

**City of Mason
Ingham County, Michigan**

FINANCIAL STATEMENTS

June 30, 2013

City of Mason
Ingham County, Michigan
June 30, 2013

CITY COUNCIL AND ADMINISTRATION

Leon Clark	Mayor
Robin Naeyaert	Mayor Pro-Tem
Jon Droscha	Council member
Elaine Ferris	Council member
James Mulvany	Council member
Marlon Brown	Council member
Les Bruno	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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note N, the City implemented GASB Statement No. 61, *The Financial Reporting Entity Omnibus* during the year. As a result, the criteria for reporting component units as if they were part of the primary government (that is, blending) has been modified. Our opinions are not modified with respect to this matter.

Also discussed in Note N, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously reported as Assets and Liabilities* during the year. As a result of this implementation, the format and reporting of the financial statements has been changed to reflect the new presentation as required by GASB Statements No. 63 and No. 65, as applicable. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as 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 information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mason, Michigan's basic financial statements. The combining and individual nonmajor financial statements are presented for purposes of additional analysis and are not a 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the City of Mason, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mason, Michigan's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 21, 2013

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013. 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 position 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 position/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 position 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 position and how they have changed. The reporting of net position is one way to measure the City's financial health or position.

Over time, increases or decreases in the City's net position 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.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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 35 of the report.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013:

- The City's total net position increased as a result of the fiscal year's operations and the continued slow economic recovery. The net position of the business-type activities decreased by \$45,861 or 0.32 percent, and net position of the governmental activities increased by \$436,322, or 2.07 percent.
- During the year, the City had revenues that were \$436,322 more than the \$5.25 million in expenses.
- State shared revenues, the second largest individual revenue source, increased from \$636,625 in 2011/2012 to \$653,932 in the current fiscal year.
- In the City's business-type activities, revenues were \$2.54 million while expenses were \$2.59 million.
- Total costs of all the City's programs were \$7.84 million.
- The General Fund reported an increase in fund balance of \$840,033.

The City as a Whole

The following table shows, in a condensed format, the current year's net position for the years ended June 30, 2013 and 2012:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$ 6,589,254	\$ 5,824,606	\$ 4,183,423	\$ 4,083,465	\$ 10,772,677	\$ 9,908,071
Capital assets, net	20,530,138	21,116,800	16,232,349	16,723,771	36,762,487	37,840,571
Total assets	27,119,392	26,941,406	20,415,772	20,807,236	47,535,164	47,748,642
Liabilities						
Current	689,186	658,009	477,002	467,543	1,166,188	1,125,552
Noncurrent	4,948,169	5,259,382	5,764,419	6,119,481	10,712,588	11,378,863
Total liabilities	5,637,355	5,917,391	6,241,421	6,587,024	11,878,776	12,504,415
Net Position						
Net invested in capital assets	15,546,689	15,831,085	10,188,675	10,325,097	25,735,364	26,156,182
Restricted	1,367,381	1,116,208	-	-	1,367,381	1,116,208
Unrestricted	4,567,967	4,076,722	3,985,676	3,895,115	8,553,643	7,971,837
Total net position	\$ 21,482,037	\$ 21,024,015	\$ 14,174,351	\$ 14,220,212	\$ 35,656,388	\$ 35,244,227

The City's combined net position increased from a year ago from \$35.24 million to \$35.65 million.

Approximately 72.38 percent of the City's net position of governmental activities reflects 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 position represents resources that are subject to external restrictions on how they may be used. Unrestricted net position of governmental activities of \$4.57 million represents the amount that may be used to meet the City's ongoing obligations.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Net position of the City's governmental activities increased by nearly 2.07 percent to \$21.48 million. This increase is demonstrates the ongoing 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 position of our business-type activities decreased by 0.32 percent to \$14.17 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 position, for the years ended June 30, 2013 and 2012.

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenue:						
Charges for services	\$ 935,106	\$ 955,623	\$ 2,498,658	\$ 2,368,274	\$ 3,433,764	\$ 3,323,897
Operating grants and contributions	1,016,589	950,918	-	-	1,016,589	950,918
Capital grants and contributions	58,632	-	79,758	-	138,390	-0-
General revenues:						
Property taxes	2,864,007	2,887,752	-	-	2,864,007	2,887,752
State Revenue Sharing	653,932	636,625	-	-	653,932	636,625
Investment earnings	12,076	10,325	10,053	11,200	22,129	21,525
Miscellaneous	97,307	104,366	-	1,417	97,307	105,783
Transfers	45,958	19,670	(45,958)	(19,670)	-0-	-0-
Total revenues	5,683,607	5,565,279	2,542,511	2,361,221	8,226,118	7,926,500
Expenses						
General government	1,544,778	2,317,787	-	-	1,544,778	2,317,787
Public safety	1,510,679	1,572,801	-	-	1,510,679	1,572,801
Public works	1,624,777	1,546,382	-	-	1,624,777	1,546,382
Community and economic development	113,051	111,480	-	-	113,051	111,480
Recreation and culture	245,863	283,676	-	-	245,863	283,676
Interest on long-term debt	208,137	218,587	-	-	208,137	218,587
Water and Sewer	-	-	2,588,372	2,650,864	2,588,372	2,650,864
Total expenses	5,247,285	6,050,713	2,588,372	2,650,864	7,835,657	8,701,577
Change in net position	436,322	(485,434)	(45,861)	(289,643)	390,461	(775,077)
Restated net position, beginning of year	21,045,715	21,509,449	14,220,212	14,509,855	35,265,927	36,019,304
Net position, end of year	\$ 21,482,037	\$ 21,024,015	\$ 14,174,351	\$ 14,220,212	\$ 35,656,388	\$ 35,244,227

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Governmental activities. Governmental activities increased the City's net position by \$436,322. Key elements of this increase are as follows:

- The cost of all governmental activities this year was \$5.25 million.
- The amount that City taxpayers paid for these activities through City taxes was approximately \$2.86 million.
- Some of the cost was paid by the beneficiaries of the program's activities (\$0.94 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$1.02 million).
- Decrease in capital spending in Governmental activities areas.
- Timing of the completion of the street construction program.

Business-type activities. Business-type activities decreased the City's net position by \$45,861.

Total revenues of the City's business-type activities, water and sewer, increased to \$2.54 million for 2013 from \$2.36 million in 2012 and total expenses decreased to \$2.58 million in 2013 from \$2.65 million in 2012. The City experienced a change in net position of \$45,861 in its water and sewer operations. Factors contributing to these results included:

- Increased Water and Sewer rates in July 2012.
- 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 2013 include the General Fund and the Special Assessment Fund. These funds, along with the remaining nonmajor governmental funds, reported a combined fund balance of \$4.91 million, and showed an increase from last year's combined fund balance of \$3.70 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 decrease fund balance by \$164,635. The City experienced revenue increases and a completion date to the street program later than expected during the current budget year. The result was an addition to General Fund fund balance of \$840,033.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Capital Asset and Debt Administration

At the end of the 2013 fiscal year, the City had invested approximately \$36.76 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	\$ 1,855,487	\$ 25,609	\$ 1,881,096
Construction in progress	195,333	81,469	276,802
Land improvements	945,195	-	945,195
Buildings and improvements	5,960,303	235,108	6,195,411
Infrastructure	10,607,368	15,890,163	26,497,531
Vehicles and Equipment	966,452	-	966,452
Capital assets, net	<u>\$ 20,530,138</u>	<u>\$ 16,232,349</u>	<u>\$ 36,762,487</u>

Debt

At year end, the City had \$11.52 million in bonds and notes outstanding. This represents a \$0.65 million decrease 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	\$ 4,050,000	\$ -	\$ 4,050,000
Special assessment bonds	455,000	-	455,000
Loans payable	478,449	-	478,449
Revolving fund loan	-	6,043,674	6,043,674
Accrued compensated absences	392,210	100,931	493,141
Total outstanding debt	<u>\$ 5,375,659</u>	<u>\$ 6,144,605</u>	<u>\$ 11,520,264</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 2013/2014 fiscal year is balanced with no property tax rate increase. Total expenses in the General Fund for the 2013/2014 fiscal year are estimated to be \$5.7 million. Economic factors contributing to the total expenses for 2013/2014 include the General Fund's contribution to the 5-year street program (\$543,135) and the rising costs of providing employee benefits.

The City is proceeding with the construction of an additional water well on Temple Street. The completion of the project will allow the City of Mason to continue to meet the needs of the community. A completion date within the 2013/2014 fiscal year is expected. The City is conducting a cost study for water and sewer fees during the 2013/2014 fiscal year to ensure that user fees adequately cover current and future needs.

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, 2013

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 POSITION

June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,457,683	\$ 3,633,830	\$ 9,091,513	\$ 1,168,591
Receivables	911,530	445,545	1,357,075	4,292
Due from other governmental units	207,101	79,758	286,859	-
Internal balances	837	(837)	-0-	-
Inventory	-	25,127	25,127	-
Prepays	11,963	-	11,963	-
Total current assets	6,589,114	4,183,423	10,772,537	1,172,883
Noncurrent assets				
Net other post-employment benefits asset	140	-	140	-
Capital assets not being depreciated	2,050,820	107,078	2,157,898	-
Capital assets, net of accumulated depreciation	18,479,318	16,125,271	34,604,589	-
Total noncurrent assets	20,530,278	16,232,349	36,762,627	-0-
TOTAL ASSETS	27,119,392	20,415,772	47,535,164	1,172,883
LIABILITIES				
Current liabilities				
Accounts payable	42,069	43,306	85,375	24
Accrued wages	62,012	21,403	83,415	-
Accrued liabilities	99,336	-	99,336	-
Due to other governmental units	25	-	25	79,758
Accrued interest payable	51,711	32,107	83,818	578
Unearned revenue	6,543	-	6,543	-
Current portion of compensated absences	117,663	20,186	137,849	-
Current portion of long-term debt	309,827	360,000	669,827	35,000
Total current liabilities	689,186	477,002	1,166,188	115,360
Noncurrent liabilities				
Noncurrent portion of compensated absences	274,547	80,745	355,292	-
Noncurrent portion of long-term debt	4,673,622	5,683,674	10,357,296	-
Total noncurrent liabilities	4,948,169	5,764,419	10,712,588	-0-
TOTAL LIABILITIES	5,637,355	6,241,421	11,878,776	115,360
NET POSITION				
Net investment in capital assets	15,546,689	10,188,675	25,735,364	-
Restricted	1,367,381	-	1,367,381	-
Unrestricted	4,567,967	3,985,676	8,553,643	1,057,523
TOTAL NET POSITION	\$ 21,482,037	\$ 14,174,351	\$ 35,656,388	\$ 1,057,523

See accompanying notes to financial statements.

City of Mason
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,544,778	\$ 275,915	\$ 484,105	\$ 58,632	\$ (726,126)	\$ -	\$ (726,126)	\$ -
Public safety	1,510,679	216,625	10,433	-	(1,283,621)	-	(1,283,621)	-
Public works	1,624,777	405,846	517,051	-	(701,880)	-	(701,880)	-
Community and economic development	113,051	-	-	-	(113,051)	-	(113,051)	-
Recreation and culture	245,863	36,720	5,000	-	(204,143)	-	(204,143)	-
Interest on long-term debt	208,137	-	-	-	(208,137)	-	(208,137)	-
Total governmental activities	5,247,285	935,106	1,016,589	58,632	(3,236,958)	-0-	(3,236,958)	-0-
Business-type activities								
Water and Sewer	2,588,372	2,498,658	-	79,758	-	(9,956)	(9,956)	-
Total primary government	<u>\$ 7,835,657</u>	<u>\$ 3,433,764</u>	<u>\$ 1,016,589</u>	<u>\$ 138,390</u>	(3,236,958)	(9,956)	(3,246,914)	-0-
Component units								
Local Development Finance Authority	\$ 101,972	\$ -	\$ -	\$ -	-	-	-0-	(101,972)
Downtown Development Authority	55,696	-	24,704	-	-	-	-0-	(30,992)
Total component units	<u>\$ 157,668</u>	<u>\$ -0-</u>	<u>\$ 24,704</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(132,964)
General revenues								
Property taxes					2,864,007	-	2,864,007	453,352
State shared revenue					653,932	-	653,932	-
Investment earnings					12,076	10,053	22,129	5,685
Miscellaneous					97,307	-	97,307	-
Transfers					45,958	(45,958)	-0-	-
Total general revenues and transfers					3,673,280	(35,905)	3,637,375	459,037
Change in net position					436,322	(45,861)	390,461	326,073
Restated net position, beginning of year					21,045,715	14,220,212	35,265,927	731,450
Net position, end of year					<u>\$ 21,482,037</u>	<u>\$ 14,174,351</u>	<u>\$ 35,656,388</u>	<u>\$ 1,057,523</u>

See accompanying notes to financial statements.

City of Mason

Governmental Funds

BALANCE SHEET

June 30, 2013

	General	Special Assessment	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,802,739	\$ 460,426	\$ 1,714,012	\$ 4,977,177
Receivables				
Accounts	20,393	-	5,614	26,007
Taxes	13,309	-	-	13,309
Special assessments	-	872,214	-	872,214
Due from other governmental units	125,458	-	81,643	207,101
Due from other funds	1,975	-	93,177	95,152
Prepaids	11,963	-	-	11,963
TOTAL ASSETS	<u>\$ 2,975,837</u>	<u>\$ 1,332,640</u>	<u>\$ 1,894,446</u>	<u>\$ 6,202,923</u>
LIABILITIES				
Accounts payable	\$ 19,328	\$ -	\$ 16,269	\$ 35,597
Accrued wages	55,422	-	5,045	60,467
Accrued liabilities	99,336	-	-	99,336
Due to other funds	80,246	-	26,965	107,211
Due to other governmental units	25	-	-	25
Unearned revenue	6,543	-	-	6,543
TOTAL LIABILITIES	260,900	-0-	48,279	309,179
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	108,196	872,214	-	980,410
FUND BALANCES				
Nonspendable	11,963	-	-	11,963
Restricted	127,578	284,491	1,007,023	1,419,092
Committed	-	-	155,000	155,000
Assigned	-	175,935	684,144	860,079
Unassigned	2,467,200	-	-	2,467,200
TOTAL FUND BALANCES	<u>2,606,741</u>	<u>460,426</u>	<u>1,846,167</u>	<u>4,913,334</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,975,837</u>	<u>\$ 1,332,640</u>	<u>\$ 1,894,446</u>	<u>\$ 6,202,923</u>

See accompanying notes to financial statements.

City of Mason

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

June 30, 2013

Total fund balances - governmental funds **\$ 4,913,334**

Amounts reported for the governmental activities in the statement of net position 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	\$ 35,437,666	
Accumulated depreciation is	<u>(15,133,380)</u>	
Capital assets, net		20,304,286

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 Position.

Net position of governmental activities accounted for in the Internal Service Fund		695,456
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Long-term receivables are not available to pay for current period expenditures and, therefore, are considered unavailable in the funds. These consist of:

Unavailable revenue		872,214
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Some assets are not a current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.

Net other post-employment benefits asset		140
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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.		108,196
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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	4,983,449	
Accrued interest payable	51,711	
Compensated absences	<u>376,429</u>	
		<u>(5,411,589)</u>

Net position of governmental activities **\$ 21,482,037**

City of Mason

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2013

	General	Special Assessment	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 2,970,171	\$ -	\$ -	\$ 2,970,171
Licenses and permits	59,850	-	-	59,850
Intergovernmental	1,137,040	-	517,051	1,654,091
Charges for services	641,062	-	4,431	645,493
Fines and forfeits	27,561	-	-	27,561
Interest, rents, and royalties	26,940	75,778	48,078	150,796
Other	60,426	364,682	6,200	431,308
TOTAL REVENUES	4,923,050	440,460	575,760	5,939,270
EXPENDITURES				
Current				
General government	1,699,940	-	-	1,699,940
Public safety	1,385,720	-	-	1,385,720
Public works	434,901	-	474,687	909,588
Community and economic development	113,051	-	-	113,051
Recreation and culture	164,427	-	10,000	174,427
Debt service	97,082	99,018	317,308	513,408
TOTAL EXPENDITURES	3,895,121	99,018	801,995	4,796,134
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,027,929	341,442	(226,235)	1,143,136
OTHER FINANCING SOURCES (USES)				
Transfers in	165,077	-	367,983	533,060
Transfers out	(352,973)	(105,704)	(28,425)	(487,102)
TOTAL OTHER FINANCING SOURCES (USES)	(187,896)	(105,704)	339,558	45,958
NET CHANGE IN FUND BALANCES	840,033	235,738	113,323	1,189,094
Fund balances, beginning of year	1,766,708	224,688	1,732,844	3,724,240
Fund balances, end of year	<u>\$ 2,606,741</u>	<u>\$ 460,426</u>	<u>\$ 1,846,167</u>	<u>\$ 4,913,334</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, 2013

Net change in fund balances - total governmental funds \$ 1,189,094

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	\$ 542,468	
Depreciation expense	<u>(1,166,534)</u>	
Excess of depreciation expense over capital outlay		(624,066)

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

Decrease in net position of Internal Service Funds		(54,687)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(Decrease) in unavailable receivable	(360,253)	
(Decrease) in net pension asset	<u>(21,626)</u>	
		(381,879)

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 position. In the current year, these amounts consist of:

Long-term debt principal retirements		302,266
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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	3,005	
Decrease in compensated absences	2,594	
(Increase) in net other post-employment benefits	<u>(5)</u>	
		<u>5,594</u>

Change in net position of governmental activities \$ 436,322

City of Mason
Proprietary Funds
STATEMENT OF NET POSITION
June 30, 2013

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,633,830	\$ 480,506
Accounts receivable	445,545	-
Due from other governmental units	79,758	-
Due from other funds	94	12,896
Inventory	25,127	-
Total current assets	4,184,354	493,402
Noncurrent assets		
Capital assets not being depreciated	107,078	-
Capital assets, net of accumulated depreciation	16,125,271	225,852
Total noncurrent assets	16,232,349	225,852
TOTAL ASSETS	20,416,703	719,254
LIABILITIES		
Current liabilities		
Accounts payable	43,306	6,472
Accrued wages	21,403	1,545
Accrued interest payable	32,107	-
Due to other funds	931	-
Current portion of compensated absences	20,186	4,734
Current portion of long-term debt	360,000	-
Total current liabilities	477,933	12,751
Noncurrent liabilities		
Noncurrent portion of compensated absences	80,745	11,047
Noncurrent portion of long-term debt	5,683,674	-
Total noncurrent liabilities	5,764,419	11,047
TOTAL LIABILITIES	6,242,352	23,798
NET POSITION		
Net investment in capital assets	10,188,675	225,852
Unrestricted	3,985,676	469,604
TOTAL NET POSITION	\$ 14,174,351	\$ 695,456

See accompanying notes to financial statements.

City of Mason

Proprietary Funds

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

Year Ended June 30, 2013

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
OPERATING REVENUES		
Internal user charges	\$ -	\$ 177,697
Water user charges	1,336,732	-
Sewer user charges	1,091,894	-
Interest and penalty charges	55,329	-
Rent	500	-
Other	14,203	40,604
TOTAL OPERATING REVENUES	2,498,658	218,301
OPERATING EXPENSES		
Cost of water produced	423,487	-
Cost of sewage treatment	829,934	-
Operation and maintenance	540,220	222,299
Billing and administrative costs	38,946	-
Depreciation	621,699	52,160
TOTAL OPERATING EXPENSES	2,454,286	274,459
OPERATING INCOME (LOSS)	44,372	(56,158)
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	79,758	-
Investment income	10,053	1,471
Interest expense and fees	(134,086)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(44,275)	1,471
INCOME (LOSS) BEFORE TRANSFERS	97	(54,687)
TRANSFERS OUT	(45,958)	-
CHANGE IN NET POSITION	(45,861)	(54,687)
Net position, beginning of year	14,220,212	750,143
Net position, end of year	<u>\$ 14,174,351</u>	<u>\$ 695,456</u>

See accompanying notes to financial statements.

City of Mason
Proprietary Funds
STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,454,019	\$ 218,301
Cash paid to suppliers	(1,282,846)	(143,949)
Cash paid to employees	(538,458)	(70,888)
NET CASH PROVIDED BY OPERATING ACTIVITIES	632,715	3,464
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
(Payment) of interfund balances	(46,179)	(11,838)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Intergovernmental	79,758	-
Payments on borrowing	(355,000)	-
Purchase of capital assets	(130,277)	(89,564)
Interest expense and fees	(135,972)	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(541,491)	(89,564)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	10,053	1,471
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55,098	(96,467)
Cash and cash equivalents, beginning of year	3,578,732	576,973
Cash and cash equivalents, end of year	\$ 3,633,830	\$ 480,506
Reconciliation of operating income (loss) to net cash		
net cash provided by operating activities		
Operating income (loss)	\$ 44,372	\$ (56,158)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	621,699	52,160
(Increase) decrease in:		
Accounts receivable	33,738	-
Due from other governmental units	(79,758)	-
Inventory	1,381	-
Increase in:		
Accounts payable	3,349	6,472
Accrued liabilities	1,762	145
Compensated absences	6,172	845
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 632,715	\$ 3,464

See accompanying notes to financial statements.

City of Mason

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2013

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 32,122</u>
LIABILITIES	
Due to individuals and agencies	\$ 27,745
Due to other governmental units	<u> 4,377</u>
TOTAL LIABILITIES	<u>\$ 32,122</u>

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF NET POSITION

June 30, 2013

	Local Development Finance Authority	Downtown Development Authority	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	\$ 947,590	\$ 221,001	\$ 1,168,591
Receivables	-	4,292	4,292
TOTAL ASSETS	947,590	225,293	1,172,883
LIABILITIES			
Current liabilities			
Accounts payable	-	24	24
Due to other governmental units	79,758	-	79,758
Accrued interest payable	578	-	578
Current portion of long-term debt	35,000	-	35,000
TOTAL LIABILITIES	115,336	24	115,360
NET POSITION			
Unrestricted	<u>\$ 832,254</u>	<u>\$ 225,269</u>	<u>\$ 1,057,523</u>

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Position		
			Local Development Finance Authority	Downtown Development Authority	Total Component Units
Governmental activities					
Local Development Finance Authority	\$ 101,972	\$ -	\$ (101,972)	\$ -	\$ (101,972)
Downtown Development Authority	55,696	24,704	-	(30,992)	(30,992)
Total component units	<u>\$ 157,668</u>	<u>\$ 24,704</u>	(101,972)	(30,992)	(132,964)
General revenues					
Property taxes			393,363	59,989	453,352
Investment earnings			5,191	494	5,685
Total general revenues			<u>398,554</u>	<u>60,483</u>	<u>459,037</u>
Change in net position			296,582	29,491	326,073
Restated net position, beginning of year			<u>535,672</u>	<u>195,778</u>	<u>731,450</u>
Net position, end of year			<u>\$ 832,254</u>	<u>\$ 225,269</u>	<u>\$ 1,057,523</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 Statements No. 39 and No. 61); and Michigan Committee on Governmental Accounting and Auditing Statement 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 Units

The City of Mason has two blended component units. Although they are legally separate from the City, their sole purpose is to benefit the City.

Mason Building Authority - The Mason building Authority 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 as the Mason Building Authority Debt Service Fund, in conformity with GASB Statement No. 61, since the component unit provides services entirely to the primary government.

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. The Economic Development Corporation is blended with the primary government as Economic Development Corporation Special Revenue Fund, in conformity with GASB Statement No. 61.

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 this entity or the nature and significance of the relationship between the entity and the City is such that exclusion of the entity would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component unit:

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

3. Discretely Presented Component Units - continued

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.

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.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

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.

Additionally, the City reports an internal service fund to account for the management of motor vehicle 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 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, deferred outflows of resources, current liabilities, and deferred inflows of resources 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 unavailable 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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, 2013

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, 2013, the City levied 13.2500 mills per \$1,000 of taxable valuation for general governmental services. The total taxable value for the 2012 levy for property within the City was \$212,927,446.

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, 2013

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. Unearned Revenue

Governmental funds report unearned 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 Position 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

19. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only two types of items, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from revenues collected subsequent to 60 days after year end, and from long-term special assessment receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

20. 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.

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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Deposits

As of June 30, 2013, 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	\$ 8,307,342	\$ 8,912,517
FIDUCIARY FUNDS		
Checking and savings	32,122	140,399
COMPONENT UNITS		
Savings	<u>1,119,826</u>	<u>1,119,826</u>
TOTAL REPORTING ENTITY	<u>\$ 9,459,290</u>	<u>\$ 10,172,742</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, 2013, the City accounts were insured by the FDIC for \$854,447 and the amount of \$9,308,295 was uninsured and uncollateralized. The City had \$405 of imprest cash on hand.

Investments

As of June 30, 2013, the City had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT			
Uncategorized pooled investment funds			
Cutwater - Michigan Class	\$ 783,766	\$ 783,766	49 days
COMPONENT UNITS			
Uncategorized pooled investment funds			
Cutwater - Michigan Class	<u>48,765</u>	<u>48,765</u>	49 days
TOTAL REPORTING ENTITY	<u>\$ 832,531</u>	<u>\$ 832,531</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, 2013, 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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

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.

The following summarizes the categorization of these amounts as of June 30, 2013:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Cash and cash equivalents	<u>\$ 9,091,513</u>	<u>\$ 32,122</u>	<u>\$ 1,168,591</u>	<u>\$ 10,292,226</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2013, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 1,975</u>
Due to nonmajor governmental funds from:	
General Fund	\$ 68,187
Nonmajor governmental funds	<u>24,990</u>
	<u>\$ 93,177</u>
Due to Water and Sewer Fund from:	
General Fund	<u>\$ 94</u>
Due to Internal Service Fund from:	
General Fund	\$ 11,965
Water and Sewer Fund	<u>931</u>
	<u>\$ 12,896</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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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	\$ 105,704
Water and Sewer Fund	45,958
Nonmajor governmental funds	<u>13,415</u>
	<u>\$ 165,077</u>
Transfer to nonmajor governmental funds from:	
General Fund	\$ 352,973
Nonmajor governmental funds	<u>15,010</u>
	<u>\$ 367,983</u>

The transfers to the General Fund from the Special Assessment Fund, Water and Sewer 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, 2013, was as follows:

Primary Government

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,432,912	\$ 422,575	\$ -	\$ 1,855,487
Construction in progress	110,913	84,420	-	195,333
Subtotal	1,543,825	506,995	-0-	2,050,820
Capital assets being depreciated				
Land improvements	1,717,283	10,849	-	1,728,132
Buildings and improvements	6,808,389	-	-	6,808,389
Infrastructure	22,893,514	1,889	-	22,895,403
Vehicles and equipment	3,516,148	112,299	-	3,628,447
Subtotal	34,935,334	125,037	-0-	35,060,371

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Governmental activities - continued				
Less accumulated depreciation for:				
Land improvements	\$ (705,449)	\$ (77,488)	\$ -	\$ (782,937)
Buildings and improvements	(681,127)	(166,959)	-	(848,086)
Infrastructure	(11,553,897)	(734,138)	-	(12,288,035)
Vehicles and equipment	(2,421,886)	(240,109)	-	(2,661,995)
Subtotal	(15,362,359)	(1,218,694)	-0-	(16,581,053)
Net capital assets being depreciated	19,572,975	(1,093,657)	-0-	18,479,318
Capital assets, net	<u>\$ 21,116,800</u>	<u>\$ (586,662)</u>	<u>\$ -0-</u>	<u>\$ 20,530,138</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 196,273
Public safety	183,475
Public works	764,324
Recreation and culture	74,622
Total depreciation expense	<u>\$ 1,218,694</u>

	Balance July 1, 2012	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2013
Business-type activities				
Capital assets not being depreciated				
Land	\$ 25,609	\$ -	\$ -	\$ 25,609
Construction in progress	21,430	81,469	(21,430)	81,469
Subtotal	47,039	81,469	(21,430)	107,078
Capital assets being depreciated				
Buildings and improvements	460,107	4,500	-	464,607
Infrastructure	24,877,668	65,738	-	24,943,406
Subtotal	25,337,775	70,238	-0-	25,408,013
Less accumulated depreciation for:				
Buildings and improvements	(221,299)	(8,200)	-	(229,499)
Infrastructure	(8,439,744)	(613,499)	-	(9,053,243)
Subtotal	(8,661,043)	(621,699)	-0-	(9,282,742)
Net capital assets being depreciated	16,676,732	(551,461)	-0-	16,125,271
Capital assets, net	<u>\$ 16,723,771</u>	<u>\$ (469,992)</u>	<u>\$ (21,430)</u>	<u>\$ 16,232,349</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE E: CAPITAL ASSETS - CONTINUED

Component Unit

	Balance July 1, 2012	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2013
Component Unit (LDFA)				
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>

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, 2013.

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Primary government					
Governmental activities					
1997 Building Authority Bonds	\$ 225,000	\$ -	\$ (25,000)	\$ 200,000	\$ 30,000
2010 Building Authority Bonds	3,935,000	-	(85,000)	3,850,000	85,000
Special Assessment Bonds	532,000	-	(77,000)	455,000	75,000
Loans Payable	593,715	-	(115,266)	478,449	119,827
Compensated Absences	393,959	152,558	(154,307)	392,210	117,663
	<u>5,679,674</u>	<u>152,558</u>	<u>(456,573)</u>	<u>5,375,659</u>	<u>427,490</u>
Business-type activities					
Drinking Water Revolving Fund Loan	6,398,674	-	(355,000)	6,043,674	360,000
Compensated Absences	94,759	81,826	(75,654)	100,931	20,186
	<u>6,493,433</u>	<u>81,826</u>	<u>(430,654)</u>	<u>6,144,605</u>	<u>380,186</u>
Total primary government	12,173,107	234,384	(887,227)	11,520,264	807,676
Component unit					
Local Development Finance Authority General Obligation Bonds	70,000	-	(35,000)	35,000	35,000
Total reporting entity	<u>\$ 12,243,107</u>	<u>\$ 234,384</u>	<u>\$ (922,227)</u>	<u>\$ 11,555,264</u>	<u>\$ 842,676</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F: LONG-TERM DEBT - CONTINUED

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 \$30,000 to \$40,000 through October 1, 2018, with interest ranging from 3.85 to 5.15 percent, payable semi-annually. \$ 200,000

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 3.35 to 6.50 percent, payable semi-annually. \$ 3,850,000

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:

\$52,000 1999 Special Assessment dated October 22, 1999, due in an annual installment of \$5,000 on October 1, 2013, with interest of 4.90 percent, payable semi-annually. \$ 5,000

\$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 4.90 to 5.00 percent, payable semi-annually. 25,000

\$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 4.20 to 4.55 percent, payable semi-annually. 425,000

\$ 455,000

Loans Payable

Dart National Bank Loan due in annual installments of \$83,785 to \$93,563 through December 20, 2016, with interest of 3.70 percent, for a fire truck costing \$605,741. \$ 354,659

Dart National Bank Loan due in annual installments of \$26,982 to \$29,668 through June 28, 2016, with interest of 4.80 percent, for land costing \$325,877. 84,945

Mason State Bank Loan due in annual installments of \$9,060 to \$10,384 through April 16, 2017, with interest of 4.65 percent, for land costing \$115,500. 38,845

\$ 478,449

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F: LONG-TERM DEBT - CONTINUED

Primary Government - Continued

Drinking Water Revolving Fund Loan

\$8,000,000 Water Supply System Bonds dated September 27, 2007, due in annual installments ranging from \$360,000 to \$485,000 through April 1, 2028, with interest of 2.125 percent, payable semi-annually.

\$ 6,043,674

Component Unit - LDFA

General Obligation Bonds

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

\$ 35,000

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 \$493,141 at June 30, 2013. Of this amount, \$392,210 and \$100,931 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,	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	130,000	222,715	55,000	8,185
2019-2023	575,000	1,019,403	155,000	10,513
2024-2028	650,000	839,563	-	-
2029-2033	790,000	618,663	-	-
2034-2038	970,000	340,275	-	-
2039-2040	450,000	42,760	-	-
	<u>\$ 4,050,000</u>	<u>\$ 4,033,386</u>	<u>\$ 455,000</u>	<u>\$ 75,928</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F: LONG-TERM DEBT - CONTINUED

Primary Government - Continued

Year Ending June 30,	Loans Payable		Drinking Water Revolving Fund Loan	
	Principal	Interest	Principal	Interest
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	103,933	4,002	385,000	104,947
2018	-	-	395,000	96,766
2019-2023	-	-	2,095,000	354,734
2024-2028	-	-	2,063,674	122,578
	<u>\$ 478,449</u>	<u>\$ 46,886</u>	<u>\$ 6,043,674</u>	<u>\$ 1,041,147</u>

Component Unit - LDFA

Year Ending June 30,	Bonds Payable	
	Principal	Interest
2014	<u>\$ 35,000</u>	<u>\$ 1,155</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.

Annual Pension Cost

For year ended June 30, 2013, the City's annual pension cost of \$249,606 for the plan was equal to the City's actual contribution. 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 percent per year depending on age, seniority, and merit; and (d) post-retirement benefit increases of 2.5 percent annually.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE G: RETIREMENT PLAN - CONTINUED

Annual Pension Cost - continued

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-six (26) years.

Three (3) year trend information

	Year Ended December 31,		
	2010	2011	2012
Actuarial value of assets	\$ 11,124,695	\$ 11,346,721	\$ 11,523,570
Actuarial accrued liability (AAL) (entry age)	14,181,492	14,884,287	15,367,036
Unfunded AAL (UAAL)	3,056,797	3,537,566	3,843,466
Funded ratio	78%	76%	75%
Annual covered payroll	\$ 2,113,365	\$ 2,102,937	\$ 2,040,185
UAAL as a percentage of covered payroll	145%	168%	188%

	Year Ended June 30,		
	2011	2012	2013
Annual pension cost	\$ 226,678	\$ 253,102	\$ 249,606
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.

During the year ended June 30, 2013, 16 retirees were receiving benefits. Expenditures for post-employment benefits are recognized when claims are paid. During the year, expenditures of \$82,700 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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Progress

For the year ended June 30, 2013, the City has determined an estimated cost of providing post-employment benefits through an actuarial valuation as of July 1, 2012. 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 twenty-seven (27) years.

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

Annual required contribution (ARC)	\$ 146,785
Adjustment to annual required contribution	<u>5</u>
Annual OPEB cost	146,790
Amounts contributed:	
Payments of current requirements (gross of employee reimbursement)	<u>146,785</u>
Increase in net OPEB obligation	5
OPEB obligation (asset) - Beginning of year	<u>(145)</u>
OPEB obligation (asset) - End of year	<u><u>\$ (140)</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>2011</u>	<u>2012</u>	<u>2013</u>
Annual OPEB cost	\$ 144,041	\$ 150,529	\$ 146,790
Percentage contributed	102.5%	100.0%	100%
Net OPEB obligation	\$ (149)	\$ (145)	\$ (140)

The current funding progress of the plan is as follows:

	<u>Dec. 31, 2007</u>	<u>July 1, 2012</u>
Actuarial value of assets	\$ 77,869	\$ 191,398
Actuarial accrued liability (AAL) (entry age)	2,273,747	2,648,079
Unfunded AAL (UAAL)	2,195,878	2,456,681
Funded ratio	3.4%	7.2%
Annual covered payroll	\$ 2,102,937	\$ 2,113,365
UAAL as a percentage of covered payroll	104.4%	116.2%

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Methods and Assumptions - continued

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 July 1, 2012, 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%.

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 \$25,204,913 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.

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, 2013:

Surplus at July 1, 2012	\$ 138,345
REVENUES	
Licenses and permits	
Permits	46,633
EXPENDITURES	
Building Department	<u>(64,965)</u>
Cumulative surplus at June 30, 2013	<u><u>\$ 120,013</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE K: RESTATEMENT OF BEGINNING NET POSITION

Beginning net position has been restated for governmental activities and component units due to a change in accounting principles. The restatement has resulted in an increase of governmental activities net position by \$21,700 and a decrease of component units net position by \$21,700.

NOTE L: RESTRICTED NET POSITION

Restrictions of net position 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 restrictions in net position as of June 30, 2013:

PRIMARY GOVERNMENT	
Highways	\$ 196,314
Community enrichment	474,447
Rayner Park	7,565
Construction code activity	120,013
Cemetery operations	316,236
Flowers	19,494
Debt service	<u>233,312</u>
	<u>\$ 1,367,381</u>

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard:

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE M: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

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.

	General Fund	Special Assessment	Nonmajor Governmental Funds	Total
Fund Balances				
Nonspendable:				
Prepays	\$ 11,963	\$ -	\$ -	\$ 11,963
Restricted for:				
Highways	-	-	196,314	196,314
Community enrichment	-	-	474,447	474,447
Rayner Park	7,565	-	-	7,565
Construction code activity	120,013	-	-	120,013
Cemetery operations	-	-	316,236	316,236
Flowers	-	-	19,494	19,494
Debt service	-	284,491	532	285,023
Committed to:				
Community enrichment	-	-	155,000	155,000
Assigned to:				
Highways	-	-	683,757	683,757
Other purposes	-	175,935	387	176,322
Unassigned	2,467,200	-	-	2,467,200
TOTAL FUND BALANCES	<u>\$ 2,606,741</u>	<u>\$ 460,426</u>	<u>\$ 1,846,167</u>	<u>\$ 4,913,334</u>

NOTE N: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 61, *The Financial Reporting Entity Omnibus* was implemented in the current period. This Statement, an amendment to Statement No. 14 and Statement No. 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 clarifies the reporting of equity interests in legally separate organizations.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* were implemented during the current year. These statements incorporate 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, and fund balance, when applicable.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENTS

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 the 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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 2,854,950	\$ 2,862,545	\$ 2,864,007	\$ 1,462
Penalties and interest	15,000	16,845	16,866	21
Administration fees	87,855	89,395	89,298	(97)
Total taxes	2,957,805	2,968,785	2,970,171	1,386
Licenses and permits	25,300	57,875	59,850	1,975
Intergovernmental				
State	601,985	650,735	653,035	2,300
Local	1,031,680	483,795	484,005	210
Total intergovernmental	1,633,665	1,134,530	1,137,040	2,510
Charges for services				
Refuse collection	323,660	326,630	326,631	1
Cable franchise fee	42,500	42,750	42,751	1
Other	272,655	271,065	271,680	615
Total charges for services	638,815	640,445	641,062	617
Fines and forfeits	28,400	30,235	27,561	(2,674)
Interest and rents	21,745	26,980	26,940	(40)
Other	66,800	60,450	60,426	(24)
TOTAL REVENUES	5,372,530	4,919,300	4,923,050	3,750

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2013

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Current				
General government				
City Council	\$ 44,305	\$ 37,835	\$ 34,561	\$ 3,274
Administrator	240,240	182,285	177,230	5,055
Assessor	47,185	48,135	47,696	439
Board of Review	650	690	690	-0-
Treasurer	475,615	368,855	360,608	8,247
Technology	48,565	48,565	47,138	1,427
Election	135,590	120,105	112,272	7,833
Building office and City Hall	369,150	395,735	378,496	17,239
Attorney	70,000	90,000	87,430	2,570
Cemetery	146,525	111,565	100,544	11,021
Workers compensation	55,100	39,385	39,382	3
Retiree benefits	157,295	146,785	146,785	-0-
Administrative services	234,390	169,850	167,108	2,742
Total general government	2,024,610	1,759,790	1,699,940	59,850
Public safety				
Police administration	337,945	299,580	285,967	13,613
Crossing guards	33,595	20,270	19,459	811
Police patrolling	1,016,720	834,635	818,808	15,827
Fire department	297,025	259,900	253,936	5,964
Civil defense	8,200	8,150	7,550	600
Total public safety	1,693,485	1,422,535	1,385,720	36,815
Public works				
Public services	6,685	4,610	3,405	1,205
Street lighting	134,985	115,750	114,255	1,495
Refuse collection	331,235	317,250	317,241	9
Total public works	472,905	437,610	434,901	2,709
Community and economic development				
Cable commission	4,300	4,120	3,554	566
Planning and zoning	120,000	106,900	104,218	2,682
Planning commission	1,385	1,200	885	315
Christmas decorations	4,505	4,445	4,394	51
Total community and economic development	130,190	116,665	113,051	3,614

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture				
Parks	\$ 142,860	\$ 106,720	\$ 96,294	\$ 10,426
Library	8,045	9,455	6,589	2,866
Forestry	67,705	61,100	54,844	6,256
Senior citizens	8,010	6,700	6,700	-0-
Total recreation and culture	226,620	183,975	164,427	19,548
Debt service				
Principal	80,715	80,675	80,671	4
Interest and fiscal fees	16,370	16,415	16,411	4
Total debt service	97,085	97,090	97,082	8
TOTAL EXPENDITURES	4,644,895	4,017,665	3,895,121	122,544
EXCESS OF REVENUES OVER EXPENDITURES	727,635	901,635	1,027,929	126,294
OTHER FINANCING SOURCES (USES)				
Transfers in	152,750	165,080	165,077	(3)
Transfers out	(1,045,020)	(1,045,020)	(352,973)	692,047
TOTAL OTHER FINANCING SOURCES (USES)	(892,270)	(879,940)	(187,896)	692,044
NET CHANGE IN FUND BALANCE	(164,635)	21,695	840,033	818,338
Fund balance, beginning of year	1,766,708	1,766,708	1,766,708	-0-
Fund balance, end of year	<u>\$ 1,602,073</u>	<u>\$ 1,788,403</u>	<u>\$ 2,606,741</u>	<u>\$ 818,338</u>

City of Mason
Special Assessment Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 62,695	\$ 75,685	\$ 75,778	\$ 93
Other				
Special assessments	141,810	364,165	364,682	517
TOTAL REVENUES	204,505	439,850	440,460	610
EXPENDITURES				
Debt service	99,020	99,020	99,018	2
EXCESS OF REVENUES OVER EXPENDITURES	105,485	340,830	341,442	612
OTHER FINANCING (USES)				
Transfers out	(96,645)	(105,705)	(105,704)	1
NET CHANGE IN FUND BALANCE	8,840	235,125	235,738	613
Fund balance, beginning of year	224,688	224,688	224,688	-0-
Fund balance, end of year	<u>\$ 233,528</u>	<u>\$ 459,813</u>	<u>\$ 460,426</u>	<u>\$ 613</u>

OTHER SUPPLEMENTARY INFORMATION

City of Mason
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 June 30, 2013

	Special		
	Major Street	Local Street	Rayner Bond
ASSETS			
Cash and cash equivalents	\$ 587,780	\$ 163,343	\$ 603,662
Accounts receivable	1,132	460	4,022
Due from other governmental units	60,675	20,968	-
Due from other funds	93,162	15	-
TOTAL ASSETS	\$ 742,749	\$ 184,786	\$ 607,684
LIABILITIES			
Accounts payable	\$ 16,269	\$ -	\$ -
Accrued wages	2,514	2,531	-
Due to other funds	-	26,150	-
TOTAL LIABILITIES	18,783	28,681	-0-
FUND BALANCES			
Restricted for:			
Highways	196,314	-	-
Community enrichment	-	-	452,684
Cemetery operations	-	-	-
Flowers	-	-	-
Debt service	-	-	-
Committed to:			
Community enrichment	-	-	155,000
Assigned to:			
Highways	527,652	156,105	-
Other purposes	-	-	-
TOTAL FUND BALANCES	723,966	156,105	607,684
TOTAL LIABILITIES AND FUND BALANCES	\$ 742,749	\$ 184,786	\$ 607,684

<u>Revenue</u>	<u>Debt Service</u>		<u>Capital Projects</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Economic Development Corporation</u>	<u>Park Street Property</u>	<u>Mason Building Authority</u>	<u>Capital Improvement</u>	<u>Cemetery Trust</u>	
\$ 21,763	\$ -	\$ 532	\$ 387	\$ 336,545	\$ 1,714,012
-	-	-	-	-	5,614
-	-	-	-	-	81,643
-	-	-	-	-	93,177
<u>\$ 21,763</u>	<u>\$ -0-</u>	<u>\$ 532</u>	<u>\$ 387</u>	<u>\$ 336,545</u>	<u>\$ 1,894,446</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,269
-	-	-	-	-	5,045
-	-	-	-	815	26,965
-0-	-0-	-0-	-0-	815	48,279
-	-	-	-	-	196,314
21,763	-	-	-	-	474,447
-	-	-	-	316,236	316,236
-	-	-	-	19,494	19,494
-	-	532	-	-	532
-	-	-	-	-	155,000
-	-	-	-	-	683,757
-	-	-	387	-	387
<u>21,763</u>	<u>-0-</u>	<u>532</u>	<u>387</u>	<u>335,730</u>	<u>1,846,167</u>
<u>\$ 21,763</u>	<u>\$ -0-</u>	<u>\$ 532</u>	<u>\$ 387</u>	<u>\$ 336,545</u>	<u>\$ 1,894,446</u>

City of Mason

Nonmajor Governmental Funds

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

Year Ended June 30, 2013

	Special		
	Major Street	Local Street	Rayner Bond
REVENUES			
Intergovernmental	\$ 366,453	\$ 150,598	\$ -
Charges for services	1,227	3,204	-
Interest, rents, and royalties	1,521	301	45,326
Other	185	1,500	-
TOTAL REVENUES	369,386	155,603	45,326
EXPENDITURES			
Current			
Public works	305,588	169,099	-
Recreation and culture	-	-	10,000
Debt service	-	-	-
TOTAL EXPENDITURES	305,588	169,099	10,000
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	63,798	(13,496)	35,326
OTHER FINANCING SOURCES (USES)			
Transfers in	68,165	15,010	-
Transfers out	(15,196)	(1,500)	(10,914)
TOTAL OTHER FINANCING SOURCES (USES)	52,969	13,510	(10,914)
NET CHANGE IN FUND BALANCES	116,767	14	24,412
Fund balances, beginning of year	607,199	156,091	583,272
Fund balances, end of year	\$ 723,966	\$ 156,105	\$ 607,684

<u>Revenue</u> Economic Development Corporation	<u>Debt Service</u>		<u>Capital Projects</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Park Street Property</u>	<u>Mason Building Authority</u>	<u>Capital Improvement</u>	<u>Cemetery Trust</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 517,051
-	-	-	-	-	4,431
63	-	52	-	815	48,078
-	-	-	-	4,515	6,200
63	-0-	52	-0-	5,330	575,760
-	-	-	-	-	474,687
-	-	-	-	-	10,000
-	41,982	275,326	-	-	317,308
-0-	41,982	275,326	-0-	-0-	801,995
63	(41,982)	(275,274)	-0-	5,330	(226,235)
-	41,982	242,826	-	-	367,983
-	-	-	-	(815)	(28,425)
-0-	41,982	242,826	-0-	(815)	339,558
63	-0-	(32,448)	-0-	4,515	113,323
21,700	-	32,980	387	331,215	1,732,844
<u>\$ 21,763</u>	<u>\$ -0-</u>	<u>\$ 532</u>	<u>\$ 387</u>	<u>\$ 335,730</u>	<u>\$ 1,846,167</u>

City of Mason

Agency Funds

COMBINING STATEMENT OF ASSETS AND LIABILITIES

June 30, 2013

	<u>Delinquent Tax</u>	<u>Payroll</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	<u>\$ 4,377</u>	<u>\$ 27,745</u>	<u>\$ 32,122</u>
LIABILITIES			
Due to individuals and agencies	\$ -	\$ 27,745	\$ 27,745
Due to other governmental units	<u>4,377</u>	<u>-</u>	<u>4,377</u>
TOTAL LIABILITIES	<u>\$ 4,377</u>	<u>\$ 27,745</u>	<u>\$ 32,122</u>

City of Mason

Component Unit Funds

COMBINING BALANCE SHEET - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2013

	<u>General</u>	<u>Debt Service 1992 Bond</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 947,590</u>	<u>\$ -</u>	<u>\$ 947,590</u>
LIABILITIES			
Due to other governmental units	\$ 79,758	\$ -	\$ 79,758
FUND BALANCES			
Unassigned	<u>867,832</u>	<u>-</u>	<u>867,832</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 947,590</u>	<u>\$ -0-</u>	<u>\$ 947,590</u>

City of Mason

Component Unit Funds

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

June 30, 2013

Total fund balances - governmental funds \$ 867,832

Amounts reported for the governmental activities in the statement of net position 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	35,000	
Accrued interest payable	<u>578</u>	
		<u>(35,578)</u>

Net position of governmental activities \$ 832,254

City of Mason

Component Unit Funds

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

Year Ended June 30, 2013

	General	<u>Debt Service</u> 1992 Bond	Total
REVENUES			
Taxes	\$ 393,363	\$ -	\$ 393,363
Interest	5,191	-	5,191
TOTAL REVENUES	398,554	-0-	398,554
EXPENDITURES			
Current			
Community and economic development	98,734	-	98,734
Debt service	-	38,815	38,815
TOTAL EXPENDITURES	98,734	38,815	137,549
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	299,820	(38,815)	261,005
OTHER FINANCING SOURCES (USES)			
Transfers in	-	38,815	38,815
Transfers out	(38,815)	-	(38,815)
TOTAL OTHER FINANCING SOURCES (USES)	(38,815)	38,815	-0-
NET CHANGE IN FUND BALANCES	261,005	-0-	261,005
Fund balances, beginning of year	606,827	-	606,827
Fund balances, end of year	<u>\$ 867,832</u>	<u>\$ -0-</u>	<u>\$ 867,832</u>

City of Mason

Component Unit Funds

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

Year Ended June 30, 2013

Net change in fund balances - governmental funds \$ 261,005

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 position. In the current year, these amounts consist of:

Long-term debt principal retirements	35,000
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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	<u>577</u>
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Change in net position of governmental activities	<u><u>\$ 296,582</u></u>
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City of Mason

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2013

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 221,001
Taxes receivable	3,322
Accounts receivable	<u>970</u>
TOTAL ASSETS	<u><u>\$ 225,293</u></u>
LIABILITIES	
Accounts payable	\$ 24
FUND BALANCE	
Unassigned	<u>225,269</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 225,293</u></u>

Note: Reconciliation of the governmental fund balance sheet to the statement of net position for this component unit is not required as the fund balance was equal to the net position as of June 30, 2013.

City of Mason

Component Unit Funds

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

Year Ended June 30, 2013

	<u>General</u>
REVENUES	
Taxes	\$ 59,989
Interest	494
Other	<u>24,704</u>
TOTAL REVENUES	85,187
EXPENDITURES	
Current	
Community and economic development	<u>55,696</u>
NET CHANGE IN FUND BALANCE	29,491
Fund balance, beginning of year	<u>195,778</u>
Fund balance, end of year	<u><u>\$ 225,269</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 position for the year ended June 30, 2013.

Principals

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mason'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 21, 2013