Renovations Fund expenditures to exceed revenues.

EFFECT: The Rainbow Hotel Renovations Fund may not be able to repay other funds if the current trend continues.

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

RECOMMENDATION: We recommend the City Council address the negative financial position of the Rainbow Hotel Renovations Fund.

CITY RESPONSE: As of 5/31/2016 the Rainbow Hotel Fund (fund 2935) has a positive cash balance of \$762. This fund will be closed to the 1000 fund.

2015-007: DISASTER-FLOOD WILLIAMSON PARK FUND DEFICIT FUND BALANCE

CRITERIA: Internal control procedures require that fund balances be reviewed on a timely basis to ensure that adequate resources are available to cover expenditures that may arise.

CONDITION: The Disaster-Flood Williamson Park Fund had a deficit fund balance of \$(2,369) at June 30, 2015 and 2014.

CAUSE: The City allowed expenditures in this Fund to exceed revenues.

EFFECT: The Fund may not be able to repay other funds if the current trend continues.

RECOMMENDATION: We recommend the City Council address the negative financial position of the Disaster-Flood Williamson Park Fund.

CITY RESPONSE: The City is still waiting on reimbursement funds coming from FEMA. The City of Shelby is in constant contact with FEMA and the congressional delegation to have these funds reimbursed to the City of Shelby.

2015-008: SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PREPARATION

CRITERIA: The City must establish and maintain effective internal control over the federal awards, and provide reasonable assurance that the City is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

CONDITION: The City lacks internal control for the preparation of the SEFA and related notes. While auditing the SEFA we determined that amounts reported as expended during 2014 and 2015 did not agree to the accounting records.

CAUSE: Unknown.

EFFECT: Increased risks for errors in SEFA reporting.

RECOMMENDATION: We recommend the City establish a tracking mechanism for all federal grants and awards, and adequately document federal funds spent and received in each fiscal year.

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

CITY RESPONSE: The City was able to match all reimbursement funds back to the SEFA from the last worksheet the City received. The City hired and paid Bob Denning of Denning Downey and Associates to prepare the SEFA.

2015-009: SOLID WASTE FUND RESTRICTED CASH

CRITERIA: Two accounts were established by the City to deposit funds for the closure and post closure costs for the City's landfill. Required deposits are made to these accounts annually.

CONDITION: The City made the deposits for 2014 and 2015. The ending balance in the two accounts were \$349,255 and \$329,874 for 2015 and 2014, respectively. On the financial statements, this amount is not reflected as restricted cash.

CAUSE: The City has made numerous due to/due from entries and this cash is reflected in other funds, although cannot be used by other funds for operations.

EFFECT: The financial statements for 2014 and 2015 do not accurately present the financial position of the Solid Waste fund.

RECOMMENDATION: We recommend the City report cash in the appropriate fund.

CITY RESPONSE: The City paid Bob Denning of Denning Downey and Associates to prepare closing entries and he transferred \$18,800 to operating cash. The city has not received an answer as to why he moved the cash to the cash operating account. The cash is held by a trustee and available only for the landfill closure and post-closure costs. The City will JV the funds back to accurately represent the funds held by the trustee as restricted.

2015-010: NET PENSION OBLIGATION

CRITERIA: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, was effective for fiscal year beginning after June 15, 2014. Employers are required to recognize and report certain amounts associated with their participation in Montana Public Employees Retirement System (PERS), which includes requirements to record and report the district's proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. In accordance with GASB 68, the PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to TRS and PERS that are used to provide pension benefits to the retired members of TRS and PERS. Due to the existence of a special funding situation, employers are also required to report the portion of the State of Montana's proportionate share of the collective Net Pension Liability that is associated with the employer.

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

CONDITION: The City did not record and report the required amounts as noted above. This was a recommended adjustment. The City made this adjustment and therefore the financial statements now include the required information.

CAUSE: Unknown

EFFECT: Non-compliance with required GASB Statement No. 68.

RECOMMENDATION: We recommend the City make adjustments on their government wide and proprietary fund statements annually to comply with this GASB requirement.

CITY RESPONSE: The City paid Bob Denning of Denning Downey and Associates to properly report the obligation and they failed to accurately report the obligation.

2015-011: TAXES RECEIVABLE

CRITERIA: Amounts reported on the accounting records should have adequate documentation to support the balances reported. Reconciliations should be completed timely for taxes receivable reported on the accounting records to what is shown as receivable with the Toole County Reports.

CONDITION: The City's taxes receivable amount reported on the accounting records and reflected on the financial statements do not reconcile with those amounts reported by Toole County. The differences by year are as follows:

2015:

- Governmental Funds - \$323,239 is reflected on the financial statements and \$377,706 is shown by the County, for a difference of \$54,467;

2014:

- Governmental Funds - \$382,381 is reflected on the financial statements and \$247,309 is shown by the County, for a difference of \$135,072;

CAUSE: Unknown.

EFFECT: We were unable to determine the accuracy of the taxes receivable amounts reported on the accounting records based on the information provided.

RECOMMENDATION: We recommend the City reconcile taxes receivable monthly with Toole County and maintain adequate documentation to support the reconciled taxes receivable balances each month.

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

CITY RESPONSE: The City paid Bob Denning of Denning Downey and Associates to prepare our financial statements and they did not correctly record taxes receivable.

2015-012: PURCHASE ORDER APPROVAL

CRITERIA: The City uses a purchase order approved by a department head and the Mayor when purchasing good and services in excess of \$350. Amounts in excess of \$5,000 require a City Council member's signature.

CONDITION: We selected ten disbursements during the year ended June 30, 2015 and noted that four had purchase orders dated subsequent to the invoice date, and two did not have approval by the Mayor.

We selected ten disbursements during the year ended June 30, 2014 and noted that one did not have a purchase order, six had purchase orders dated subsequent to the invoice date, and three did not have approval by the Mayor.

CAUSE: The City is not requiring purchase orders to be completed prior to goods or services being ordered.

EFFECT: The City is allowing goods or services to be ordered and delivered prior to approval by the Mayor.

RECOMMENDATION: We recommend the City require purchase orders to be completed and approved prior to goods or services being ordered.

CITY RESPONSE: The City is aware of the purchase order approval requirement and had adopted an amended policy dated January 7, 2015. The policy states any item exceeding \$350 (excluding bulk fuel) without first obtaining permission from the Mayor, except if the item ordered is needed in an emergency situation. No employees of the city may order or purchase any item exceeding \$5,000 without prior approval from the Mayor and City Council. The Mayor may give a verbal approval when such times arise. We are working with our Department Heads to properly follow the purchase order approval procedure.

2015-013: PROPERTY TAX LIMITATIONS

CRITERIA: A governmental entity that is authorized to impose mills may impose a mill levy sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half of the average rate of inflation for the prior 3 years. (MCA 15-10-420(1)(a)) The Department of Revenue has calculated the inflation factor to be used in the calculation above as 1.03% for fiscal year 2014 and 1.03% for 2015.

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

CONDITION: When calculating the property tax limitations, the City used the inflation factor from fiscal year 2013 for both the 2014 and 2015 calculations for the following funds: Compensation Liability Fund, Disaster Williamson Park Fund, PERS Fund, and Health Insurance Fund. In all funds, the City's calculation was more than what it should have been using the correct factor.

CAUSE: Unknown.

EFFECT: The City is out of compliance with state law for calculating the property tax limitations in 2014 and 2015.

RECOMMENDATION: We recommend the City comply with state law and use the correct inflation factors.

CITY RESPONSE: The City of Shelby has retained an independent consultant to review and consult as it relates to the City's valuations and mill levy limitations.

2015-014: DETERMINATION OF TAX REVENUE AND MILL LEVY LIMITATIONS

CRITERIA: The maximum number of mills that a governmental entity may impose is established by calculating the number of mills required to generate the amount of property tax actually assessed in the governmental unit in the prior year based on the current year taxable value, less the current year's newly taxable value, plus one-half of the average rate of inflation for the prior 3 years. Newly taxable property does not include an increase in value that arises because of an increase in the incremental value within a tax increment financing district.

CONDITION: Taxable values, taxable value of newly taxable property and incremental values are provided by the Department of Revenue. When computing the maximum number of mills for 2013-14, an incorrect value was used in the calculation.

CAUSE: Unknown

EFFECT: The calculated maximum number of mills for 2013-14 was too high due to the usage of the incorrect value.

RECOMMENDATION: We recommend the 1) City work with legal counsel to determine the best course of action, and 2) review the calculation for accuracy before the final levy is set.

CITY RESPONSE: The City of Shelby has retained an independent consultant to review and consult as it relates to the City's valuations and mill levy limitations.

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

2015-015: BUDGETED FUNDS

CRITERIA: Local government officials may not make a disbursement or expenditure or incur an obligation in excess of the total appropriations for a fund. Money may not be disbursed, expenses, or obligated except pursuant to an appropriation for which working capital is or will be available. (MCA 7-6-4005, 7-6-4006(2))

CONDITION: The City expended more than what was appropriated in 2015 and 2014 in the following funds:

2015:

- Police Pension and Training - \$4,459 was appropriated but \$4,484 was spent;
- Rainbow Hotel Renovations - \$30,445 was appropriated but \$40,198 was spent.

2014:

- Disaster-Flood Williamson Park- \$355,071 was appropriated but \$417,500 was spent;
- Street Maintenance District No. 1 - \$370,945 was appropriated but \$386,276 was spent;
- 2012 Curb Gutter and Sidewalk SID - \$48,608 was appropriated but \$89,841 was spent;
- Trails Grant - \$5,000 was appropriated but \$23,528 was spent;
- Williamson Building Renovations - \$101,260 was appropriated but \$142,242 was spent;
- Solid Waste Utility - \$672,119 was appropriated but \$681,740 was spent.

CAUSE: Unknown.

EFFECT: The City is out of compliance with state law for allowable expenditures out of the funds noted above for 2014 and 2015.

RECOMMENDATION: We recommend the City comply with state law and only allow expenditures up to the appropriated amount.

CITY RESPONSE: All of the funds listed except for the solid waste utility are part of the general fund and there would be no over appropriation when you look at the general fund as a whole. Furthermore MCA 7-6-4033 allows for debt service funds to be adjusted as it relates to the 2012 Curb Gutter and Sidewalk SID. Solid Waste Utility had a depreciation amount closed to retained earnings of \$40,863 that caused the fund to show it was over appropriated.

2015-016: CASH TRANSFERRED BETWEEN FUNDS

CRITERIA: Money may not be transferred from one fund to another except by resolution of a municipal governing body unless the transfer is: 1) previously authorized by a budget resolution; 2) to close inactive funds; 3) made in the usual course of business; or 4) otherwise authorized by statute (MCA 7-6-613).

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

CONDITION: In 2014, the City transferred \$210,000 out of the Water Fund and \$290,000 out of the Sewer Fund into the General Fund. These transfers were part of the multimodal project. Funds were transferred to the General Fund for electrical work. There was no resolution for these transfers.

CAUSE: Unknown.

EFFECT: Noncompliance with state law.

RECOMMENDATION: We recommend the City only transfer cash when allowed in state law.

CITY RESPONSE: Bob Denning of Denning Downey and Associates prepared these entries after they failed to correctly record the USDA-RD debt on to the City's accounting software and properly report on the City of Shelby's financial statements.

2015-017: REVENUE BOND REQUIREMENTS

CRITERIA: In accordance with the Water and Sewer bond provisions, the City of Shelby is required to:

1. Create and maintain a revenue bond account with monthly deposits equal to 1/6 of the interest to become due and 1/12 of the next installment of principal.
2. Create and maintain a Revenue Bond Account Future to maintain an additional reserve in an amount equal to the maximum amount to be credited to the Revenue Bond Account Future in any fiscal year.
3. The amount of net revenues will at least equal the sum of 1.25 times the maximum debt service of the water and sewer bonds.

CONDITION: As of June 30, 2015 and 2014 the City of Shelby does not meet provision number 1 and 2 above of its water and sewer bonds. Additionally the City does not meet provision number 3 for the year ended June 30, 2015. The restricted accounts for the above reserves have a \$0 balance for both Water and Sewer funds for the years ending June 30, 2015 and 2014.

CAUSE: Unknown

EFFECT: The City is in violation of the terms of the Water and Sewer Revenue Bonds.

RECOMMENDATION: We recommend the City of Shelby replenish the reserve accounts to meet the above provisions and also generate adequate the adequate net revenue to meet provision number 3 above.

**City of Shelby
Toole County, Montana
Summary Schedule of Findings and Responses
June 30, 2015 and 2014**

CITY RESPONSE: Per the City's debt service test we find that we comply with the bond requirements. We request this finding be removed. Denning Downey and Associates prepared closing entries that eliminated negative fund balances by Journal Voucher moving cash from one fund to another. The debt service worksheets attached show that the City of Shelby is in total compliance with the bond provisions. The City of Shelby requests that this finding be removed.

2015-018: LONG-TERM DEBT

CRITERIA: The ending balances for debt should agree to bank balances.

CONDITION: As of June 30, 2014 the balance for the FBI Building loan on the government wide statement of net position did not agree to the bank balance. The debt on the financial statements was understated by \$323,596. As of June 30, 2015, the debt had been paid off, yet the financial statements still showed a loan balance of \$267,677. Entries have been made to accurately reflect the balance at June 30, 2015 and 2014 on the government wide statement of net position for each year.

CAUSE: Unknown

EFFECT: Prior to the correcting entry, the debt balance on the June 30, 2014 statement of net position was materially understated and the debt balance on the June 30, 2015 statement of net position was materially overstated.

RECOMMENDATION: We recommend the City of Shelby at year-end agree all debt balances to outside bank statements or other third party support to ensure the accuracy of the debt reflected on the financial statements.

CITY RESPONSE: The City of Shelby paid Bob Denning of Denning, Downey and Associates to prepare our financial statements and they failed to properly record the payoff of the loan.

**City of Shelby
Toole County, Montana
Status of Prior Findings and Questioned Costs
June 30, 2015 and 2014**

The following is a schedule of findings and the implementation status of those findings which arose during the audits for the years ended June 30, 2013 and 2012. The audit report for the years ending June 30, 2013 and 2012 was issued on March 29, 2016. Therefore, some of the findings noted in the prior audit report are also findings for the June 30, 2015 and 2014 audit.

2013-001: GENERAL FUND DEFICIT FUND BALANCE

CONDITION: The General Fund had deficit fund balances of \$(1,365,660) and \$(639,042) at June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, the General Fund had cash (deficit cash) balances of \$(619,353) and \$158,858 and advances payable to other funds of \$(831,417) at June 30, 2013 and 2012.

STATUS: Not Implemented – see Finding #2015-001.

2013-002: 1992 CURB, GUTTER & SIDEWALK FUND DEFICIT FUND BALANCE

CONDITION: The debt related to the 1992 Special Improvement District has been paid off. The 1992 Curb, Gutter & Sidewalk Fund had a deficit fund balance of \$(89,705) at June 30, 2013 and 2012. In addition the fund had advances payable to other funds of \$(121,460) at June 30, 2013 and 2012. The negative financial position is somewhat offset by delinquent taxes receivable of \$85,846 at June 30, 2013 and 2012, which date back to 1992.

STATUS: Not Implemented – see Finding #2015-004.

2013-003: COMMUNITY TRANSPORTATION FUND DEFICIT FUND BALANCE

CONDITION: The Community Transportation Fund had a deficit fund balance of \$(49,079) at June 30, 2013 and 2012. In addition the fund had advances payable to other funds of \$(49,079) at June 30, 2013 and 2012.

STATUS: Not Implemented – see Finding #2015-003.

2013-004: SOLID WASTE FUND DEFICIT FUND BALANCE

CONDITION: The Solid Waste Fund had deficit fund balances of \$(184,011) and \$(123,302) at June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, the Solid Waste Fund had cash balances of \$121,567 and \$1 respectively, including restricted cash balances of \$308,981 and \$294,932, respectively. At June 30, 2013 and 2012, the Solid Waste Fund had advances payable to other funds of \$(317,641) and due to other funds of \$(132,923) and \$(231,259) respectively.

STATUS: Not Implemented – see Finding #2015-005

**City of Shelby
Toole County, Montana
Status of Prior Findings and Questioned Costs
June 30, 2015 and 2014**

2013-005: RAINBOW HOTEL RENOVATIONS FUND DEFICIT FUND BALANCE

CONDITION: The Rainbow Hotel Renovations Fund had a deficit fund balance of \$(1,084) at June 30, 2013. In addition the fund had advances payable to other funds of \$(1,084) at June 30, 2013.

STATUS: Not Implemented – see Finding #2015-006.

2013-006: PURCHASE ORDER APPROVAL

CONDITION: We selected ten disbursements during the year ended June 30, 2013 and noted that three did not have purchase orders, two did not have travel expense reports, three had purchase orders dated subsequent to the invoice date, and four did not have approval by the Mayor.

STATUS: Not Implemented – see Finding #2015-012.

2013-007: FINAL BUDGET RESOLUTION

CONDITION: The City's 2013 final budget resolution is dated September 17, 2012. The effective date of the final budget resolution is July 1 of the fiscal year, even if the resolution is adopted after that date. A local government may receive and expend money between July 1 of the fiscal year and the date the final budget resolution is adopted. (MCA 7-6-4030, 7-6-4025)

STATUS: Implemented.

2013-008: NOTICE OF RESOLUTION FOR ASSESSMENT FOR SPECIAL DISTRICT

CONDITION: The City does not send a copy of the resolution to the Montana State Department of Revenue. A local government must deliver to the State Department of Revenue a copy of the resolution for a special district assessment, certified by the clerk of the governing body, by the third Monday in August or within 45 calendar days after receiving certified taxable values from the Department of Revenue. (MCA 7-11-1025(8)).

STATUS: Implemented.

2013-009: ALTERATION OF SPECIAL DISTRICT BOUNDARIES

CONDITION: The City annexed in two properties during the year ended June 30, 2013 and 2012. A governing body can make changes to special district boundaries but changes made to boundaries may not:

- a. Occur more than once each year unless the governing body makes a special finding that an alteration is necessary;

**City of Shelby
Toole County, Montana
Status of Prior Findings and Questioned Costs
June 30, 2015 and 2014**

- b. Delete any portion of the area if the deletion will create an island of included or excluded lands;
- c. Delete any portion of the area that is negatively contributing or may reasonably be expected to negatively contribute to environmental impacts that fall within the scope of the special district's program, and;
- d. Affect indebtedness existing at the time of the change. (MCA 7-11-1023(4)).

STATUS: Implemented.

2013-010: INTEREST-BEARING CHECKING ACCOUNT

CONDITION: The City's claims for 2013 and 2012 were paid by check from a local bank, but the bank account was not interest-bearing. If claims against a city or town are paid by check, rather than warrant, the checking account must be interest-bearing and must be held by a bank within the city or town. (MCA 7-6-4302(2)).

STATUS: Implemented

2013-011: IMMIGRATION AND NATURALIZATION SERVICE FORM I-9

CONDITION: We selected ten City employees and noted that the City did not have a Form I-9 for three of the employees selected. The Immigration and Naturalization Service requires employers to complete and retain Form I-9 for each individual they hire for employment after November 6, 1986 – both citizens and non-citizens.

STATUS: Implemented.

2013-012: STREET LIGHTING DISTRICT NO. 35 FUND

CONDITION: The City appropriated \$57,551 in the Street Lighting District No. 35 Fund, but expended \$80,323 in the fund for the year ended June 30, 2013. Local government officials may not make a disbursement or expenditure or incur an obligation in excess of the total appropriations for a fund. Money may not be disbursed, expenses, or obligated except pursuant to an appropriation for which working capital is or will be available. (MCA 7-6-4005, 7-6-4006(2)).

STATUS: Not Implemented – see Finding #2015-015.

**City of Shelby
Toole County, Montana
Status of Prior Findings and Questioned Costs
June 30, 2015 and 2014**

2013-013: SHELBY TOURISM BUSINESS IMPROVEMENT DISTRICT WORK PLAN AND BUDGET

CONDITION: A work plan and budget was not submitted by the Shelby Tourism Business Improvement District for the year ended June 30, 2013.

STATUS: Implemented.

2013-014: WILLIAMSON BUILDING RENOVATIONS

CONDITION: The City disbursed funds in excess of \$80,000 for improvements to the Williamson Building without advertising for bids.

STATUS: Implemented.

2013-015: POLICE PENSION AND TRAINING FUND

CONDITION: The City appropriated \$4,459 in the Police Pension and Training Fund, but expended \$8,331 in the fund for the year ended June 30, 2012.

STATUS: Not Implemented – see Finding #2015-015.

2013-016: 2006 FIRE HALL GENERAL OBLIGATION BOND FUND AUTHORIZED RESERVES

CONDITION: The City transferred \$49,079 to reserves in the 2006 Fire Hall General Obligation Fund 3035 at June 30, 2012. The 2006 Fire Hall General Obligation Fund 3035 had total appropriations in 2012 of \$92,260. One-half of the total appropriations equal \$46,130. After deducting from the amount of the appropriations and authorized expenditures the total amount appropriated and authorized to be spent for election expenses and payment of emergency warrants, the amount that may be added as a reserve to any city or town fund may not exceed one-half (1/2) of the total amount appropriated and authorized to be spent from the fund during the current fiscal year. (MCA 7-6-4034(2)).

STATUS: Implemented.