

Village of Shelby  
Oceana County, Michigan

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

February 28, 2021



Village of Shelby  
**LIST OF ELECTED AND APPOINTED OFFICIALS**  
February 28, 2021

**ELECTED OFFICIALS**

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

**APPOINTED OFFICIALS**

Brady Selner ..... Village Administrator  
Crystal Budde ..... Clerk/Treasurer  
Kelly Omness ..... Clerical Assistant  
Emily Stuhldreher..... Community Development Fellow

**DEPARTMENT HEADS**

Steve Waltz.....Police Chief  
Jeremiah Helenhouse.....Interim 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, 2021, 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, 2021, 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 35 through 37 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 June 18, 2021, 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  
June 18, 2021

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, 2021. 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 \$131,873.
- The General Fund fund balance increased by \$49,463.
- Total net position in the Sewer Fund decreased by \$40,261.
- Total net position in the Water Fund increased by \$25,598.

### 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, 2021, the Village's net position from governmental activities totaled \$5,518,285 and \$3,821,659 from business-type activities, creating a total government-wide net position total of \$9,339,944.

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 \$1,028,417. This represents the amount of discretionary resources that can be used for general governmental operations.

For governmental activities, current assets increased due, in part, to the purchase of a Ford F-250 with a plow and Ford Police Interceptor paid with available resources. However, capital assets decreased as scheduled depreciation exceeded capital additions.

The business-type activities show a total of \$3,821,659 in net position and \$487,498 in unrestricted net position. The Sewer Fund and Water Fund unrestricted net position are \$67,968 and \$424,860, respectively.

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



### Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current assets and other assets	\$ 2,822,420	\$ 2,544,885	\$ 1,364,281	\$ 1,471,307	\$ 4,186,701	\$ 4,016,192
Capital assets	2,772,920	2,938,333	5,221,447	5,249,593	7,994,367	8,187,926
Total assets	5,595,340	5,483,218	6,585,728	6,720,900	12,181,068	12,204,118
Current liabilities	68,970	81,755	210,069	187,791	279,039	269,546
Noncurrent liabilities	8,085	15,051	2,554,000	2,689,000	2,562,085	2,704,051
Total liabilities	77,055	96,806	2,764,069	2,876,791	2,841,124	2,973,597
Net position						
Net investment in capital assets	2,772,920	2,938,333	2,532,447	2,432,593	5,305,367	5,370,926
Restricted	1,716,948	1,419,908	801,714	754,799	2,518,662	2,174,707
Unrestricted	1,028,417	1,028,171	487,498	656,717	1,515,915	1,684,888
Total net position	<b>\$ 5,518,285</b>	<b>\$ 5,386,412</b>	<b>\$ 3,821,659</b>	<b>\$ 3,844,109</b>	<b>\$ 9,339,944</b>	<b>\$ 9,230,521</b>

### Governmental Activities

Net position of governmental activities increased by \$131,873 (2.4%) during the 2021 fiscal year. Capital grants decreased due to a donation of land in the prior year. General government expenses decreased due to building maintenance in the prior year. Public safety expenses increased as the department was short-staffed for a portion of the prior year. Public works expenses decreased as more time and effort was spent in other funds and departments 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 decreased by \$22,450 (.6%). Revenues and expenses were relatively comparable to the prior year. The following table shows these results.

### Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues						
Charges for services	\$ 29,019	\$ 29,333	\$ 658,826	\$ 643,211	\$ 687,845	\$ 672,544
Operating grants	373,776	356,171	-	-	373,776	356,171
Capital grants	-	24,300	-	-	-	24,300
General revenues						
Property taxes	445,456	434,694	-	-	445,456	434,694
Grants and contributions not restricted	245,364	259,660	-	-	245,364	259,660
Unrestricted investment earnings	7,921	12,496	4,594	16,179	12,515	28,675
Gain on sale of capital assets	6,481	-	-	-	6,481	-
Miscellaneous	16,916	4,928	52,256	50,956	69,172	55,884
Total revenues	1,124,933	1,121,582	715,676	710,346	1,840,609	1,831,928
Expenses:						
General government	160,015	184,272	-	-	160,015	184,272
Public safety	269,778	212,542	-	-	269,778	212,542
Public works	503,761	561,372	-	-	503,761	561,372
Community and economic development	6,394	8,494	-	-	6,394	8,494
Culture and recreation	53,112	51,577	-	-	53,112	51,577
Interest on long-term debt	-	1,775	-	-	-	1,775
Sewer	-	-	444,667	443,153	444,667	443,153
Water	-	-	293,459	291,913	293,459	291,913
Total expenses	993,060	1,020,032	738,126	735,066	1,731,186	1,755,098
Change in net position	131,873	101,550	(22,450)	(24,720)	109,423	76,830
Net position - Beginning	5,386,412	5,284,862	3,844,109	3,868,829	9,230,521	9,153,691
Net position - Ending	<b>\$ 5,518,285</b>	<b>\$ 5,386,412</b>	<b>\$ 3,821,659</b>	<b>\$ 3,844,109</b>	<b>\$ 9,339,944</b>	<b>\$ 9,230,521</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 2021 fiscal year, the Village governmental funds reported a combined unassigned fund balance of \$467,447, 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 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 \$588,306, an increase of \$49,463 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 79% of the General Fund's expenditures and transfers (89% 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 \$40,261 and increased by \$25,598 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 property taxes was amended from \$294,000 to \$331,223 to reflect a change in the millage rate.
- The budget for intergovernmental revenues – State was amended from \$236,467 to \$246,499, as State PPT reimbursements were not originally budgeted.
- The budget for public safety expenditures was amended from \$245,492 to \$283,709 as the original budget was based on the prior year when the police department was short-staffed.
- The budget for capital outlay expenditures was amended from \$5,700 to \$32,130 due to the purchase of land and HVAC improvements.

### General Fund Budget—Continued

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

- Intergovernmental revenues – Federal were over budget by \$21,651 as the Village did not budget for various COVID-19 grants received during the year.
- Police department expenditures were under budget by \$15,043 as actual costs were slightly less than expected, particularly for personnel costs.
- Parks expenditures were under budget by \$14,844 as no significant projects were performed due to COVID-19.

### Capital Assets

The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2021 totaled \$7,994,367 (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:

- HVAC improvements for \$8,896.
- 2021 Ford F250 for \$28,934.
- BOSS snow plow for \$6,716.
- 2021 Ford Police Interceptor for \$46,851.
- Land for \$19,156.
- Water tower restoration and improvements for \$136,975.

### Capital Assets (Net of Accumulated Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2021	2020	2021	2020	2021	2020
Land	\$ 199,649	\$ 188,412	\$ 267,473	\$ 267,473	\$ 467,122	\$ 455,885
Buildings and improvements	160,478	161,303	-	-	160,478	161,303
Infrastructure	2,189,429	2,408,972	-	-	2,189,429	2,408,972
Plant and systems	-	-	4,953,974	4,982,120	4,953,974	4,982,120
Vehicles and equipment	223,364	179,646	-	-	223,364	179,646
<b>Total</b>	<b>\$ 2,772,920</b>	<b>\$ 2,938,333</b>	<b>\$ 5,221,447</b>	<b>\$ 5,249,593</b>	<b>\$ 7,994,367</b>	<b>\$ 8,187,926</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 2021 fiscal year, the Village had total outstanding debt of \$2,699,835 consisting of revenue bonds and compensated absences. Revenue bonds represent \$2,689,000 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 Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
General obligation bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated absences	10,835	20,051	-	-	10,835	20,051
Revenue bonds	-	-	2,689,000	2,817,000	2,689,000	2,817,000
<b>Total</b>	<b>\$ 10,835</b>	<b>\$ 20,051</b>	<b>\$ 2,689,000</b>	<b>\$ 2,817,000</b>	<b>\$ 2,699,835</b>	<b>\$ 2,837,051</b>

The Village’s total debt decreased by \$137,216 due to normal debt payoffs as provided for in the fiscal year 2021 budget.

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 that these revenues will remain stable despite the effects from the COVID-19 pandemic. In addition, the anticipates receiving approximately \$200,000 from funding through the American Rescue Plan. This money will be paid over two years.

There are a few notable items to point out in the General Fund budget for the upcoming fiscal year. The Village will complete a recodification project of our general law ordinances and a comprehensive update to the Village of Shelby zoning ordinance. In addition, the Village will develop a pocket park downtown to serve as a connection from the Hart – Montague Rail Trail to downtown storefronts. The Village will also begin work on the redevelopment of Getty Park. The Village received a Land and Water Conservation Fund grant from the Michigan DNR and committed to a local match of \$300,000. This match will be allocated between two fiscal years with approximately \$87,000 being provided in the fiscal 2021-22 budget.

Capital projects anticipated for fiscal 2021-22 include the replacement of two DPW trucks, reconstructing the sidewalk along 6<sup>th</sup> Street leading to the cemetery in Shelby Township, and continuing to replace water meters equipping them with radio reads.

Several infrastructure projects are also planned for fiscal 2022-23. Grant opportunities have been pursued to aid in funding these projects.

### **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, 2021

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 2,657,429	\$ 365,444	\$ 3,022,873
Receivables	38,612	107,160	145,772
Due from other governmental units	117,350	-	117,350
Internal balances	5,330	(5,330)	-
Inventories	-	77,493	77,493
Prepaid items	3,699	-	3,699
Total current assets	2,822,420	544,767	3,367,187
Noncurrent assets			
Restricted cash and investments	-	819,514	819,514
Capital assets, net			
Nondepreciable	199,649	267,473	467,122
Depreciable	2,573,271	4,953,974	7,527,245
Total noncurrent assets	2,772,920	6,040,961	8,813,881
Total assets	5,595,340	6,585,728	12,181,068
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	48,034	75,069	123,103
Due to other governmental units	18,186	-	18,186
Bonds and other obligations, due within one year	2,750	135,000	137,750
Total current liabilities	68,970	210,069	279,039
Noncurrent liabilities			
Bonds and other obligations, less amounts due within one year	8,085	2,554,000	2,562,085
Total liabilities	77,055	2,764,069	2,841,124
<b>NET POSITION</b>			
Net investment in capital assets	2,772,920	2,532,447	5,305,367
Restricted			
Streets	1,716,948	-	1,716,948
Debt service	-	250,564	250,564
Capital projects	-	551,150	551,150
Unrestricted	1,028,417	487,498	1,515,915
Total net position	<b>\$ 5,518,285</b>	<b>\$ 3,821,659</b>	<b>\$ 9,339,944</b>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF ACTIVITIES**  
For the year ended February 28, 2021

<b>Functions/Programs</b>	<b>Program Revenue</b>			<b>Net (Expense) Revenue and Changes in Net Position</b>		
	<b>Expenses</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	\$ 160,015	\$ 28,324	\$ -	\$ (131,691)	\$ -	\$ (131,691)
Public safety	269,778	-	22,151	(247,627)	-	(247,627)
Public works	503,761	-	351,625	(152,136)	-	(152,136)
Community and economic development	6,394	695	-	(5,699)	-	(5,699)
Culture and recreation	53,112	-	-	(53,112)	-	(53,112)
Total governmental activities	993,060	29,019	373,776	(590,265)	-	(590,265)
Business-type activities						
Sewer	444,667	398,932	-	-	(45,735)	(45,735)
Water	293,459	259,894	-	-	(33,565)	(33,565)
Total business-type activities	738,126	658,826	-	-	(79,300)	(79,300)
Total government	<b>\$ 1,731,186</b>	<b>\$ 687,845</b>	<b>\$ 373,776</b>	(590,265)	(79,300)	(669,565)
General revenues						
Property taxes, levied for						
General purposes				318,167	-	318,167
Specific purposes				127,289	-	127,289
Grants and contributions not restricted to specific programs				245,364	-	245,364
Unrestricted investment earnings				7,921	4,594	12,515
Gain on sale of capital assets				6,481	-	6,481
Miscellaneous				16,916	52,256	69,172
Total general revenues				722,138	56,850	778,988
Change in net position				131,873	(22,450)	109,423
Net position at beginning of year				5,386,412	3,844,109	9,230,521
Net position at end of year				<b>\$5,518,285</b>	<b>\$ 3,821,659</b>	<b>\$9,339,944</b>

The accompanying notes are an integral part of this statement.



Village of Shelby  
**BALANCE SHEET**  
 Governmental Funds  
 February 28, 2021

	<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	\$ 552,593	\$ 675,164	\$ 982,907	\$ -	\$ 2,210,664
Property taxes receivable	27,733	-	10,879	-	38,612
Due from other governmental units	47,442	47,517	22,391	-	117,350
Prepaid items	2,099	800	800	-	3,699
Total assets	<b>\$ 629,867</b>	<b>\$ 723,481</b>	<b>\$ 1,016,977</b>	<b>\$ -</b>	<b>\$ 2,370,325</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 28,946	\$ 85	\$ 358	\$ -	\$ 29,389
Accrued liabilities	12,615	2,164	2,717	-	17,496
Due to other governmental units	-	9,093	9,093	-	18,186
Total liabilities	41,561	11,342	12,168	-	65,071
<b>FUND BALANCES</b>					
Nonspendable - prepaid items	2,099	800	800	-	3,699
Restricted for streets	-	711,339	1,004,009	-	1,715,348
Assigned to subsequent year's budget appropriation of fund balance	118,760	-	-	-	118,760
Unassigned	467,447	-	-	-	467,447
Total fund balances	588,306	712,139	1,004,809	-	2,305,254
Total liabilities and fund balances	<b>\$ 629,867</b>	<b>\$ 723,481</b>	<b>\$ 1,016,977</b>	<b>\$ -</b>	<b>\$ 2,370,325</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, 2021

Total fund balances—governmental funds		\$ 2,305,254
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	\$ 6,571,043	
Accumulated depreciation	<u>(4,021,487)</u>	2,549,556
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		(10,835)
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	668,980	
Internal balances representing the cumulative difference between actual costs and amounts charged to business-type activities	<u>5,330</u>	<u>674,310</u>
Net position of governmental activities		<u><b>\$ 5,518,285</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, 2021

	<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>REVENUES</b>					
Property taxes	\$ 318,167	\$ -	\$ 127,289	\$ -	\$ 445,456
Licenses and permits	835	-	-	-	835
Intergovernmental revenues					
Federal	21,651	-	-	-	21,651
State	239,557	261,626	88,635	-	589,818
Charges for services	28,324	-	-	-	28,324
Fines and forfeitures	343	-	-	-	343
Investment earnings	6,240	776	6,850	8	13,874
Other	7,238	9,242	-	-	16,480
Total revenues	<u>622,355</u>	<u>271,644</u>	<u>222,774</u>	<u>8</u>	<u>1,116,781</u>
<b>EXPENDITURES</b>					
Current					
General government	159,152	-	-	-	159,152
Public safety	268,666	-	-	-	268,666
Public works	81,326	101,717	86,250	-	269,293
Community and economic development	6,394	-	-	-	6,394
Culture and recreation	48,721	-	-	-	48,721
Capital outlay	28,052	-	-	-	28,052
Total expenditures	<u>592,311</u>	<u>101,717</u>	<u>86,250</u>	<u>-</u>	<u>780,278</u>
Excess of revenues over (under) expenditures	30,044	169,927	136,524	8	336,503
<b>OTHER FINANCING SOURCES</b>					
Proceeds from sale of capital assets	10,000	-	-	-	10,000
Transfers in	9,419	-	-	-	9,419
Transfers out	-	-	-	(9,419)	(9,419)
Total other financing sources (uses)	<u>19,419</u>	<u>-</u>	<u>-</u>	<u>(9,419)</u>	<u>10,000</u>
Net change in fund balances	49,463	169,927	136,524	(9,411)	346,503
Fund balances at beginning of year	538,843	542,212	868,285	9,411	1,958,751
Fund balances at end of year	<u>\$ 588,306</u>	<u>\$ 712,139</u>	<u>\$ 1,004,809</u>	<u>\$ -</u>	<u>\$ 2,305,254</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, 2021

Net change in fund balances—total governmental funds		\$ 346,503
<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	\$ (229,264)	
Capital outlay	<u>28,052</u>	(201,212)
<p>In the Statement of Activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the remaining undepreciated cost of the capital assets sold.</p>		
		(7,919)
<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		9,216
<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	(22,502)	
Change in internal balances representing the current year difference between actual costs and amounts charged to business-type activities	<u>7,787</u>	<u>(14,715)</u>
Change in net position of governmental activities		<u><b>\$ 131,873</b></u>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**STATEMENT OF NET POSITION**  
 Proprietary Funds  
 February 28, 2021

	<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	\$ 6,789	\$ 358,655	\$ 365,444	\$ 446,765
Accounts receivable	67,264	39,896	107,160	-
Inventories	1,827	75,666	77,493	-
Total current assets	<u>75,880</u>	<u>474,217</u>	<u>550,097</u>	<u>446,765</u>
Noncurrent assets				
Restricted cash and investments	765,326	54,188	819,514	-
Capital assets				
Land	267,473	-	267,473	-
Plants and systems	5,113,710	2,800,241	7,913,951	-
Equipment and furniture	-	-	-	767,267
Less accumulated depreciation	<u>(1,865,078)</u>	<u>(1,094,899)</u>	<u>(2,959,977)</u>	<u>(543,903)</u>
Net capital assets	<u>3,516,105</u>	<u>1,705,342</u>	<u>5,221,447</u>	<u>223,364</u>
Total noncurrent assets	<u>4,281,431</u>	<u>1,759,530</u>	<u>6,040,961</u>	<u>223,364</u>
Total assets	<u>4,357,311</u>	<u>2,233,747</u>	<u>6,591,058</u>	<u>670,129</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	5,479	45,869	51,348	732
Accrued liabilities	20,233	3,488	23,721	417
Bonds and other obligations, due within one year	50,000	85,000	135,000	-
Total current liabilities	<u>75,712</u>	<u>134,357</u>	<u>210,069</u>	<u>1,149</u>
Noncurrent liabilities				
Bonds and other obligations, less amounts due within one year	<u>2,469,000</u>	<u>85,000</u>	<u>2,554,000</u>	<u>-</u>
Total liabilities	<u>2,544,712</u>	<u>219,357</u>	<u>2,764,069</u>	<u>1,149</u>
<b>NET POSITION</b>				
Net investment in capital assets	997,105	1,535,342	2,532,447	223,364
Restricted				
Debt service	196,376	54,188	250,564	-
Capital outlay	551,150	-	551,150	-
Unrestricted	<u>67,968</u>	<u>424,860</u>	<u>492,828</u>	<u>445,616</u>
Total net position	<u><b>\$ 1,812,599</b></u>	<u><b>\$ 2,014,390</b></u>	<u>3,826,989</u>	<u><b>\$ 668,980</b></u>
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			<u>(5,330)</u>	
Net position of business-type activities			<u><b>\$ 3,821,659</b></u>	

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, 2021

	<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	\$ 398,932	\$ 259,714	\$ 658,646	\$ 94,719
Other	-	52,256	52,256	-
Total operating revenues	398,932	311,970	710,902	94,719
<b>OPERATING EXPENSES</b>				
Operations and administration	222,604	229,786	452,390	86,679
Depreciation	110,853	54,268	165,121	36,615
Total operating expenses	333,457	284,054	617,511	123,294
Operating income (loss)	65,475	27,916	93,391	(28,575)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	1,842	2,752	4,594	1,673
Connection fees	-	180	180	-
Gain on sale of capital assets	-	-	-	4,400
Interest expense	(107,578)	(5,250)	(112,828)	-
Total nonoperating revenue (expenses)	(105,736)	(2,318)	(108,054)	6,073
Change in net position	(40,261)	25,598	(14,663)	(22,502)
Net position at beginning of year	1,852,860	1,988,792		691,482
Net position at end of year	<b><u>\$ 1,812,599</u></b>	<b><u>\$ 2,014,390</u></b>		<b><u>\$ 668,980</u></b>
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds			(7,787)	
Change in net position of business-type activities			<b><u>\$ (22,450)</u></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, 2021

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 384,345	\$ 308,486	\$ 692,831	\$ -
Receipts from interfund services provided	-	-	-	94,719
Payments to suppliers	(96,834)	(75,115)	(171,949)	(61,744)
Payments to employees	(112,035)	(124,925)	(236,960)	(20,870)
Payment for interfund services used	(15,638)	(22,172)	(37,810)	(12,000)
Net cash provided by (used for) operating activities	159,838	86,274	246,112	105
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Connection fees	-	180	180	-
Purchases of capital assets	-	(136,975)	(136,975)	(82,501)
Principal paid on capital debt	(48,000)	(80,000)	(128,000)	-
Interest paid on capital debt	(108,078)	(5,250)	(113,328)	-
Proceeds from sale of capital assets	-	-	-	6,568
Net cash provided by (used) for capital and related financing activities	(156,078)	(222,045)	(378,123)	(75,933)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Investment earnings	1,842	2,752	4,594	1,673
Net increase (decrease) in cash and investments	5,602	(133,019)	(127,417)	(74,155)
Cash and investments at beginning of year	766,513	545,862	1,312,375	520,920
Cash and investments at end of year	<b>\$ 772,115</b>	<b>\$ 412,843</b>	<b>\$ 1,184,958</b>	<b>\$ 446,765</b>
Reconciliation of cash and investments to the Statement of Net Position				
Cash and investments	\$ 6,789	\$ 358,655	\$ 365,444	\$ 446,765
Restricted cash and investments	765,326	54,188	819,514	-
	<b>\$ 772,115</b>	<b>\$ 412,843</b>	<b>\$ 1,184,958</b>	<b>\$ 446,765</b>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ 65,475	\$ 27,916	\$ 93,391	\$ (28,575)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation expense	110,853	54,268	165,121	36,615
Change in assets and liabilities				
Accounts receivable	(14,587)	(3,484)	(18,071)	-
Inventories	88	(10,195)	(10,107)	-
Accounts payable	(1,144)	18,257	17,113	(7,126)
Accrued liabilities	(847)	(488)	(1,335)	(809)
Net cash provided by (used for) operating activities	<b>\$ 159,838</b>	<b>\$ 86,274</b>	<b>\$ 246,112</b>	<b>\$ 105</b>

The accompanying notes are an integral part of this statement.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2021

**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 was used to account for a millage used to make principal and interest payments on the Village's general debt. The fund was closed at year end.



Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2021

**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, 2021

**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, 2021

**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, 2021

**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, 2021

**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 2020 state taxable value for real/personal property of the Village totaled approximately \$28,066,000. The ad valorem taxes levied consisted of 11.0567 mills for operation and 4.4226 mills for local streets. These amounts are recognized in the respective General Fund and Local Streets 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, 2021

**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, 2021, actual expenditures exceeded appropriations for:

	<b><u>Final Budget</u></b>	<b><u>Actual</u></b>
General Fund		
General government		
Other general government	\$ 60,869	\$ 66,578

These overexpenditures were funded with available fund balance.

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2021

**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, 2021, \$3,462,637 of the Village’s bank balance of \$3,874,285 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, 2021, cash is restricted as follows:

Sewer Fund	
Bond and interest redemption fund	\$ 51,176
Bond reserve fund	163,000
Repair, replacement and improvement fund	551,150
	<u>765,326</u>
Water Fund	
Bond and interest redemption fund	37,188
Bond reserve fund	17,000
	<u>54,188</u>
	<u><u>\$ 819,514</u></u>

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2021

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2021 was as follows:

	<b>Balance March 1, 2020</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance February 28, 2021</b>
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 188,412	\$ 19,156	\$ 7,919	\$ 199,649
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	631,112	8,896	-	640,008
Infrastructure	5,731,386	-	-	5,731,386
Vehicles and equipment	762,315	82,501	77,549	767,267
Total capital assets, being depreciated	7,124,813	91,397	77,549	7,138,661
<b>Less accumulated depreciation:</b>				
Buildings and improvements	469,809	9,721	-	479,530
Infrastructure	3,322,414	219,543	-	3,541,957
Vehicles and equipment	582,669	36,615	75,381	543,903
Total accumulated depreciation	4,374,892	265,879	75,381	4,565,390
Total capital assets, being depreciated, net	2,749,921	(174,482)	2,168	2,573,271
Capital assets, net	<b>\$ 2,938,333</b>	<b>\$ (155,326)</b>	<b>\$ 10,087</b>	<b>\$ 2,772,920</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	7,776,976	136,975	-	7,913,951
Less accumulated depreciation	(2,794,856)	(165,121)	-	(2,959,977)
Total capital assets, being depreciated, net	4,982,120	(28,146)	-	4,953,974
Capital assets, net	<b>\$ 5,249,593</b>	<b>\$ (28,146)</b>	<b>\$ -</b>	<b>\$ 5,221,447</b>



Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2021

**NOTE D—CAPITAL ASSETS—Continued**

Depreciation expense has been charged to functions as follows:

**Government activities:**

General government	\$ 5,686
Public safety	233
Public works	222,641
Culture and Recreation	704
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	36,615
	<b>\$ 265,879</b>

**Business-type activities:**

Sewer	\$ 110,853
Water	54,268
	<b>\$ 165,121</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, 2021:

	Balance March 1, 2020	Additions	Reductions	Balance February 28, 2021	Due Within One Year
<b>Governmental activities:</b>					
Compensated absences	\$ 20,051	\$ 19,581	\$ 28,797	\$ 10,835	\$ 2,750
<b>Business-type activities:</b>					
Direct borrowings and direct placements					
Revenue bonds	\$2,817,000	\$ -	\$ 128,000	\$ 2,689,000	\$ 135,000

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

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2021

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

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

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
<b>Business-type activities:</b>			
Direct borrowings and direct placements			
Revenue bonds:			
2002 Water Supply System Revenue Bonds	2.5%	October 2022	\$ 170,000
2007 Sewage Disposal System Revenue Bonds	4.25%	July 2047	<u>2,519,000</u>
			<u><b>\$ 2,689,000</b></u>

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, 2021.

Annual debt service to maturity for direct borrowings and direct placements outstanding as of February 28, 2021 follow:

<u>Year Ending February 28,</u>	<u>Business-type Activities</u>	
	<u>Direct Borrowings and Direct Placements</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 135,000	\$ 110,245
2023	137,000	105,953
2024	54,000	101,575
2025	57,000	99,216
2026	59,000	96,751
2027-2031	340,000	442,637
2032-2036	422,000	361,974
2037-2041	527,000	261,567
2042-2046	656,000	136,341
2047-2048	302,000	12,920
	<u><b>\$ 2,689,000</b></u>	<u><b>\$ 1,729,179</b></u>

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2021

**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. For the year ended February 28, 2021, the Village's matching contribution expense was \$13,161.

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).

Village of Shelby  
**NOTES TO FINANCIAL STATEMENTS**  
February 28, 2021

**NOTE H—RISKS AND UNCERTAINTIES**

The COVID-19 pandemic that the world is experiencing is unprecedented. It is nearly impossible to fully understand the impact that it will have on the economy and on the Village's operations. As of February 28, 2021, the Village is in the process of implementing risk mitigation tactics including all aspects of the Village's business transactions with customers, vendors and human interaction within and outside of the Village.

**NOTE I—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 36 percent of General Fund revenues.

**NOTE J—UPCOMING ACCOUNTING PRONOUNCEMENT**

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

Village of Shelby  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended February 28, 2021

	<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	\$ 294,000	\$ 331,223	\$ 318,167	\$ (13,056)
Licenses and permits	900	940	835	(105)
Intergovernmental revenues				
Federal	-	-	21,651	21,651
State	236,467	246,499	239,557	(6,942)
Charges for services	28,200	28,200	28,324	124
Fines and forfeitures	730	730	343	(387)
Investment earnings	8,200	8,600	6,240	(2,360)
Other	5,700	10,459	7,238	(3,221)
Total revenues	<u>574,197</u>	<u>626,651</u>	<u>622,355</u>	<u>(4,296)</u>
<b>EXPENDITURES</b>				
Current				
General government				
Village council	14,695	15,800	14,427	1,373
Village administrator	24,401	24,401	23,435	966
Elections commission	-	459	459	-
Clerk	18,845	23,208	20,255	2,953
Treasurer	13,476	17,637	15,174	2,463
Village hall/grounds	24,554	24,554	18,824	5,730
Other general government	51,450	60,869	66,578	(5,709)
Public safety				
Police department	245,492	283,709	268,666	15,043
Public works				
Department of public works	88,782	84,427	81,326	3,101
Community and economic development				
Planning	12,584	7,584	6,394	1,190
Culture and recreation				
Parks	68,286	63,565	48,721	14,844
Capital outlay	5,700	32,130	28,052	4,078
Total expenditures	<u>568,265</u>	<u>638,343</u>	<u>592,311</u>	<u>46,032</u>
Excess of revenues over (under) expenditures	5,932	(11,692)	30,044	41,736
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of capital assets	-	10,000	10,000	-
Transfers in	-	9,419	9,419	-
Total other financing sources	<u>-</u>	<u>19,419</u>	<u>19,419</u>	<u>-</u>
Net change in fund balance	<u>\$ 5,932</u>	<u>\$ 7,727</u>	49,463	<u>\$ 41,736</u>
Fund balance at beginning of year			<u>538,843</u>	
Fund balance at end of year			<u>\$ 588,306</u>	

Village of Shelby  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
 Major Streets Fund  
 For the year ended February 28, 2021

	<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>				
Intergovernmental revenues - State	\$ 260,000	\$ 280,000	\$ 261,626	\$ (18,374)
Investment earnings	1,800	1,800	776	(1,024)
Other	-	-	9,242	9,242
Total revenues	261,800	281,800	271,644	(10,156)
<b>EXPENDITURES</b>				
Current				
Public works				
Maintenance	89,080	89,078	50,309	38,769
Traffic services	9,612	9,612	1,167	8,445
Winter maintenance	36,712	36,712	27,290	9,422
Administration	19,930	24,899	22,951	1,948
Capital outlay	6,712	6,555	-	6,555
Total expenditures	162,046	166,856	101,717	65,139
Net change in fund balance	<u>\$ 99,754</u>	<u>\$ 114,944</u>	169,927	<u>\$ 54,983</u>
Fund balance at beginning of year			<u>542,212</u>	
Fund balance at end of year			<u>\$ 712,139</u>	

Village of Shelby  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
 Local Streets Fund  
 For the year ended February 28, 2021

	<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	\$ 88,110	\$ 124,405	\$ 127,289	\$ 2,884
Intergovernmental revenues - State	94,000	94,000	88,635	(5,365)
Investment earnings	3,000	6,452	6,850	398
Total revenues	185,110	224,857	222,774	(2,083)
<b>EXPENDITURES</b>				
Current				
Public works				
Maintenance	38,679	39,177	33,402	5,775
Traffic services	9,112	9,112	1,558	7,554
Winter maintenance	37,363	37,363	28,001	9,362
Administration	18,679	24,567	23,289	1,278
Capital outlay	138,612	137,775	-	137,775
Total expenditures	242,445	247,994	86,250	161,744
Net change in fund balance	<u><b>\$ (57,335)</b></u>	<u><b>\$ (23,137)</b></u>	136,524	<u><b>\$ 159,661</b></u>
Fund balance at beginning of year			868,285	
Fund balance at end of year			<u><b>\$ 1,004,809</b></u>	