

Village of Shelby  
Oceana County, Michigan

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

February 28, 2022



Village of Shelby  
**LIST OF ELECTED AND APPOINTED OFFICIALS**  
February 28, 2022

**ELECTED OFFICIALS**

Paul Inglis..... Village President  
Steve Crothers ..... Council Member  
Bill Harris ..... Council Member  
Damian Omness ..... Council Member  
John Sutton ..... Council Member  
Mike Termer ..... Council Member  
Dan Zaverl..... Council Member

**APPOINTED OFFICIALS**

Brady Selner ..... Village Administrator  
Crystal Budde ..... Clerk/Treasurer  
Randy Mahoney ..... Administrative Assistant

**DEPARTMENT HEADS**

Steve Waltz.....Police Chief  
Jeremiah Helenhouse..... DPW Supervisor

Village of Shelby

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**INDEPENDENT AUDITOR'S REPORT**

Village Council  
Village of Shelby  
Shelby, Michigan

**Report on the Audit of the Financial Statements**

***Opinions***

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, 2022, and the related notes to the financial statements, which collectively comprise the Village of Shelby, Michigan's basic financial statements as listed in the table of contents.

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, 2022, 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.

***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Village of Shelby, Michigan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Village of Shelby, Michigan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Village of Shelby, Michigan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Village of Shelby, Michigan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Village Council  
Village of Shelby  
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***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules on pages 4 through 12 and 35 through 37 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 July 7, 2022, 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 solely 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 effectiveness of the Village of Shelby, Michigan's 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  
July 7, 2022

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, 2022. 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 \$152,605.
- The General Fund fund balance increased by \$58,303.
- Total net position in the Sewer Fund decreased by \$65,591.
- Total net position in the Water Fund increased by \$122,419.

### 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, 2022, the Village's net position from governmental activities totaled \$5,670,890 and \$3,866,656 from business-type activities, creating a total government-wide net position total of \$9,537,546.

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 \$1,065,210. This represents the amount of discretionary resources that can be used for general governmental operations.

For governmental activities, current assets increased due to delaying of road improvement projects and also unspent revenues from the American Rescue Plan Act. Capital assets decreased as scheduled depreciation exceeded capital additions. Current liabilities increased due to the aforementioned unspent American Rescue Plan Act funds.

The business-type activities show a total of \$3,866,656 in net position and \$977,811 in unrestricted net position. The Sewer Fund and Water Fund unrestricted net position are \$592,911 and \$402,061, respectively.

For business-type activities, current assets decreased due to water and sewer improvements paid with available resources. Noncurrent liabilities decreased due to scheduled debt service.

### Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current assets and other assets	\$ 3,335,949	\$ 2,822,420	\$ 1,211,038	\$ 1,364,281	\$ 4,546,987	\$ 4,186,701
Capital assets	2,553,380	2,772,920	5,220,360	5,221,447	7,773,740	7,994,367
Total assets	5,889,329	5,595,340	6,431,398	6,585,728	12,320,727	12,181,068
Current liabilities	181,901	68,970	364,742	210,069	546,643	279,039
Noncurrent liabilities	36,538	8,085	2,200,000	2,554,000	2,236,538	2,562,085
Total liabilities	218,439	77,055	2,564,742	2,764,069	2,783,181	2,841,124
Net position						
Net investment in capital assets	2,553,380	2,772,920	2,798,360	2,532,447	5,351,740	5,305,367
Restricted	2,052,300	1,716,948	90,485	801,714	2,142,785	2,518,662
Unrestricted	1,065,210	1,028,417	977,811	487,498	2,043,021	1,515,915
Total net position	<b>\$ 5,670,890</b>	<b>\$ 5,518,285</b>	<b>\$ 3,866,656</b>	<b>\$ 3,821,659</b>	<b>\$ 9,537,546</b>	<b>\$ 9,339,944</b>

### Governmental Activities

Net position of governmental activities increased by \$152,605 (2.8%) during the 2022 fiscal year. Grants and contributions not restricted increased due to an increase in state revenue sharing and other state grants. Public safety expenses increased, as the department was short-staffed for a portion of the prior 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 \$44,997 (1.2%). Charges for services increased due to rate increases. Expenses were relatively comparable to the prior year. The following table shows these results.

### Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues						
Charges for services	\$ 28,610	\$ 29,019	\$ 717,751	\$ 658,826	\$ 746,361	\$ 687,845
Operating grants	373,690	373,776	-	-	373,690	373,776
General revenues						
Property taxes	451,156	445,456	-	-	451,156	445,456
Grants and contributions not restricted	312,373	245,364	-	-	312,373	245,364
Unrestricted investment earnings	4,021	7,921	1,330	4,594	5,351	12,515
Gain on sale of capital assets	2,478	6,481	-	-	2,478	6,481
Miscellaneous	24,684	16,916	68,487	52,256	93,171	69,172
Total revenues	1,197,012	1,124,933	787,568	715,676	1,984,580	1,840,609
Expenses:						
General government	156,310	160,015	-	-	156,310	160,015
Public safety	297,204	269,778	-	-	297,204	269,778
Public works	515,973	503,761	-	-	515,973	503,761
Community and economic development	15,226	6,394	-	-	15,226	6,394
Culture and recreation	59,694	53,112	-	-	59,694	53,112
Sewer	-	-	474,767	444,667	474,767	444,667
Water	-	-	267,804	293,459	267,804	293,459
Total expenses	1,044,407	993,060	742,571	738,126	1,786,978	1,731,186
Change in net position	152,605	131,873	44,997	(22,450)	197,602	109,423
Net position - Beginning	5,518,285	5,386,412	3,821,659	3,844,109	9,339,944	9,230,521
Net position - Ending	<b>\$ 5,670,890</b>	<b>\$ 5,518,285</b>	<b>\$ 3,866,656</b>	<b>\$ 3,821,659</b>	<b>\$ 9,537,546</b>	<b>\$ 9,339,944</b>

### 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 2022 fiscal year, the Village governmental funds reported a combined unassigned fund balance of \$625,310, 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 assigned for the subsequent year's budget.

The General Fund is the chief operating fund of the Village. The General Fund ended the year with a fund balance of \$646,609, an increase of \$58,303 from the prior fiscal year. 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 103% of the General Fund's expenditures and transfers (79% 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 in the Sewer Fund decreased by \$65,591 and increased by \$122,419 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:

- Intergovernmental revenues – State was amended from \$237,800 to \$263,040 due to a grant that the Village received to assist with the rewriting of zoning ordinances.
- The budget for other revenue was amended from \$6,050 to \$34,550 to reflect an increase in donations for Getty Park project and Village events.
- The budget for planning commission was amended from \$9,353 to \$25,279, as the rewriting of zoning ordinances was not originally budgeted for.
- The budget for capital outlay expenditures was amended from \$150,500 to \$107,300 due to projects being moved to the next fiscal year.

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

- Intergovernmental revenues – State were over budget by \$41,248 due to the Village receiving additional revenue sharing.
- Other revenues were under budget by \$10,854 as the Village reclassified revenues.
- Planning commission expenditures were under budget by \$10,047 as the rewriting of zoning ordinances will be completed in the next fiscal year.
- Capital outlay was under budget by \$54,236, as the projects will be completed in the next fiscal year.

### Capital Assets

The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2022 totaled \$7,773,740 (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:

- Getty Park improvements for \$38,611, in construction in progress.
- Pocket Park for \$14,453, in construction in progress.
- Drinking water project for \$88,426, in construction in progress.
- Water infrastructure, water system portion for \$36,816, in construction in progress.
- Water infrastructure, sewer system portion for \$35,109, in construction in progress.

### Capital Assets (Net of Accumulated Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2022	2021	2022	2021	2022	2021
Land	\$ 199,649	\$ 199,649	\$ 267,473	\$ 267,473	\$ 467,122	\$ 467,122
Construction in progress	53,064	-	160,351	-	213,415	-
Buildings and improvements	150,213	160,478	-	-	150,213	160,478
Infrastructure	1,970,837	2,189,429	-	-	1,970,837	2,189,429
Plant and systems	-	-	4,792,536	4,953,974	4,792,536	4,953,974
Vehicles and equipment	179,617	223,364	-	-	179,617	223,364
<b>Total</b>	<b>\$ 2,553,380</b>	<b>\$ 2,772,920</b>	<b>\$ 5,220,360</b>	<b>\$ 5,221,447</b>	<b>\$ 7,773,740</b>	<b>\$ 7,994,367</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 Liabilities

At the end of the 2022 fiscal year, the Village had total outstanding debt of \$2,470,788 consisting of revenue bonds and compensated absences. Revenue bonds represent \$2,422,000 of the Village's outstanding debt as shown in the table below. 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		Business-type		Total	
	Activities		Activities			
	2022	2021	2022	2021	2022	2021
Compensated absences	\$ 48,788	\$ 10,835	\$ -	\$ -	\$ 48,788	\$ 10,835
Revenue bonds	-	-	2,422,000	2,689,000	2,422,000	2,689,000
<b>Total</b>	<b>\$ 48,788</b>	<b>\$ 10,835</b>	<b>\$ 2,422,000</b>	<b>\$ 2,689,000</b>	<b>\$ 2,470,788</b>	<b>\$ 2,699,835</b>

The Village's total debt decreased by \$229,047 due to normal debt payoffs as provided for in the fiscal year 2022 budget and an additional payment when refinancing the debt in the fiscal year 2022.

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

### **General Economic Overview**

The General Fund has two primary sources of revenue – property taxes and state revenue sharing. For the upcoming fiscal year, the Village anticipates these revenues will remain relatively stable. However, the cost of goods and services are anticipated to remain high. The Village's strong financial position will be beneficial to maintain existing Village services, but spending will continue to be monitored closely. The Village also received its full amount of funding through the American Rescue Plan, totaling just over \$200,000.

The Village of Shelby continues to work on projects started last fiscal year. The following were considered in preparing the Village's budget for the 2022-2023 fiscal year:

- Update to the general law ordinance.
- Update to the zoning ordinance
- The Village budgeted \$5,000 to complete the development of the downtown pocket park.
- Design engineering will be completed for the redevelopment of Getty Park.

These projects, except for Getty Park, are anticipated to be completed in the 2022-2023 fiscal year. Getty Park will break ground in FY2022-23 and be completed the following year.

Supply chain issues have delayed the delivery of the two DPW trucks. One of the two DPW trucks ordered in FY2021-22 has been received. The Village received its Chevrolet 3500 dump truck and expects to receive the F-250 in the 2022-2023 fiscal year.

The Village closed on its EGLE Drinking Water State Revolving Fund (DWSRF) bonds for lead service line replacement and watermain replacement. Construction on the lead service lines will begin summer 2022 and the watermain replacement will begin as soon as materials become available which is anticipated to be fall 2022. The EGLE DWSRF project is being done in coordination with an MDOT Category B grant to repave five roads throughout the Village. After grants, loan forgiveness, and cash contributions, the Village's 20-year DWSRF bond payments will be \$72,147 per year, on average.

The Village will also replace the Industrial Lift Station, Harvey Street Lift Station, and drill a new well to replace the former Well #2 that was taken offline. This project is funded by the MEDC Water Related Infrastructure grant. The Village's required 25% contribution is \$212,500 and will be taken from cash reserves in the Water and Sewer funds.

### **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, or telephone 231-861-4400.

Village of Shelby  
**STATEMENT OF NET POSITION**  
February 28, 2022

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 3,178,498	\$ 955,555	\$ 4,134,053
Receivables	26,078	98,111	124,189
Due from other governmental units	112,913	-	112,913
Internal balances	17,161	(17,161)	-
Inventories	-	78,248	78,248
Prepaid items	1,299	-	1,299
Total current assets	3,335,949	1,114,753	4,450,702
Noncurrent assets			
Restricted cash and investments	-	96,285	96,285
Capital assets, net			
Nondepreciable	252,713	427,824	680,537
Depreciable	2,300,667	4,792,536	7,093,203
Total noncurrent assets	2,553,380	5,316,645	7,870,025
Total assets	5,889,329	6,431,398	12,320,727
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	63,931	142,742	206,673
Unearned revenues - expenditure-driven grants	105,720	-	105,720
Bonds and other obligations, due within one year	12,250	222,000	234,250
Total current liabilities	181,901	364,742	546,643
Noncurrent liabilities			
Bonds and other obligations, less amounts due within one year	36,538	2,200,000	2,236,538
Total liabilities	218,439	2,564,742	2,783,181
<b>NET POSITION</b>			
Net investment in capital assets	2,553,380	2,798,360	5,351,740
Restricted			
Streets	2,052,300	-	2,052,300
Debt service	-	90,485	90,485
Unrestricted	1,065,210	977,811	2,043,021
Total net position	<b>\$ 5,670,890</b>	<b>\$ 3,866,656</b>	<b>\$ 9,537,546</b>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF ACTIVITIES**  
For the year ended February 28, 2022

<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>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Governmental activities						
General government	\$ 156,310	\$ 28,390	\$ -	\$ (127,920)	\$ -	\$ (127,920)
Public safety	297,204	-	-	(297,204)	-	(297,204)
Public works	515,973	-	373,690	(142,283)	-	(142,283)
Community and economic development	15,226	220	-	(15,006)	-	(15,006)
Culture and recreation	59,694	-	-	(59,694)	-	(59,694)
Total governmental activities	1,044,407	28,610	373,690	(642,107)	-	(642,107)
Business-type activities						
Sewer	474,767	403,131	-	-	(71,636)	(71,636)
Water	267,804	314,620	-	-	46,816	46,816
Total business-type activities	742,571	717,751	-	-	(24,820)	(24,820)
Total government	<b>\$ 1,786,978</b>	<b>\$ 746,361</b>	<b>\$ 373,690</b>	(642,107)	(24,820)	(666,927)
General revenues						
Property taxes, levied for						
General purposes				322,294	-	322,294
Specific purposes				128,862	-	128,862
Grants and contributions not restricted to specific programs				312,373	-	312,373
Unrestricted investment earnings				4,021	1,330	5,351
Gain on sale of capital assets				2,478	-	2,478
Miscellaneous				24,684	68,487	93,171
Total general revenues				794,712	69,817	864,529
Change in net position				152,605	44,997	197,602
Net position at beginning of year				5,518,285	3,821,659	9,339,944
Net position at end of year				<b>\$5,670,890</b>	<b>\$ 3,866,656</b>	<b>\$9,537,546</b>

The accompanying notes are an integral part of this statement.



Village of Shelby  
**BALANCE SHEET**  
 Governmental Funds  
 February 28, 2022

	<b>General Fund</b>	<b>Major Streets Fund</b>	<b>Local Streets Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and investments	\$ 731,966	\$ 874,145	\$ 1,117,766	\$ 2,723,877
Property taxes receivable	18,735	-	7,343	26,078
Due from other governmental units	53,345	38,608	20,960	112,913
Prepaid items	1,299	-	-	1,299
Total assets	<b>\$ 805,345</b>	<b>\$ 912,753</b>	<b>\$ 1,146,069</b>	<b>\$ 2,864,167</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 42,228	\$ 35	\$ 35	\$ 42,298
Accrued liabilities	10,788	3,226	3,226	17,240
Unearned revenues - expenditure-driven grants	105,720	-	-	105,720
Total liabilities	158,736	3,261	3,261	165,258
<b>FUND BALANCES</b>				
Nonspendable - prepaid items	1,299	-	-	1,299
Restricted for streets	-	909,492	1,142,808	2,052,300
Assigned to subsequent year's budget appropriation of fund balance	20,000	-	-	20,000
Unassigned	625,310	-	-	625,310
Total fund balances	646,609	909,492	1,142,808	2,698,909
Total liabilities and fund balances	<b>\$ 805,345</b>	<b>\$ 912,753</b>	<b>\$ 1,146,069</b>	<b>\$ 2,864,167</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, 2022

Total fund balances—governmental funds		\$ 2,698,909
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	\$ 5,117,885	
Accumulated depreciation	<u>(2,744,122)</u>	2,373,763
Long-term liabilities in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences		(48,788)
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	629,845	
Internal balances representing the cumulative difference between actual costs and amounts charged to business-type activities	<u>17,161</u>	<u>647,006</u>
Net position of governmental activities		<u><b>\$ 5,670,890</b></u>

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, 2022

	<b>General Fund</b>	<b>Major Streets Fund</b>	<b>Local Streets Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Property taxes	\$ 322,294	\$ -	\$ 128,862	\$ 451,156
Licenses and permits	345	-	-	345
Intergovernmental revenues - State	304,288	285,391	94,614	684,293
Charges for services	28,390	-	-	28,390
Fines and forfeitures	893	-	-	893
Investment earnings	3,455	275	1,465	5,195
Other	23,696	-	-	23,696
Total revenues	683,361	285,666	224,941	1,193,968
<b>EXPENDITURES</b>				
Current				
General government	137,224	-	-	137,224
Public safety	277,446	-	-	277,446
Public works	89,523	88,313	86,942	264,778
Community and economic development	15,226	-	-	15,226
Culture and recreation	52,575	-	-	52,575
Capital outlay	53,064	-	-	53,064
Total expenditures	625,058	88,313	86,942	800,313
Net change in fund balances	58,303	197,353	137,999	393,655
Fund balances at beginning of year	588,306	712,139	1,004,809	2,305,254
Fund balances at end of year	<b>\$ 646,609</b>	<b>\$ 909,492</b>	<b>\$ 1,142,808</b>	<b>\$ 2,698,909</b>

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, 2022

Net change in fund balances—total governmental funds		\$ 393,655
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Depreciation expense	\$ (228,857)	
Capital outlay	<u>53,064</u>	(175,793)
<p>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.</p>		
Change in compensated absences		(37,953)
<p>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.</p>		
Change in net position of the internal service fund	(39,135)	
Change in internal balances representing the current year difference between actual costs and amounts charged to business-type activities	<u>11,831</u>	<u>(27,304)</u>
Change in net position of governmental activities		<u><b>\$ 152,605</b></u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF NET POSITION**  
Proprietary Funds  
February 28, 2022

	<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	\$ 537,931	\$ 417,624	\$ 955,555	\$ 454,621
Accounts receivable	61,752	36,359	98,111	-
Inventories	1,719	76,529	78,248	-
Total current assets	601,402	530,512	1,131,914	454,621
Noncurrent assets				
Restricted cash and investments	51,483	44,802	96,285	-
Capital assets				
Land	267,473	-	267,473	-
Plants and systems	5,108,499	2,714,189	7,822,688	-
Equipment and furniture	-	-	-	711,516
Construction in progress	35,109	125,242	160,351	-
Less accumulated depreciation	(1,965,667)	(1,064,485)	(3,030,152)	(531,899)
Net capital assets	3,445,414	1,774,946	5,220,360	179,617
Total noncurrent assets	3,496,897	1,819,748	5,316,645	179,617
Total assets	4,098,299	2,350,260	6,448,559	634,238
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	5,765	125,071	130,836	3,048
Accrued liabilities	8,526	3,380	11,906	1,345
Bonds and other obligations, due within one year	137,000	85,000	222,000	-
Total current liabilities	151,291	213,451	364,742	4,393
Noncurrent liabilities				
Bonds and other obligations, less amounts due within one year	2,200,000	-	2,200,000	-
Total liabilities	2,351,291	213,451	2,564,742	4,393
<b>NET POSITION</b>				
Net investment in capital assets	1,108,414	1,689,946	2,798,360	179,617
Restricted for debt service	45,683	44,802	90,485	-
Unrestricted	592,911	402,061	994,972	450,228
Total net position	<b>\$ 1,747,008</b>	<b>\$ 2,136,809</b>	3,883,817	<b>\$ 629,845</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			(17,161)	
Net position of business-type activities			<b>\$ 3,866,656</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, 2022

	<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	\$ 400,468	\$ 299,034	\$ 699,502	\$ 85,212
Other	-	68,487	68,487	-
Total operating revenues	400,468	367,521	767,989	85,212
<b>OPERATING EXPENSES</b>				
Operations and administration	241,051	203,479	444,530	88,117
Depreciation	105,800	55,638	161,438	39,274
Total operating expenses	346,851	259,117	605,968	127,391
Operating income (loss)	53,617	108,404	162,021	(42,179)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	776	554	1,330	566
Connection fees	2,663	15,586	18,249	-
Bond issuance costs	(25,067)	-	(25,067)	-
Gain on sale of capital assets	-	-	-	2,478
Interest expense	(97,580)	(2,125)	(99,705)	-
Total nonoperating revenue (expenses)	(119,208)	14,015	(105,193)	3,044
Change in net position	(65,591)	122,419	56,828	(39,135)
Net position at beginning of year	1,812,599	2,014,390		668,980
Net position at end of year	<b>\$ 1,747,008</b>	<b>\$ 2,136,809</b>		<b>\$ 629,845</b>
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds			(11,831)	
Change in net position of business-type activities			<b>\$ 44,997</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, 2022

	<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	\$ 405,980	\$ 371,058	\$ 777,038	\$ -
Receipts from interfund services provided	-	-	-	85,212
Payments to suppliers	(136,452)	(91,432)	(227,884)	(51,592)
Payments to employees	(89,667)	(103,766)	(193,433)	(21,281)
Payment for interfund services used	(14,245)	(21,657)	(35,902)	(12,000)
Net cash provided by (used for) operating activities	165,616	154,203	319,819	339
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Connection fees	2,663	15,586	18,249	-
Proceeds from long-term debt	2,337,000	-	2,337,000	-
Issuance costs on long-term debt	(25,067)	-	(25,067)	-
Purchases of capital assets	(35,109)	(33,635)	(68,744)	-
Principal paid on capital debt	(2,519,000)	(85,000)	(2,604,000)	-
Interest paid on capital debt	(109,580)	(2,125)	(111,705)	-
Proceeds from sale of capital assets	-	-	-	6,951
Net cash provided by (used) for capital and related financing activities	(349,093)	(105,174)	(454,267)	6,951
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Investment earnings	776	554	1,330	566
Net increase (decrease) in cash and investments	(182,701)	49,583	(133,118)	7,856
Cash and investments at beginning of year	772,115	412,843	1,184,958	446,765
Cash and investments at end of year	<b>\$ 589,414</b>	<b>\$ 462,426</b>	<b>\$ 1,051,840</b>	<b>\$ 454,621</b>
Reconciliation of cash and investments to the Statement of Net Position				
Cash and investments	\$ 537,931	\$ 417,624	\$ 955,555	\$ 454,621
Restricted cash and investments	51,483	44,802	96,285	-
	<b>\$ 589,414</b>	<b>\$ 462,426</b>	<b>\$ 1,051,840</b>	<b>\$ 454,621</b>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 53,617	\$ 108,404	\$ 162,021	\$ (42,179)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation expense	105,800	55,638	161,438	39,274
Change in assets and liabilities				
Accounts receivable	5,512	3,537	9,049	-
Inventories	108	(863)	(755)	-
Accounts payable	286	(12,405)	(12,119)	2,316
Accrued liabilities	293	(108)	185	928
Net cash provided by (used for) operating activities	<b>\$ 165,616</b>	<b>\$ 154,203</b>	<b>\$ 319,819</b>	<b>\$ 339</b>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2022

**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.



Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2022

**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, 2022

**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, 2022

**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.

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 acquisition value at the date of donation.

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, 2022

**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 assets 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 assets 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, 2022

**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. 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 2021 state taxable value for real/personal property of the Village totaled approximately \$28,558,000. The ad valorem taxes levied consisted of 11.0180 mills for operation and 4.4071 mills for local streets. These amounts are recognized in the respective General Fund and Local Streets Fund.

***Compensated Absences***

Village employees are granted paid time off (PTO) in varying amounts based on length of service. Accumulated PTO leave must be taken in the current calendar year. Upon termination, employees are paid for unused PTO at their current rates. PTO is accumulated each payroll for employees. Unused PTO is paid to employees who resign or retire, up to a maximum of 396 hours. 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, 2022

**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.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2022

**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, 2022, \$3,778,836 of the Village’s bank balance of \$4,278,836 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, 2022, cash is restricted as follows:

Sewer Fund	
Bond and interest redemption fund	\$ 51,483
Water Fund	
Bond and interest redemption fund	36,302
Bond reserve fund	8,500
	<hr/>
	44,802
	<hr/>
	<b>\$ 96,285</b>

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2022

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2022 was as follows:

	<b>Balance March 1, 2021</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance February 28, 2022</b>
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 199,649	\$ -	\$ -	\$ 199,649
Construction in progress	-	53,064	-	53,064
Total capital assets, not being depreciated	199,649	53,064	-	252,713
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	640,008	-	-	640,008
Infrastructure	5,731,386	-	1,506,222	4,225,164
Vehicles and equipment	767,267	-	55,751	711,516
Total capital assets, being depreciated	7,138,661	-	1,561,973	5,576,688
<b>Less accumulated depreciation:</b>				
Buildings and improvements	479,530	10,265	-	489,795
Infrastructure	3,541,957	218,592	1,506,222	2,254,327
Vehicles and equipment	543,903	39,274	51,278	531,899
Total accumulated depreciation	4,565,390	268,131	1,557,500	3,276,021
Total capital assets, being depreciated, net	2,573,271	(268,131)	4,473	2,300,667
Capital assets, net	<b>\$ 2,772,920</b>	<b>\$ (215,067)</b>	<b>\$ 4,473</b>	<b>\$ 2,553,380</b>
<b>Business-type activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 267,473	\$ -	\$ -	\$ 267,473
Construction in progress	-	160,351	-	160,351
Total capital assets, not being depreciated	267,473	160,351	-	427,824
<b>Capital assets, being depreciated:</b>				
Plants and systems	7,913,951	-	91,263	7,822,688
Less accumulated depreciation	(2,959,977)	(161,438)	(91,263)	(3,030,152)
Total capital assets, being depreciated, net	4,953,974	(161,438)	-	4,792,536
Capital assets, net	<b>\$ 5,221,447</b>	<b>\$ (1,087)</b>	<b>\$ -</b>	<b>\$ 5,220,360</b>



Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2022

**NOTE D—CAPITAL ASSETS—Continued**

Depreciation expense has been charged to functions as follows:

**Government activities:**

General government	\$ 6,230
Public safety	233
Public works	221,690
Culture and Recreation	704
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	39,274
	<b>\$ 268,131</b>

**Business-type activities:**

Sewer	\$ 105,800
Water	55,638
	<b>\$ 161,438</b>

**NOTE E—LONG-TERM LIABILITIES**

**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, 2022:

	Balance March 1, 2021	Additions	Reductions	Balance February 28, 2022	Due Within One Year
<b>Governmental activities:</b>					
Compensated absences	\$ 10,835	\$ 59,423	\$ 21,470	\$ 48,788	\$ 12,250
<b>Business-type activities:</b>					
Direct borrowings and direct placements					
Revenue bonds	\$ 2,689,000	\$ 2,337,000	\$ 2,604,000	\$ 2,422,000	\$ 222,000

The business-type activities direct borrowings and direct placements are comprised of revenue bonds. They are not backed by the full faith and credit of the Village.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2022

**NOTE E—LONG-TERM LIABILITIES—Continued**

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

	<b>Interest Rate</b>	<b>Date of Maturity</b>	<b>Balance</b>
<b>Business-type activities:</b>			
Direct borrowings and direct placements			
Revenue bonds:			
2002 Water Supply System Revenue Bonds	2.5%	October 2022	\$ 85,000
Sewage Disposal System Revenue Refunding Bonds, Series 2022	1.6%	February 2037	2,337,000
			<b>\$ 2,422,000</b>

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

The Village was in compliance in all material respects with all the revenue bond ordinances at February 28, 2022.

Annual debt service to maturity for direct borrowings and direct placements outstanding as of February 28, 2022 follow:

<b>Year Ending February 28,</b>	<b>Business-type Activities</b>	
	<b>Direct Borrowings and Direct Placements</b>	
	<b>Principal</b>	<b>Interest</b>
2023	\$ 222,000	\$ 37,175
2024	141,000	34,072
2025	144,000	31,792
2026	146,000	29,472
2027	148,000	27,120
2028-2032	779,000	98,920
2033-2037	842,000	34,112
	<b>\$ 2,422,000</b>	<b>\$ 292,663</b>

On January 13, 2022, the Village issued \$2,337,000 of Sewage Disposal System Revenue Refunding Bonds, Series 2022 with interest rate of 1.6 percent over 15 years. The proceeds were used to refund \$2,469,000 of the outstanding 2007 Sewage Disposal Revenue Bonds which had an interest rate of 4.25 percent and 26 years remaining. As a result, the 2007 Sewage Disposal Revenues Bonds have been removed from long-term obligations.

The Village refunded the 2007 Sewage Disposal Revenue Bonds to reduce its total debt service payments over 15 years by \$1,295,616 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$839,676.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2022

**NOTE F—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 G—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. Effective January 1, 2022, the matching contribution for full-time employees was changed to 100 percent of the amount deferred by the employee up to six percent of the employee's gross wages. For the year ended February 28, 2022, the Village's matching contribution expense was \$15,363.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2022

**NOTE G—PENSION PLAN—Continued**

**Deferred Compensation Plan—Continued**

Employees are immediately vested in their own contributions and earnings on those contributions. Employees hired prior to January 1, 2022, are immediately invested in Village contributions and earnings on Village contributions. Employees hired after January 1, 2022 become vested in Village contributions and earnings on Village contributions after completion of four years of qualified service to the Village. Nonvested Village contributions are forfeited upon termination of employment. Such forfeitures are used to reduce Village contributions. For the year ended February 28, 2022 there were no forfeitures.

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 H—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 39 percent of General Fund revenues.

**NOTE I—COMMITMENTS**

**Road Projects**

During the year ended February 28, 2022, the Village entered into contract for various road projects totaling \$273,500. The Village will receive up to \$136,750 in grant funding for this project from the State of Michigan Transportation Economic Development Fund with the remainder of the funding coming from the Major Streets Fund.

**Water Infrastructure Project**

During the year ended February 28, 2022, the Village entered into a contract for improvements to the water system totaling \$865,300. The Village will receive up to \$652,800 in grant funding for this project from the State of Michigan Community Development Block Grant Program with the remainder of the funding coming from the Water Fund.

**NOTE J—UPCOMING ACCOUNTING PRONOUNCEMENTS**

GASB Statement 87—*Leases* was issued by the GASB in June 2017 and will be effective for the Village's 2023 fiscal year. The objective of this Statement is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement 96—*Subscription-Based Information Technology Arrangements* was issued by the GASB in May 2020 and will be effective for the Village's 2024 fiscal year. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

**REQUIRED SUPPLEMENTARY INFORMATION**

Village of Shelby  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended February 28, 2022

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Property taxes	\$ 325,000	\$ 336,000	\$ 322,294	\$ (13,706)
Licenses and permits	600	615	345	(270)
Intergovernmental revenues - State	237,800	263,040	304,288	41,248
Charges for services	28,000	28,000	28,390	390
Fines and forfeitures	500	1,050	893	(157)
Investment earnings	8,200	8,200	3,455	(4,745)
Other	6,050	34,550	23,696	(10,854)
Total revenues	606,150	671,455	683,361	11,906
<b>EXPENDITURES</b>				
Current				
General government				
Village council	16,895	16,895	14,046	2,849
Village administrator	20,344	26,598	21,839	4,759
Clerk	15,197	18,021	16,528	1,493
Treasurer	11,642	12,342	11,404	938
Village hall/grounds	19,670	16,245	14,883	1,362
Other general government	60,550	60,550	58,524	2,026
Public safety				
Police department	295,359	295,359	277,446	17,913
Public works				
Department of public works	77,925	86,406	89,523	(3,117)
Community and economic development				
Planning	9,353	25,273	15,226	10,047
Culture and recreation				
Parks	47,475	55,981	52,575	3,406
Capital outlay	150,500	107,300	53,064	54,236
Total expenditures	724,910	720,970	625,058	95,912
Net change in fund balance	<b><u>\$ (118,760)</u></b>	<b><u>\$ (49,515)</u></b>	58,303	<b><u>\$ 107,818</u></b>
Fund balance at beginning of year			588,306	
Fund balance at end of year			<b><u>\$ 646,609</u></b>	

Village of Shelby  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
 Major Streets Fund  
 For the year ended February 28, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental revenues - State	\$ 260,000	\$ 285,000	\$ 285,391	\$ 391
Investment earnings	1,200	1,200	275	(925)
Total revenues	261,200	286,200	285,666	(534)
<b>EXPENDITURES</b>				
Current				
Public works				
Maintenance	87,374	87,374	37,542	49,832
Traffic services	5,347	5,347	483	4,864
Winter maintenance	40,669	40,669	26,578	14,091
Administration	25,833	26,019	23,710	2,309
Capital outlay	72,000	12,700	-	12,700
Total expenditures	231,223	172,109	88,313	83,796
Net change in fund balance	<u>\$ 29,977</u>	<u>\$ 114,091</u>	197,353	<u>\$ 83,262</u>
Fund balance at beginning of year			<u>712,139</u>	
Fund balance at end of year			<u>\$ 909,492</u>	

Village of Shelby  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Local Streets Fund  
For the year ended February 28, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 119,000	\$ 131,800	\$ 128,862	\$ (2,938)
Intergovernmental revenues - State	79,000	93,700	94,614	914
Investment earnings	4,000	4,000	1,465	(2,535)
Total revenues	202,000	229,500	224,941	(4,559)
<b>EXPENDITURES</b>				
Current				
Public works				
Maintenance	86,021	86,021	40,003	46,018
Traffic services	3,849	4,049	287	3,762
Winter maintenance	41,311	41,341	24,785	16,556
Administration	26,175	25,191	21,867	3,324
Capital outlay	171,000	1,000	-	1,000
Total expenditures	328,356	157,602	86,942	70,660
Net change in fund balance	<b><u>\$ (126,356)</u></b>	<b><u>\$ 71,898</u></b>	137,999	<b><u>\$ 66,101</u></b>
Fund balance at beginning of year			<u>1,004,809</u>	
Fund balance at end of year			<b><u>\$ 1,142,808</u></b>	