

**City of Mason  
Ingham County, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2012**

City of Mason  
Ingham County, Michigan  
June 30, 2012

CITY COUNCIL AND ADMINISTRATION

Leon Clark	Mayor
Michael Waltz	Mayor Pro-Tem
Jon Droscha	Council member
Elaine Ferris	Council member
James Mulvany	Council member
Robin Naeyaert	Council member
Barb Tornholm	Council member
Martin Colburn	City Administrator/ Public Works Administrator
Eric Smith	Finance Director/ Treasurer

City of Mason

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, on our consideration of the City of Mason's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Our discussion and analysis of the City of Mason, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements.

**Overview of the Financial Statements**

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplemental information, and other supplemental information section that presents combining statements for nonmajor governmental funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the statement of net assets and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements include the balance sheet and the statement of revenue, expenditures, and changes in net assets/fund balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

The governmental fund statements tell how general government services, like police and fire, were financed in the short term as well as what remains for future spending.

The proprietary fund statements present short and long-term financial information about those activities that the City operates in a business-like manner, such as the water and sewer system.

The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our nonmajor governmental and fiduciary funds.

**Government-wide Financial Statements**

The City's government-wide statements can be found on pages 1 and 2 of this report. These statements report information about the City as a whole under the full accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes all, both current and long-term, of the government's assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial health or position.

Over time, increases or decreases in the City's net assets can be viewed as indicators of whether its financial health is improving or deteriorating, respectively.

In addition to the financial factors, you will need to consider additional information such as changes in the City's property tax base to assess the overall health.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, cemetery, parks, and general administration. Property taxes and state revenue sharing are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system is included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority and the Local Development Finance Authority. The City is financially accountable for these "component units" although they are legally separate entities.

**Fund Financial Statements**

The City's fund financial statements begin on page 3 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law and others are established by the City to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we describe the relationship (or differences) between governmental activities and governmental funds in reconciliations on pages 4 and 6.
- Proprietary funds - When the City charges customers fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
  - In fact, the City's Enterprise Fund (water and sewer) is the same as its business-type activity, but provides more detail and additional information.
  - We use an Internal Service Fund (the other type of proprietary fund) to report activities that provide services and supplies to other programs and activities within the City. The City's Motor Vehicle Pool Fund falls into this category.
- Fiduciary funds - The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The delinquent tax and payroll funds are fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 through 33 of the report.



City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

**Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2012:

- The City's total net assets decreased as a result of the fiscal year's operations and the continued slow economic recovery. The net assets of the business-type activities decreased by \$289,643 or 2.00 percent, and net assets of the governmental activities decreased by \$485,434, or 2.26 percent.
- During the year, the City had revenues that were \$485,434 less than the \$6.05 million in expenses.
- State shared revenues, the second largest individual revenue source, decreased from \$595,417 in 2010/2011 to \$577,495 in the current fiscal year.
- In the City's business-type activities, revenues were \$2.36 million while expenses were \$2.65 million.
- Total costs of all the City's programs were \$8.72 million.
- The General Fund reported an increase in fund balance of \$348,685.

**The City as a Whole**

The following table shows, in a condensed format, the current year's net assets for the years ended June 30, 2012 and 2011:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Assets</b>						
Current and other assets	\$ 5,824,606	\$ 5,477,436	\$ 4,083,465	\$ 4,269,842	\$ 9,908,071	\$ 9,747,278
Capital assets, net	21,116,800	22,319,116	16,723,771	17,156,280	37,840,571	39,475,396
Total assets	26,941,406	27,796,552	20,807,236	21,426,122	47,748,642	49,222,674
<b>Liabilities</b>						
Current	658,009	723,934	467,543	451,755	1,125,552	1,175,689
Noncurrent	5,259,382	5,563,169	6,119,481	6,464,512	11,378,863	12,027,681
Total liabilities	5,917,391	6,287,103	6,587,024	6,916,267	12,504,415	13,203,370
<b>Net Assets</b>						
Invested in capital assets net of related debt	15,831,085	16,731,928	10,325,097	10,412,606	26,156,182	27,144,534
Restricted	1,116,208	895,526	-	-	1,116,208	895,526
Unrestricted	4,076,722	3,881,995	3,895,115	4,097,249	7,971,837	7,979,244
Total net assets	\$ 21,024,015	\$ 21,509,449	\$ 14,220,212	\$ 14,509,855	\$ 35,244,227	\$ 36,019,304

The City's combined net assets decreased from a year ago from \$36.01 million to \$35.24 million.

Approximately 75.30 percent of the City's net assets of governmental activities reflect its investment in capital less any related debt used to acquire those assets. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of governmental activities of \$4.08 million represent the amount that may be used to meet the City's ongoing obligations.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Net assets of the City's governmental activities decreased by nearly 2.26 percent to \$21.02 million. This decrease is primarily due to the continued decline in property tax revenues, as well as, a decline in capital asset values. The City has a strong commitment to continue providing municipal services, maintaining major streets, local streets, and city parks, and providing public safety technology and personal protection equipment during these difficult economic times.

The net assets of our business-type activities decreased by 2.00 percent to \$14.22 million during the fiscal year. This decrease is due to declining capital asset values, and the increased cost of operating and maintaining the water and sewer systems. The City continues to invest in infrastructure such as maintaining water and sewer mains, as well as, continued improvement to the water and wastewater treatment plants.

The following table illustrates the varying results of the governmental activities and business-type activities, which combine to capture the City's total net assets, for the years ended June 30, 2012 and 2011.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Program revenue:						
Charges for services	\$ 955,623	\$ 939,202	\$ 2,368,274	\$ 2,335,411	\$ 3,323,897	\$ 3,274,613
Operating grants and contributions	950,918	967,172	-	-	950,918	967,172
Capital grants and contributions	-	-	-	-	-0-	-0-
General revenues:						
Property taxes	2,887,752	2,976,534	-	-	2,887,752	2,976,534
State Revenue Sharing	636,625	545,048	-	-	636,625	545,048
Investment earnings	10,325	13,194	11,200	14,035	21,525	27,229
Miscellaneous	104,366	100,782	1,417	-	105,783	100,782
Transfers	19,670	-	(19,670)	-	-0-	-0-
<b>Total revenues</b>	<b>5,565,279</b>	<b>5,541,932</b>	<b>2,361,221</b>	<b>2,349,446</b>	<b>7,926,500</b>	<b>7,891,378</b>
<b>Expenses</b>						
General government	2,317,787	2,031,088	-	-	2,317,787	2,031,088
Public safety	1,572,801	1,508,465	-	-	1,572,801	1,508,465
Public works	1,546,382	1,689,150	-	-	1,546,382	1,689,150
Community and economic development	111,480	106,744	-	-	111,480	106,744
Recreation and culture	283,676	313,354	-	-	283,676	313,354
Interest on long-term debt	218,587	225,542	-	-	218,587	225,542
Water and Sewer	-	-	2,650,864	2,590,571	2,650,864	2,590,571
<b>Total expenses</b>	<b>6,050,713</b>	<b>5,874,343</b>	<b>2,650,864</b>	<b>2,590,571</b>	<b>8,701,577</b>	<b>8,464,914</b>
<b>Change in net assets</b>	<b>(485,434)</b>	<b>(332,411)</b>	<b>(289,643)</b>	<b>(241,125)</b>	<b>(775,077)</b>	<b>(573,536)</b>
Net assets, beginning of year	21,509,449	21,841,860	14,509,855	14,750,980	36,019,304	36,592,840
<b>Net assets, end of year</b>	<b>\$ 21,024,015</b>	<b>\$ 21,509,449</b>	<b>\$ 14,220,212</b>	<b>\$ 14,509,855</b>	<b>\$ 35,244,227</b>	<b>\$ 36,019,304</b>

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

**Governmental activities.** Governmental activities decreased the City's net assets by \$485,434. Key elements of this decrease are as follows:

- The cost of all governmental activities this year was \$6.05 million.
- The amount that City taxpayers paid for these activities through City taxes was approximately \$2.89 million.
- Some of the cost was paid by the beneficiaries of the program's activities (\$0.95 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$0.95 million).
- Decrease in capital spending in Governmental activities areas.
- Ingham County property tax roll reimbursements was \$427,126.

**Business-type activities.** Business-type activities decreased the City's net assets by \$289,643.

Total revenues of the City's business-type activities, water and sewer, increased to \$2.36 million for 2012 from \$2.35 million in 2011 and total expenses increased to \$2.65 million in 2012 from \$2.59 million in 2011. The City experienced a change in net assets of \$289,643 in its water and sewer operations. Factors contributing to these results included:

- Increased Water and Sewer sales due to fewer vacancies and higher usage.
- Increasing cost of operations and maintenance of the water and sewer system.
- Decrease in capital spending in the Water and Sewer Fund.

### **The City's Funds**

The analysis of the City's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2012 include the General Fund and the Special Assessment Fund. These funds, along with the remaining nonmajor governmental funds, reported a combined fund balance of \$3.70 million, and showed an increase from last year's combined fund balance of \$3.26 million.

### **General Fund Budgetary Highlights**

Over the course of the year, the City Council revised the City budget several times. The City began the year expecting to increase fund balance by \$91,420. The City experienced revenue increases and expense reductions that exceeded expectations during the current budget year. The result was an addition to General Fund fund balance of \$348,685.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

**Capital Asset and Debt Administration**

At the end of the 2012 fiscal year, the City had invested approximately \$37.84 million in a broad range of capital assets, including police equipment, buildings and improvements, public safety equipment, parks and recreational facilities, roads, a water well, and water and sewer lines.

	Governmental Activities	Business-type Activities	Total
Land	\$ 1,432,912	\$ 25,609	\$ 1,458,521
Construction in progress	110,913	21,430	132,343
Land improvements	1,011,834	-	1,011,834
Buildings and improvements	6,127,262	238,808	6,366,070
Infrastructure	11,339,617	16,437,924	27,777,541
Vehicles and Equipment	1,094,262	-	1,094,262
Capital assets, net	<u>\$ 21,116,800</u>	<u>\$ 16,723,771</u>	<u>\$ 37,840,571</u>

**Debt**

At year end, the City had \$12.17 million in bonds and notes outstanding. This represents a \$0.64 million increase from the previous year. More detailed information about the City's long-term liabilities is presented in Note F to the basic financial statements.

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 4,160,000	\$ -	\$ 4,160,000
Special assessment bonds	532,000	-	532,000
Loans payable	593,715	-	593,715
Revolving fund loan	-	6,398,674	6,398,674
Accrued compensated absences	393,959	94,759	488,718
Total outstanding debt	<u>\$ 5,679,674</u>	<u>\$ 6,493,433</u>	<u>\$ 12,173,107</u>

The City of Mason has been given a bond rating of "AA-" by Standards and Poor.

**Economic Factors and Next Year's Budgets and Rates**

The City's budget for the 2012/2013 fiscal year is balanced with no property tax rate increase. Total expenses in the General Fund for the 2012/2013 fiscal year are estimated to be \$5.7 million. Economic factors contributing to the total expenses for 2012/2013 include the 5-year street program at full capacity and the rising costs of providing employee benefits.

The Outfall Bypass project reached completion during the 2011/2012 fiscal year. The completion of the project allowed the City of Mason to stay in compliance with State and Federal regulations. The City of Mason plans to proceed with an additional water well to continue to meet the needs of the community. A completion date within the 2012/2013 fiscal year is expected.

The City of Mason continues to seek appropriate means of investment and growth of taxable values while reevaluating services provided and cost of services.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

**Contacting the City of Mason Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the City administrator's office at the City of Mason, 517-676-9155.

## **BASIC FINANCIAL STATEMENTS**

City of Mason

STATEMENT OF NET ASSETS

June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 4,327,454	\$ 3,578,732	\$ 7,906,186	\$ 827,736
Receivables	1,280,336	479,283	1,759,619	5,061
Due from other governmental units	184,445	-	184,445	-
Internal balances	1,058	(1,058)	-0-	-
Inventory	-	26,508	26,508	-
Prepays	9,542	-	9,542	-
<b>Total current assets</b>	<b>5,802,835</b>	<b>4,083,465</b>	<b>9,886,300</b>	<b>832,797</b>
Noncurrent assets				
Net pension asset	21,626	-	21,626	-
Net other post-employment benefits asset	145	-	145	-
Capital assets not being depreciated	1,543,825	47,039	1,590,864	-
Capital assets, net of accumulated depreciation	19,572,975	16,676,732	36,249,707	-
<b>Total noncurrent assets</b>	<b>21,138,571</b>	<b>16,723,771</b>	<b>37,862,342</b>	<b>-0-</b>
<b>TOTAL ASSETS</b>	<b>26,941,406</b>	<b>20,807,236</b>	<b>47,748,642</b>	<b>832,797</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	33,158	39,957	73,115	8,278
Accrued liabilities	83,742	-	83,742	214
Accrued wages	58,475	19,641	78,116	-
Due to other governmental units	55	-	55	-
Accrued interest payable	54,716	33,993	88,709	1,155
Unearned revenue	7,571	-	7,571	-
Current portion of compensated absences	118,188	18,952	137,140	-
Current portion of long-term debt	302,104	355,000	657,104	35,000
<b>Total current liabilities</b>	<b>658,009</b>	<b>467,543</b>	<b>1,125,552</b>	<b>44,647</b>
Noncurrent liabilities				
Noncurrent portion of compensated absences	275,771	75,807	351,578	-
Noncurrent portion of long-term debt	4,983,611	6,043,674	11,027,285	35,000
<b>Total noncurrent liabilities</b>	<b>5,259,382</b>	<b>6,119,481</b>	<b>11,378,863</b>	<b>35,000</b>
<b>TOTAL LIABILITIES</b>	<b>5,917,391</b>	<b>6,587,024</b>	<b>12,504,415</b>	<b>79,647</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	15,831,085	10,325,097	26,156,182	-
Restricted	1,116,208	-	1,116,208	-
Unrestricted	4,076,722	3,895,115	7,971,837	753,150
<b>TOTAL NET ASSETS</b>	<b>\$ 21,024,015</b>	<b>\$ 14,220,212</b>	<b>\$ 35,244,227</b>	<b>\$ 753,150</b>

See accompanying notes to financial statements.

City of Mason

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Primary Government			
				Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>							
Governmental activities							
General government	\$ 2,317,787	\$ 334,476	\$ 445,050	\$ (1,538,261)	\$ -	\$ (1,538,261)	\$ -
Public safety	1,572,801	209,919	3,255	(1,359,627)	-	(1,359,627)	-
Public works	1,546,382	352,263	502,613	(691,506)	-	(691,506)	-
Community and economic development	111,480	-	-	(111,480)	-	(111,480)	-
Recreation and culture	283,676	58,965	-	(224,711)	-	(224,711)	-
Interest on long-term debt	218,587	-	-	(218,587)	-	(218,587)	-
Total governmental activities	6,050,713	955,623	950,918	(4,144,172)	-0-	(4,144,172)	-0-
Business-type activities							
Water and Sewer	2,650,864	2,368,274	-	-	(282,590)	(282,590)	-
Total primary government	<u>\$ 8,701,577</u>	<u>\$ 3,323,897</u>	<u>\$ 950,918</u>	(4,144,172)	(282,590)	(4,426,762)	-0-
<b>Component units</b>							
Local Development Finance Authority	\$ 24,101	\$ -	\$ -	-	-	-0-	(24,101)
Downtown Development Authority	70,557	-	31,398	-	-	-0-	(39,159)
Economic Development Corporation	-	-	-	-	-	-0-	-
Total component units	<u>\$ 94,658</u>	<u>\$ -0-</u>	<u>\$ 31,398</u>	-0-	-0-	-0-	(63,260)
<b>General revenues</b>							
Property taxes				2,887,752	-	2,887,752	419,332
State shared revenue				636,625	-	636,625	-
Investment earnings				10,325	11,200	21,525	5,167
Miscellaneous				104,366	1,417	105,783	-
Transfers				19,670	(19,670)	-0-	-
Total general revenues and transfers				<u>3,658,738</u>	<u>(7,053)</u>	<u>3,651,685</u>	<u>424,499</u>
Change in net assets				(485,434)	(289,643)	(775,077)	361,239
Net assets, beginning of year				<u>21,509,449</u>	<u>14,509,855</u>	<u>36,019,304</u>	<u>391,911</u>
Net assets, end of year				<u>\$ 21,024,015</u>	<u>\$ 14,220,212</u>	<u>\$ 35,244,227</u>	<u>\$ 753,150</u>

See accompanying notes to financial statements.



City of Mason

Governmental Funds

BALANCE SHEET

June 30, 2012

	General	Special Assessment	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,789,873	\$ 320,846	\$ 1,639,762	\$ 3,750,481
Receivables				
Accounts	24,541	-	1,399	25,940
Taxes	17,500	-	-	17,500
Special assessments	-	1,236,896	-	1,236,896
Due from other governmental units	-	-	80,678	80,678
Due from other funds	102,652	-	9,288	111,940
Prepays	9,542	-	-	9,542
<b>TOTAL ASSETS</b>	<b><u>\$ 1,944,108</u></b>	<b><u>\$ 1,557,742</u></b>	<b><u>\$ 1,731,127</u></b>	<b><u>\$ 5,232,977</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 33,158	\$ -	\$ -	\$ 33,158
Accrued wages	52,874	-	4,201	57,075
Accrued liabilities	83,742	-	-	83,742
Due to other funds	-	96,158	15,782	111,940
Due to other governmental units	55	-	-	55
Deferred revenue	7,571	1,236,896	-	1,244,467
<b>TOTAL LIABILITIES</b>	<b>177,400</b>	<b>1,333,054</b>	<b>19,983</b>	<b>1,530,437</b>
<b>FUND BALANCES</b>				
Nonspendable	9,542	-	-	9,542
Restricted	179,059	48,753	943,112	1,170,924
Committed	-	-	155,000	155,000
Assigned	-	175,935	613,032	788,967
Unassigned	1,578,107	-	-	1,578,107
<b>TOTAL FUND BALANCES</b>	<b><u>1,766,708</u></b>	<b><u>224,688</u></b>	<b><u>1,711,144</u></b>	<b><u>3,702,540</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 1,944,108</u></b>	<b><u>\$ 1,557,742</u></b>	<b><u>\$ 1,731,127</u></b>	<b><u>\$ 5,232,977</u></b>

See accompanying notes to financial statements.

City of Mason

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2012

**Total fund balances - governmental funds** \$ 3,702,540

Amounts reported for the governmental activities in the statement of net assets are different because:

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

The cost of capital assets is	\$ 34,895,197	
Accumulated depreciation is	<u>(13,966,845)</u>	
Capital assets, net		20,928,352

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in the Internal Service Fund		750,143
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Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		1,236,896
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Some assets are not a current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.

Net pension asset	21,626	
Net other post-employment benefits asset	<u>145</u>	
		21,771

Various amounts due from other governmental units are not expected to be collected within 60 days of year end and are not available to pay for current period expenditures.		103,767
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct City obligations	5,285,715	
Accrued interest payable	54,716	
Compensated absences	<u>379,023</u>	
		<u>(5,719,454)</u>

**Net assets of governmental activities** \$ 21,024,015

City of Mason

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2012

	General	Special Assessment	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 3,004,009	\$ -	\$ -	\$ 3,004,009
Licenses and permits	112,823	-	-	112,823
Intergovernmental	1,025,395	-	502,613	1,528,008
Charges for services	652,907	-	5,656	658,563
Fines and forfeits	26,050	-	-	26,050
Interest, rents, and royalties	16,251	32,505	46,428	95,184
Other	58,362	74,500	3,480	136,342
<b>TOTAL REVENUES</b>	<b>4,895,797</b>	<b>107,005</b>	<b>558,177</b>	<b>5,560,979</b>
<b>EXPENDITURES</b>				
Current				
General government	2,047,677	-	-	2,047,677
Public safety	1,430,520	-	-	1,430,520
Public works	449,382	-	358,687	808,069
Community and economic development	111,480	-	-	111,480
Recreation and culture	212,527	-	-	212,527
Debt service	97,082	106,416	319,365	522,863
<b>TOTAL EXPENDITURES</b>	<b>4,348,668</b>	<b>106,416</b>	<b>678,052</b>	<b>5,133,136</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>547,129</b>	<b>589</b>	<b>(119,875)</b>	<b>427,843</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	124,494	-	332,226	456,720
Transfers out	(322,938)	(96,158)	(17,954)	(437,050)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(198,444)</b>	<b>(96,158)</b>	<b>314,272</b>	<b>19,670</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>348,685</b>	<b>(95,569)</b>	<b>194,397</b>	<b>447,513</b>
Fund balances, beginning of year	1,418,023	320,257	1,516,747	3,255,027
Fund balances, end of year	<u>\$ 1,766,708</u>	<u>\$ 224,688</u>	<u>\$ 1,711,144</u>	<u>\$ 3,702,540</u>

See accompanying notes to financial statements.

City of Mason

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

**Net change in fund balances - total governmental funds** \$ 447,513

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 29,867	
Depreciation expense	<u>(1,203,236)</u>	
Excess of depreciation expense over capital outlay		(1,173,369)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Decrease in net assets of Internal Service Funds		(73,102)
--	--	----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(Increase) in deferred revenue	(74,500)	
Decrease in net pension asset	<u>21,626</u>	
		(52,874)

State shared revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds. 59,130

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt principal retirements		301,473
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	2,803	
Decrease in compensated absences	2,996	
(Increase) in net other post-employment benefits	<u>(4)</u>	
		<u>5,795</u>

**Change in net assets of governmental activities** \$ (485,434)

City of Mason  
Proprietary Funds  
STATEMENT OF NET ASSETS  
June 30, 2012

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,578,732	\$ 576,973
Accounts receivable	479,283	-
Due from other funds	-	1,058
Inventory	26,508	-
Total current assets	4,084,523	578,031
Noncurrent assets		
Capital assets not being depreciated	47,039	-
Capital assets, net of accumulated depreciation	16,676,732	188,448
Total noncurrent assets	16,723,771	188,448
TOTAL ASSETS	20,808,294	766,479
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	39,957	-
Accrued wages	19,641	1,400
Accrued interest payable	33,993	-
Due to other funds	1,058	-
Current portion of compensated absences	18,952	4,481
Current portion of long-term debt	355,000	-
Total current liabilities	468,601	5,881
Noncurrent liabilities		
Noncurrent portion of compensated absences	75,807	10,455
Noncurrent portion of long-term debt	6,043,674	-
Total noncurrent liabilities	6,119,481	10,455
TOTAL LIABILITIES	6,588,082	16,336
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	10,325,097	188,448
Unrestricted	3,895,115	561,695
TOTAL NET ASSETS	\$ 14,220,212	\$ 750,143

See accompanying notes to financial statements.

City of Mason

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2012

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
<b>OPERATING REVENUES</b>		
Internal user charges	\$ -	\$ 202,881
Water user charges	1,288,672	-
Sewer user charges	1,014,964	-
Interest and penalty charges	54,832	-
Rent	500	-
Other	9,306	5,673
<b>TOTAL OPERATING REVENUES</b>	<b>2,368,274</b>	<b>208,554</b>
<b>OPERATING EXPENSES</b>		
Cost of water produced	121,910	-
Cost of sewage treatment	827,519	-
Operation and maintenance	868,833	225,472
Billing and administrative costs	39,752	-
Depreciation	651,380	58,087
<b>TOTAL OPERATING EXPENSES</b>	<b>2,509,394</b>	<b>283,559</b>
<b>OPERATING (LOSS)</b>	<b>(141,120)</b>	<b>(75,005)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Intergovernmental	1,417	-
Investment income	11,200	1,903
Interest expense and fees	(141,470)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(128,853)</b>	<b>1,903</b>
<b>(LOSS) BEFORE TRANSFERS</b>	<b>(269,973)</b>	<b>(73,102)</b>
<b>TRANSFERS OUT</b>	<b>(19,670)</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>(289,643)</b>	<b>(73,102)</b>
Net assets, beginning of year	14,509,855	823,245
Net assets, end of year	<u>\$ 14,220,212</u>	<u>\$ 750,143</u>

See accompanying notes to financial statements.

City of Mason

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 2,316,880	\$ 208,554
Cash paid to suppliers	(977,103)	(158,064)
Cash paid to employees	(863,321)	(66,724)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>476,456</b>	<b>(16,234)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Receipt (payment) of interfund balances	(21,770)	2,152
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Intergovernmental	1,417	-
Payments on borrowing	(345,000)	-
Purchase of capital assets	(218,871)	(29,140)
Interest expense and fees	(143,303)	-
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(705,757)</b>	<b>(29,140)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	11,200	1,903
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(239,871)</b>	<b>(41,319)</b>
Cash and cash equivalents, beginning of year	3,818,603	618,292
Cash and cash equivalents, end of year	<u>\$ 3,578,732</u>	<u>\$ 576,973</u>
Reconciliation of operating (loss) to net cash		
net cash provided (used) by operating activities		
Operating (loss)	\$ (141,120)	\$ (75,005)
Adjustment to reconcile operating (loss) to net cash provided (used) by operating activities		
Depreciation	651,380	58,087
(Increase) in:		
Accounts receivable	(50,847)	-
Inventory	(547)	-
Increase (decrease) in:		
Accounts payable	(383)	(43)
Accrued liabilities	5,512	350
Compensated absences	12,461	377
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 476,456</b>	<b>\$ (16,234)</b>

See accompanying notes to financial statements.

City of Mason

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 26,837</u>
LIABILITIES	
Due to individuals and agencies	\$ 25,180
Due to other governmental units	<u>1,657</u>
TOTAL LIABILITIES	<u>\$ 26,837</u>



City of Mason

Component Units

COMBINING STATEMENT OF NET ASSETS

June 30, 2012

	Local Development Finance Authority	Downtown Development Authority	Economic Development Corporation	Total Component Units
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 606,797	\$ 199,239	\$ 21,700	\$ 827,736
Receivables	30	5,031	-	5,061
<b>TOTAL ASSETS</b>	<b>606,827</b>	<b>204,270</b>	<b>21,700</b>	<b>832,797</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	-	8,278	-	8,278
Accrued liabilities	-	214	-	214
Accrued interest payable	1,155	-	-	1,155
Current portion of long-term debt	35,000	-	-	35,000
<b>Total current liabilities</b>	<b>36,155</b>	<b>8,492</b>	<b>-0-</b>	<b>44,647</b>
Noncurrent liabilities				
Noncurrent portion of long-term debt	35,000	-	-	35,000
<b>TOTAL LIABILITIES</b>	<b>71,155</b>	<b>8,492</b>	<b>-0-</b>	<b>79,647</b>
<b>NET ASSETS</b>				
Unrestricted	<u>\$ 535,672</u>	<u>\$ 195,778</u>	<u>\$ 21,700</u>	<u>\$ 753,150</u>

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets			
			Local Development Finance Authority	Downtown Development Authority	Economic Development Corporation	Total Component Units
Governmental activities						
Local Development Finance Authority	\$ 24,101	\$ -	\$ (24,101)	\$ -	\$ -	\$ (24,101)
Downtown Development Authority	70,557	31,398	-	(39,159)	-	(39,159)
Economic Development Corporation	-	-	-	-	-	-0-
Total component units	<u>\$ 94,658</u>	<u>\$ 31,398</u>	(24,101)	(39,159)	-0-	(63,260)
General revenues						
Property taxes			353,492	65,840	-	419,332
Investment earnings			4,759	344	64	5,167
Total general revenues			358,251	66,184	64	424,499
CHANGE IN NET ASSETS			334,150	27,025	64	361,239
Net assets, beginning of year			201,522	168,753	21,636	391,911
Net assets, end of year			<u>\$ 535,672</u>	<u>\$ 195,778</u>	<u>\$ 21,700</u>	<u>\$ 753,150</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Mason is located in Ingham County, Michigan and has a population of approximately 8,252. The City of Mason operates with a City Administrator/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has seven (7) City Council members who are elected at large for overlapping two (2) or four (4) year terms. The Council elects two (2) of its members to serve as Mayor and Mayor Pro-Tem. The Council appoints the City Administrator and Finance Director/Treasurer.

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 4*, these financial statements present the financial activities of the City of Mason (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. All component units are included in the City's Financial Statements and are not audited separately.

2. Blended Component Unit

The City of Mason has one blended component unit, the Mason Building Authority, which was established for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, and maintaining a building or buildings, automobile parking lots or structures, recreation facilities and the necessary site or sites therefore, and the payment of the bond principal and interest for any related debt incurred. The Mason Building Authority is blended with the primary government in the Mason Building Authority Debt Service Fund, in conformity with GASB Statement No. 39, as the component unit provides services entirely to the primary government.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for these entities or the nature and significance of the relationship between the entities and the City is such that exclusion of the entities would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component units:

Downtown Development Authority - The Downtown Development Authority (DDA) was established in order to work in cooperation with the City Council in order to correct and prevent deterioration of the downtown district of the City, to promote economic growth and revitalization, to encourage historic preservation, to address problems of urban decline, and to strengthen existing areas and encourage new private development within the downtown district. The DDA's governing body, which consists of the City Mayor and eight (8) other individuals, is appointed by the City Council. Additionally, the DDA's budget is subject to approval by the City Council. The DDA may issue debt payable solely from tax increment revenues. The full faith and credit of the City may be given for the debt of the DDA.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Discretely Presented Component Units - continued

Local Development Finance Authority - The Local Finance and Development Authority (LDFA) was established by the City of Mason and the Township of Vevay as a condition of an agreement to transfer approximately 134 acres of land from the Township to the City. The purpose of the LDFA is to help stimulate economic growth, improve employment, stimulate new private investment in the City of Mason and Vevay Township, and to broaden the local tax base.

Economic Development Corporation - The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, and expanding within the City to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine (9) individuals, is appointed by the City Administrator with the approval of the City Council.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental 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 presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Special Assessment Fund is used to account for the revenue from special assessments used for the payment of principal and interest on long-term special assessment debt.

The City reports the following major enterprise fund:

- a. The Water and Sewer Fund is used to account for utility operations that are financed primarily by user charges.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

Additionally, the City reports an internal service fund to account for the management of motor vehicles pool services provided to other departments on a cost reimbursement basis.

The City also reports agency funds to account for assets held by the City as the trustee or as the agent for others. Agency Funds are, by nature, custodial; therefore, operation results are not measured. The City's agency funds are the Current Tax Collection Fund, Delinquent Tax Fund, and Payroll Fund.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary agency funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating 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 enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. On the Council meeting date nearest to the third Monday in April, the City Administrator submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to the second regular Council meeting in May, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, and money market accounts. The cash equivalents are recorded at cost, which approximates market value.

9. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and grants and receivables for charges for services provided to local governmental units.

10. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, special assessments, and other amounts owed to the City at year-end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Property Tax

The City of Mason bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Mason on July 1 and December 1 and are payable without penalty through August 31 and February 14, respectively. The July 1 levy is composed of the City's millage, refuse, special assessments, Lansing Community College, Ingham I.S.D., Mason School operating, Ingham County operating and State Education Tax. The December 1 levy is composed of Ingham County drains, Mason School debt, Mason School Sinking Fund, and Capital Area District Library. All real property taxes not paid to the City by March 1 are turned over to the Ingham County Treasurer for collection. The Ingham County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by charter to levy taxes up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended June 30, 2012, the City levied 13.2500 mills per \$1,000 of taxable valuation for general governmental services. The total taxable value for the 2011 levy for property within the City was \$218,761,420.

12. Inventory

The cost of inventory items in governmental funds is recorded as an expenditure at the time of purchase. Inventory in the enterprise funds consists of water and sewer system supplies which are stated at cost on a first-in/first-out basis.

13. Prepays

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepaid expenditures are equally offset by nonspendable fund balance, which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

14. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. City employees are granted vacation amounts based on length of service. Sick pay is earned at the rate of eight hours per month. The City's policy provides for payment of unused vacation, but not sick pay, to terminated employees. Retiring employees are paid for unused vacation and a portion of sick pay. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

15. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

15. Interfund Transactions - continued

The Internal Service Fund (Motor Vehicle Pool) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

16. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS

Capital assets are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type activities columns. Capital assets are those with an initial individual cost of \$2,500 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	10 - 40 years
Buildings and improvements	10 - 40 years
Equipment	5 - 20 years
Vehicles	3 - 10 years
Utility systems	20 - 67 years
Infrastructure	33 - 40 years

17. Deferred and Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

The Statement of Net Assets reports unearned revenue for resources that have been received, but not yet earned.

18. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

19. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.



NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE B: CASH AND CASH EQUIVALENTS**

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Deposits

As of June 30, 2012, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 7,122,934	\$ 7,041,081
FIDUCIARY FUNDS		
Checking and savings	26,837	26,087
COMPONENT UNITS		
Savings	<u>779,027</u>	<u>779,025</u>
TOTAL REPORTING ENTITY	<u>\$ 7,928,798</u>	<u>\$ 7,846,193</u>

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2012, the City accounts were insured by the FDIC for \$1,811,294 and the amount of \$6,034,899 was uninsured and uncollateralized. The City had \$385 of imprest cash on hand.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Investments

As of June 30, 2012, the City had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
<b>PRIMARY GOVERNMENT</b>			
Uncategorized pooled investment funds MBIA - Michigan Class	\$ 782,867	\$ 782,867	35 days
<b>COMPONENT UNITS</b>			
Uncategorized pooled investment funds MBIA - Michigan Class	<u>48,709</u>	<u>48,709</u>	35 days
<b>TOTAL REPORTING ENTITY</b>	<u><u>\$ 831,576</u></u>	<u><u>\$ 831,576</u></u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2012, the MBIA - Michigan Class investment was rated AAAM by Standard and Poor's.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Council and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accordance with Council approved policy.

The cash and cash equivalents referred to above have been reported in either the cash and cash equivalents captions on the basic financial statements, based upon criteria disclosed in Note A.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Custodial credit risk - continued

The following summarizes the categorization of these amounts as of June 30, 2012:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Cash and cash equivalents	<u>\$ 7,906,186</u>	<u>\$ 26,837</u>	<u>\$ 827,736</u>	<u>\$ 8,760,759</u>

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2012, are as follows:

Due to General Fund from:	
Special Assessment Fund	\$ 96,158
Nonmajor governmental funds	6,494
	<u>\$ 102,652</u>
Due to nonmajor governmental funds from:	
Nonmajor governmental funds	<u>\$ 9,288</u>
Due to Internal Service Fund from:	
Water and Sewer Fund	<u>\$ 1,058</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE D: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds and the component unit funds have been eliminated.

Transfers to General Fund from:	
Special Assessment Fund	\$ 96,158
Water and Sewer Fund	19,670
Nonmajor governmental funds	8,666
	<u>\$ 124,494</u>
Transfer to nonmajor governmental funds from:	
General Fund	\$ 322,938
Nonmajor governmental funds	9,288
	<u>\$ 332,226</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE D: INTERFUND TRANSFERS - CONTINUED**

The transfers to the General Fund from the Special Assessment Fund and nonmajor governmental funds were to fund combined activities paid for by the General Fund. The transfers to the nonmajor governmental funds (local street) from the General Fund and nonmajor governmental funds were to finance capital asset construction and purchases. The transfers to the nonmajor governmental funds from the General Fund were for debt payments.

**NOTE E: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012, was as follows:

**Primary Government**

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 1,432,912	\$ -	\$ -	\$ 1,432,912
Construction in progress	106,913	4,000	-	110,913
Subtotal	1,539,825	4,000	-0-	1,543,825
Capital assets being depreciated				
Land improvements	1,717,283	-	-	1,717,283
Buildings and improvements	6,803,519	4,870	-	6,808,389
Infrastructure	22,893,514	-	-	22,893,514
Vehicles and equipment	3,466,011	50,137	-	3,516,148
Subtotal	34,880,327	55,007	-0-	34,935,334
Less accumulated depreciation for:				
Land improvements	(628,232)	(77,217)	-	(705,449)
Buildings and improvements	(514,020)	(167,107)	-	(681,127)
Infrastructure	(10,819,874)	(734,023)	-	(11,553,897)
Vehicles and equipment	(2,138,910)	(282,976)	-	(2,421,886)
Subtotal	(14,101,036)	(1,261,323)	-0-	(15,362,359)
Net capital assets being depreciated	20,779,291	(1,206,316)	-0-	19,572,975
Capital assets, net	<u>\$ 22,319,116</u>	<u>\$ (1,202,316)</u>	<u>\$ -0-</u>	<u>\$ 21,116,800</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 196,030
Public safety	197,594
Public works	792,734
Recreation and culture	74,965
Total depreciation expense	<u>\$ 1,261,323</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE E: CAPITAL ASSETS - CONTINUED**

	Balance July 1, 2011	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2012
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 25,609	\$ -	\$ -	\$ 25,609
Construction in progress	19,376	21,430	(19,376)	21,430
Subtotal	44,985	21,430	(19,376)	47,039
Capital assets being depreciated				
Buildings and improvements	455,637	4,470	-	460,107
Infrastructure	24,665,321	212,347	-	24,877,668
Subtotal	25,120,958	216,817	-0-	25,337,775
Less accumulated depreciation for:				
Buildings and improvements	(205,956)	(15,343)	-	(221,299)
Infrastructure	(7,803,707)	(636,037)	-	(8,439,744)
Subtotal	(8,009,663)	(651,380)	-0-	(8,661,043)
Net capital assets being depreciated	17,111,295	(434,563)	-0-	16,676,732
Capital assets, net	<u>\$ 17,156,280</u>	<u>\$ (413,133)</u>	<u>\$ (19,376)</u>	<u>\$ 16,723,771</u>
<b>Component Unit (LDFA)</b>				
Capital assets being depreciated				
Equipment	\$ 710,587	\$ -	\$ -	\$ 710,587
Less accumulated depreciation for:				
Equipment	(710,587)	-	-	(710,587)
Capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE F: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2012.

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Amounts Due Within One Year
<b>Primary government</b>					
<b>Governmental activities</b>					
1997 Building Authority Bonds	\$ 250,000	\$ -	\$ (25,000)	\$ 225,000	\$ 25,000
2010 Building Authority Bonds	4,020,000	-	(85,000)	3,935,000	85,000
Special Assessment Bonds	613,000	-	(81,000)	532,000	77,000
Loans Payable	704,188	-	(110,473)	593,715	115,104
Compensated Absences	396,578	166,523	(169,142)	393,959	118,188
	5,983,766	166,523	(470,615)	5,679,674	420,292
<b>Business-type activities</b>					
Drinking Water Revolving Fund Loan	6,743,674	-	(345,000)	6,398,674	355,000
Compensated Absences	82,298	58,242	(45,781)	94,759	18,952
	6,825,972	58,242	(390,781)	6,493,433	373,952
<b>Total primary government</b>	12,809,738	224,765	(861,396)	12,173,107	794,244
<b>Component unit</b>					
Local Development Finance Authority General Obligation Bonds	206,615	-	(136,615)	70,000	35,000
<b>Total reporting entity</b>	<u>\$ 13,016,353</u>	<u>\$ 224,765</u>	<u>\$ (998,011)</u>	<u>\$ 12,243,107</u>	<u>\$ 829,244</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

**Primary government**

1997 Building Authority Bond

\$450,000 General Obligation Bonds dated November 1, 1997, due in annual installments ranging from \$25,000 to \$40,000 through October 1, 2018, with interest ranging from 3.85 to 5.15 percent, payable semi-annually.

\$ 225,000

2010 Building Authority Bond

\$4,100,000 General Obligation Bonds dated April 1, 2010, due in annual installments ranging from \$85,000 to \$230,000 through April 1, 2040, with interest ranging from 2.25 to 6.50 percent, payable semi-annually.

\$ 3,935,000

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE F: LONG-TERM DEBT - CONTINUED**

**Primary government - continued**

Special Assessment Bonds

The City issued Special Assessment Bonds for the purpose of capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that benefited from the construction. In the event a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources are received.

The following summarizes the significant details regarding these bond issues:

\$90,000 1998 Special Assessment dated September 4, 1998, due in annual installments of \$7,000 through September 1, 2012, with interest of 4.90 percent, payable semi-annually.	\$ 7,000
\$52,000 1998 Special Assessment dated October 22, 1998, due in annual installments of \$4,000 to \$5,000 through October 1, 2013, with interest of 4.90 percent, payable semi-annually.	10,000
\$205,000 2001 Special Assessment dated June 1, 2001, due in annual installments ranging from \$10,000 to \$15,000 through October 1, 2013, with interest ranging from 4.80 to 5.00 percent, payable semi-annually.	40,000
\$750,000 2005 Special Assessment dated November 18, 2005, due in annual installments ranging from \$50,000 to \$55,000 through November 1, 2020, with interest ranging from 4.10 to 4.55 percent, payable semi-annually.	475,000
	<u>\$ 532,000</u>

Loans Payable

Dart National Bank Loan due in annual installments of \$80,713 to \$93,563 through December 20, 2016, with interest of 3.70 percent, for a fire truck costing \$605,741.	\$ 435,330
Dart National Bank Loan due in annual installments of \$25,730 to \$29,668 through June 28, 2016, with interest of 4.80 percent, for land costing \$325,877.	110,883
Mason State Bank Loan due in annual installments of \$8,661 to \$10,384 through April 16, 2017, with interest of 4.65 percent, for land costing \$115,500.	47,502
	<u>\$ 593,715</u>

Drinking Water Revolving Fund Loan

\$8,000,000 Water Supply System Bonds dated September 27, 2007, due in annual installments ranging from \$355,000 to \$485,000 through April 1, 2028, with interest of 2.125 percent, payable semi-annually.	<u>\$ 6,398,674</u>
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City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE F: LONG-TERM DEBT - CONTINUED**

**Component unit - LDFA**

General Obligation Bonds

\$425,000 General Obligation Local Development Finance Authority Bond dated April 1, 1993, due in annual installments of \$35,000 through October 1, 2013, with interest of 8.00 percent, payable semi-annually.

\$ 70,000

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation. Retiring employees are paid for unused vacation and a portion of sick pay. The dollar amounts of these vested rights including related payroll taxes, which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$488,718 at June 30, 2012. Of this amount, \$393,959 and \$94,759 are shown as accrued liabilities within the government-wide financial statements' governmental and business-type activities, respectively, in accordance with criteria disclosed in Note A.

The annual requirements to pay the debt principal and interest outstanding for the Bonds and Loans are as follows:

**Primary Government**

Year Ending June 30,	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 110,000	\$ 247,831	\$ 77,000	\$ 21,744
2014	115,000	244,578	75,000	18,420
2015	120,000	240,253	65,000	15,356
2016	120,000	235,745	50,000	12,863
2017	130,000	229,431	55,000	10,591
2018-2022	590,000	1,051,393	210,000	18,698
2023-2027	625,000	878,625	-	-
2028-2032	760,000	666,975	-	-
2033-2037	930,000	400,725	-	-
2038-2040	660,000	85,660	-	-
	<u>\$ 4,160,000</u>	<u>\$ 4,281,216</u>	<u>\$ 532,000</u>	<u>\$ 97,672</u>



City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE F: LONG-TERM DEBT - CONTINUED**

**Primary government - continued**

Year Ending June 30,	Loans Payable		Drinking Water Revolving Fund Loan	
	Principal	Interest	Principal	Interest
2013	\$ 115,104	\$ 23,961	\$ 355,000	\$ 135,972
2014	119,827	19,237	360,000	128,428
2015	124,704	14,360	370,000	120,778
2016	129,985	9,287	375,000	112,916
2017	104,095	4,002	385,000	104,947
2018-2022	-	-	2,055,000	398,403
2023-2027	-	-	2,275,000	170,922
2028-2032	-	-	223,674	4,753
	<u>\$ 593,715</u>	<u>\$ 70,847</u>	<u>\$ 6,398,674</u>	<u>\$ 1,177,119</u>

**Component Unit - LDFA**

Year Ending June 30,	Bonds Payable	
	Principal	Interest
2013	\$ 35,000	\$ 3,465
2014	35,000	1,155
	<u>\$ 70,000</u>	<u>\$ 4,620</u>

**NOTE G: RETIREMENT PLAN**

Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires employee contributions ranging from 9.42% to 15.27%, depending on the employee division.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE G: RETIREMENT PLAN - CONTINUED**

Annual Pension Cost

For year ended June 30, 2012, the City's annual pension cost of \$253,102 for the plan was equal to the City's actual contribution. The City's required contribution was \$231,476. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2011, using the entry age normal cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; (c) additional salary increases ranging from 0% to 13.0% per year depending on age, seniority, and merit; and (d) post-retirement benefit increases of 2.5% annually.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a ten (10) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of twenty-seven (27) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Actuarial value of assets	\$ 10,872,884	\$ 11,124,695	\$ 11,346,721
Actuarial accrued liability (AAL) (entry age)	13,685,177	14,181,492	14,884,287
Unfunded AAL (UAAL)	2,812,293	3,056,797	3,537,566
Funded ratio	79%	78%	76%
Annual covered payroll	2,221,806	2,113,365	2,102,937
UAAL as a percentage of covered payroll	127%	145%	168%

  

	Year Ended June 30,		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annual pension cost	\$ 208,716	\$ 226,678	\$ 253,102
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

**NOTE H: OTHER POST-EMPLOYMENT BENEFITS**

Plan Description

The City provides certain retiree medical benefits as other post-employment benefits (OPEB) to all applicable employees, in accordance with union agreements and/or personnel policies. The following are the Governmental Accounting Standards Board Statement No. 45 (GASB Statement No. 45) required disclosures and these disclosures have been implemented prospectively by the City. The City pays the full cost of coverage for these benefits for certain retirees and their beneficiaries. The retirees must contribute the balance of premiums not paid by the City in accordance with plan provisions.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

Plan Description - continued

During the year ended June 30, 2012, 13 retirees were receiving benefits. Expenditures for post-employment benefits are recognized when claims are paid. During the year, expenditures of \$84,625 were recognized for post-employment benefits.

The plan does not issue a separate stand-alone financial statement.

Funding Policy

The City has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The current contributions being made are based on an actuarial calculated valuation. Administrative costs of the plan are paid for by the City.

Funding Progress

For the year ended June 30, 2012, the City has determined an estimated cost of providing post-employment benefits through an actuarial valuation as of December 31, 2007. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed thirty (30) years.

The City's computed contribution and actual funding is summarized as follows:

Annual required contribution/Annual OPEB cost (ARC)	\$ 150,524
Adjustment to annual required contribution	<u>5</u>
Adjusted ARC	150,529
Amounts contributed:	
Payments of current requirements (gross of employee reimbursement)	<u>150,525</u>
Increase in net OPEB obligation	4
OPEB obligation (asset) - Beginning of year	<u>(149)</u>
OPEB obligation (asset) - End of year	<u><u>\$ (145)</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

	Year Ended June 30,		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annual OPEB cost	\$ 137,839	\$ 144,041	\$ 150,529
Percentage contributed	97.5%	102.5%	100.0%
Net OPEB obligation	\$ 3,402	\$ (149)	\$ (145)

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

Funding Progress - continued

The current funding progress of the plan for the year ended December 31, 2007, is as follows:

Actuarial value of assets	\$ 77,869
Actuarial accrued liability (AAL) (entry age)	2,273,747
Unfunded AAL (UAAL)	2,195,878
Funded ratio	3.4%
Annual covered payroll	\$ 2,102,937
UAAL as a percentage of covered payroll	104.4%

The actuarial valuation for the year ended December 31, 2007, which was used for the year ended June 30, 2012, contributions, was the first actuarial valuation, so no information is available for fiscal years prior to 2007.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revisions as actual results are compared with past expectations and new estimates and assumptions are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City 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 the calculations.

In the December 31, 2007, actuarial valuation, the projected unit credit service cost method was used. The actuarial assumptions include a 6.0% per year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment returns on plan assets. A discount rate of 6.0% was also used. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study the assumed underlying rate was 4.5% and an initial medical rate of 10.0% graded down to 4.5% over 10 years.

**NOTE I: RISK MANAGEMENT**

The City participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City has a deductible of \$75,000 for Sewage System Overflows (per occurrence) and a \$1,000 deductible per occurrence of property and crime coverage. State pool members' limits of coverage (per occurrence) are \$10,000,000 for liability and about \$22,513,144 for property. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE J: CODE ENFORCEMENT FINANCIAL INFORMATION**

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2012:

Surplus at July 1, 2011	\$ 88,200
REVENUES	
Licenses and permits	
Permits	99,786
EXPENDITURES	
Building Department	<u>(49,641)</u>
Cumulative surplus at June 30, 2012	<u>\$ 138,345</u>

**NOTE K: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2012:

PRIMARY GOVERNMENT	
Highways	\$ 150,645
Community enrichment	428,272
Rayner Park	40,714
Construction code activity	138,345
Cemetery operations	311,721
Flowers	19,494
Debt service	<u>27,017</u>
	<u>\$ 1,116,208</u>

**NOTE L: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS**

In the fund financial statements, the governmental funds report the following fund balance categories:

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

*Unassigned* - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE L: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - CONTINUED**Fund Balance Classification Policies and Procedures

For committed fund balance, the City's highest level of decision-making authority is the City Council. The formal action that is required to be taken to establish a fund balance commitment is a council resolution.

For assigned fund balance, the City Council is authorized to assign amounts to a specific purpose. Currently, assigned fund balance is determined through the budget and any residual amounts of fund balance in governmental funds other than the General Fund.

For the classification of fund balances, the City considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the City considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

	<u>General Fund</u>	<u>Special Assessment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund Balances				
Nonspendable:				
Prepays	\$ 9,542	\$ -	\$ -	\$ 9,542
Restricted for:				
Highways	-	-	150,645	150,645
Community enrichment	-	-	428,272	428,272
Rayner Park	40,714	-	-	40,714
Construction code activity	138,345	-	-	138,345
Cemetery operations	-	-	311,721	311,721
Flowers	-	-	19,494	19,494
Debt service	-	48,753	32,980	81,733
Committed to:				
Community enrichment	-	-	155,000	155,000
Assigned to:				
Highways	-	-	541,190	541,190
Subsequent year's expenditures	-	-	71,455	71,455
Other purposes	-	175,935	387	176,322
Unassigned	1,578,107	-	-	1,578,107
TOTAL FUND BALANCES	<u>\$ 1,766,708</u>	<u>\$ 224,688</u>	<u>\$ 1,711,144</u>	<u>\$ 3,702,540</u>

**NOTE M: UPCOMING ACCOUNTING PRONOUNCEMENTS**

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE M: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED**

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2012-2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the City's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the City's 2014-2015 fiscal year.

**REQUIRED SUPPLEMENTARY INFORMATION**



City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 2,894,780	\$ 2,887,780	\$ 2,887,752	\$ (28)
Penalties and interest	10,000	28,240	28,244	4
Administration fees	88,250	88,010	88,013	3
Total taxes	2,993,030	3,004,030	3,004,009	(21)
Licenses and permits	25,450	110,290	112,823	2,533
Intergovernmental				
State	519,240	570,140	580,345	10,205
Local	977,255	441,655	445,050	3,395
Total intergovernmental	1,496,495	1,011,795	1,025,395	13,600
Charges for services				
Refuse collection	315,455	315,170	315,173	3
Cable franchise fee	40,000	41,945	41,949	4
Other	258,025	279,825	295,785	15,960
Total charges for services	613,480	636,940	652,907	15,967
Fines and forfeits	27,500	27,035	26,050	(985)
Interest and rents	14,245	16,195	16,251	56
Other	60,325	58,310	58,362	52
TOTAL REVENUES	5,230,525	4,864,595	4,895,797	31,202

## City of Mason

## General Fund

## BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2012

EXPENDITURES	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Current				
General government				
City Council	\$ 33,825	\$ 31,640	\$ 29,546	\$ 2,094
Administrator	231,705	179,945	176,338	3,607
Assessor	47,160	46,660	46,413	247
Board of Review	650	600	570	30
Treasurer	837,210	790,655	779,341	11,314
Technology	49,750	49,750	45,243	4,507
Election	114,740	108,500	106,601	1,899
Building office and City Hall	385,085	254,220	248,280	5,940
Attorney	75,000	95,000	93,492	1,508
Cemetery	178,410	134,075	129,542	4,533
Workers compensation	53,650	42,650	42,213	437
Retiree benefits	150,525	150,525	150,525	-0-
Administrative services	262,555	202,240	199,573	2,667
Miscellaneous	485	-	-	-0-
Total general government	2,420,750	2,086,460	2,047,677	38,783
Public safety				
Police administration	318,320	296,425	285,197	11,228
Crossing guards	33,465	27,370	27,178	192
Police patrolling	1,021,395	858,575	844,576	13,999
Fire department	292,170	276,315	273,122	3,193
Civil defense	570	620	447	173
Total public safety	1,665,920	1,459,305	1,430,520	28,785
Public works				
Public services	8,010	3,975	3,535	440
Sidewalks	2,375	375	366	9
Street lighting	139,485	139,000	137,808	1,192
Refuse collection	323,765	308,485	307,673	812
Total public works	473,635	451,835	449,382	2,453
Community and economic development				
Cable commission	9,615	3,825	3,388	437
Planning and zoning	111,910	104,865	104,217	648
Planning commission	2,705	1,010	675	335
Christmas decorations	4,320	3,245	3,200	45
Total community and economic development	128,550	112,945	111,480	1,465

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture				
Parks	\$ 163,695	\$ 128,415	\$ 124,419	\$ 3,996
Library	28,915	19,855	19,165	690
Forestry	74,030	66,090	62,243	3,847
Senior citizens	7,975	6,700	6,700	-0-
Total recreation and culture	274,615	221,060	212,527	8,533
Debt service				
Principal	77,840	77,690	77,686	4
Interest and fiscal fees	19,250	19,400	19,396	4
Total debt service	97,090	97,090	97,082	8
TOTAL EXPENDITURES	5,060,560	4,428,695	4,348,668	80,027
EXCESS OF REVENUES OVER EXPENDITURES	169,965	435,900	547,129	111,229
OTHER FINANCING SOURCES (USES)				
Transfers in	235,325	124,435	124,494	59
Transfers out	(318,870)	(322,945)	(322,938)	7
TOTAL OTHER FINANCING SOURCES (USES)	(83,545)	(198,510)	(198,444)	66
NET CHANGE IN FUND BALANCE	86,420	237,390	348,685	111,295
Fund balance, beginning of year	1,418,023	1,418,023	1,418,023	-0-
Fund balance, end of year	<u>\$ 1,504,443</u>	<u>\$ 1,655,413</u>	<u>\$ 1,766,708</u>	<u>\$ 111,295</u>

City of Mason  
Special Assessment Fund  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 70,625	\$ 32,830	\$ 32,505	\$ (325)
Other				
Special assessments	<u>143,530</u>	<u>74,495</u>	<u>74,500</u>	<u>5</u>
TOTAL REVENUES	214,155	107,325	107,005	(320)
EXPENDITURES				
Debt service	<u>106,420</u>	<u>106,420</u>	<u>106,416</u>	<u>4</u>
EXCESS OF REVENUES OVER EXPENDITURES	107,735	905	589	(316)
OTHER FINANCING USES				
Transfers out	<u>(181,800)</u>	<u>(96,160)</u>	<u>(96,158)</u>	<u>2</u>
NET CHANGE IN FUND BALANCE	(74,065)	(95,255)	(95,569)	(314)
Fund balance, beginning of year	<u>320,257</u>	<u>320,257</u>	<u>320,257</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 246,192</u></u>	<u><u>\$ 225,002</u></u>	<u><u>\$ 224,688</u></u>	<u><u>\$ (314)</u></u>

## **OTHER SUPPLEMENTARY INFORMATION**

City of Mason  
 Nonmajor Governmental Funds  
 COMBINING BALANCE SHEET  
 June 30, 2012

	Special Revenue		
	Major Street	Local Street	Rayner Bond
<b>ASSETS</b>			
Cash and cash equivalents	\$ 562,994	\$ 128,131	\$ 583,272
Accounts receivable	-	1,399	-
Due from other governmental units	59,960	20,718	-
Due from other funds	-	9,288	-
<b>TOTAL ASSETS</b>	<b><u>\$ 622,954</u></b>	<b><u>\$ 159,536</u></b>	<b><u>\$ 583,272</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accrued wages	\$ 2,171	\$ 2,030	\$ -
Due to other funds	13,584	1,415	-
<b>TOTAL LIABILITIES</b>	15,755	3,445	-0-
<b>FUND BALANCES</b>			
Restricted for:			
Highways	150,645	-	-
Community enrichment	-	-	428,272
Cemetery operations	-	-	-
Flowers	-	-	-
Debt service	-	-	-
Committed to:			
Community enrichment	-	-	155,000
Assigned to:			
Highways	385,099	156,091	-
Subsequent year's expenditures	71,455	-	-
Other purposes	-	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>607,199</u></b>	<b><u>156,091</u></b>	<b><u>583,272</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 622,954</u></b>	<b><u>\$ 159,536</u></b>	<b><u>\$ 583,272</u></b>

Debt Service		Capital Projects	Permanent	Total Nonmajor Governmental Funds
Park Street Property	Mason Building Authority	Capital Improvement	Cemetery Trust	
\$ -	\$ 32,980	\$ 387	\$ 331,998	\$ 1,639,762
-	-	-	-	1,399
-	-	-	-	80,678
-	-	-	-	9,288
<u>\$ -0-</u>	<u>\$ 32,980</u>	<u>\$ 387</u>	<u>\$ 331,998</u>	<u>\$ 1,731,127</u>
\$ -	\$ -	\$ -	\$ -	\$ 4,201
-	-	-	783	15,782
-0-	-0-	-0-	783	19,983
-	-	-	-	150,645
-	-	-	-	428,272
-	-	-	311,721	311,721
-	-	-	19,494	19,494
-	32,980	-	-	32,980
-	-	-	-	155,000
-	-	-	-	541,190
-	-	-	-	71,455
-	-	387	-	387
<u>-0-</u>	<u>32,980</u>	<u>387</u>	<u>331,215</u>	<u>1,711,144</u>
<u>\$ -0-</u>	<u>\$ 32,980</u>	<u>\$ 387</u>	<u>\$ 331,998</u>	<u>\$ 1,731,127</u>

City of Mason

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2012

	Special Revenue		
	Major Street	Local Street	Rayner Bond
REVENUES			
Intergovernmental	\$ 355,953	\$ 146,660	\$ -
Charges for services	1,772	3,884	-
Interest, rents, and royalties	1,410	262	43,899
Other	-	-	-
<b>TOTAL REVENUES</b>	<b>359,135</b>	<b>150,806</b>	<b>43,899</b>
EXPENDITURES			
Current			
Public works	196,020	162,667	-
Debt service	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>196,020</b>	<b>162,667</b>	<b>-0-</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>163,115</b>	<b>(11,861)</b>	<b>43,899</b>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,000	11,861	-
Transfers out	(9,288)	-	(7,883)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(8,288)</b>	<b>11,861</b>	<b>(7,883)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>154,827</b>	<b>-0-</b>	<b>36,016</b>
Fund balances, beginning of year	452,372	156,091	547,256
Fund balances, end of year	<u>\$ 607,199</u>	<u>\$ 156,091</u>	<u>\$ 583,272</u>



Debt Service		Capital Projects	Permanent	Total Nonmajor Governmental Funds
Park Street Property	Mason Building Authority	Capital Improvement	Cemetery Trust	
\$ -	\$ -	\$ -	\$ -	\$ 502,613
-	-	-	-	5,656
-	74	-	783	46,428
-	-	-	3,480	3,480
-0-	74	-0-	4,263	558,177
-	-	-	-	358,687
41,982	277,383	-	-	319,365
41,982	277,383	-0-	-0-	678,052
(41,982)	(277,309)	-0-	4,263	(119,875)
41,982	277,383	-	-	332,226
-	-	-	(783)	(17,954)
41,982	277,383	-0-	(783)	314,272
-0-	74	-0-	3,480	194,397
-	32,906	387	327,735	1,516,747
\$ -0-	\$ 32,980	\$ 387	\$ 331,215	\$ 1,711,144

City of Mason

Agency Funds

COMBINING STATEMENT OF ASSETS AND LIABILITIES

June 30, 2012

	<u>Delinquent Tax</u>	<u>Payroll</u>	<u>Total Agency Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	<u>\$ 1,657</u>	<u>\$ 25,180</u>	<u>\$ 26,837</u>
<b>LIABILITIES</b>			
Due to individuals and agencies	\$ -	\$ 25,180	\$ 25,180
Due to other governmental units	<u>1,657</u>	<u>-</u>	<u>1,657</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 1,657</u>	<u>\$ 25,180</u>	<u>\$ 26,837</u>

City of Mason

Component Unit Funds

COMBINING BALANCE SHEET - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2012

	Debt Service			Total
	General	1992 Bond	1998 SSAB Bond - Michigan Jobs	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 606,797	\$ -	\$ -	\$ 606,797
Due from other governmental units	30	-	-	30
<b>TOTAL ASSETS</b>	<b>\$ 606,827</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 606,827</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -0-</b>
<b>FUND BALANCES</b>				
Assigned to subsequent year's expenditures	273,700	-	-	273,700
Unassigned	333,127	-	-	333,127
<b>TOTAL FUND BALANCES</b>	<b>606,827</b>	<b>-0-</b>	<b>-0-</b>	<b>606,827</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 606,827</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 606,827</b>

City of Mason

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2012

**Total fund balances - governmental funds** \$ 606,827

Amounts reported for the governmental activities in the statement of net assets are different because:

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

The cost of capital assets is	\$ 710,587	
Accumulated depreciation is	<u>(710,587)</u>	
		-0-

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	70,000	
Accrued interest payable	<u>1,155</u>	
		<u>(71,155)</u>

**Net assets of governmental activities** \$ 535,672

City of Mason

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - LOCAL DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2012

	General	Debt Service		Total
		1992 Bond	1998 SSAB Bond - Michigan Jobs	
REVENUES				
Taxes	\$ 353,492	\$ -	\$ -	\$ 353,492
Interest	4,759	-	-	4,759
TOTAL REVENUES	358,251	-0-	-0-	358,251
EXPENDITURES				
Current				
Community and economic development	18,636	-	-	18,636
Debt service	-	35,960	106,615	142,575
TOTAL EXPENDITURES	18,636	35,960	106,615	161,211
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	339,615	(35,960)	(106,615)	197,040
OTHER FINANCING SOURCES (USES)				
Transfers in	-	35,960	106,615	142,575
Transfers out	(142,575)	-	-	(142,575)
TOTAL OTHER FINANCING SOURCES (USES)	(142,575)	35,960	106,615	-0-
NET CHANGE IN FUND BALANCES	197,040	-0-	-0-	197,040
Fund balances, beginning of year	409,787	-	-	409,787
Fund balances, end of year	\$ 606,827	\$ -0-	\$ -0-	\$ 606,827

City of Mason

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES - LOCAL DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2012

**Net change in fund balances - governmental funds** \$ 197,040

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

Repayment of long-term debt is reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt principal retirements 136,615

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable 495

**Change in net assets of governmental activities** \$ 334,150

City of Mason

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2012

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 199,239
Taxes receivable	4,061
Accounts receivable	<u>970</u>
TOTAL ASSETS	<u><u>\$ 204,270</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 8,278
Accrued wages	<u>214</u>
TOTAL LIABILITIES	8,492
FUND BALANCE	
Assigned to subsequent year's expenditures	33,105
Unassigned	<u>162,673</u>
TOTAL FUND BALANCE	<u>195,778</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 204,270</u></u>

Note: Reconciliation of the governmental fund balance sheet to the statement of net assets for this component unit is not required as the fund balance was equal to the net assets as of June 30, 2012.

City of Mason

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2012

	<u>General</u>
REVENUES	
Taxes	\$ 65,840
Interest	344
Other	<u>31,398</u>
TOTAL REVENUES	97,582
EXPENDITURES	
Current	
Community and economic development	<u>70,557</u>
NET CHANGE IN FUND BALANCE	27,025
Fund balance, beginning of year	<u>168,753</u>
Fund balance, end of year	<u><u>\$ 195,778</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities is not required as the net change in fund balance was equal to the change in net assets for the year ended June 30, 2012.



City of Mason

Component Unit Funds

BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

June 30, 2012

	<u>General</u>
ASSETS	
Cash and cash equivalents	<u>\$ 21,700</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ -
FUND BALANCE	
Unassigned	<u>21,700</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 21,700</u>

Note: Reconciliation of the governmental fund balance sheet to the statement of net assets for this component unit is not required as the fund balance was equal to the net assets as of June 30, 2012.

City of Mason

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - ECONOMIC DEVELOPMENT CORPORATION

Year Ended June 30, 2012

	<u>General</u>
REVENUES	
Interest	\$       64
EXPENDITURES	<u>          -</u>
NET CHANGE IN FUND BALANCE	64
Fund balance, beginning of year	<u>21,636</u>
Fund balance, end of year	<u><u>\$   21,700</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities is not required as the net change in fund balance was equal to the change in net assets for the year ended June 30, 2012.

Principals

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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*

To the Honorable Mayor and  
Members of the City Council  
City of Mason, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 26, 2012. 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.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 instance of noncompliance or other matters required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the City, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 26, 2012