

Village of Shelby  
Oceana County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

February 28, 2019



Village of Shelby  
**LIST OF ELECTED AND APPOINTED OFFICIALS**  
February 28, 2019

**ELECTED OFFICIALS**

Paul Inglis..... Village President  
Steve Crothers ..... Council Member  
Bill Harris ..... Council Member  
Andy Near ..... Council Member  
John Sutton ..... Council Member  
Jim Wyns ..... Council Member  
Dan Zaverl..... Council Member

**APPOINTED OFFICIALS**

Robert Widigan ..... Village Administrator  
Crystal Budde ..... Clerk/Treasurer  
Randy Mahoney ..... Clerical Assistant

**DEPARTMENT HEADS**

Robert Farber.....Police Chief  
Greg MacIntosh..... DPW Supervisor

Village of Shelby

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**INDEPENDENT AUDITOR'S REPORT**

Village Council  
Village of Shelby  
Shelby, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Shelby, Michigan as of and for the year ended February 28, 2019, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

Village Council  
Village of Shelby  
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**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Shelby, Michigan, as of February 28, 2019, 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.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 3 through 11 and 34 through 36 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 audit 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards* we have also issued our report dated August 6, 2019, on our consideration of the Village of Shelby, Michigan’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Shelby, Michigan’s internal control over financial reporting and compliance.



Hart, Michigan  
August 6, 2019

As management of the Village of Shelby (Village), we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2019. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

### FINANCIAL HIGHLIGHTS

- Total net position of all governmental activities increased by \$636,333.
- The General Fund fund balance decreased by \$15,004.
- Total net position in the Sewer Fund decreased by \$52,555.
- Total net position in the Water Fund increased by \$100,936.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The basic financial statements are comprised of three components: 1) 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 the reader with a broad overview of the Village's finances. These statements are similar to those of a private sector business.

The Statement of Net Position presents information on all of the Village's assets/deferred outflows of resources and liabilities/deferred inflows of resources, 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 Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net position changed during the fiscal year. All changes in net position are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development, and culture and recreation activities. The business-type activities of the Village include water and sewer services.

### **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. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories- governmental funds and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The Village maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all four funds as they are all considered major funds.

**Proprietary Funds.** The Village has two enterprise proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its water distribution and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provide separate information for the Water and Sewer funds, both of which are major funds.

### **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 reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund, Major Streets Fund and Local Streets Fund.

### Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net position for the Village. As stated earlier, the net position may be used as an indicator of a government's financial health. As of February 28, 2019, the Village's net position from governmental activities totaled \$5,284,862 and \$3,868,829 from business-type activities, creating a total government-wide net position total of \$9,153,691.

In examining the composition of net position, the reader should note that governmental activities includes net position that is invested in capital assets, net of related debt (i.e., streets, buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. Certain other governmental net position is shown as restricted, meaning that it is subject to external restrictions on how it may be used. The unrestricted net position for governmental activities actually depicts a balance of \$996,129. This represents the amount of discretionary resources that can be used for general governmental operations.

For governmental activities, current assets decreased due to Village funds being used for matching on a grant for State Street improvements and costs incurred in personnel transitions. Capital assets increased due to State Street improvements. Noncurrent liabilities continue to decline as scheduled debt payments are made.

The business-type activities show a total of \$3,868,829 in net position and \$682,668 in unrestricted net position. The Sewer Fund and Water Fund unrestricted net position are \$119,238 and \$562,310, respectively.

For business-type activities, current assets increased due to no significant capital purchases and capital assets decreased as scheduled depreciation exceeded capital additions. Noncurrent liabilities decreased due to scheduled debt service.



**Net Position**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current assets and other assets	\$ 2,392,725	\$ 2,488,776	\$ 1,448,151	\$ 1,351,731	\$ 3,840,876	\$ 3,840,507
Capital assets	<u>3,046,592</u>	<u>2,413,805</u>	<u>5,418,907</u>	<u>5,582,090</u>	<u>8,465,499</u>	<u>7,995,895</u>
Total assets	5,439,317	4,902,581	6,867,058	6,933,821	12,306,375	11,836,402
Deferred outflows of resources	-	1,041	-	-	-	1,041
Total assets and deferred outflows	5,439,317	4,903,622	6,867,058	6,933,821	12,306,375	11,837,443
Current liabilities	141,442	185,630	181,229	175,164	322,671	360,794
Noncurrent liabilities	<u>13,013</u>	<u>69,463</u>	<u>2,817,000</u>	<u>2,942,000</u>	<u>2,830,013</u>	<u>3,011,463</u>
Total liabilities	<u>154,455</u>	<u>255,093</u>	<u>2,998,229</u>	<u>3,117,164</u>	<u>3,152,684</u>	<u>3,372,257</u>
Net position						
Net investment in capital assets	2,986,592	2,229,846	2,476,907	2,521,090	5,463,499	4,750,936
Restricted	1,302,141	1,271,266	709,254	656,984	2,011,395	1,928,250
Unrestricted	<u>996,129</u>	<u>1,147,417</u>	<u>682,668</u>	<u>638,583</u>	<u>1,678,797</u>	<u>1,786,000</u>
Total net position	<u>\$ 5,284,862</u>	<u>\$ 4,648,529</u>	<u>\$ 3,868,829</u>	<u>\$ 3,816,657</u>	<u>\$ 9,153,691</u>	<u>\$ 8,465,186</u>

**Governmental Activities**

Net position of governmental activities increased by \$636,333 (13.7%) during the 2019 fiscal year. Operating grants increased due to additional street funding from the State. Capital grants increased due to a grant for State Street improvements. Property tax revenues decreased as the Village continues to lower the debt service millage as the bonds are nearly retired. Miscellaneous revenues increased due to an insurance reimbursement. General government expenses increased due to the cost of transitioning to a new Village Administrator and other personnel and legal costs. There were no significant parks projects in culture and recreation this year. The following table shows these results.

**Business-type Activities**

At the end of the fiscal year, the net position for business-type activities increased by \$52,172 (1.4%). Operating grants increased due to additional Stormwater, Asset Management, and Wastewater (SAW) grant funding. Sewer expenses increased due to the aforementioned SAW grant. There were no significant repairs or projects for the water system this year. The following table shows these results.

### Change in Net Position

	Governmental		Business-type		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues						
Charges for services	\$ 28,349	\$ 29,312	\$ 635,125	\$ 644,096	\$ 663,474	\$ 673,408
Operating grants	373,123	302,031	261,841	62,282	634,964	364,313
Capital grants	535,979	-	-	-	535,979	-
General revenues						
Property taxes	429,759	459,966	-	-	429,759	459,966
Grants and contributions not restricted	241,298	257,958	-	-	241,298	257,958
Unrestricted investment earnings	14,604	15,287	15,751	15,649	30,355	30,936
Miscellaneous	77,484	11,547	55,767	60,647	133,251	72,194
Total revenues	<u>1,700,596</u>	<u>1,076,101</u>	<u>968,484</u>	<u>782,674</u>	<u>2,669,080</u>	<u>1,858,775</u>
Expenses:						
General government	235,324	141,454	-	-	235,324	141,454
Public safety	261,786	239,810	-	-	261,786	239,810
Public works	534,169	535,163	-	-	534,169	535,163
Community and economic development	2,280	2,699	-	-	2,280	2,699
Culture and recreation	23,782	43,472	-	-	23,782	43,472
Interest on long-term debt	6,922	12,609	-	-	6,922	12,609
Sewer	-	-	709,176	477,750	709,176	477,750
Water	-	-	207,136	237,130	207,136	237,130
Total expenses	<u>1,064,263</u>	<u>975,207</u>	<u>916,312</u>	<u>714,880</u>	<u>1,980,575</u>	<u>1,690,087</u>
Change in net position	636,333	100,894	52,172	67,794	688,505	168,688
Net position - Beginning	4,648,529	4,547,635	3,816,657	3,748,863	8,465,186	8,296,498
Net position - Ending	<u>\$ 5,284,862</u>	<u>\$ 4,648,529</u>	<u>\$ 3,868,829</u>	<u>\$ 3,816,657</u>	<u>\$ 9,153,691</u>	<u>\$ 8,465,186</u>

### Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2019 fiscal year, the Village governmental funds reported a combined unassigned fund balance of \$547,889, all of which is in the General Fund. The remainder of the fund balance is nonspendable as it has already been spent on prepaid items for the following year or is restricted for streets and highways or debt service.

The General Fund is the chief operating fund of the Village. The General Fund ended the year with a fund balance of \$549,837, a decrease of \$15,004 from fiscal year 2018. The health of the General fund may be measured by the ratio of unassigned fund balance to annual expenditures and transfers. Unassigned fund balance represents 83% of the General Fund's expenditures and transfers (98% in the prior year).

**Proprietary Funds.** The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position of the Sewer Fund decreased by \$52,555 and increased by \$100,936 in the Water Fund.

### General Fund Budget

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy.

The most significant budget amendments made during the year were:

- The budget for Village administrator expenditures was amended from \$19,501 to \$71,067 to reflect a severance payment to the previous administrator, the use of an interim administrator, and hiring of a new administrator.
- The budget for clerk expenditures was amended from \$23,423 to \$46,533, as the position was made full-time.
- The budget for other governmental expenditures was amended from \$34,635 to \$58,574 due to additional legal costs resulting from the above-mentioned personnel changes.
- The budgets for the police department and public works department were increased as the initial budgets underestimated staff costs.
- The budget for capital outlay was amended from \$10,000 to nothing as the Village did not need to make any capital purchases.

### General Fund Budget—Continued

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Intergovernmental revenues – State were over budget by \$19,006 as the Village conservatively budgeted revenue sharing increases and did not budget for State of Michigan personal property tax replacement payments.

### Capital Assets

The Village’s investment in capital assets for its governmental and business-type activities as of February 28, 2019 totaled \$8,465,499 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment, plants and vehicles.

Major capital asset events during the current fiscal year included the following:

- The State Street project was completed at a total cost of \$756,019.
- A 2018 plow truck was purchased for \$128,327.
- A 2017 Ford Explorer as purchased for the police department for \$36,500

### Capital Assets (Net of Accumulated Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Land	\$ 164,112	\$ 164,112	\$ 267,473	\$ 267,473	\$ 431,585	\$ 431,585
Construction in progress	-	16,963	-	-	-	16,963
Buildings and improvements	159,889	168,855	-	-	159,889	168,855
Infrastructure	2,503,688	1,989,095	-	-	2,503,688	1,989,095
Plant and systems	-	-	5,151,434	5,314,617	5,151,434	5,314,617
Vehicles and equipment	218,903	74,780	-	-	218,903	74,780
<b>Total</b>	<b>\$ 3,046,592</b>	<b>\$ 2,413,805</b>	<b>\$ 5,418,907</b>	<b>\$ 5,582,090</b>	<b>\$ 8,465,499</b>	<b>\$ 7,995,895</b>

Additional information on the Village’s capital assets can be found in Note D of the “Notes to the Financial Statements” of this report.

### Long-term Debt

At the end of the 2019 fiscal year, the Village had total outstanding debt of \$3,019,513 consisting of general obligations bonds, revenue bonds and compensated absences. \$2,942,000 of the Village’s outstanding debt represented in the table below is revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

### Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 60,000	\$ 185,000	\$ -	\$ -	\$ 60,000	\$ 185,000
Compensated absences	17,513	12,463	-	-	17,513	12,463
Revenue bonds	-	-	2,942,000	3,061,000	2,942,000	3,061,000
Total	\$ 77,513	\$ 197,463	\$ 2,942,000	\$ 3,061,000	\$ 3,019,513	\$ 3,258,463

The Village's total debt decreased by \$238,950 due to normal debt payoffs as provided for in the fiscal year 2019 budget.

Additional information on the Village's long-term debt can be found in Note F of the "Notes to the Financial Statements" of this report.

### General Economic Overview

The General Fund has two primary sources of revenues – property taxes and state revenue sharing. For the upcoming fiscal year, the Village anticipates that these revenues will be approximately the same as last year.

No significant changes are budgeted for operating costs in the General Fund except as follows. For the upcoming year, the Village has funds allocated to begin numerous economic development projects. For example, \$11,650 has been earmarked for the five-year update to the Master Plan and becoming Redevelopment Ready Community certified and \$9,000 has been set aside to start overhauling its zoning ordinances. Vibrant parks are an economic boost to a community, and the Village has set aside \$10,000 to cover preliminary engineering costs related to the proposed concept plan to redevelop Getty Park. No significant capital purchases are budgeted in the General Fund in the upcoming year.

Shelby is a rural farming community that has the unique asset of the recently updated and well-traveled multi-use William Field Memorial Hart-Montague Trail (Trail) that runs directly behind its Downtown storefronts. An area of improvement identified as a top priority is the need to connect Shelby's Downtown to the Trail, where an estimated 70,000 visitors a year ride. There is currently an Alleyway that would make a great connection point from the Trail to Downtown. However, the current condition of the Alleyway is abysmal. In the General Fund, the Village has set aside \$10,000 to help improve the Alleyway Downtown. We hope that this new and improved "Gateway to Main Street" will bring an additional 5,000 visitors off the Trail and into our Downtown.

In the fall of 2019, the Village will be resurfacing Sessions Road from Plum Street to 1,600 feet to the north. Sessions Road resurfacing will be completed in the Local Streets Fund.

This year the Village is also inspecting, cleaning and painting the Water Tower. The expected cost is \$180,000 and will be completed in the Water Fund.

The Village's five-year capital improvement plan calls for replacing most of its police and public works equipment along with parks improvements. For the upcoming fiscal year, the Village anticipates replacing one of its aging public works pickup trucks in the Equipment Fund.

### **Request for Information**

This financial report is designed to provide a general overview of the Village of Shelby's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Shelby, 218 N. Michigan Ave., Shelby, Michigan 49455, 231-861-4400.

Village of Shelby  
**STATEMENT OF NET POSITION**  
February 28, 2019

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 2,259,247	\$ 508,487	\$ 2,767,734
Receivables	40,553	72,841	113,394
Due from other governmental units	92,097	64,272	156,369
Internal balances	(1,120)	1,120	-
Inventories	-	73,877	73,877
Prepaid items	1,948	-	1,948
Total current assets	2,392,725	720,597	3,113,322
Noncurrent assets			
Restricted cash and investments	-	727,554	727,554
Capital assets, net			
Nondepreciable	164,112	267,473	431,585
Depreciable	2,882,480	5,151,434	8,033,914
Total noncurrent assets	3,046,592	6,146,461	9,193,053
Total assets	5,439,317	6,867,058	12,306,375
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	40,302	56,229	96,531
Due to other governmental units	36,640	-	36,640
Bonds and other obligations, due within one year	64,500	125,000	189,500
Total current liabilities	141,442	181,229	322,671
Noncurrent liabilities			
Bonds and other obligations, less amounts due within one year	13,013	2,817,000	2,830,013
Total liabilities	154,455	2,998,229	3,152,684
<b>NET POSITION</b>			
Net investment in capital assets	2,986,592	2,476,907	5,463,499
Restricted			
Streets	1,300,926	-	1,300,926
Debt service	1,215	263,904	265,119
Capital projects	-	445,350	445,350
Unrestricted			
Unrestricted	996,129	682,668	1,678,797
Total net position	<b>\$ 5,284,862</b>	<b>\$ 3,868,829</b>	<b>\$ 9,153,691</b>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF ACTIVITIES**  
For the year ended February 28, 2019

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants Contributions</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Governmental activities							
General government	\$ 235,324	\$ 28,134	\$ -	\$ -	\$ (207,190)	\$ -	\$ (207,190)
Public safety	261,786	-	529	-	(261,257)	-	(261,257)
Public works	534,169	-	372,594	535,979	374,404	-	374,404
Community and economic development	2,280	215	-	-	(2,065)	-	(2,065)
Culture and recreation	23,782	-	-	-	(23,782)	-	(23,782)
Interest on long-term debt	6,922	-	-	-	(6,922)	-	(6,922)
Total governmental activities	1,064,263	28,349	373,123	535,979	(126,812)	-	(126,812)
Business-type activities							
Sewer	709,176	386,373	261,841	-	-	(60,962)	(60,962)
Water	207,136	248,752	-	-	-	41,616	41,616
Total business-type activities	916,312	635,125	261,841	-	-	(19,346)	(19,346)
Total government	<b>\$ 1,980,575</b>	<b>\$ 663,474</b>	<b>\$ 634,964</b>	<b>\$ 535,979</b>	(126,812)	(19,346)	(146,158)
General revenues							
Property taxes, levied for							
General purposes					288,521	-	288,521
Specific purposes					141,238	-	141,238
Grants and contributions not restricted to specific programs					241,298	-	241,298
Unrestricted investment earnings					14,604	15,751	30,355
Miscellaneous					77,484	55,767	133,251
Total general revenues					763,145	71,518	834,663
Change in net position					636,333	52,172	688,505
Net position at March 1, 2018					4,648,529	3,816,657	8,465,186
Net position at February 28, 2019					<b>\$ 5,284,862</b>	<b>\$ 3,868,829</b>	<b>\$ 9,153,691</b>

The accompanying notes are an integral part of this statement.



Village of Shelby  
**BALANCE SHEET**  
 Governmental Funds  
 February 28, 2019

	<b>General Fund</b>	<b>Major Streets Fund</b>	<b>Local Streets Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and investments	\$ 515,916	\$ 372,148	\$ 905,189	\$ -	\$ 1,793,253
Property taxes receivable	27,477	-	6,829	6,247	40,553
Due from other governmental units	35,295	36,400	20,403	-	92,098
Due from other funds	5,032	-	-	-	5,032
Prepaid items	1,948	-	-	-	1,948
Total assets	<b>\$ 585,668</b>	<b>\$ 408,548</b>	<b>\$ 932,421</b>	<b>\$ 6,247</b>	<b>\$ 1,932,884</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 27,765	\$ 192	\$ 17	\$ -	\$ 27,974
Accrued liabilities	8,066	1,597	1,597	-	11,260
Due to other governmental units	-	23,816	12,824	-	36,640
Due to other funds	-	-	-	5,032	5,032
Total liabilities	35,831	25,605	14,438	5,032	80,906
<b>FUND BALANCES</b>					
Nonspendable - prepaid items	1,948	-	-	-	1,948
Restricted					
Streets	-	382,943	917,983	-	1,300,926
Debt service	-	-	-	1,215	1,215
Unassigned	547,889	-	-	-	547,889
Total fund balances	549,837	382,943	917,983	1,215	1,851,978
Total liabilities and fund balances	<b>\$ 585,668</b>	<b>\$ 408,548</b>	<b>\$ 932,421</b>	<b>\$ 6,247</b>	<b>\$ 1,932,884</b>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION**  
 February 28, 2019

Total fund balances—governmental funds \$ 1,851,978

Amounts reported for governmental activities in the Statement of Net Position  
 are different because:

Capital assets used in governmental activities are not current financial  
 resources and, therefore, are not reported in the governmental funds.

Cost of capital assets	\$ 6,369,198	
Accumulated depreciation	(3,541,510)	2,827,688

Long-term liabilities in governmental activities are not due and payable in the  
 current period and, therefore, are not reported in the governmental funds.

Bonds and notes payable	(60,000)	
Compensated absences	(17,513)	(77,513)

The internal service fund is used by management to charge the costs of  
 certain activities to individual funds. The assets and liabilities of the  
 internal service fund are reported with governmental activities in the  
 Statement of Net Position.

Net position of the internal service fund	683,829	
Internal balances representing the cumulative difference between actual costs and amounts charged to business-type activities	(1,120)	682,709

Net position of governmental activities		<b>\$ 5,284,862</b>
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The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Governmental Funds  
 For the year ended February 28, 2019

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Property taxes	\$ 288,522	\$ -	\$ 73,321	\$ 67,916	\$ 429,759
Licenses and permits	680	-	-	-	680
Intergovernmental revenues					
Federal	-	355,313	-	-	355,313
State	236,540	425,729	121,322	2,564	786,155
Charges for services	28,134	-	-	-	28,134
Fines and forfeitures	1,132	-	-	-	1,132
Investment earnings	10,706	1,930	6,879	254	19,769
Other	76,010	-	-	-	76,010
Total revenues	<u>641,724</u>	<u>782,972</u>	<u>201,522</u>	<u>70,734</u>	<u>1,696,952</u>
<b>EXPENDITURES</b>					
Current					
General government	228,586	-	-	-	228,586
Public safety	256,582	-	-	-	256,582
Public works	144,768	80,988	73,428	-	299,184
Community and economic development	2,280	-	-	-	2,280
Culture and recreation	24,512	-	-	-	24,512
Debt service					
Principal	-	-	-	125,000	125,000
Interest and fees	-	-	-	5,881	5,881
Capital outlay	-	739,056	-	-	739,056
Total expenditures	<u>656,728</u>	<u>820,044</u>	<u>73,428</u>	<u>130,881</u>	<u>1,681,081</u>
Net change in fund balances	(15,004)	(37,072)	128,094	(60,147)	15,871
Fund balances at March 1, 2018	564,841	420,015	789,889	61,362	1,836,107
Fund balances at February 28, 2019	<u>\$ 549,837</u>	<u>\$ 382,943</u>	<u>\$ 917,983</u>	<u>\$ 1,215</u>	<u>\$ 1,851,978</u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended February 28, 2019

Net change in fund balances—total governmental funds \$ 15,871

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

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (250,392)	
Capital outlay	<u>739,056</u>	488,664

The issuance of long-term debt provides current financial resources to governmental funds, but increases liabilities in the Statement of Net Position. Repayment of debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.

Repayment of principal on long-term debt		125,000
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Amortization of premiums and discounts		(1,041)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in compensated absences		(5,050)
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The internal service fund is used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service fund are reported with governmental activities.

Change in net position of the internal service fund	16,680	
Change in internal balances representing the current year difference between actual costs and amounts charged to business-type activities	<u>(3,791)</u>	<u>12,889</u>

Change in net position of governmental activities		<u><b>\$ 636,333</b></u>
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The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF NET POSITION**  
Proprietary Funds  
February 28, 2019

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities - Internal Service Fund</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>ASSETS</b>				
Current assets				
Cash and investments	\$ 16,482	\$ 492,005	\$ 508,487	\$ 465,994
Accounts receivable	46,808	26,033	72,841	-
Due from other governmental units	64,272	-	64,272	-
Inventories	3,586	70,291	73,877	-
Total current assets	131,148	588,329	719,477	465,994
Noncurrent assets				
Restricted cash and investments	656,852	70,702	727,554	-
Capital assets				
Land	267,473	-	267,473	-
Plants and systems	5,113,710	2,663,266	7,776,976	-
Equipment and furniture	-	-	-	762,315
Less accumulated depreciation	(1,635,071)	(990,471)	(2,625,542)	(543,411)
Net capital assets	3,746,112	1,672,795	5,418,907	218,904
Total noncurrent assets	4,402,964	1,743,497	6,146,461	218,904
Total assets	4,534,112	2,331,826	6,865,938	684,898
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	9,540	23,647	33,187	586
Accrued liabilities	20,670	2,372	23,042	483
Bonds and other obligations, due within one year	45,000	80,000	125,000	-
Total current liabilities	75,210	106,019	181,229	1,069
Noncurrent liabilities				
Bonds and other obligations, less amounts due within one year	2,567,000	250,000	2,817,000	-
Total liabilities	2,642,210	356,019	2,998,229	1,069
<b>NET POSITION</b>				
Net investment in capital assets	1,134,112	1,342,795	2,476,907	218,904
Restricted				
Debt service	193,202	70,702	263,904	-
Capital outlay	445,350	-	445,350	-
Unrestricted	119,238	562,310	681,548	464,925
Total net position	<b>\$ 1,891,902</b>	<b>\$ 1,975,807</b>	3,867,709	<b>\$ 683,829</b>
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service fund and the enterprise funds over time			1,120	
Net position of business-type activities			<b>\$ 3,868,829</b>	

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
Proprietary Funds  
For the year ended February 28, 2019

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities - Internal Service Fund</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 386,373	\$ 244,122	\$ 630,495	\$ 136,991
Other	262,540	55,068	317,608	-
Total operating revenues	648,913	299,190	948,103	136,991
<b>OPERATING EXPENSES</b>				
Operations and administration	478,825	149,100	627,925	95,448
Depreciation	120,649	50,034	170,683	28,508
Total operating expenses	599,474	199,134	798,608	123,956
Operating income	49,439	100,056	149,495	13,035
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	9,451	6,300	15,751	3,645
Connection fees	-	4,630	4,630	-
Interest expense	(111,445)	(10,050)	(121,495)	-
Total nonoperating revenue (expenses)	(101,994)	880	(101,114)	3,645
Change in net position	(52,555)	100,936	48,381	16,680
Net position at March 1, 2018	1,944,457	1,874,871		667,149
Net position at February 28, 2019	<b>\$ 1,891,902</b>	<b>\$ 1,975,807</b>		<b>\$ 683,829</b>
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds			3,791	
Change in net position of business-type activities			<b>\$ 52,172</b>	

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF CASH FLOWS**  
Proprietary Funds  
For the year ended February 28, 2019

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities - Internal Service Fund</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 389,598	\$ 302,618	\$ 692,216	\$ -
Receipts from operating grant	198,268	-	198,268	-
Receipts from interfund services provided	-	-	-	136,991
Payments to suppliers	(389,185)	(61,685)	(450,870)	(56,525)
Payments to employees	(66,118)	(75,650)	(141,768)	(28,513)
Payment for interfund services used	(21,826)	(29,811)	(51,637)	(12,000)
Net cash provided by operating activities	110,737	135,472	246,209	39,953
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Connection fees	-	4,630	4,630	-
Purchases of capital assets	-	(7,500)	(7,500)	(172,631)
Principal paid on capital debt	(44,000)	(75,000)	(119,000)	-
Interest paid on capital debt	(111,945)	(14,250)	(126,195)	-
Net cash used for capital and related financing activities	(155,945)	(92,120)	(248,065)	(172,631)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Investment earnings	9,451	6,300	15,751	3,645
Net increase (decrease) in cash and investments	(35,757)	49,652	13,895	(129,033)
Cash and investments at March 1, 2018	709,091	513,055	1,222,146	595,027
Cash and investments at February 28, 2019	<b>\$ 673,334</b>	<b>\$ 562,707</b>	<b>\$ 1,236,041</b>	<b>\$ 465,994</b>
Reconciliation of cash and investments to the Statement of Net Position				
Cash and investments	\$ 16,482	\$ 492,005	\$ 508,487	\$ 465,994
Restricted cash and investments	656,852	70,702	727,554	-
	<b>\$ 673,334</b>	<b>\$ 562,707</b>	<b>\$ 1,236,041</b>	<b>\$ 465,994</b>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 49,439	\$ 100,056	\$ 149,495	\$ 13,035
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation expense	120,649	50,034	170,683	28,508
Change in assets and liabilities				
Accounts receivable	3,225	3,428	6,653	-
Due from other governmental units	(64,272)	-	(64,272)	-
Inventories	(2,007)	(19,108)	(21,115)	-
Accounts payable	3,149	692	3,841	(933)
Accrued liabilities	554	370	924	(657)
Net cash provided by operating activities	<b>\$ 110,737</b>	<b>\$ 135,472</b>	<b>\$ 246,209</b>	<b>\$ 39,953</b>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Village of Shelby (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

**Reporting Entity**

The Village is a home rule village governed by an elected seven member council with an elected President. Generally accepted accounting principles require that if the Village is considered to be financially accountable for other organizations, those organizations should be included as component units in the Village's financial statements. Since no organizations met this criterion, none are included in the financial statements.

**Basis of Presentation—Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information activities of the Village. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the Village's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the Village's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the Village's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund and Local Street Fund account for money distributed by the State of Michigan for construction and maintenance of streets within the Village. The Local Streets Fund also has a voted property tax millage.

The Debt Service Fund is used to account for a millage used to make principal and interest payments on the Village's general debt.



Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Basis of Presentation—Government-wide and Fund Financial Statements—Continued**

The Village reports the following major proprietary funds:

The Sewer Fund operates the Village's sewage pumping station, collection systems, and treatment systems.

The Water Fund operates the Village's water distribution system.

Additionally, the Village reports the following fund types:

The Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

During the course of operations the Village has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related 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.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Measurement Focus and Basis of Accounting—Continued**

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***Cash and Investments***

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Village are reported at fair value (generally based on quoted market prices).

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Inventories and Prepaid Items***

All inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of such inventories is recorded as expenses when consumed rather than when purchased in the business-type activities.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the Village chose to include only items acquired since July 1, 2003 as allowed by generally accepted accounting principles.

As the Village constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the Village are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	20-40
Infrastructure	20
Plants and systems	10-100
Vehicles and equipment	5-10

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Deferred Outflows/Inflows of Resources***

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Village's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

***Fund Balance Flow Assumptions***

Sometimes the Village will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Village's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Village itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Village's highest level of decision-making authority. The Village Council is the highest level of decision-making authority for the Village that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Fund Balance Policies—Continued***

Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as committed. The Village Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**Revenues and Expenditures/Expenses**

***Program Revenues***

Amounts 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 segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

***Property Taxes***

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property. Taxes are levied and liened on July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of the following September 15 are turned over by the Village to the County for collection. The County advances the Village all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2018 state taxable value for real/personal property of the Village totaled approximately \$26,505,000. The ad valorem taxes levied consisted of 10.7046 mills for operation 2.7328 mills for local streets and 2.5 mills for debt service. These amounts are recognized in the respective General Fund, Local Streets Fund and Debt Service Fund.

***Compensated Absences***

Village employees are granted vacation and sick leave in varying amounts based on length of service. Accumulated vacation leave must be taken in the current calendar year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment up to 80 days for employees. Unused accumulated sick leave is paid to employees who resign or retire, limited to 50 percent of days accumulated up to a maximum of 35 days. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Revenues and Expenditures/Expenses—Continued**

***Proprietary Funds Operating and Nonoperating Revenues and Expenses***

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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 nonoperating revenues and expenses.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The appropriated budget is prepared by fund, function and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year.

**Excess of Expenditures over Appropriations**

During the year ended February 28, 2019, actual expenditures exceeded appropriations for:

	<u>Final Budget</u>	<u>Actual</u>
General Fund		
General government		
Other general government	\$ 58,574	\$ 63,828
Major Streets Fund		
Public works		
Winter maintenance	35,998	48,495
Capital outlay	203,134	739,056
Local Streets Fund		
Public works		
Winter maintenance	36,195	43,743

These overexpenditures were funded with available fund balance or unbudgeted grants.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE C—DEPOSITS AND INVESTMENTS**

**Deposit and Investment Risks**

***Interest Rate Risk***

The Village limits investments to instruments maturing within twelve months of purchase as a means of managing its exposure to fair value losses arising from increasing interest rates. Any investments with longer maturities require approval of the Village Council before purchase.

***Credit Risk***

State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Village has no investment policy that would further limit its investment choices.

***Concentration of Credit Risk***

The Village does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Village investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Village does not have any investments exposed to concentration of credit risk.

***Custodial Credit Risk – Deposits***

In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2019, \$3,014,073 of the Village's bank balance of \$3,514,073 was exposed to custodial credit risk because it was uninsured and uncollateralized.

***Custodial Credit Risk – Investments***

The Village does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have any investments exposed to custodial credit risk.

***Foreign Currency Risk***

The Village is not authorized to invest in investments which have this type of risk.

**Restricted Cash**

Restrictions are placed on assets by bond ordinance and Village Council action. At February 28, 2019, cash is restricted as follows:

Sewer Fund	
Bond and interest redemption fund	\$ 48,502
Bond reserve fund	163,000
Repair, replacement and improvement fund	445,350
	<hr/>
	656,852
 Water Fund	
Bond and interest redemption fund	36,780
Bond reserve fund	33,922
	<hr/>
	70,702
	<hr/>
	<u><u>\$ 727,554</u></u>

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2019 was as follows:

	<b>Balance March 1, 2018</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance February 28, 2019</b>
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 164,112	\$ -	\$ -	\$ 164,112
Construction in progress	16,963	-	16,963	-
Total capital assets, not being depreciated	181,075	-	16,963	164,112
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	620,552	-	-	620,552
Infrastructure	4,828,515	756,019	-	5,584,534
Vehicles and equipment	636,863	172,631	47,179	762,315
Total capital assets, being depreciated	6,085,930	928,650	47,179	6,967,401
<b>Less accumulated depreciation:</b>				
Buildings and improvements	451,697	8,966	-	460,663
Infrastructure	2,839,420	241,426	-	3,080,846
Vehicles and equipment	562,083	28,508	47,179	543,412
Total accumulated depreciation	3,853,200	278,900	47,179	4,084,921
Total capital assets, being depreciated, net	2,232,730	649,750	-	2,882,480
Capital assets, net	<b>\$ 2,413,805</b>	<b>\$ 649,750</b>	<b>\$ 16,963</b>	<b>\$ 3,046,592</b>
<b>Business-type activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 267,473	\$ -	\$ -	\$ 267,473
<b>Capital assets, being depreciated:</b>				
Plants and systems	7,776,376	7,500	6,900	7,776,976
Less accumulated depreciation	(2,461,759)	(170,683)	(6,900)	(2,625,542)
Total capital assets, being depreciated, net	5,314,617	(163,183)	-	5,151,434
Capital assets, net	<b>\$ 5,582,090</b>	<b>\$ (163,183)</b>	<b>\$ -</b>	<b>\$ 5,418,907</b>



Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE D—CAPITAL ASSETS—Continued**

Depreciation expense has been charged to functions as follows:

**Government activities:**

General government	\$ 5,636
Public safety	233
Public works	244,523
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	28,508
	<b>\$ 278,900</b>

**Business-type activities:**

Sewer	\$ 120,649
Water	50,034
	<b>\$ 170,683</b>

**NOTE E—INTERFUND RECEIVABLES AND PAYABLES**

The Debt Service Fund owes the General Fund \$5,032 as a result of having a negative position in the Village's cash and investment pool.

**NOTE F—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the Village for the year ended February 28, 2019:

	Balance March 1, 2018	Additions	Reductions	Balance February 28, 2019	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 185,000	\$ -	\$ 125,000	\$ 60,000	\$ 60,000
Compensated absences	12,463	26,883	21,833	17,513	4,500
Governmental activities long-term liabilities	<b>\$ 197,463</b>	<b>\$ 26,883</b>	<b>\$ 146,833</b>	<b>\$ 77,513</b>	<b>\$ 64,500</b>
<b>Business-type activities:</b>					
Revenue bonds	<b>\$ 3,061,000</b>	<b>\$ -</b>	<b>\$ 119,000</b>	<b>\$ 2,942,000</b>	<b>\$ 125,000</b>

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE F—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
<b>Governmental activities:</b>			
<b>General obligation bonds:</b>			
2005 Unlimited Tax General Obligation Refunding Bonds	4.25%	September 2019	<u>\$ 60,000</u>
<b>Business-type activities:</b>			
<b>Revenue bonds:</b>			
2002 Water Supply System Revenue Bonds	2.5%	October 2022	\$ 330,000
2007 Sewage Disposal System Revenue Bonds	4.25%	July 2047	<u>2,612,000</u>
			<u><u>\$ 2,942,000</u></u>

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The general obligation bonds are backed by the full faith and credit of the Village.

The Village was in compliance in all material respects with all the revenue bond ordinances at February 28, 2019.

Annual debt service requirements to maturity for debt outstanding as of February 28, 2019 follow:

<u>Year Ending February 28,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 60,000	\$ 1,275	\$ 125,000	\$ 118,304
2021	-	-	128,000	114,328
2022	-	-	135,000	110,245
2023	-	-	137,000	105,953
2024	-	-	54,000	101,575
2025-2029	-	-	311,000	470,283
2030-2034	-	-	387,000	396,334
2035-2039	-	-	482,000	304,429
2040-2044	-	-	601,000	189,742
2045-2048	-	-	582,000	50,618
	<u>\$ 60,000</u>	<u>\$ 1,275</u>	<u>\$ 2,942,000</u>	<u>\$ 1,961,811</u>

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2019

**NOTE G—OTHER INFORMATION**

**Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village manages its liability and property risk by participating in Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Village expects such amounts, if any, to be immaterial.

**NOTE H—PENSION PLAN**

**Deferred Compensation Plan**

The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

Under the Plan, the Village's matching contribution for full-time employees is equal to 200 percent of the amount deferred by the employee up to four percent of the employee's gross wages. For the year ended February 28, 2019, the Village's matching contribution expense was \$10,091.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

**NOTE I—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 35 percent of General Fund revenues.

**REQUIRED SUPPLEMENTARY INFORMATION**

Village of Shelby  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended February 28, 2019

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Property taxes	\$ 289,000	\$ 289,742	\$ 288,522	\$ (1,220)
Licenses and permits	750	400	680	280
Intergovernmental revenues - State	217,705	217,534	236,540	19,006
Charges for services	28,500	28,049	28,134	85
Fines and forfeitures	1,695	800	1,132	332
Investment earnings	10,190	10,190	10,706	516
Other	76,100	83,289	76,010	(7,279)
Total revenues	623,940	630,004	641,724	11,720
<b>EXPENDITURES</b>				
Current				
General government				
Village council	18,539	12,217	12,217	-
Village administrator	19,501	71,922	71,067	855
Elections commission	1,300	341	341	-
Clerk	23,423	46,533	45,998	535
Treasurer	12,722	19,214	18,832	382
Village hall/grounds	15,212	15,326	16,303	(977)
Other general government	34,635	58,574	63,828	(5,254)
Public safety				
Police department	237,678	253,284	256,582	(3,298)
Public works				
Department of public works	107,092	146,162	144,768	1,394
Community and economic development				
Planning	4,663	2,280	2,280	-
Culture and recreation				
Parks	30,654	24,255	24,512	(257)
Capital outlay	10,000	-	-	-
Total expenditures	515,419	650,108	656,728	(6,620)
Net change in fund balance	<b><u>\$ 108,521</u></b>	<b><u>\$ (20,104)</u></b>	(15,004)	<b><u>\$ 5,100</u></b>
Fund balance at March 1, 2018			<u>564,841</u>	
Fund balance at February 28, 2019			<b><u>\$ 549,837</u></b>	

Village of Shelby  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Major Streets Fund  
For the year ended February 28, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental revenues				
Federal	\$ -	\$ -	\$ 355,313	\$ 355,313
State	193,299	200,906	425,729	224,823
Investment earnings	2,085	2,085	1,930	(155)
Total revenues	<u>195,384</u>	<u>202,991</u>	<u>782,972</u>	<u>579,981</u>
<b>EXPENDITURES</b>				
Current				
Public works				
Maintenance	16,321	21,157	21,404	(247)
Traffic services	7,751	1,160	1,255	(95)
Winter maintenance	38,621	35,998	48,495	(12,497)
Administration	12,597	9,286	9,834	(548)
Capital outlay	<u>140,399</u>	<u>203,134</u>	<u>739,056</u>	<u>(535,922)</u>
Total expenditures	<u>215,689</u>	<u>270,735</u>	<u>820,044</u>	<u>(549,309)</u>
Net change in fund balance	<u><b>\$ (20,305)</b></u>	<u><b>\$ (67,744)</b></u>	(37,072)	<u><b>\$ 30,672</b></u>
Fund balance at March 1, 2018			<u>420,015</u>	
Fund balance at February 28, 2019			<u><b>\$ 382,943</b></u>	

Village of Shelby  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Local Streets Fund  
For the year ended February 28, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 65,000	\$ 73,237	\$ 73,321	\$ 84
Intergovernmental revenues - State	69,039	80,206	121,322	41,116
Investment earnings	6,556	6,000	6,879	879
Total revenues	140,595	159,443	201,522	42,079
<b>EXPENDITURES</b>				
Current				
Public works				
Maintenance	36,722	23,413	21,920	1,493
Traffic services	6,951	1,188	1,282	(94)
Winter maintenance	40,121	36,195	43,743	(7,548)
Administration	8,696	5,936	6,483	(547)
Total expenditures	92,490	66,732	73,428	(6,696)
Net change in fund balance	<b>\$ 48,105</b>	<b>\$ 92,711</b>	128,094	<b>\$ 35,383</b>
Fund balance at March 1, 2018			789,889	
Fund balance at February 28, 2019			<b>\$ 917,983</b>	

Village Council  
Village of Shelby  
Shelby, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Shelby for the year ended February 28, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you during our conference on April 10, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Matters**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Shelby are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended February 28, 2019. We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Village of Shelby's financial statements were:

Management's estimate of depreciation is based on the estimated useful life of capital assets.

Management's estimate of the compensated absences liability is based on unused compensated absences at year end and past experience.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.



Village Council  
Village of Shelby  
Page 2

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. See Attachment A for proposed audit adjustments corrected by management.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 6, 2019.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

However, we would like to inform the Council that the Village's realization on water sales (percentage of water sold to water pumped) is much lower than it should be. It has been around 50 percent of the past several years, although, it improved to 70 percent this past year.

Village Council  
Village of Shelby  
Page 3

*Other Matters*

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 audit of the basic financial statements. We did not audit the RSI and do not express any opinion or provide any assurance on the RSI.

*Restriction on Use*

This information is intended solely for the use of the Village Council and management of the Village of Shelby and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Brickley DeLong, P.C." The signature is written in a cursive style with a large, looped initial 'B'.

August 6, 2019

Client: **Village of Shelby**  
Date: **28-Feb-19**  
**Attachment A**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 21</b>				
To reclassify interest out of sewer fund and into water fund and adjust accrual/cdh				
590-000.000-002.000	CASH INVESTMENT POOL		9,187.50	
591-000.000-251.000	ACCRUED INTEREST		3,400.00	
591-000.000-995.000	INTEREST ON BOND PAYMENTS		9,187.50	
590-000.000-995.000	INTEREST ON BOND PAYMENTS			9,187.50
591-000.000-002.000	CASH INVESTMENT POOL			9,187.50
591-000.000-995.000	INTEREST ON BOND PAYMENTS			3,400.00
<b>Total</b>			<b>21,775.00</b>	<b>21,775.00</b>
<b>Adjusting Journal Entries JE # 22</b>				
To reclassify PPT reimbursements to respective general, local street, debt funds/cdh				
<b>6015</b>				
101-000.000-002.000	CASH INVESTMENT POOL		10,734.82	
203-000.000-570.000	Metro Authority Maintenance		16,022.12	
304-000.000-002.000	CASH INVESTMENT POOL		2,563.54	
101-000.000-573.000	PERSONAL PROPERTY TAX REIMBURSEMENT			10,734.82
203-000.000-002.000	CASH INVESTMENT POOL			13,298.36
203-000.000-573.000	PERSONAL PROPERTY TAX REIMBURSEMENT			2,723.76
304-000.000-573.000	PERSONAL PROPERTY TAX REIMBURSEMENT			2,563.54
<b>Total</b>			<b>29,320.48</b>	<b>29,320.48</b>
<b>Adjusting Journal Entries JE # 25</b>				
Record Grant revenue for State St project				
<b>3202</b>				
202-451.000-818.000	CONTRACTURAL SERVICES		535,978.54	
202-000.000-571.000	OTHER STATE GRANTS			180,665.87
202-000.000-675.000	FEDERAL REVENUE			355,312.67
<b>Total</b>			<b>535,978.54</b>	<b>535,978.54</b>
<b>Adjusting Journal Entries JE # 28</b>				
TO CORRECT SEWER FUND ALLOCATION OF RESTRICTED CASH./EPV				
<b>2025</b>				
590-000.000-002.000	CASH INVESTMENT POOL		42,582.05	
590-000.000-002.200	REPLACE FUND-CASH INVESTMENT		3,697.95	
590-000.000-005.100	WWTP BONDS CASH RESERVE			4,075.00
590-000.000-005.120	WWTP REDEMPTION BONDS & INT			42,205.00
<b>Total</b>			<b>46,280.00</b>	<b>46,280.00</b>
<b>Adjusting Journal Entries JE # 30</b>				
Allocate DPW Retirement/AMM				
<b>4310</b>				
101-000.000-002.000	CASH INVESTMENT POOL		4,574.24	
202-451.000-715.100	PAYROLL W/H RETIREMENT		9.88	
202-463.000-715.100	PAYROLL W/H RETIREMENT		184.82	
202-474.000-715.100	PAYROLL W/H RETIREMENT		9.42	
202-478.000-715.100	PAYROLL W/H RETIREMENT		174.15	
202-482.000-715.100	PAYROLL W/H RETIREMENT		111.50	
203-451.000-715.100	PAYROLL W/H RETIREMENT		9.77	
203-463.000-715.100	PAYROLL W/H RETIREMENT		180.40	
203-474.000-715.100	PAYROLL W/H RETIREMENT		8.88	
203-478.000-715.100	PAYROLL W/H RETIREMENT		177.55	
203-482.000-715.100	PAYROLL W/H RETIREMENT		111.50	
590-000.000-715.100	PAYROLL W/H RETIREMENT		1,381.85	
591-000.000-715.100	PAYROLL W/H RETIREMENT		1,593.60	

Client: **Village of Shelby**  
Date: **28-Feb-19**  
**Attachment A**

Account	Description	W/P Ref	Debit	Credit
661-000.000-715.100	PAYROLL W/H RETIREMENT		620.92	
101-441.000-715.100	PAYROLL W/H RETIREMENT			4,574.24
202-000.000-002.000	CASH INVESTMENT POOL			489.77
203-000.000-002.000	CASH INVESTMENT POOL			488.10
590-000.000-002.000	CASH INVESTMENT POOL			1,381.85
591-000.000-002.000	CASH INVESTMENT POOL			1,593.60
661-000.000-002.000	CASH INVESTMENT POOL			620.92
<b>Total</b>			<b>9,148.48</b>	<b>9,148.48</b>
<b>Adjusting Journal Entries JE # 31</b>		<b>4310</b>		
Allocate Clerk and Administrator Retirement/AMM				
101-000.000-002.000	CASH INVESTMENT POOL		508.20	
101-000.000-002.000	CASH INVESTMENT POOL		1,286.25	
202-482.000-715.100	PAYROLL W/H RETIREMENT		293.55	
203-482.000-715.100	PAYROLL W/H RETIREMENT		293.55	
590-000.000-715.100	PAYROLL W/H RETIREMENT		560.80	
591-000.000-715.100	PAYROLL W/H RETIREMENT		560.80	
661-000.000-715.100	PAYROLL W/H RETIREMENT		85.75	
101-215.000-715.100	PAYROLL W/H RETIREMENT			508.20
101-255.000-715.100	PAYROLL W/H RETIREMENT			1,286.25
202-000.000-002.000	CASH INVESTMENT POOL			293.55
203-000.000-002.000	CASH INVESTMENT POOL			293.55
590-000.000-002.000	CASH INVESTMENT POOL			560.80
591-000.000-002.000	CASH INVESTMENT POOL			560.80
661-000.000-002.000	CASH INVESTMENT POOL			85.75
<b>Total</b>			<b>3,588.90</b>	<b>3,588.90</b>

**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***

Village Council  
Village of Shelby  
Shelby, Michigan

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 the *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 Village of Shelby as of and for the year ended February 28, 2019, and the related notes to the financial statements, which collectively comprise Village of Shelby's basic financial statements, and have issued our report thereon dated August 6, 2019.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, as described in the accompany Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses, as **Findings 2019-001 and 2019-002**.

*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. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency, as **Finding 2019-003**.

Village Council  
Village of Shelby  
Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Village of Shelby’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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Village of Shelby’s Response to Findings**

Village of Shelby’s response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Village of Shelby’s response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Brickley DeLong, P.C." The signature is written in a cursive, flowing style.

Hart, Michigan  
August 6, 2019

Village of Shelby  
**SCHEDULE OF FINDING AND RESPONSES**  
Year ended February 28, 2019

**Finding 2019-001: MATERIAL WEAKNESS—Year End Closing Procedures**

*Criteria:* General ledger balances should be in agreement with detailed supporting documentation as of year-end.

*Condition:* General ledger balances were not in agreement with detailed supporting documentation as of year-end.

*Cause:* The adjustments necessary to have the general ledger balances be in agreement with supporting documentation were not all recorded.

*Effect:* The Village records required significant year-end audit adjustments.

*Context:* We tested general ledger balances provided by the Village and reconciled them with supporting documentation.

*Repeat Finding:* See Finding 2018-001 for similar finding reported during the audit for the year ended February 28, 2018.

*Recommendation:* General ledger balances should be reconciled and adjusted to the underlying support on the Village's general ledger system at year-end.

*Views of Responsible Officials and Planned Corrective Actions:* The Village agrees with the finding. The Village continues to implement better procedures to improve year-end closing procedures and to ensure that general ledger balances are in agreement with detailed supporting documentation.

**Finding 2019-002: MATERIAL WEAKNESS—Grant Recording Procedures**

*Criteria:* State guidelines require that the full amount of Michigan Department of Transportation (MDOT) administered grants be recognized as revenues and expenditures on the Village's financial statements.

*Condition:* The federal and state portions of MDOT grants were not recognized as revenues and expenditures on the Village's financial statements nor were they budgeted.

*Cause:* Village personnel were unaware of State guidelines for recording MDOT grant activity.

*Effect:* Activity was understated in the Majors Streets Fund. Properly recording grant revenue would help to ensure the accuracy of the Village's internal financial statements and that the Village is in compliance with state guidelines.

*Context:* We tested MDOT grants and proposed material audit adjustments in order for the amounts to agree with the general ledger.

*Repeat finding:* This is not a repeat finding.

*Recommendation:* The Village should record as revenues and expenditures the full amount of MDOT grants on the Village's financial statements and budget accordingly.

*Village Response:* The Village agrees with the finding. The Village is implementing better procedures to ensure that MDOT grants are properly recorded.

Village of Shelby  
**SCHEDULE OF FINDING AND RESPONSES**  
Year ended February 28, 2019

**Finding 2019-003: Financial Statement Preparation Controls**

*Criteria:* Organizations should have internal controls over the preparation of formal year-end financial statements.

*Condition:* The Village has limited internal controls over the preparation of formal year-end financial statements.

*Cause:* The Village is a small organization with limited resources and personnel.

*Effect:* Formal year-end financial statements could have errors in required disclosures.

*Context:* We assisted the Village with the drafting of the formal year-end financial statements, and Village officials reviewed and drafts prior to the release of such financial statements.

*Repeat Finding:* See Finding 2018-002 for similar finding reported during the audit for the year ended February 28, 2018.

*Recommendation:* The internal controls surrounding the preparation of formal year-end financial statements should be improved.

*Views of Responsible Officials and Planned Corrective Actions:* The Village agrees with the finding. The Village will continue to review the financial statements before they are issued.