

Village of Shelby
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

February 28, 2018



Village of Shelby
LIST OF ELECTED AND APPOINTED OFFICIALS
February 28, 2018

ELECTED OFFICIALS

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

APPOINTED OFFICIALS

Robert Widigan Village Administrator
Crystal Budde Clerk
Randy Mahoney Treasurer

DEPARTMENT HEADS

Ryan Furman Police Chief
Greg MacIntosh..... DPW Supervisor

Village of Shelby

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INDEPENDENT AUDITOR'S REPORT

July 3, 2018

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, 2018, 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
July 3, 2018
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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, 2018, 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 10 and 33 through 35 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 July 3, 2018, on our consideration of the Village of Shelby, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Shelby, Michigan's internal control over financial reporting and compliance.



Hart, Michigan

As management of the Village of Shelby, 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, 2018. 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 \$100,894.
- The General Fund fund balance increased by \$6,809.
- Total net position in the Sewer Fund decreased by \$16,207.
- Total net position in the Water Fund increased by \$73,013.

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, 2018, the Village's net position from governmental activities totaled \$4,648,529 and \$3,816,657 from business-type activities, creating a total government-wide net position total of \$8,465,186.

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 \$1,147,417. This represents the amount of discretionary resources that can be used for general governmental operations.

For governmental activities, current assets increased due to no significant capital purchases. Capital assets decreased as scheduled depreciation exceeded capital additions. Noncurrent liabilities continue to decline as scheduled debt payments are made.

The business-type activities show a total of \$3,816,657 in net position and \$638,583 in unrestricted net position. The Sewer Fund and Water Fund unrestricted net position are \$148,899 and \$492,355, respectively.

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

Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|--------------|-----------------------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Current assets and other assets | \$ 2,488,776 | \$ 2,256,276 | \$ 1,351,731 | \$ 1,232,619 | \$ 3,840,507 | \$ 3,488,895 |
| Capital assets | 2,413,805 | 2,668,030 | 5,582,090 | 5,751,894 | 7,995,895 | 8,419,924 |
| Total assets | 4,902,581 | 4,924,306 | 6,933,821 | 6,984,513 | 11,836,402 | 11,908,819 |
| Deferred outflows of resources | 1,041 | 2,731 | - | - | 1,041 | 2,731 |
| Total assets and deferred outflows | 4,903,622 | 4,927,037 | 6,933,821 | 6,984,513 | 11,837,443 | 11,911,550 |
| Current liabilities | 185,630 | 182,862 | 175,164 | 174,650 | 360,794 | 357,512 |
| Noncurrent liabilities | 69,463 | 196,540 | 2,942,000 | 3,061,000 | 3,011,463 | 3,257,540 |
| Total liabilities | 255,093 | 379,402 | 3,117,164 | 3,235,650 | 3,372,257 | 3,615,052 |
| Net position | | | | | | |
| Net investment in capital assets | 2,229,846 | 2,360,761 | 2,521,090 | 2,573,894 | 4,750,936 | 4,934,655 |
| Restricted | 1,271,266 | 1,100,172 | 656,984 | 609,504 | 1,928,250 | 1,709,676 |
| Unrestricted | 1,147,417 | 1,086,702 | 638,583 | 565,465 | 1,786,000 | 1,652,167 |
| Total net position | \$ 4,648,529 | \$ 4,547,635 | \$ 3,816,657 | \$ 3,748,863 | \$ 8,465,186 | \$ 8,296,498 |

Governmental Activities

Net position of governmental activities increased by \$100,894 (2.2%) during the 2018 fiscal year. Operating grants increased due to additional street funding from the State. Grants and contributions not restricted increased due to additional revenue sharing State personal property tax replacement funding. Miscellaneous revenues decreased due to no worker's compensation reimbursements this year. Public safety expenses decreased due to turnover in the police department. Public works expenses increased as the department was fully staffed during the 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 \$67,794 (1.8%). Operating grants increased due to additional Stormwater, Asset Management, and Wastewater (SAW) grant funding. Sewer expenses increased due to the aforementioned SAW grant. The following table shows these results.

Change in Net Position

| | Governmental | | Business-type | | Total | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 29,312 | \$ 36,036 | \$ 644,096 | \$ 638,461 | \$ 673,408 | \$ 674,497 |
| Operating grants | 302,031 | 252,530 | 62,282 | 9,120 | 364,313 | 261,650 |
| General revenues | | | | | | |
| Property taxes | 459,966 | 479,746 | - | - | 459,966 | 479,746 |
| Grants and contributions not restricted | 257,958 | 208,352 | - | - | 257,958 | 208,352 |
| Unrestricted investment earnings | 15,287 | 15,373 | 15,649 | 15,994 | 30,936 | 31,367 |
| Gain on sale of capital assets | - | 6,880 | - | - | - | 6,880 |
| Miscellaneous | 11,547 | 45,236 | 60,647 | 61,202 | 72,194 | 106,438 |
| Total revenues | 1,076,101 | 1,044,153 | 782,674 | 724,777 | 1,858,775 | 1,768,930 |
| Expenses: | | | | | | |
| General government | 141,454 | 148,499 | - | - | 141,454 | 148,499 |
| Public safety | 239,810 | 321,119 | - | - | 239,810 | 321,119 |
| Public works | 535,163 | 481,991 | - | - | 535,163 | 481,991 |
| Community and economic development | 2,699 | 2,519 | - | - | 2,699 | 2,519 |
| Culture and recreation | 43,472 | 35,640 | - | - | 43,472 | 35,640 |
| Interest on long-term debt | 12,609 | 18,974 | - | - | 12,609 | 18,974 |
| Sewer | - | - | 477,750 | 420,893 | 477,750 | 420,893 |
| Water | - | - | 237,130 | 215,171 | 237,130 | 215,171 |
| Total expenses | 975,207 | 1,008,742 | 714,880 | 636,064 | 1,690,087 | 1,644,806 |
| Change in net position | 100,894 | 35,411 | 67,794 | 88,713 | 168,688 | 124,124 |
| Net position - Beginning | 4,547,635 | 4,512,224 | 3,748,863 | 3,660,150 | 8,296,498 | 8,172,374 |
| Net position - Ending | \$ 4,648,529 | \$ 4,547,635 | \$ 3,816,657 | \$ 3,748,863 | \$ 8,465,186 | \$ 8,296,498 |

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 2018 fiscal year, the Village governmental funds reported a combined unassigned fund balance of \$564,841, all of which is in the General Fund. The remainder of the fund balance is restricted for streets and highways or debt service.

The General Fund is the chief operating fund of the Village. The General Fund ended the year with a fund balance of \$564,841, an increase of \$6,809 from fiscal year 2017. 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 98% of the General Fund's expenditures and transfers (91% 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 \$16,207 and increased by \$73,013 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 Village did not make any significant budget amendments during the year ended February 28, 2018.

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

- Property tax revenues were under budget by \$18,589 as the Village overestimated taxable value.
- Intergovernmental revenues – State were over budget by \$37,340 as the Village conservatively budgeted revenue sharing increases and did not budget for State of Michigan personal property tax replacement payments.
- Police expenditures were under budget by \$34,432 due to the department not being fully staffed the entire year as a result of employee turnover.
- Department of public works expenditures were over budget by \$31,744 because the department was fully staffed the entire year and spent a greater portion of time in the General Fund than initially expected.
- Parks expenditures were over budget by \$16,993 due to additional time spent in this area by the public works department.

Capital Assets

The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2018 totaled \$7,995,895 (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:

- Preliminary work on the upcoming State Street project was done for \$16,963.
- A used police vehicle was purchased for \$5,000.

Capital Assets (Net of Accumulated Depreciation)

| | Governmental | | Business-type | | Total | |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Activities | | Activities | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land | \$ 164,112 | \$ 164,112 | \$ 267,473 | \$ 267,473 | \$ 431,585 | \$ 431,585 |
| Construction in progress | 16,963 | - | - | - | 16,963 | - |
| Buildings and improvements | 168,855 | 177,821 | - | - | 168,855 | 177,821 |
| Infrastructure | 1,989,095 | 2,230,521 | - | - | 1,989,095 | 2,230,521 |
| Plant and systems | - | - | 5,314,617 | 5,484,421 | 5,314,617 | 5,484,421 |
| Vehicles and equipment | 74,780 | 95,576 | - | - | 74,780 | 95,576 |
| Total | \$ 2,413,805 | \$ 2,668,030 | \$ 5,582,090 | \$ 5,751,894 | \$ 7,995,895 | \$ 8,419,924 |

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

Long-term Debt

At the end of the 2018 fiscal year, the Village had total outstanding debt of \$3,258,463 consisting of general obligations bonds, revenue bonds and compensated absences. \$3,061,000 of the Village's outstanding debt represented in the table below is revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

Outstanding Debt

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|----------------------------|------------|-----------------------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| General obligation bonds | \$ 185,000 | \$ 310,000 | \$ - | \$ - | \$ 185,000 | \$ 310,000 |
| Compensated absences | 12,463 | 15,290 | - | - | 12,463 | 15,290 |
| Revenue bonds | - | - | 3,061,000 | 3,178,000 | 3,061,000 | 3,178,000 |
| Total | \$ 197,463 | \$ 325,290 | \$ 3,061,000 | \$ 3,178,000 | \$ 3,258,463 | \$ 3,503,290 |

The Village’s total debt decreased by \$244,827 due to normal debt payoffs as provided for in the fiscal year 2018 budget.

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

General Economic Overview

The General Fund has two primary sources of revenues – property taxes and state revenue sharing. For the upcoming fiscal year, the Village anticipates that these revenues will be approximately the same as last year. Other than an insurance settlement related to a matter from a prior year, the Village does not anticipate any other significant changes to operating revenues.

No significant changes are budgeted for operating costs in the General Fund. No significant capital purchases are budgeted in the General Fund other than new fencing at the Optimist Club ball field.

In the summer of 2018, the Village will be completing the final phase of State Street Reconstruction. Funding through the Michigan Department of Transportation will assist with the cost of this project. The Village has budgeted \$133,000 plus some engineering costs for its portion of the project.

The Village is beginning a five-year capital improvement plan during which it anticipates replacing most of its police and public works equipment along with parks improvements. Street repair is also planned in both Major Street and Local Street funds. For the upcoming fiscal year, the Village anticipates replacing one of its aging plow trucks in the Equipment Fund.

Request for Information

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

Village of Shelby
STATEMENT OF NET POSITION
February 28, 2018

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and investments | \$ 2,355,461 | \$ 542,162 | \$ 2,897,623 |
| Receivables | 44,685 | 79,494 | 124,179 |
| Due from other governmental units | 85,959 | - | 85,959 |
| Internal balances | 2,671 | (2,671) | - |
| Inventories | - | 52,762 | 52,762 |
| Total current assets | 2,488,776 | 671,747 | 3,160,523 |
| Noncurrent assets | | | |
| Restricted cash and investments | - | 679,984 | 679,984 |
| Capital assets, net | | | |
| Nondepreciable | 181,075 | 267,473 | 448,548 |
| Depreciable | 2,232,730 | 5,314,617 | 7,547,347 |
| Total noncurrent assets | 2,413,805 | 6,262,074 | 8,675,879 |
| Total assets | 4,902,581 | 6,933,821 | 11,836,402 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charge on refunding | 1,041 | - | 1,041 |
| Total assets and deferred outflows of resources | 4,903,622 | 6,933,821 | 11,837,443 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 36,867 | 56,164 | 93,031 |
| Due to other governmental units | 20,763 | - | 20,763 |
| Bonds and other obligations, due within one year | 128,000 | 119,000 | 247,000 |
| Total current liabilities | 185,630 | 175,164 | 360,794 |
| Noncurrent liabilities | | | |
| Bonds and other obligations, less amounts due within one year | 69,463 | 2,942,000 | 3,011,463 |
| Total liabilities | 255,093 | 3,117,164 | 3,372,257 |
| NET POSITION | | | |
| Net investment in capital assets | 2,229,846 | 2,521,090 | 4,750,936 |
| Restricted | | | |
| Streets | 1,209,904 | - | 1,209,904 |
| Debt service | 61,362 | 264,534 | 325,896 |
| Capital projects | - | 392,450 | 392,450 |
| Unrestricted | 1,147,417 | 638,583 | 1,786,000 |
| Total net position | \$ 4,648,529 | \$ 3,816,657 | \$ 8,465,186 |

The accompanying notes are an integral part of this statement.

Village of Shelby
STATEMENT OF ACTIVITIES
For the year ended February 28, 2018

| Functions/Programs | Program Revenue | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|------------------------|---------------------------------|---|--|-------------------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental activities | | | | | | |
| General government | \$ 141,454 | \$ 29,207 | \$ - | \$ (112,247) | \$ - | \$ (112,247) |
| Public safety | 239,810 | - | 855 | (238,955) | - | (238,955) |
| Public works | 535,163 | - | 296,698 | (238,465) | - | (238,465) |
| Community and economic development | 2,699 | 105 | - | (2,594) | - | (2,594) |
| Culture and recreation | 43,472 | - | 4,478 | (38,994) | - | (38,994) |
| Interest on long-term debt | 12,609 | - | - | (12,609) | - | (12,609) |
| Total governmental activities | 975,207 | 29,312 | 302,031 | (643,864) | - | (643,864) |
| Business-type activities | | | | | | |
| Sewer | 477,750 | 394,947 | 62,282 | - | (20,521) | (20,521) |
| Water | 237,130 | 249,149 | - | - | 12,019 | 12,019 |
| Total business-type activities | 714,880 | 644,096 | 62,282 | - | (8,502) | (8,502) |
| Total government | \$ 1,690,087 | \$ 673,408 | \$ 364,313 | (643,864) | (8,502) | (652,366) |
| General revenues | | | | | | |
| Property taxes, levied for | | | | | | |
| General purposes | | | | 280,411 | - | 280,411 |
| Specific purposes | | | | 179,555 | - | 179,555 |
| Grants and contributions not restricted to specific programs | | | | 257,958 | - | 257,958 |
| Unrestricted investment earnings | | | | 15,287 | 15,649 | 30,936 |
| Miscellaneous | | | | 11,547 | 60,647 | 72,194 |
| Total general revenues | | | | 744,758 | 76,296 | 821,054 |
| Change in net position | | | | 100,894 | 67,794 | 168,688 |
| Net position at March 1, 2017 | | | | 4,547,635 | 3,748,863 | 8,296,498 |
| Net position at February 28, 2018 | | | | \$ 4,648,529 | \$ 3,816,657 | \$ 8,465,186 |

The accompanying notes are an integral part of this statement.

Village of Shelby
BALANCE SHEET
 Governmental Funds
 February 28, 2018

| | <u>General Fund</u> | <u>Major Streets Fund</u> | <u>Local Streets Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> |
|-------------------------------------|-------------------------|-----------------------------------|-----------------------------------|----------------------------------|---|
| ASSETS | | | | | |
| Cash and investments | \$ 559,226 | \$ 402,271 | \$ 773,634 | \$ 25,303 | \$ 1,760,434 |
| Property taxes receivable | 27,355 | - | 6,861 | 10,469 | 44,685 |
| Due from other governmental units | 34,678 | 32,906 | 18,375 | - | 85,959 |
| Due from other funds | - | - | - | 25,590 | 25,590 |
| Total assets | \$ 621,259 | \$ 435,177 | \$ 798,870 | \$ 61,362 | \$ 1,916,668 |
| LIABILITIES | | | | | |
| Accounts payable | \$ 25,096 | \$ 17 | \$ 54 | \$ - | \$ 25,167 |
| Accrued liabilities | 5,732 | 1,649 | 1,660 | - | 9,041 |
| Due to other governmental units | - | 13,496 | 7,267 | - | 20,763 |
| Due to other funds | 25,590 | - | - | - | 25,590 |
| Total liabilities | 56,418 | 15,162 | 8,981 | - | 80,561 |
| FUND BALANCES | | | | | |
| Restricted | | | | | |
| Streets | - | 420,015 | 789,889 | - | 1,209,904 |
| Debt service | - | - | - | 61,362 | 61,362 |
| Unassigned | 564,841 | - | - | - | 564,841 |
| Total fund balances | 564,841 | 420,015 | 789,889 | 61,362 | 1,836,107 |
| Total liabilities and fund balances | \$ 621,259 | \$ 435,177 | \$ 798,870 | \$ 61,362 | \$ 1,916,668 |

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, 2018

| | | |
|--|--------------------|----------------------------|
| Total fund balances—governmental funds | | \$ 1,836,107 |
| 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 | \$ 5,630,142 | |
| Accumulated depreciation | <u>(3,291,118)</u> | 2,339,024 |
| Long-term liabilities in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| Bonds and notes payable | (183,959) | |
| Compensated absences | <u>(12,463)</u> | (196,422) |
| 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 | 667,149 | |
| Internal balances representing the cumulative difference between actual costs and amounts charged to business-type activities | <u>2,671</u> | <u>669,820</u> |
| Net position of governmental activities | | <u><u>\$ 4,648,529</u></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, 2018

| | <u>General Fund</u> | <u>Major Streets Fund</u> | <u>Local Streets Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> |
|------------------------------------|--------------------------|-----------------------------------|-----------------------------------|----------------------------------|---|
| REVENUES | | | | | |
| Property taxes | \$ 280,411 | \$ - | \$ 71,116 | \$ 108,440 | \$ 459,967 |
| Licenses and permits | 555 | - | - | - | 555 |
| Intergovernmental revenues - State | 244,940 | 216,034 | 78,505 | 8,537 | 548,016 |
| Charges for services | 29,207 | - | - | - | 29,207 |
| Fines and forfeitures | 560 | - | - | - | 560 |
| Investment earnings | 11,129 | 905 | 6,461 | 693 | 19,188 |
| Other | 15,143 | - | - | - | 15,143 |
| Total revenues | <u>581,945</u> | <u>216,939</u> | <u>156,082</u> | <u>117,670</u> | <u>1,072,636</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General government | 135,274 | - | - | - | 135,274 |
| Public safety | 251,247 | - | - | - | 251,247 |
| Public works | 138,544 | 78,789 | 87,926 | - | 305,259 |
| Community and economic development | 2,699 | - | - | - | 2,699 |
| Culture and recreation | 47,372 | - | - | - | 47,372 |
| Debt service | | | | | |
| Principal | - | - | - | 125,000 | 125,000 |
| Interest and fees | - | - | - | 10,919 | 10,919 |
| Capital outlay | - | 16,963 | - | - | 16,963 |
| Total expenditures | <u>575,136</u> | <u>95,752</u> | <u>87,926</u> | <u>135,919</u> | <u>894,733</u> |
| Net change in fund balances | 6,809 | 121,187 | 68,156 | (18,249) | 177,903 |
| Fund balances at March 1, 2017 | 558,032 | 298,828 | 721,733 | 79,611 | 1,658,204 |
| Fund balances at February 28, 2018 | <u>\$ 564,841</u> | <u>\$ 420,015</u> | <u>\$ 789,889</u> | <u>\$ 61,362</u> | <u>\$ 1,836,107</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, 2018

Net change in fund balances—total governmental funds \$ 177,903

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

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

| | | |
|----------------------|---------------|-----------|
| Depreciation expense | \$ (250,393) | |
| Capital outlay | <u>16,963</u> | (233,430) |

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

| | | |
|--|--|---------|
| Repayment of principal on long-term debt | | 125,000 |
|--|--|---------|

| | | |
|--|--|---------|
| Amortization of premiums and discounts | | (1,690) |
|--|--|---------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

| | | |
|--------------------------------|--|-------|
| Change in compensated absences | | 2,827 |
|--------------------------------|--|-------|

The internal service fund is used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service fund are reported with governmental activities.

| | | |
|---|-----------------|---------------|
| Change in net position of the internal service fund | 41,272 | |
| Change in internal balances representing the current year difference between actual costs and amounts charged to business-type activities | <u>(10,988)</u> | <u>30,284</u> |

| | | |
|---|--|--------------------------|
| Change in net position of governmental activities | | <u>\$ 100,894</u> |
|---|--|--------------------------|

The accompanying notes are an integral part of this statement.

Village of Shelby
STATEMENT OF NET POSITION
Proprietary Funds
February 28, 2018

| | Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Fund |
|---|--|---------------------|---------------------|--|
| | Sewer | Water | Total | |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and investments | \$ 105,494 | \$ 436,668 | \$ 542,162 | \$ 595,027 |
| Accounts receivable | 50,033 | 29,461 | 79,494 | - |
| Inventories | 1,579 | 51,183 | 52,762 | - |
| Total current assets | 157,106 | 517,312 | 674,418 | 595,027 |
| Noncurrent assets | | | | |
| Restricted cash and investments | 603,597 | 76,387 | 679,984 | - |
| Capital assets | | | | |
| Land | 267,473 | - | 267,473 | - |
| Plants and systems | 5,120,610 | 2,655,766 | 7,776,376 | - |
| Equipment and furniture | - | - | - | 636,863 |
| Less accumulated depreciation | (1,521,322) | (940,437) | (2,461,759) | (562,082) |
| Net capital assets | 3,866,761 | 1,715,329 | 5,582,090 | 74,781 |
| Total noncurrent assets | 4,470,358 | 1,791,716 | 6,262,074 | 74,781 |
| Total assets | 4,627,464 | 2,309,028 | 6,936,492 | 669,808 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | 6,391 | 22,955 | 29,346 | 1,519 |
| Accrued liabilities | 20,616 | 6,202 | 26,818 | 1,140 |
| Bonds and other obligations, due within one year | 44,000 | 75,000 | 119,000 | - |
| Total current liabilities | 71,007 | 104,157 | 175,164 | 2,659 |
| Noncurrent liabilities | | | | |
| Bonds and other obligations, less amounts due within one year | 2,612,000 | 330,000 | 2,942,000 | - |
| Total liabilities | 2,683,007 | 434,157 | 3,117,164 | 2,659 |
| NET POSITION | | | | |
| Net investment in capital assets | 1,210,761 | 1,310,329 | 2,521,090 | 74,781 |
| Restricted | | | | |
| Debt service | 192,347 | 72,187 | 264,534 | - |
| Capital outlay | 392,450 | - | 392,450 | - |
| Unrestricted | 148,899 | 492,355 | 641,254 | 592,368 |
| Total net position | \$ 1,944,457 | \$ 1,874,871 | 3,819,328 | \$ 667,149 |
| 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 | | | (2,671) | |
| Net position of business-type activities | | | \$ 3,816,657 | |

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, 2018

| | Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Fund |
|--|--|---------------------|------------------|--|
| | Sewer | Water | Total | |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 394,947 | \$ 247,879 | \$ 642,826 | \$ 157,250 |
| Other | 62,282 | 60,647 | 122,929 | 293 |
| Total operating revenues | 457,229 | 308,526 | 765,755 | 157,543 |
| OPERATING EXPENSES | | | | |
| Operations and administration | 250,848 | 181,618 | 432,466 | 93,941 |
| Depreciation | 119,844 | 49,960 | 169,804 | 25,795 |
| Total operating expenses | 370,692 | 231,578 | 602,270 | 119,736 |
| Operating income | 86,537 | 76,948 | 163,485 | 37,807 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Investment earnings | 9,491 | 6,158 | 15,649 | 3,465 |
| Connection fees | - | 1,270 | 1,270 | - |
| Interest expense | (112,235) | (11,363) | (123,598) | - |
| Total nonoperating revenue (expenses) | (102,744) | (3,935) | (106,679) | 3,465 |
| Change in net position | (16,207) | 73,013 | 56,806 | 41,272 |
| Net position at March 1, 2017 | 1,960,664 | 1,801,858 | | 625,877 |
| Net position at February 28, 2018 | \$ 1,944,457 | \$ 1,874,871 | | \$ 667,149 |
| Adjustment for the net effect of the current year activity between the internal service fund and the enterprise funds | | | 10,988 | |
| Change in net position of business-type activities | | | \$ 67,794 | |

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, 2018

| | Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Fund |
|---|--|-------------------|---------------------|--|
| | Sewer | Water | Total | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | \$ 446,666 | \$ 303,230 | \$ 749,896 | \$ - |
| Receipts from interfund services provided | - | - | - | 157,543 |
| Payments to suppliers | (158,527) | (68,594) | (227,121) | (51,729) |
| Payments to employees | (66,618) | (78,173) | (144,791) | (28,821) |
| Payment for interfund services used | (25,142) | (32,581) | (57,723) | (12,000) |
| Net cash provided by operating activities | 196,379 | 123,882 | 320,261 | 64,993 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Connection fees | - | 1,270 | 1,270 | - |
| Purchases of capital assets | - | - | - | (5,000) |
| Principal paid on capital debt | (42,000) | (75,000) | (117,000) | - |
| Interest paid on capital debt | (112,835) | (12,963) | (125,798) | - |
| Net cash used for capital and related financing activities | (154,835) | (86,693) | (241,528) | (5,000) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| Investment earnings | 9,491 | 6,158 | 15,649 | 3,465 |
| Net increase in cash and investments | 51,035 | 43,347 | 94,382 | 63,458 |
| Cash and investments at March 1, 2017 | 658,056 | 469,708 | 1,127,764 | 531,569 |
| Cash and investments at February 28, 2018 | \$ 709,091 | \$ 513,055 | \$ 1,222,146 | \$ 595,027 |
| Reconciliation of cash and investments to the Statement of Net Position | | | | |
| Cash and investments | \$ 105,494 | \$ 436,668 | \$ 542,162 | \$ 595,027 |
| Restricted cash and investments | 603,597 | 76,387 | 679,984 | - |
| | \$ 709,091 | \$ 513,055 | \$ 1,222,146 | \$ 595,027 |
| Reconciliation of operating income to net cash provided by operating activities | | | | |
| Operating income | \$ 86,537 | \$ 76,948 | \$ 163,485 | \$ 37,807 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | | | |
| Depreciation expense | 119,844 | 49,960 | 169,804 | 25,795 |
| Change in assets and liabilities | | | | |
| Accounts receivable | (10,563) | (5,296) | (15,859) | - |
| Inventories | 346 | 1,771 | 2,117 | - |
| Accounts payable | 46 | 467 | 513 | 814 |
| Accrued liabilities | 169 | 32 | 201 | 577 |
| Net cash provided by operating activities | \$ 196,379 | \$ 123,882 | \$ 320,261 | \$ 64,993 |

The accompanying notes are an integral part of this statement.

Village of Shelby
NOTES TO FINANCIAL STATEMENTS
February 28, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation—Government-wide and Fund Financial Statements

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

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

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

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

The Village reports the following major governmental funds:

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

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

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

Village of Shelby
NOTES TO FINANCIAL STATEMENTS
February 28, 2018

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, 2018

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, 2018

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, 2018

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, 2018

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Fund Balance Policies—Continued

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

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

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

The Village bills and collects its own property. Taxes are levied and lien 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 2017 state taxable value for real/personal property of the Village totaled approximately \$25,600,000. The ad valorem taxes levied consisted of 10.7194 mills for operation 2.7328 mills for local streets and 4.17 mills for debt service. These amounts are recognized in the respective General Fund, Local Streets Fund and Debt Service Fund.

Compensated Absences

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

Village of Shelby
NOTES TO FINANCIAL STATEMENTS
February 28, 2018

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, 2018, actual expenditures exceeded appropriations for:

| | <u>Final Budget</u> | <u>Actual</u> |
|----------------------------|-------------------------|---------------|
| General Fund | | |
| General government | | |
| Clerk | \$ 20,327 | \$ 26,878 |
| Treasurer | 13,110 | 19,948 |
| Department of public works | 106,800 | 138,544 |
| Parks | 30,379 | 47,372 |
| Major Streets Fund | | |
| Capital outlay | 10,325 | 16,963 |

These overexpenditures were funded with available fund balance.

Village of Shelby
NOTES TO FINANCIAL STATEMENTS
February 28, 2018

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, 2018, \$3,195,148 of the Village's bank balance of \$3,572,312 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, 2018, cash is restricted as follows:

| | |
|--|--------------------------|
| Sewer Fund | |
| Bond and interest redemption fund | \$ 48,147 |
| Bond reserve fund | 163,000 |
| Repair, replacement and improvement fund | 392,450 |
| | <hr/> |
| | 603,597 |
| Water Fund | |
| Bond and interest redemption fund | 35,744 |
| Bond reserve fund | 40,643 |
| | <hr/> |
| | 76,387 |
| | <hr/> |
| | <u>\$ 679,984</u> |

Village of Shelby
NOTES TO FINANCIAL STATEMENTS
February 28, 2018

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2018 was as follows:

| | Balance March 1, 2017 | Additions | Deductions | Balance February 28, 2018 |
|---|--------------------------------------|---------------------|-------------------|--|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 164,112 | \$ - | \$ - | \$ 164,112 |
| Construction in progress | - | 16,963 | - | 16,963 |
| Total capital assets, not being depreciated | 164,112 | 16,963 | - | 181,075 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 620,552 | - | - | 620,552 |
| Infrastructure | 4,828,515 | - | - | 4,828,515 |
| Vehicles and equipment | 631,863 | 5,000 | - | 636,863 |
| Total capital assets, being depreciated | 6,080,930 | 5,000 | - | 6,085,930 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 442,731 | 8,966 | - | 451,697 |
| Infrastructure | 2,597,994 | 241,426 | - | 2,839,420 |
| Vehicles and equipment | 536,287 | 25,796 | - | 562,083 |
| Total accumulated depreciation | 3,577,012 | 276,188 | - | 3,853,200 |
| Total capital assets, being depreciated, net | 2,503,918 | (271,188) | - | 2,232,730 |
| Capital assets, net | \$ 2,668,030 | \$ (254,225) | \$ - | \$ 2,413,805 |
| Business-type activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 267,473 | \$ - | \$ - | \$ 267,473 |
| Capital assets, being depreciated: | | | | |
| Plants and systems | 7,776,376 | - | - | 7,776,376 |
| Less accumulated depreciation | (2,291,955) | (169,804) | - | (2,461,759) |
| Total capital assets, being depreciated, net | 5,484,421 | (169,804) | - | 5,314,617 |
| Capital assets, net | \$ 5,751,894 | \$ (169,804) | \$ - | \$ 5,582,090 |

Village of Shelby
NOTES TO FINANCIAL STATEMENTS
February 28, 2018

NOTE D—CAPITAL ASSETS—Continued

Depreciation expense has been charged to functions as follows:

Government activities:

| | |
|--|-------------------|
| General government | \$ 5,636 |
| Public safety | 233 |
| Public works | 244,524 |
| Internal Service Fund depreciation is charged to the various programs based on their usage of the assets | 25,795 |
| | \$ 276,188 |

Business-type activities:

| | |
|-------|-------------------|
| Sewer | \$ 119,844 |
| Water | 49,960 |
| | \$ 169,804 |

NOTE E—INTERFUND RECEIVABLES AND PAYABLES

The General Fund owes the Debt Service Fund \$25,590 for property tax collections.

NOTE F—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended February 28, 2018:

| | Balance March 1, 2017 | Additions | Reductions | Balance February 28, 2018 | Due Within One Year |
|--|-----------------------------|------------------|-------------------|---------------------------------|------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 310,000 | \$ - | \$ 125,000 | \$ 185,000 | \$ 125,000 |
| Compensated absences | 15,290 | 12,134 | 14,961 | 12,463 | 3,000 |
| | | | | | |
| Governmental activities long-term liabilities | \$ 325,290 | \$ 12,134 | \$ 139,961 | \$ 197,463 | \$ 128,000 |
| Business-type activities: | | | | | |
| Revenue bonds | \$ 3,178,000 | \$ - | \$ 117,000 | \$ 3,061,000 | \$ 119,000 |

Village of Shelby
NOTES TO FINANCIAL STATEMENTS
February 28, 2018

NOTE F—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

| | <u>Interest Rate</u> | <u>Date of Maturity</u> | <u>Balance</u> |
|---|--------------------------|-----------------------------|----------------------------|
| Governmental activities: | | | |
| General obligation bonds: | | | |
| 2005 Unlimited Tax General Obligation Refunding Bonds | 4.25% | September 2019 | <u>\$ 185,000</u> |
| Business-type activities: | | | |
| Revenue bonds: | | | |
| 2002 Water Supply System Revenue Bonds | 2.5% | October 2022 | \$ 405,000 |
| 2007 Sewage Disposal System Revenue Bonds | 4.25% | July 2047 | <u>2,656,000</u> |
| | | | <u><u>\$ 3,061,000</u></u> |

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

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

The Village was in compliance in all material respects with all the revenue bond ordinances at February 28, 2018.

Annual debt service requirements to maturity for debt outstanding as of February 28, 2018 follow:

| <u>Year Ending February 28,</u> | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|-------------------------------------|--------------------------------|-----------------|---------------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2019 | \$ 125,000 | \$ 5,206 | \$ 119,000 | \$ 122,070 |
| 2020 | 60,000 | 1,275 | 125,000 | 118,304 |
| 2021 | - | - | 128,000 | 114,328 |
| 2022 | - | - | 135,000 | 110,245 |
| 2023 | - | - | 137,000 | 105,953 |
| 2024-2028 | - | - | 297,000 | 483,203 |
| 2029-2033 | - | - | 371,000 | 412,441 |
| 2034-2038 | - | - | 461,000 | 324,468 |
| 2039-2043 | - | - | 575,000 | 214,732 |
| 2044-2048 | - | - | 713,000 | 78,137 |
| | <u>\$ 185,000</u> | <u>\$ 6,481</u> | <u>\$ 3,061,000</u> | <u>\$ 2,083,881</u> |

Village of Shelby
NOTES TO FINANCIAL STATEMENTS
February 28, 2018

NOTE G—OTHER INFORMATION

Risk Management

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

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

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

Contingent Liabilities

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

NOTE H—PENSION PLAN

Deferred Compensation Plan

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

Under the Plan, the Village's matching contribution for full-time employees is equal to 200 percent of the amount deferred by the employee up to four percent of the employee's gross wages. For the year ended February 28, 2018, the Village's matching contribution expense was \$6,807.

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

NOTE I—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 38 percent of General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Shelby
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended February 28, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget - Positive (Negative) |
|--|-------------------------|---------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | <u>Actual</u> |
| REVENUES | | | | |
| Property taxes | \$ 299,000 | \$ 299,000 | \$ 280,411 | \$ (18,589) |
| Licenses and permits | 1,350 | 1,350 | 555 | (795) |
| Intergovernmental revenues - State | 207,600 | 207,600 | 244,940 | 37,340 |
| Charges for services | 28,200 | 28,200 | 29,207 | 1,007 |
| Fines and forfeitures | 500 | 500 | 560 | 60 |
| Investment earnings | 3,200 | 3,200 | 11,129 | 7,929 |
| Other | 8,000 | 8,000 | 15,143 | 7,143 |
| Total revenues | 547,850 | 547,850 | 581,945 | 34,095 |
| EXPENDITURES | | | | |
| Current | | | | |
| General government | | | | |
| Village council | 16,620 | 16,620 | 16,194 | 426 |
| Village administrator | 19,054 | 19,054 | 16,808 | 2,246 |
| Clerk | 20,327 | 20,327 | 26,878 | (6,551) |
| Treasurer | 13,110 | 13,110 | 19,948 | (6,838) |
| Village hall/grounds | 20,525 | 20,525 | 20,724 | (199) |
| Other general government | 32,500 | 32,500 | 34,722 | (2,222) |
| Public safety | | | | |
| Police department | 285,679 | 285,679 | 251,247 | 34,432 |
| Public works | | | | |
| Department of public works | 106,800 | 106,800 | 138,544 | (31,744) |
| Community and economic development | | | | |
| Planning | 2,125 | 2,125 | 2,699 | (574) |
| Culture and recreation | | | | |
| Parks | 30,379 | 30,379 | 47,372 | (16,993) |
| Capital outlay | 200 | 200 | - | 200 |
| Total expenditures | 547,319 | 547,319 | 575,136 | (27,817) |
| Excess of revenues over (under) expenditures | 531 | 531 | 6,809 | 6,278 |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from sale of capital assets | 300 | 300 | - | (300) |
| Net change in fund balance | <u>\$ 831</u> | <u>\$ 831</u> | 6,809 | <u>\$ 5,978</u> |
| Fund balance at March 1, 2017 | | | <u>558,032</u> | |
| Fund balance at February 28, 2018 | | | <u>\$ 564,841</u> | |

Village of Shelby
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 Major Streets Fund
 For the year ended February 28, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget - Positive (Negative) |
|------------------------------------|-------------------------|-------------------------|--------------------------|---|
| | <u>Original</u> | <u>Final</u> | | <u>(Negative)</u> |
| REVENUES | | | | |
| Intergovernmental revenues - State | \$ 170,264 | \$ 170,264 | \$ 216,034 | \$ 45,770 |
| Investment earnings | 200 | 200 | 905 | 705 |
| Total revenues | 170,464 | 170,464 | 216,939 | 46,475 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public works | | | | |
| Maintenance | 21,996 | 21,996 | 18,643 | 3,353 |
| Traffic services | 2,776 | 2,776 | 1,826 | 950 |
| Winter maintenance | 54,563 | 54,563 | 50,183 | 4,380 |
| Administration | 8,548 | 8,548 | 8,137 | 411 |
| Capital outlay | 10,325 | 10,325 | 16,963 | (6,638) |
| Total expenditures | 98,208 | 98,208 | 95,752 | 2,456 |
| Net change in fund balance | <u><u>\$ 72,256</u></u> | <u><u>\$ 72,256</u></u> | 121,187 | <u><u>\$ 48,931</u></u> |
| Fund balance at March 1, 2017 | | | <u>298,828</u> | |
| Fund balance at February 28, 2018 | | | <u><u>\$ 420,015</u></u> | |

Village of Shelby
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 Local Streets Fund
 For the year ended February 28, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget - Positive (Negative) |
|------------------------------------|-------------------------|-----------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Property taxes | \$ 66,225 | \$ 66,225 | \$ 71,116 | \$ 4,891 |
| Intergovernmental revenues - State | 46,500 | 46,500 | 78,505 | 32,005 |
| Investment earnings | 1,000 | 1,000 | 6,461 | 5,461 |
| Total revenues | 113,725 | 113,725 | 156,082 | 42,357 |
| EXPENDITURES | | | | |
| Current | | | | |
| Public works | | | | |
| Maintenance | 46,256 | 46,256 | 33,272 | 12,984 |
| Traffic services | 1,236 | 1,236 | 2,330 | (1,094) |
| Winter maintenance | 52,143 | 52,143 | 44,187 | 7,956 |
| Administration | 8,548 | 8,548 | 8,137 | 411 |
| Total expenditures | 108,183 | 108,183 | 87,926 | 20,257 |
| Net change in fund balance | <u>\$ 5,542</u> | <u>\$ 5,542</u> | 68,156 | <u>\$ 62,614</u> |
| Fund balance at March 1, 2017 | | | <u>721,733</u> | |
| Fund balance at February 28, 2018 | | | <u>\$ 789,889</u> | |