

**Village of Cass City  
Cass City, Michigan**

**Report on Financial Statements  
(with required supplementary and  
additional supplementary information)  
Year Ended December 31, 2017**

## **TABLE OF CONTENTS**

	<u>Page Number</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 & 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 10
<b>BASIC FINANCIAL STATEMENTS</b>	
<i>Government-wide Financial Statements</i>	
<i>Statement of Net Position</i>	11
<i>Statement of Activities</i>	12
<i>Fund Financial Statements</i>	
<b>GOVERNMENTAL FUNDS</b>	
<i>Balance Sheet</i>	13
<i>Reconciliation of Fund Balances of Governmental Funds to                 Net Position of Governmental Activities</i>	14
<i>Statement of Revenues, Expenditures and Changes in Fund                 Balances</i>	15
<i>Reconciliation of the Statement of Revenues, Expenditures and                 Changes in Fund Balances of Governmental Funds to the                 Statements of Activities</i>	16
<b>PROPRIETARY FUNDS</b>	
<i>Statement of Net Position</i>	17
<i>Statement of Revenues, Expenses and Changes in Fund Net Position</i>	18
<i>Statement of Cash Flows</i>	19
<i>Notes to Financial Statements</i>	20 - 35
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<i>Budgetary Comparison Schedule - General Fund</i>	36
<i>Budgetary Comparison Schedule - Major Street</i>	37
<i>Budgetary Comparison Schedule - Local Street</i>	38
<b>ADDITIONAL SUPPLEMENTARY INFORMATION</b>	
<i>Combining Balance Sheet - Nonmajor Governmental Funds</i>	39
<i>Combining Statement of Revenues, Expenditures and Changes in Fund         Balance - Nonmajor Governmental Funds</i>	40
<i>Report on Internal Control over Financial Reporting and on Compliance         and other matters based on an audit of financial statements         performed in accordance with Government Auditing Standards</i>	41 & 42
<i>Schedule of Audit Findings and Responses</i>	43



# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Thomas B. Doran, CPA  
Valerie J. Hartel, CPA  
Jamie L. Peasley, CPA  
.....  
Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA

Terry L. Haske, CPA  
Timothy D. Franzel  
Laura J. Steffen, CPA  
Angela M. Burnette, CPA  
David A. Ondrajka, CPA  
John M. Bungart, CPA

## Independent Auditor's Report

Village Council  
Village of Cass City  
Cass City, 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 Cass City, State of Michigan, as of and for the year ended December 31, 2017, 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 opinions 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.

### *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 Cass City, State of Michigan, as of December 31, 2017, 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.

715 East Frank Street • Caro, MI 48723  
989-673-3137 fax: 989-673-3375  
1-800-234-8829

2956 Main Street • Marlette, MI 48453  
989-635-7545 fax: 989-635-7547

6476 Main Street, Suite 1 • Cass City, MI 48726  
989-872-3730 fax: 989-872-3978

[www.atbdcpa.com](http://www.atbdcpa.com)

email us at [cpa@atbdcpa.com](mailto:cpa@atbdcpa.com)

## **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 as listed on the table of contents, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Cass City's, State of Michigan, basic financial statements. The additional supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018, on our consideration of the Village of Cass City's, State of Michigan, 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 Village of Cass City's, State of Michigan, 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 Cass City's internal control over financial reporting and compliance.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CASS CITY, MICHIGAN

June 18, 2018

# **Village of Cass City**

## **Management's Discussion and Analysis**

### **Year Ended December 31, 2017**

---

Our discussion and analysis of the Village of Cass City's financial performance provides an overview of the Village's financial activities for the fiscal year ended December 31, 2017. This analysis will add background and context to the Village's financial statements.

#### **Financial Highlights**

In 2017, the Village of Cass City completed a major equipment replacement in the Waste Water Treatment Plant, contracted significant engineering projects for its Water Program and Streets Projects, replaced Pool Roofing and Equipment, and upgraded technology and experienced the retirement of two long-time employees. The Cass City Downtown Development Authority saw the demise of a downtown grocery store plans while grappling with the challenge of bringing back a local grocery store in a prior location, after a multi-year span without this much desired asset. The Village experienced a change in leadership. Two Village Trustees resigned and new trustee appointments were made. The Village Manager retired and a new Village Manager was hired.

#### **Governmental Resources**

As detailed in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2017.

The total net position related to the Village's governmental activities is \$4,112,450 (see Table 1). The unrestricted portion of net position is \$748,537.

Tax revenues, the Village's largest revenue source, increased by \$55,064 from 2016. This is representative of the slight increase in real property values and the decrease in personal property values, due to the phase out of the personal property tax mandated by the Michigan State Legislature. To offset this loss, the Local Community Stabilization Board (a state pass-through organization) provided \$133,395 to Cass City's General Fund, Major and Local Street Funds.

State shared revenues, traditionally our second largest revenue source, had a slight increase in 2017. The Michigan Municipal League, Michigan Townships Association, Michigan Municipal Treasurers Association and Michigan Government Financial Officers Association are very vocal concerning the multi-year spiral downward trend of lost State Shared Revenues, as well as unfunded mandates. In a rally cry by local government, an aggressive campaign to inform legislators of the dire effects of plummeting State Shared Revenues from the State of Michigan is gaining strength, with intentions that this will become a priority in the upcoming State Budget.

As the State of Michigan continues to debate the types and levels of funding to local government, the Village of Cass City realizes that constant budget review and projections are mandatory to be best prepared for expected unreliable state shared revenues, fluctuating local property taxes, and the eventual elimination of Personal Property Tax as well as crumbling streets and aging infrastructure. The Village also continues to invoke very tight controls over all expenditures.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Village of Cass City as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

**Village of Cass City**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2017**

**The Village of Cass City as a Whole** (Table 1)

The following table shows, in a condensed format, the net position as of the current date and compared to the prior year:

	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>	Business-type Activities <u>2017</u>	Business-type Activities <u>2016</u>	Total <u>2017</u>	Total <u>2016</u>
<b>Assets</b>						
Other	\$ 1,229,649	\$ 885,297	\$ 1,267,376	\$ 1,298,602	\$ 2,497,025	\$ 2,183,899
Capital	<u>3,127,347</u>	<u>3,372,062</u>	<u>2,889,577</u>	<u>2,939,102</u>	<u>6,016,924</u>	<u>6,311,164</u>
Total assets	<u>4,356,996</u>	<u>4,257,359</u>	<u>4,156,953</u>	<u>4,237,704</u>	<u>8,513,949</u>	<u>8,495,063</u>
<b>Liabilities</b>						
Other	98,367	79,254	45,670	130,492	144,037	209,746
Long-term	<u>146,179</u>	<u>185,449</u>	<u>1,722,480</u>	<u>1,800,425</u>	<u>1,868,659</u>	<u>1,985,874</u>
Total liabilities	<u>244,546</u>	<u>264,703</u>	<u>1,768,150</u>	<u>1,930,917</u>	<u>2,012,696</u>	<u>2,195,620</u>
<b>Net Position</b>						
Invested in capital assets, net of related debt	2,994,164	3,202,811	1,167,097	1,138,677	4,161,261	4,341,488
Restricted for debt service	-	-	95,600	95,600	95,600	95,600
Restricted streets and highways	265,704	160,146	-	-	265,704	160,146
Restricted for special levied taxes	81,979	71,407	-	-	81,979	71,407
Restricted for DDA captured taxes	22,066	9,106	-	-	22,066	9,106
Restricted for repair replacement and improvement	-	-	55,120	42,560	55,120	42,560
Unrestricted	<u>748,537</u>	<u>549,186</u>	<u>1,070,986</u>	<u>1,029,950</u>	<u>1,819,523</u>	<u>1,579,136</u>
Total net position	<u>\$ 4,112,450</u>	<u>\$ 3,992,656</u>	<u>\$ 2,388,803</u>	<u>\$ 2,306,787</u>	<u>\$ 6,501,253</u>	<u>\$ 6,299,443</u>

Village of Cass City net position of governmental activities are \$4,112,450 and \$2,388,803 for business type activities; of these amounts \$748,537 (governmental) and \$1,070,986 (business-type) are unrestricted.

**Village of Cass City**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2017**

Table 2

	Governmental Activities 2017	Governmental Activities 2016	Business-type Activities 2017	Business-type Activities 2016	Total 2017	Total 2016
<b>Revenue</b>						
Program revenue						
Charges for services	\$ 214,561	\$ 209,563	\$ 1,245,504	\$ 1,257,739	\$ 1,460,065	\$ 1,467,302
Operating grants and contributions	403,344	361,790	-	-	403,344	361,790
Capital grants and contributions			-	-	-	-
General revenue:						
Property taxes	1,043,321	991,974	-	-	1,043,321	991,974
State-shared revenue	251,600	237,223	-	-	251,600	237,223
Interest	14,739	8,774	6,781	3,439	21,520	12,213
Sale of Fixed Assets	-	7,472			-	7,472
Franchise fees and other revenue	174,329	162,016	45,222	42,888	219,551	204,904
Total revenue	<u>2,101,894</u>	<u>1,978,812</u>	<u>1,297,507</u>	<u>1,304,066</u>	<u>3,399,401</u>	<u>3,282,878</u>
<b>Program expenses</b>						
General government/legislative	453,595	467,619	-	-	453,595	467,619
Public safety	553,096	535,256	-	-	553,096	535,256
Public works	672,792	670,736	-	-	672,792	670,736
Recreation and culture	272,338	280,073	-	-	272,338	280,073
Interest on long-term debt	7,772	8,311	-	-	7,772	8,311
Water and sewer	-	-	1,215,491	1,304,012	1,215,491	1,304,012
Other	22,507	62,239	-	-	22,507	62,239
Total program expenses	<u>1,982,100</u>	<u>2,024,234</u>	<u>1,215,491</u>	<u>1,304,012</u>	<u>3,197,591</u>	<u>3,328,246</u>
<b>Change in net position</b>	119,794	(45,422)	82,016	54	201,810	(45,368)
Net assets - beginning of year	<u>3,992,656</u>	<u>4,038,078</u>	<u>2,306,787</u>	<u>2,306,733</u>	<u>6,299,443</u>	<u>6,344,811</u>
<b>Net position - end of year</b>	<u>\$ 4,112,450</u>	<u>\$ 3,992,656</u>	<u>\$ 2,388,803</u>	<u>\$ 2,306,787</u>	<u>\$ 6,501,253</u>	<u>\$ 6,299,443</u>

# **Village of Cass City**

## **Management's Discussion and Analysis**

### **Year Ended December 31, 2017**

---

#### **Governmental Activities**

The Village of Cass City's total governmental activity revenues were \$2,101,894. At the end of 2017, all categories of revenue increase, resulting in an increase of \$123,082. The fund balance was increased by \$119,794, due to a significant increase of unexpected higher levels of Local Community Stabilization Authority and Act 51 funding and decreased expenses throughout the year.

There was a slight increase in local taxes, a slight increase in State Shared Revenue, while there were increases in local support, contributions, and cable franchise fees.

Management and all Department Heads took considerable time to seek additional and non-traditional funding. By offering services to neighboring municipalities, spearheading sponsorships of recreational programs, actively seeking local grants, and researching better utilization of village funds, these efforts greatly offset the increases in expenses.

Governmental activity expenditures of \$1,982,100 were recorded for the year. The Village Manager and Department Heads closely and consistently monitored its operational costs and spending in all areas. The Village Council also approved budget amendments in 2017.

#### **Business-Type Activities**

The Village of Cass City operates two business-type activities: the Water Fund and the Sewer Fund.

The Village provides treated water to the Village residents. Raw water is pumped from three Village-owned wells. The Village also provides water to four Elkland Township customers.

The Village also provides municipal sanitary sewer to its residents.

In 2007, a \$1.9 million loan was secured from the United States Department of Agriculture, Rural Development Agency (USDA/RD) for the construction of an Arsenic Removal Facility. The loan is at the rate of 4.18% to be repaid over a 40-year period, with installments of \$96,000 per year, from revenues collected from water users. The Village increased water rates in fiscal year 2014 to allow these payments to be made, plus secure a reserve account.

In December 2014, a \$450,000 loan was secured from Chemical Bank, Midland, MI to partially fund engineering costs invoiced by URS Corporation for \$658,000. On December 31, 2017, the loan balance stands at \$116,480, which is 26% of the original loan.

#### **Village of Cass City Funds**

The fund financial statements provide detailed information about the most significant funds. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds. The Cass City Village governmental major funds include General Fund, Major Street Fund and Local Street Fund. The business-type activities include the Water Fund and Sewer Fund.



**Village of Cass City**  
**Management's Discussion and Analysis**  
**Year Ended December 31, 2017**

---

**a) General Fund**

Functions relating to the general governmental operational activities of the Village, which are financed by property tax levies, by distribution of State revenues, and from fees charged for various municipal activities and services are recorded in the General Fund. Fund balance increased by \$93,580 in the General Fund.

In January 2017, the Village Manager retired after 12 years of service. An interim manager was hired contractually until the hiring of the new Village Manager in September 2017. A long-time Department of Public Works employee also retired in January 2017 and was not replaced. Costs related to these positions decreased in the General Fund, as well as throughout all Village Funds.

In late November, 2017, Local Stabilization Funds, in the amount of \$133,395 were received, of which \$97,378 were for the General Fund, with the remainder for Major and Local Streets. In 2016, the Village received \$82,792 in Local Stabilization Funds. This is a difference of \$50,603 from 2016 to 2017.

A concentrated effort was updating the boiler and roof of the Helen Stevens Memorial Pool, with the assistance of a Pinney Foundation Grant. As these park features are showing their age, the Village of Cass City continually strives to partner with local foundations for park improvements.

As in previous years, management persistently seeks cost cutting measures, and constant review of its expenditures, its operational needs and improvements. By multi-level management directly monitoring the budget, we expect to see positive changes in net position.

**b) Major and Local Street Funds**

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the Village's street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The Village uses these funds for improvements to the Village street system.

In 2017, the Capital Improvement Plan called for major improvements to South Seeger Street, with repair and replacement of the water and sewer lines under the road. A funding proposal for this project was submitted to the Rural Task Force, a local board allocating Federal Transportation funding, which was approved in the amount of \$160,000. The project is now anticipated to commence in 2020.

The Beechwood Street project was completed in 2017. Beechwood is a local street that was milled and paved from Hemlock Street to Chestnut Street at a cost of \$49,673.

In late November 2017, Local Stabilization Funds, in the amount of \$36,017 were received for Major and Local Streets, an unexpected increase in revenue.

The year finished with an increase in fund balance by \$182,190 in Major Streets and an increase in fund balance of \$1,995 in Local Street Funds.

**Village of Cass City  
Management's Discussion and Analysis  
Year Ended December 31, 2017**

---

**c) Other Governmental Funds**

Downtown Development Authority (DDA) and Economic Development Corporation (EDC) are two additional funds maintained by the Village of Cass City for the growth and enhancement of programs in the Village and the downtown corridor.

Funding for the EDC was limited to interest revenues, where the year's activities resulted in a decrease of \$200 in its fund balance.

Funding for the DDA is a result of the tax capture of taxable valuation since 1999 of parcels in the DDA district. The DDA increased fund balance by \$12,960.

**d) Water Fund**

In 2017, the Village of Cass City contracted with a local engineering firm to complete the Water Asset Management Plan, which identified the current state of the water system, recommended improvements and their costs, and a recommended timeline for completion. Another recommendation was the replacement of current water lines to a circumference of 6" or greater, and modern piping materials.

The Village of Cass City shall commence this improvement program with the Seeger Street Super Project in 2020, which will include street repaving, water and sewer line replacement.

There were no utility rate increases for water services in 2017. The net position in the water fund increased \$140,448, after depreciation expenses.

**e) Sewer Fund**

Highlighting the 2017 Waste Water Treatment Plant (WWTP) activities was the replacement of the Generator Transfer System. The current equipment to automatically switch to generator powered energy in a power loss situation was unreliable and cumbersome. Retrofitting equipment between the 40-year plant and modern technology was the primary project task, followed by equipment construction and installation. Shortly after completion, this \$144,798 investment, was unexpectedly put to the test, and succeeded seamlessly.

Capital investment in the aging Waste Water Treatment Plant has increased and is expected to continue to rise. The plant has been well-maintained and is functioning up to standards. Recently major investments have been required and the Village will have to consider a plan and funding for a new Waste Water Treatment Plant in the next 2-3 years.

In 2017, a new full-time Waste Water Treatment Worker was hired to improve the maintenance program of the WWTP infrastructure and sewer line arteries throughout the village. This department provides increasing levels of independent lab work for drink water analysis of local villages, churches, parks and restaurants, as well as lagoon testing for other municipalities.

There were no utility rate increases for sewer services in 2017. The Wastewater Treatment fund had a decrease in net position of \$53,317 after depreciation.

# **Village of Cass City Management's Discussion and Analysis Year Ended December 31, 2017**

---

## **General Fund Budgetary Highlights**

Over the course of the year, the Village Council and Village administration monitor and amend the budget to account for unanticipated events during the year. The most significant change was the increases in Act 51 and Local Stabilization Agency dollars. Other budgetary impacts include the slight increase in State Shared Revenue dollars and the effects of recent employee retirements and increased health benefit costs. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these issues.

## **Capital Asset and Debt Administration**

At the end of 2017, the Village of Cass City recorded an investment total of \$23,275,384 in a wide range of capital assets, including land, buildings, equipment, computer equipment, and water and sewer lines. Capital assets increased \$238,309 from 2016. A majority of the increase in capital assets was due to equipment purchases, sidewalks and drains. The value of the capital assets, net of depreciation contained in this report, is \$6,016,924 at the end of 2017.

Debt reported in these financial statements includes a loan from USDA Rural Development for the construction of the arsenic treatment plant and refinancing of an installment loan for a water well constructed in 1998.

The Downtown Development Authority has debt related to two parcels of land financed locally through Chemical Bank, to add parking areas to a prominent, growing area of the downtown. The DDA continues to make payments on a downtown building that was purchased on a land contract.

The Waste Water Treatment Plant secured a 10-year fixed rate loan in December 2014 for engineering costs related to a potential new treatment facility. The Village of Cass City made its first payments in 2017, leaving 26% of the original loan amount to be paid through the remaining loan period. It is the intent of management to aggressively pay down this loan in the coming years.

Finally, there is debt reported from the lease of police vehicles and other equipment. The Village has leased police vehicles since 1998 in an effort to save money. All debt is reported as a liability on the statement of net position in this document.

## **Economic Factors**

The Village of Cass City's budget for the 2018 year is cautious due to the unpredictable tax revenue environment in Michigan. Personal Property Tax elimination weighs heavy on fiscal management. Economic factors change daily, with the changes in national economic policy, forecasts of rising interest rates, upcoming changes in the state term-limited officials, including Michigan's governor, minimum wage increases, changes in healthcare and the Affordable Care Act, as well as the federal promises of a comprehensive infrastructure investment package. Village Council and Management must continue to stay abreast of these changes, new laws and current trends. In a team environment, the flexibility and adaptability of addressing these challenges will keep Cass City in its best possible position.

Management continues to work with prospective business owners and corporations for new development in Cass City, legacy programs for retiring business owners, thus striving to increase real and personal property values. Continued economic growth is slow, but positive, and management focuses on local and state resources to build Cass City's economic base.

The Village realizes the need to continue to monitor its budget very closely, and will continue to address these constant changes in revenues and expenses to sustain a healthy budget.

**Village of Cass City  
Management's Discussion and Analysis  
Year Ended December 31, 2017**

---

**Contacting the Village of Cass City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village of Cass City's finances and to show the Village's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Village Manager, 6506 Main Street, Cass City, MI 48726, (989) 872-2911 or via email at [ccmanager@casscity.org](mailto:ccmanager@casscity.org).

## ***BASIC FINANCIAL STATEMENTS***

**Village of Cass City  
Statement of Net Position  
December 31, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,057,239	814,476	\$ 1,871,715
Receivables			
Taxes	11,162	-	11,162
Customers	91,290	233,341	324,631
Accrued interest and other	250	218	468
Less allowance for uncollectible accounts	(10,516)	-	(10,516)
Due from other units of government	92,336	-	92,336
Internal balances	(68,621)	68,621	-
Prepaid items	56,509	-	56,509
Restricted assets			
Cash and cash equivalents	-	150,720	150,720
Capital assets, net			
Non-depreciated	461,354		461,354
Depreciated	2,665,993	2,889,577	5,555,570
<b>TOTAL ASSETS</b>	<b>4,356,996</b>	<b>4,156,953</b>	<b>8,513,949</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	39,767	9,906	49,673
Accrued and other liabilities	21,586	35,764	57,350
Unearned revenue	37,014	-	37,014
Noncurrent liabilities			
Due within one year	40,895	82,425	123,320
Due in more than one year	105,284	1,640,055	1,745,339
<b>TOTAL LIABILITIES</b>	<b>244,546</b>	<b>1,768,150</b>	<b>2,012,696</b>
<b>NET POSITION</b>			
Net investment in capital assets	2,994,164	1,167,097	4,161,261
Restricted for:			
Debt service		95,600	95,600
Special levied taxes	81,979	-	81,979
Streets and highways	282,637	-	282,637
DDA captured taxes	22,066		22,066
Repair and replacement equipment		55,120	55,120
Unrestricted	731,604	1,070,986	1,802,590
<b>TOTAL NET POSITION</b>	<b>\$ 4,112,450</b>	<b>\$ 2,388,803</b>	<b>\$ 6,501,253</b>

**Village of Cass City  
Statement of Activities  
Year Ended December 31, 2017**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Operating	Capital	Primary Government		
Functions/Programs	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental activities:							
General government	\$ 453,593	\$ 214,561	\$ 21,590	\$ -	\$ (217,442)	\$ -	\$ (217,442)
Public safety	553,099	-	-	-	(553,099)	-	(553,099)
Public works	672,792	-	381,754	-	(291,038)	-	(291,038)
Community and economic development	22,506	-	-	-	(22,506)	-	(22,506)
Recreation and culture	272,338	-	-	-	(272,338)	-	(272,338)
Interest on long-term debt	<u>7,772</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,772)</u>	<u>-</u>	<u>(7,772)</u>
Total Governmental activities	<u>1,982,100</u>	<u>214,561</u>	<u>403,344</u>	<u>-</u>	<u>(1,364,195)</u>	<u>-</u>	<u>(1,364,195)</u>
Business-type activities:							
Sewer	768,530	710,449	-	-	-	(58,081)	(58,081)
Water	<u>446,961</u>	<u>535,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,094</u>	<u>88,094</u>
Total Business-type activities	<u>1,215,491</u>	<u>1,245,504</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,013</u>	<u>30,013</u>
Total Primary government	<u>\$ 3,197,591</u>	<u>\$ 1,460,065</u>	<u>\$ 403,344</u>	<u>\$ -</u>	<u>(1,364,195)</u>	<u>30,013</u>	<u>(1,334,182)</u>
General revenues							
Property taxes					1,043,321	-	1,043,321
State shared revenue					251,600	-	251,600
Unrestricted investment earnings					14,739	6,781	21,520
Miscellaneous					<u>174,329</u>	<u>45,222</u>	<u>219,551</u>
Total general revenues and transfers					<u>1,483,989</u>	<u>52,003</u>	<u>1,535,992</u>
Change in net position					119,794	82,016	201,810
Net position - beginning of year					<u>3,992,656</u>	<u>2,306,787</u>	<u>6,299,443</u>
Net position - end of year					<u>\$ 4,112,450</u>	<u>\$ 2,388,803</u>	<u>\$ 6,501,253</u>

**Village of Cass City  
Governmental Funds  
Balance Sheet  
December 31, 2017**

	<u>Special Revenue Funds</u>			Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 379,349	\$ 323,706	\$ 108,103	\$ 40,432	\$ 851,590
Receivables					
Taxes	11,162	-	-	-	11,162
Customers	59,129	-	-	31,923	91,052
Interest	102	73	24	9	208
Less allowance for uncollectible accounts	(10,516)	-	-	-	(10,516)
Due from other units of government	39,886	40,313	12,137	-	92,336
Due from other funds	9,427	70	3,435	-	12,932
Prepaid items	56,509	-	-	-	56,509
<b>TOTAL ASSETS</b>	<b><u>\$ 545,048</u></b>	<b><u>\$ 364,162</u></b>	<b><u>\$ 123,699</u></b>	<b><u>\$ 72,364</u></b>	<b><u>\$ 1,105,273</u></b>
<b>LIABILITIES</b>					
Accounts payable	\$ 13,196	\$ 1,788	\$ 8,873	\$ 13,285	\$ 37,142
Accrued and other liabilities	14,415	1,382	729	-	16,526
Due to other funds	-	-	-	12,932	12,932
Unearned revenue	35,664	-	-	1,350	37,014
Total liabilities	63,275	3,170	9,602	27,567	103,614
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - property taxes	646	-	-	-	646
Total deferred inflows of resources	646	-	-	-	646
<b>FUND BALANCES</b>					
Nonspendable:					
Prepaid items	56,509	-	-	-	56,509
Restricted for:					
Special levied taxes	81,979	-	-	-	81,979
Streets and highways	-	282,637	-	-	282,637
DDA captured taxes	-	-	-	22,066	22,066
Committed to:					
Police	78,972	-	-	-	78,972
Assigned to:					
EDC	-	-	-	22,231	22,231
Subsequent year expenditures	35,783	78,355	114,097	500	228,735
Unassigned	227,884	-	-	-	227,884
Total fund balances	481,127	360,992	114,097	44,797	1,001,013
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b><u>\$ 545,048</u></b>	<b><u>\$ 364,162</u></b>	<b><u>\$ 123,699</u></b>	<b><u>\$ 72,364</u></b>	<b><u>\$ 1,105,273</u></b>



**Village of Cass City  
Governmental Funds  
Reconciliation of Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
December 31, 2017**

<b>Total fund balances for governmental funds</b>	\$1,001,013
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,594,294
Certain receivables are not available to pay for current period expenditures and, therefore are deferred inflows of resources in the funds.	646
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(464)
Compensated absences	(13,460)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(122,810)
Internal service funds are included as part of governmental activities.	<u>653,231</u>
<b>Net position of governmental activities</b>	<b><u>\$4,112,450</u></b>

**Village of Cass City  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended December 31, 2017**

		Special Revenue Funds		Nonmajor	Total
	General	Major Street	Local Street	Governmental Funds	Governmental Funds
<b>Revenues</b>					
Taxes	\$ 744,080	\$ 28,071	\$ 244,748	\$ 29,344	\$ 1,046,243
State shared revenue	251,600	-	-	-	251,600
Other state grants	-	258,338	123,416	-	381,754
Local contributions	21,590	-	-	-	21,590
Charges for services	211,703	-	-	-	211,703
Fines and forfeitures	2,858	-	-	-	2,858
Interest income	11,353	1,708	414	170	13,645
Rental income	-	-	-	16,200	16,200
Administration fee revenue	129,979	-	-	-	129,979
Other revenue	9,813	-	951	-	10,764
Total revenues	<u>1,382,976</u>	<u>288,117</u>	<u>369,529</u>	<u>45,714</u>	<u>2,086,336</u>
<b>Expenditures</b>					
Current					
General government	429,181	-	-	-	429,181
Public safety	482,553	-	-	-	482,553
Public works	144,068	105,927	367,534	-	617,529
Community and economic development	1,629	-	-	18,226	19,855
Recreation and culture	239,350	-	-	-	239,350
Debt service					
Principal retirement	-	-	-	16,894	16,894
Interest and fiscal charges	-	-	-	7,834	7,834
Total expenditures	<u>1,296,781</u>	<u>105,927</u>	<u>367,534</u>	<u>42,954</u>	<u>1,813,196</u>
Excess (deficiency) of revenues over expenditures	<u>86,195</u>	<u>182,190</u>	<u>1,995</u>	<u>2,760</u>	<u>273,140</u>
<b>Other financing sources (uses)</b>					
Transfers in	-	-	-	10,000	10,000
Transfers out	(10,000)	-	-	-	(10,000)
Insurance recoveries	17,385	-	-	-	17,385
Total other financing sources and uses	<u>7,385</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>17,385</u>
Net change in fund balance	93,580	182,190	1,995	12,760	290,525
Fund balance - beginning of year	<u>387,547</u>	<u>178,802</u>	<u>112,102</u>	<u>32,037</u>	<u>710,488</u>
Fund balance - end of year	<u>\$ 481,127</u>	<u>\$ 360,992</u>	<u>\$ 114,097</u>	<u>\$ 44,797</u>	<u>\$ 1,001,013</u>

**Village of Cass City  
Governmental Funds  
Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
Year Ended December 31, 2017**

<b>Net change in fund balances - Total governmental funds</b>	<b>\$ 290,525</b>
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(227,539)
Capital outlay	74,889
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Property taxes	(2,922)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	62
Compensated absences	3,263
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Repayments of long-term debt	16,894
Internal service funds are also included as governmental activities	<u>(35,378)</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ 119,794</u></b>

**Village of Cass City  
Proprietary Funds  
Statement of Net Position  
December 31, 2017**

	Enterprise Funds			Governmental Activities
	Sewer	Water	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 87,426	\$ 727,050	\$ 814,476	\$ 205,649
Receivables				
Customers	135,756	97,585	233,341	238
Accrued interest and other	20	198	218	42
Total current assets	<u>223,202</u>	<u>824,833</u>	<u>1,048,035</u>	<u>205,929</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	-	150,720	150,720	-
Capital assets, net	<u>1,230,761</u>	<u>1,658,816</u>	<u>2,889,577</u>	<u>533,053</u>
Total noncurrent assets	<u>1,230,761</u>	<u>1,809,536</u>	<u>3,040,297</u>	<u>533,053</u>
<b>TOTAL ASSETS</b>	<u>1,453,963</u>	<u>2,634,369</u>	<u>4,088,332</u>	<u>738,982</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	8,735	1,171	9,906	2,625
Accrued and other liabilities	11,981	23,783	35,764	4,596
Current portion of noncurrent liabilities	<u>52,425</u>	<u>30,000</u>	<u>82,425</u>	<u>9,910</u>
Total current liabilities	<u>73,141</u>	<u>54,954</u>	<u>128,095</u>	<u>17,131</u>
Noncurrent liabilities				
Long-term debt net of current portion	<u>64,055</u>	<u>1,576,000</u>	<u>1,640,055</u>	-
Total noncurrent liabilities	<u>64,055</u>	<u>1,576,000</u>	<u>1,640,055</u>	-
Total liabilities	<u>137,196</u>	<u>1,630,954</u>	<u>1,768,150</u>	<u>17,131</u>
<b>Net Position</b>				
Net investment in capital assets	1,114,281	52,816	1,167,097	523,143
Restricted for:				
Bond and interest redemption	-	95,600	95,600	-
Repair replacement and improvement	-	55,120	55,120	-
Unrestricted	<u>202,486</u>	<u>799,879</u>	<u>1,002,365</u>	<u>198,708</u>
Total net position	<u>\$ 1,316,767</u>	<u>\$ 1,003,415</u>	2,320,182	<u>\$ 721,851</u>
Some amounts reported for business-type activities in the statement of net position are different because certain internal service funds assets and liabilities are reported with business-type activities				
			<u>68,621</u>	
Net position of business-type activities			<u>\$ 2,388,803</u>	

**Village of Cass City  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Year Ended December 31, 2017**

	Enterprise Funds			Governmental Activities
	Sewer	Water	Total	Internal Service Funds
<b>Operating revenue</b>				
Customer fees	\$ 685,904	\$ 535,055	\$ 1,220,959	\$ -
Billings to other funds	-	-	-	265,282
Charges for services	-	-	-	289
Other revenue	<u>24,545</u>	<u>45,222</u>	<u>69,767</u>	<u>-</u>
Total operating revenue	<u>710,449</u>	<u>580,277</u>	<u>1,290,726</u>	<u>265,571</u>
<b>Operating expenses</b>				
Personnel services	349,215	156,541	505,756	45,432
Supplies	38,618	24,678	63,296	34,393
Contractual services	64,547	41,644	106,191	345
Utilities	75,981	45,490	121,471	-
Repairs and maintenance	11,461	6,496	17,957	25,093
Other expenses	44,610	40,597	85,207	88,916
Depreciation	<u>172,384</u>	<u>63,273</u>	<u>235,657</u>	<u>121,266</u>
Total operating expenses	<u>756,816</u>	<u>378,719</u>	<u>1,135,535</u>	<u>315,445</u>
Operating income (loss)	<u>(46,367)</u>	<u>201,558</u>	<u>155,191</u>	<u>(49,874)</u>
<b>Nonoperating revenue (expenses)</b>				
Interest income	1,355	5,426	6,781	1,094
Gain on sale of assets	-	-	-	8,285
Interest expense	<u>(8,305)</u>	<u>(66,536)</u>	<u>(74,841)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(6,950)</u>	<u>(61,110)</u>	<u>(68,060)</u>	<u>9,379</u>
Change in net position	(53,317)	140,448	87,131	(40,495)
Net position - beginning of year	<u>1,370,084</u>	<u>862,967</u>		<u>762,346</u>
Net position - end of year	<u>\$ 1,316,767</u>	<u>\$ 1,003,415</u>		<u>\$ 721,851</u>

Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities

(5,115)

Change in net position of business-type activities

\$ 82,016

**Village of Cass City  
Proprietary Funds  
Statement of Cash Flows  
Year Ended December 31, 2017**

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer	Water	Total	Internal Service Funds
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 716,241	\$ 593,457	\$ 1,309,698	\$ 18,299
Receipts from interfund users	-	-	-	265,282
Payments to suppliers	(300,756)	(147,908)	(448,664)	(147,337)
Payments to employees	(348,077)	(155,349)	(503,426)	(45,589)
Payments for interfund services used	(21,284)	(11,326)	(32,610)	-
Net cash provided (used) by operating activities	46,124	278,874	324,998	90,655
<b>Cash flows from capital and related financing activities</b>				
Purchases/construction of capital assets	(162,137)	(23,995)	(186,132)	(29,200)
Principal and interest paid on long-term debt	(58,249)	(94,537)	(152,786)	(19,112)
Proceeds from sale of capital assets	-	-	-	8,285
Net cash used by capital and related financing activities	(220,386)	(118,532)	(338,918)	(40,027)
<b>Cash flows from investing activities</b>				
Interest received	1,355	5,426	6,781	1,094
Net cash provided (used) by investing activities	1,355	5,426	6,781	1,094
Net change in cash and cash equivalents	(172,907)	165,768	(7,139)	51,722
Cash and cash equivalents - beginning of year	260,333	712,002	972,335	153,927
Cash and cash equivalents - end of year	\$ 87,426	\$ 877,770	\$ 965,196	\$ 205,649
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ (46,367)	\$ 201,558	\$ 155,191	\$ (49,874)
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation and amortization expense	172,384	63,273	235,657	121,266
Changes in assets and liabilities:				
Receivables (net)	5,792	13,180	18,972	18,010
Accounts payable	(86,823)	(329)	(87,152)	1,410
Accrued and other liabilities	1,138	1,192	2,330	(157)
Net cash (used) provided by operating activities	\$ 46,124	\$ 278,874	\$ 324,998	\$ 90,655

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The Village of Cass City is governed by an elected seven-member Council. The accompanying financial statements present the government entities for which the Village is considered to be financially accountable.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

While separate government-wide and fund financial statements are presented, they are interrelated. The government activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS:**

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

The Village reports the following major governmental funds:

The General Fund is the Village'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 accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the Village. Funding is primarily through state shared gas and weight taxes.

The Village reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

Additionally, the Village reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the Village on a cost reimbursement basis.

**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 process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events at the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. 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.

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 lease are reported as other financing sources.

Property taxes, state revenue sharing, sales 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. 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 Village.

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 function and various other functions of the Village. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.



**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

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 of the sewer and water funds and the internal service funds are charges to customers for sales and services. The Village also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the 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.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

**Budgetary information**

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The Village does not utilize encumbrance accounting.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. A budget is submitted to the Council for the fiscal year commencing on January 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally adopted by the Council resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Council.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to the year ended December 31<sup>st</sup>. The Village does not consider these amendments to be significant.

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
Buildings & Grounds	\$ 18,797	\$ 18,952	\$ 155
Public Works	142,785	144,068	1,283

**Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

1. Cash and cash equivalents – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.
2. Investments - Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

3. Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”
4. Inventories and prepaid items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories and prepaid items of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.
5. Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted cash. See notes 14 and 15 for details.
6. Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

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 extend its useful life beyond the original estimate. In the case of donations the Village values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	10 to 40 years
Building improvements	10 to 40 years
Water and sewer lines	10 to 40 years
Vehicles	5 to 10 years
Office equipment	5 to 10 years
Computer equipment	5 to 10 years

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section of 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/expenditure) until then. The Village has no items that qualify for this category.

In addition to liabilities, the statement of financial 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. The Village has one item that qualifies for this category. The item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available.

8. Net position flow assumption

Sometimes the Village 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 to report as restricted – net position and unrestricted – net position in the government-wide 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.

**Village of Cass City  
Notes to Financial Statements  
December 31, 2017**

9. 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 be reported 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.

10. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of the resources for specific purposes. The Village itself can establish limitations 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 adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

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 may also assign fund balances 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**

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

2. Property taxes

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each January 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

The 2017 taxable valuation of the Village totaled \$46,865,234, on which ad valorem taxes consisted of 12.4625 mills for operating purposes, 4.9162 mills for street purposes, .08 mills for landfill purposes, and .68 mills for promotion purposes. This resulted in \$600,299 for operating expenses, \$236,802 for street expenses, \$3,848 for landfill expenses, and \$32,749 for promotion expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

3. Compensated absences – Exchange time is defined as those hours that the employee can take as paid time off in lieu of overtime pay. The maximum number of hours that can be held in a bank at any one time during a fiscal year is forty. Exchange time can be carried over into the next fiscal year and must be used during the first three months of the new fiscal year. Any unused hours as of March 31<sup>st</sup> of the new fiscal year will be paid to the employee at the rate of pay in effect the prior fiscal year.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

4. Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - CASH & INVESTMENTS**

At year end the Village's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 1,057,239	\$ 814,476	\$ 1,871,715
Restricted cash and cash equivalents (See notes 14 & 15 for details)	<u>-</u>	<u>150,720</u>	<u>150,720</u>
Total primary government	<u>\$ 1,057,239</u>	<u>\$ 965,196</u>	<u>\$ 2,022,435</u>

The breakdown between deposits and investments is as follows:

	Primary Government
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 2,021,955
Petty cash and cash on hand	<u>480</u>
	<u>\$ 2,022,435</u>

*Interest rate risk* – The Village does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

*Credit risk* – State statutes authorize the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

*Concentration of credit risk* – The Village has no policy that would limit the amount that may be issued by any one issuer.

*Custodial credit risk - deposits* – In the case of deposits, this is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village does not have a policy for custodial credit risk. As of year end, \$1,790,646 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$2,022,435.

*Custodial credit risk – investments* – For an investment, 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. There were no investments held at year end.

*Fair value measurement* - The Village is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Village's own assumptions about the factors market participants would use in pricing and investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Village does not have any investments subject to the fair value measurement.

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

**NOTE 3 - UNAVAILABLE & UNEARNED REVENUE**

Governmental funds defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, unearned revenues consisted of \$37,014 of rental income and energy credits received prior to meeting earning requirements.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in governmental funds were as follows:

	<u>Unavailable</u>
Governmental funds	
Property taxes receivable	\$ 646
	<u>\$ 646</u>

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 461,354	\$ -	\$ -	\$ 461,354
Construction in progress	-	-	-	-
Total capital assets not being depreciated	461,354	-	-	461,354
Capital assets being depreciated				
Land improvements	365,976	-	-	365,976
Infrastructure	8,731,572	46,717	-	8,778,289
Buildings, additions and improvements	976,971	11,340	-	988,311
Machinery and equipment	1,877,362	46,032	51,872	1,871,522
Total capital assets being depreciated	11,951,881	104,089	51,872	12,004,098
Less accumulated depreciation for				
Land improvements	287,538	27,632	-	315,170
Infrastructure	6,943,917	184,872	-	7,128,789
Buildings, additions and improvements	654,736	4,957	-	659,693
Machinery and equipment	1,154,982	131,343	51,872	1,234,453
Total accumulated depreciation	9,041,173	348,804	51,872	9,338,105
Net capital assets being depreciated	2,910,708	(244,715)	-	2,665,993
Governmental activities capital assets, net	<u>\$ 3,372,062</u>	<u>\$ (244,715)</u>	<u>\$ -</u>	<u>\$ 3,127,347</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets being depreciated				
Buildings, additions and improvements	\$ 3,232,406	\$ -	\$ -	\$ 3,232,406
Machinery and equipment	182,084	-	-	182,084
Water system	3,061,037	23,997	-	3,085,034
Sewer system	4,148,273	162,135	-	4,310,408
Total capital assets being depreciated	10,623,800	186,132	-	10,809,932
Less accumulated depreciation for				
Buildings, additions and improvements	2,084,193	-	-	2,084,193
Machinery and equipment	150,828	-	-	150,828
Water system	1,257,211	63,273	-	1,320,484
Sewer system	4,192,466	172,384	-	4,364,850
Total accumulated depreciation	7,684,698	235,657	-	7,920,355
Net capital assets being depreciated	2,939,102	(49,525)	-	2,889,577
Business-type capital assets, net	<u>\$ 2,939,102</u>	<u>\$ (49,525)</u>	<u>\$ -</u>	<u>\$ 2,889,577</u>

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

Depreciation expense was charged to programs of the primary Village as follows:

Governmental activities	
General government	\$ 54,603
Public safety	61,393
Public works	78,566
Health and welfare	-
Community and economic development	2,526
Recreation and culture	30,450
Other functions	-
Capital assets held by the government's internal service funds	<u>121,266</u>
Total governmental activities	<u>348,804</u>
Business-type activities	
Sewer	172,384
Water	<u>63,273</u>
Total business-type activities	<u>235,657</u>
Total primary government	<u><u>\$ 584,461</u></u>

**NOTE 5 - INTERFUND PAYABLES AND RECEIVABLES**

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

<u>Fund</u>	<u>Interfund Payable</u>	<u>Interfund Receivable</u>
General Fund		\$ 9,427
Major Street		70
Local Street		3,435
DDA	<u>\$ 12,932</u>	
Total	<u><u>\$ 12,932</u></u>	<u><u>\$ 12,932</u></u>

**NOTE 6 - TRANSFERS**

The details for interfund transfers are as follows:

Funds Transferred From	Fund transferred To	Amount
General	DDA	<u>\$ 10,000</u>
		<u><u>\$ 10,000</u></u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the Village must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 7 - LEASES**

**Capital leases**

The Village leases police vehicles under agreements classified as capital leases. The cost and accumulated depreciation as of December 31, 2017 related to such equipment is as follows:

Asset	
Machinery and equipment	\$ 88,690
Less accumulated depreciation	<u>75,468</u>
Total	<u><u>\$ 13,222</u></u>

The present value of future minimum lease payments under capital leases as of December 31, 2017 is as follows:

Year ending December 31, 2018	<u>\$ 10,445</u>
Total minimum lease payments	10,445
Less amount representing interest	<u>536</u>
Present value of minimum lease payments	<u><u>\$ 9,909</u></u>

**Operating leases**

The Village has an operating lease agreement for a copy machine with total monthly payments of \$451. Lease expense on the copy machine for the current year was \$1,192.

The total future payments due under this lease is as follows:

Year ending December 31,	
2018	\$ 5,412
2019	5,412
2020	5,412
2021	5,412
2022	<u>5,412</u>
Total	<u><u>\$ 27,060</u></u>



**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 8 - LONG-TERM DEBT**

The Village issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund, Sewer Fund and Water Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
Installment purchase agreements									
Land contract - building (secured by property)	\$ 85,000	2019	7.00%	\$0 - \$88,000	\$ 45,566	-	\$ 5,813	\$ 39,753	\$ 5,770
Land contract - Hunt/Ball (secured by property)	\$ 95,000	2024	4.99%	\$356 - \$747	54,711	-	6,359	48,352	6,753
Land contract - Thorp (secured by property)	\$ 69,800	2024	4.99%	\$261 - \$547	39,427	-	4,722	34,705	5,003
Total bonds and notes payable					139,704	-	16,894	122,810	17,526
Capital leases									
Capitalized lease - vehicle (secured by vehicle)	\$ 29,461	3/16/17	6.50%	\$9,807- 10,445	9,807		9,807	-	
Capitalized lease - vehicle (secured by vehicle)	\$ 29,768	4/5/18	6.50%	\$9,910- 10,554	19,214		9,305	9,909	9,909
Total capitalized leases					29,021	-	19,112	9,909	9,909
Compensated absences					16,724	-	3,264	13,460	13,460
Total governmental activities					\$ 185,449	\$ -	\$ 39,270	\$ 146,179	\$ 40,895
Business- type activities									
Bonds and notes payable									
General revenue bonds									
USDA Rural Development (secured by plant)	\$ 1,858,000	2046	4.125%	\$15,000 - \$92,000	\$1,634,000	\$ -	\$ 28,000	\$1,606,000	\$ 30,000
WWTP Chemical Bank Loan (secured by sewage disposal system revenue)	\$ 450,000	2024	4.99%	\$35794- 55480	166,425		49,945	116,480	52,425
Total business- type activities					\$1,800,425	\$ -	\$ 77,945	\$1,722,480	\$ 82,425

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 27,335	\$ 7,139	\$ 82,425	\$ 72,072
2019	46,770	5,486	86,041	68,218
2020	12,987	2,642	41,014	64,193
2021	13,649	1,978	34,000	62,412
2022	14,346	1,282	35,000	61,008
2023-2027	17,632	569	197,000	282,274
2028-2032	-	-	241,000	238,054
2033-2037	-	-	297,000	184,058
2038-2042	-	-	361,000	117,602
2043 -2047	-	-	348,000	36,590
	<u>132,719</u>	<u>\$ 19,096</u>	<u>\$ 1,722,480</u>	<u>\$ 1,186,481</u>
Compensated absences	<u>13,460</u>			
	<u>\$ 146,179</u>			

**NOTE 9 - RISK MANAGEMENT**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**PLAN DESCRIPTION:**

The Village has instituted a defined contribution pension plan through a money purchase retirement plan covering all full-time Village of Cass City employees who choose to belong to the plan. It is administered by ICMA Retirement Corporation. The plan has been adopted under the provisions of 401(a) of the Internal Revenue Code.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and forfeitures of other participants benefits that may be allocated to such participant's account. The plan allows the employer to contribute up to 10% of the participating employee's gross wages, with tiered vesting. In addition, plan members can contribute up to 4% of their annual wages to the plan. During the most recent plan year, the Village's required and actual contribution is equal to an amount of each employee's annual salary to the plan. During the year ended December 31, 2017, the Village contributed \$71,777 to the plan and plan members also contributed \$28,754. Pension expense for the fiscal year ended December 31, 2017 was \$69,748.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 11 - DEFERRED COMPENSATION PLAN**

The Village Council offers all Village of Cass City employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in Village of Cass City's financial statements.

**NOTE 12 - POST EMPLOYMENT BENEFITS**

As of December 31, 2017, the Village has one retired individual still eligible to receive post-retirement health care benefits under a past traditional insured plan to qualified retired employees (which is now closed to future retirees). The Village pays for this cost at a rate of \$824 per month on a "pay as you go" basis. This benefit is no longer available to any future retirees.

**NOTE 13 - OTHER POST EMPLOYMENT BENEFITS**

**Plan Description** – The Village of Cass City administers a single-employer defined benefit plan (the Plan). The plan has been closed to any future retirees. The plan provides 100% of health insurance for one eligible retiree through the Village's group insurance plan which covers both active and retired members. Benefit provisions are established and may be amended by the Village's Council. The Plan does not issue a publicly available report.

**Annual OPEB Cost and Net OPEB Obligation** – The Village's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The Village has elected to calculate the ARC and related information using the alternative method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarially accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Village's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Village's net OPEB obligation:

Annual required contribution	\$ (9,891)
Contributions made to OPEB	9,891
Change in net OPEB obligation	<u>-</u>
Net OPEB liability, beginning of year	<u>-</u>
Net OPEB liability, end of year	<u><u>\$ -</u></u>

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

The Village's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2017, 2016, and 2015 are as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 9,891	100%	\$ -
2016	\$ 8,661	100%	\$ -
2015	\$ 8,009	100%	\$ -

**Funding Policy, Funded Status, and Funding Progress** – The Village funds the Plan on a pay-as-you-go basis. The Village contributes 100% of the cost of current-year premiums for eligible retired employees. For the year ended December 31, 2017, the Village contributed \$9,891 to the Plan. Eligible retirees receiving benefits contribute 0% of their premium cost. As of December 31, 2017, the actuarial accrued liability for benefits was \$56,457. There are no active employees covered by the plan. The projection of future benefits from an ongoing plan involves estimates of the value of the reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Actuarial Methods and Assumptions** – Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

**Other Assumptions and Methods** – Life expectancy was based on mortality tables published by the National Center for Health Statistics where required. The 2017 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The rate of return was assumed to be 2%.

**NOTE 14 - 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 of 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 15 - RESERVE FOR REPAIR, REPLACEMENTS AND IMPROVEMENT (RRI)**

The loan agreement covering the note payable to Rural Development requires that the Village accumulate at a rate of not less than \$3,000 annually to a reserve account for the life of the loan. The following summarizes the transactions in the reserve for RRI for the year ended December 31:

	2017	2016
Beginning Balance	\$ 42,560	\$ 30,000
Additions	12,560	12,560
Ending Balance	<u>\$ 55,120</u>	<u>\$ 42,560</u>

At December 31, 2017 and 2016, the reserve for RRI was in compliance with the minimum balance as set forth by Rural Development.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 16 - RESERVE FOR BOND**

The loan agreement covering the note payable to Rural Development requires that the Village accumulate at a rate of not less than \$9,560 annually to a reserve account until the account reaches the sum of \$95,600. When the reserve for bond account is fully funded, the \$9,560 annual requirement must be added to the reserve for RRI account annually for the life of the loan. The following summarizes the transactions in the reserve for bond for the year ended December 31:

	2017	2016
Beginning Balance	\$ 95,600	\$ 95,600
Additions	-	-
Withdrawals	-	-
Ending Balance	<u>\$ 95,600</u>	<u>\$ 95,600</u>

At December 31, 2017 and 2016, the reserve for bond was in compliance with the minimum balance as set forth by Rural Development.

**NOTE 17 – TAX ABATEMENTS**

**INDUSTRIAL FACILITIES EXEMPTION**

Municipalities within the Village's boundaries entered into property tax abatement agreements with local business under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. An Industrial Facilities Tax Exemption (IFT) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term for 1-12 years as determined by the local unit of government. The IFT on new plant and new industrial property is computed at 50% of the taxes levied. The municipalities can elect to freeze the taxable values for rehabilitation properties.

For the year ended December 31, 2017, the Village's property tax revenue for general operations were reduced by \$39,838 under this program.

**NOTE 18 – BENEFICIAL INTERESTS IN ASSETS HELD BY FOUNDATIONS AND TRUSTS**

Beneficial interest in assets held by foundations includes amounts held by the Tuscola County Community Foundation (TCCF) as an endowment established for the benefit of the Village of Cass City. The endowment agreement permits the TCCF to substitute another beneficiary in the place of the Village in the event the Village ceases to exist, or for other various reasons in accordance with the TCCF's bylaws. In addition, the Board of Trustees of the Tuscola County Community Foundation (Board) shall have the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. Distributions of the spendable income are made to the Village upon written request. The Village did not receive any distributions from the TCCF for the year ended December 31, 2017. As of December 31, 2017, the fair value of the endowment held at TCCF was approximately \$2,256.

**Village of Cass City**  
**Notes to Financial Statements**  
**December 31, 2017**

**NOTE 19 – UPCOMING ACCOUNTING PRONOUNCEMENT**

In June 2015, the GASB issued new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the Village will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The Village is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 75 is effective for fiscal years beginning after June 15, 2017.

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

**NOTE 20 – SUBSEQUENT EVENTS**

In 2017, the Department of Public Works and Parks Department began the process to unionize and become members of the Teamsters Local 214. Contract negotiations commenced in June 2017, and in March 2018, the Village and Union ratified a 3 year contract term to December 31, 2020.

The Village of Cass City Downtown Development Authority (DDA) owns a residential property that is currently a rental and occupied by a family. The Human Development Commission (HDC) contacted the Village on behalf of the DDA concerning grant funds that were available for lead abatement and remediation at no cost to the DDA. The HDC proposed a Lead Abatement Project for the property to be completed in 2018, funded by grants with no in-kind match. The project was approved and scheduled for Spring 2018.

***REQUIRED SUPPLEMENTARY INFORMATION***

**Village of Cass City**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended December 31, 2017**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<b>Revenues</b>				
Taxes				
Property taxes	\$ 632,288	\$ 724,848	\$ 734,811	\$ 9,963
Penalties and interest	500	500	359	(141)
Administration fee	8,932	8,932	8,910	(22)
State revenue sharing and other state revenue	248,915	248,915	251,600	2,685
State grants	1,000	1,000	-	(1,000)
Local contributions	38,600	16,200	21,590	5,390
Charges for services	224,477	213,672	211,703	(1,969)
Fines and forfeitures	3,750	3,750	2,858	(892)
Interest income	10,000	10,000	11,353	1,353
Administration fee revenue	129,979	129,979	129,979	-
Other revenue	6,500	5,500	9,813	4,313
Insurance recoveries	-	-	17,385	17,385
<b>Total revenues</b>	<b>1,304,941</b>	<b>1,363,296</b>	<b>1,400,361</b>	<b>37,065</b>
<b>Expenditures</b>				
General government				
Village council	4,500	4,500	3,300	1,200
Manager	129,215	130,115	126,838	3,277
Clerk	153,928	166,878	148,133	18,745
Audit	20,500	21,000	20,895	105
Fiscal services	82,200	113,400	110,193	3,207
Elections	-	870	870	-
Buildings and grounds	24,590	18,797	18,952	(155)
<b>Total general government</b>	<b>414,933</b>	<b>455,560</b>	<b>429,181</b>	<b>26,379</b>
Public safety				
Police	491,398	491,402	482,553	8,849
<b>Total public safety</b>	<b>491,398</b>	<b>491,402</b>	<b>482,553</b>	<b>8,849</b>
Public works				
Department of public works	140,165	142,785	144,068	(1,283)
<b>Total public works</b>	<b>140,165</b>	<b>142,785</b>	<b>144,068</b>	<b>(1,283)</b>
Community and economic development				
Zoning	5,400	1,855	1,629	226
<b>Total community and economic development</b>	<b>5,400</b>	<b>1,855</b>	<b>1,629</b>	<b>226</b>
Recreation and culture				
Parks and recreation	249,869	261,249	239,350	21,899
<b>Total recreation and culture</b>	<b>249,869</b>	<b>261,249</b>	<b>239,350</b>	<b>21,899</b>
<b>Total expenditures</b>	<b>1,301,765</b>	<b>1,352,851</b>	<b>1,296,781</b>	<b>56,070</b>
<b>Other financing sources (uses)</b>				
Transfers out	10,000	10,000	10,000	-
<b>Net change in fund balances</b>	<b>\$ (6,824)</b>	<b>\$ 445</b>	<b>93,580</b>	<b>\$ 93,135</b>
Fund balance - beginning of year			387,547	
Fund balance - end of year			<u>\$ 481,127</u>	



**Village of Cass City**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Major Street**  
**Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 23,569	\$ 28,001	\$ 28,071	\$ 70
Other state grants	295,204	262,796	258,338	(4,458)
Interest income	400	1,500	1,708	208
Other revenue	-	750	-	(750)
	<u>319,173</u>	<u>293,047</u>	<u>288,117</u>	<u>(4,930)</u>
<b>Expenditures</b>				
Current				
Public works	<u>313,272</u>	<u>213,248</u>	<u>105,927</u>	<u>107,321</u>
	<u>313,272</u>	<u>213,248</u>	<u>105,927</u>	<u>107,321</u>
<b>Other financing sources (uses)</b>				
Transfers out	<u>(75,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(75,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (69,099)</u>	<u>\$ 79,799</u>	182,190	<u>\$ 102,391</u>
Fund balance - beginning of year			<u>178,802</u>	
Fund balance - end of year			<u>\$ 360,992</u>	

**Village of Cass City**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Local Street**  
**Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<b>Revenues</b>				
Taxes	\$ 210,911	\$ 241,313	\$ 244,748	\$ 3,435
Other state grants	109,780	117,969	123,416	5,447
Interest income	150	350	414	64
Other revenue	400	1,400	951	(449)
Total revenues	<u>321,241</u>	<u>361,032</u>	<u>369,529</u>	<u>8,497</u>
<b>Expenditures</b>				
Current				
Public works	<u>457,899</u>	<u>392,399</u>	<u>367,534</u>	<u>24,865</u>
Total expenditures	<u>457,899</u>	<u>392,399</u>	<u>367,534</u>	<u>24,865</u>
<b>Other financing sources (uses)</b>				
Transfers in	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (61,658)</u>	<u>\$ (31,367)</u>	1,995	<u>\$ 33,362</u>
Fund balance - beginning of year			<u>112,102</u>	
Fund balance - end of year			<u>\$ 114,097</u>	

***ADDITIONAL SUPPLEMENTARY INFORMATION***

**Village of Cass City**  
**Additional Supplementary Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**December 31, 2017**

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Nonmajor Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 22,726	\$ 17,706	\$ 40,432
Receivables			
Customers	-	31,923	31,923
Accrued interest and other	<u>5</u>	<u>4</u>	<u>9</u>
 Total assets	 <u>\$ 22,731</u>	 <u>\$ 49,633</u>	 <u>\$ 72,364</u>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 13,285	\$ 13,285
Due to other funds	-	12,932	12,932
Unearned revenue	<u>-</u>	<u>1,350</u>	<u>1,350</u>
 Total liabilities	 <u>-</u>	 <u>27,567</u>	 <u>27,567</u>
<b>Fund balances</b>			
Restricted for:			
DDA captured taxes	-	22,066	22,066
EDC	22,231	-	22,231
Assigned for subsequent year expenditures	<u>500</u>	<u>-</u>	<u>500</u>
 Total fund balances	 <u>22,731</u>	 <u>22,066</u>	 <u>44,797</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 22,731</u>	 <u>\$ 49,633</u>	 <u>\$ 72,364</u>

**Village of Cass City**  
**Additional Supplementary Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended December 31, 2017**

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Nonmajor Governmental Funds</u>
<b>Revenues</b>			
Taxes	\$ -	\$ 29,344	\$ 29,344
Interest income	158	12	170
Rental income	-	16,200	16,200
	<u>158</u>	<u>45,556</u>	<u>45,714</u>
Total revenues			
<b>Expenditures</b>			
Current			
Community and economic development	358	17,868	18,226
Debt service			
Principal retirement	-	16,894	16,894
Interest and fiscal charges	-	7,834	7,834
	<u>358</u>	<u>42,596</u>	<u>42,954</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(200)</u>	<u>2,960</u>	<u>2,760</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	10,000	10,000
	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Total other financing sources and uses			
Net change in fund balance	(200)	12,960	12,760
Fund balance - beginning of year	<u>22,931</u>	<u>9,106</u>	<u>32,037</u>
Fund balance - end of year	<u>\$ 22,731</u>	<u>\$ 22,066</u>	<u>\$ 44,797</u>



# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

Thomas B. Doran, CPA  
Valerie J. Hartel, CPA  
Jamie L. Peasley, CPA  
.....  
Gary R. Anderson, CPA  
Jerry J. Bernhardt, CPA

Terry L. Haske, CPA  
Timothy D. Franzel  
Laura J. Steffen, CPA  
Angela M. Burnette, CPA  
David A. Ondrajka, CPA  
John M. Bungart, CPA

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Management and Village Council  
Village of Cass City  
Cass City, MI 48726

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Cass City, State of Michigan, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Village of Cass City's, State of Michigan, basic financial statements and have issued our report thereon dated June 18, 2018.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Village of Cass City's, State of Michigan, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Village of Cass City's, State of Michigan, internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Cass City's, State of Michigan, internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiencies as items 2017-001 and 2017-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Village of Cass City's, State of Michigan, financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Village of Cass City's, State of Michigan, Response to Findings**

Village of Cass City's, State of Michigan, response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Village of Cass City's, State of Michigan, response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CASS CITY, MICHIGAN

June 18, 2018

**VILLAGE OF CASS CITY, MICHIGAN**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**YEAR ENDED DECEMBER 31, 2017**

Finding 2017-001 Significant Deficiency

Condition:

Due to the limited number of staff, many critical duties are combined and given to the available staff and/or council members.

Context:

Internal controls are weakened due to the lack of segregation of duties.

Effect:

Other staff members and/or council members must be utilized in order to achieve good internal controls.

Cause:

The village doesn't have enough staff in the village office to have proper segregation of duties.

Recommendation:

At this time, we recommend the village segregate the duties whenever possible and communicate this as required by professional standards. This meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Client Response:

The Village hired a new Village Manager late in 2017, who has implemented new procedures to segregate duties in fiscal year 2018.

Finding 2017-002 Significant Deficiency

Condition:

Certain monthly bank reconciliations were not completed in a timely manner.

Context:

Internal controls are weakened due to lack of timely bank reconciliations.

Effect:

Asset account balances may be significantly influenced.

Cause:

The Village did not prepare some of the 2017 monthly bank reconciliations until after fiscal year end.

Recommendation:

We recommend the Village reevaluate accounting procedures and redefine accounting personnel duties to increase efficiency and timeliness. Accounts should be reconciled timely each month.

Client Response:

The Village hired a new Village Manager late in 2017, who has implemented new procedures to verify bank reconciliations are being completed in a timely manner for fiscal year 2018.