

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

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Douglas Wilson & Company, P.C.

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**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.

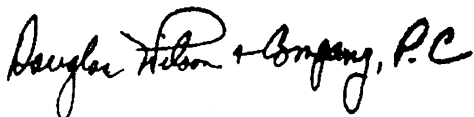
Other Information

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>