

**City of Mason
Ingham County, Michigan**

FINANCIAL STATEMENTS

June 30, 2014

City of Mason
Ingham County, Michigan
June 30, 2014

CITY COUNCIL AND ADMINISTRATION

Leon Clark	Mayor
Robin Naeyaert	Mayor Pro-Tem
Jon Droscha	Council member
Elaine Ferris	Council member
James Mulvaney	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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GOVERNMENT AUDITING STANDARDS

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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 (the City), as of and for the year ended June 30, 2014, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, 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 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's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic 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 fund 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 13, 2014, on our consideration of the City'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's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 13, 2014

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Our discussion and analysis of the City of Mason's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. 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, 2014

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 15 through 34 of the report.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014:

- 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 increased by \$57,914 or 0.41 percent, and net position of the governmental activities increased by \$425,906, or 2.05 percent.
- During the year, the City's governmental activities' revenues were \$425,906 more than the approximate \$5.42 million in expenses.
- State shared revenues, the largest individual revenue source after property taxes, increased \$29,833 to \$683,765 during the current fiscal year.
- In the City's business-type activities, revenues were approximately \$2.70 million while expenses were approximately \$2.65 million.
- Total costs of all the City's programs were approximately \$8.07 million.
- The General Fund reported a decrease in fund balance of \$160,182.

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, 2014 and 2013:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$ 6,885,439	\$ 6,589,254	\$ 4,006,633	\$ 4,183,423	\$ 10,892,072	\$ 10,772,677
Capital assets, net	20,836,896	20,530,138	16,165,954	16,232,349	37,002,850	36,762,487
Total assets	27,722,335	27,119,392	20,172,587	20,415,772	47,894,922	47,535,164
Liabilities						
Current	1,179,422	689,186	588,699	477,002	1,768,121	1,166,188
Noncurrent	4,634,970	4,948,169	5,351,623	5,764,419	9,986,593	10,712,588
Total liabilities	5,814,392	5,637,355	5,940,322	6,241,421	11,754,714	11,878,776
Net Position						
Net invested in capital assets	16,163,241	15,546,689	10,482,280	10,188,675	26,645,521	25,735,364
Restricted	1,255,955	1,367,381	-	-	1,255,955	1,367,381
Unrestricted	4,488,747	4,567,967	3,749,985	3,985,676	8,238,732	8,553,643
Total net position	\$ 21,907,943	\$ 21,482,037	\$ 14,232,265	\$ 14,174,351	\$ 36,140,208	\$ 35,656,388

The City's combined net position increased from approximately \$35.65 million a year ago to \$36.14 million.

Approximately 73.78 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 approximately \$4.49 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, 2014

Net position of the City's governmental activities increased approximately 1.98 percent to \$21.91 million. This increase 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.

The net position of the City's business-type activities increased by 0.41 percent to \$14.23 million during the fiscal year. This increase is due to continued investment in infrastructure such as capital maintenance to water wells, replacement and maintenance of water and sewer mains, as well as, improvements to the water and waste water 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, 2014 and 2013.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenue:						
Charges for services	\$ 990,998	\$ 935,106	\$ 2,546,566	\$ 2,498,658	\$ 3,537,564	\$ 3,433,764
Operating grants and contributions	1,142,905	1,016,589	9,298	-	1,152,203	1,016,589
Capital grants and contributions	-	58,632	182,201	79,758	182,201	138,390
General revenues:						
Property taxes	2,810,108	2,864,007	-	-	2,810,108	2,864,007
State Revenue Sharing	676,624	653,932	-	-	676,624	653,932
Investment earnings	12,615	12,076	9,558	10,053	22,173	22,129
Miscellaneous	172,612	97,307	-	-	172,612	97,307
Transfers	44,309	45,958	(44,309)	(45,958)	-0-	-0-
Total revenues	5,850,171	5,683,607	2,703,314	2,542,511	8,553,485	8,226,118
Expenses						
General government	2,111,769	1,544,778	-	-	2,111,769	1,544,778
Public safety	1,447,428	1,510,679	-	-	1,447,428	1,510,679
Public works	1,280,595	1,624,777	-	-	1,280,595	1,624,777
Community and economic development	118,713	113,051	-	-	118,713	113,051
Recreation and culture	261,705	245,863	-	-	261,705	245,863
Interest on long-term debt	204,055	208,137	-	-	204,055	208,137
Water and Sewer	-	-	2,645,400	2,588,372	2,645,400	2,588,372
Total expenses	5,424,265	5,247,285	2,645,400	2,588,372	8,069,665	7,835,657
Change in net position	425,906	436,322	57,914	(45,861)	483,820	390,461
Net position, beginning of year	21,482,037	21,045,715	14,174,351	14,220,212	35,656,388	35,265,927
Net position, end of year	\$ 21,907,943	\$ 21,482,037	\$ 14,232,265	\$ 14,174,351	\$ 36,140,208	\$ 35,656,388

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Governmental activities. Governmental activities increased the City's net position by \$425,906. Key elements of this increase are as follows:

- The cost of all governmental activities this year was approximately \$5.42 million.
- The amount that City taxpayers paid for these activities through City taxes was approximately \$2.81 million.
- Some of the cost was paid by the beneficiaries of the program's activities (approximately \$0.98 million), or by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$1.14 million).
- Increase in capital spending in governmental activities areas.

Business-type activities. Business-type activities increased the City's net position by \$57,914.

Total revenues of the City's business-type activities, water and sewer, increased to \$2.70 million for fiscal year 2014 from \$2.54 million in fiscal year 2013 and total expenses increased to \$2.65 million in fiscal year 2014 from \$2.59 million in fiscal year 2013. The City experienced a change in net position of \$57,915 in its water and sewer operations. Factors contributing to these results included:

- Water and Sewer revenue increased slightly due to lower vacancies.
- Contributions and Grants increased due to a LDFA contribution towards a water well.
- Increase 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 fiscal year 2014 include the General Fund, Major Street Fund, and the Special Assessment Fund. These funds, along with the remaining nonmajor governmental funds, reported a combined fund balance of \$4.92 million, and showed an increase from last year's combined fund balance of \$4.91 million.

The General Fund pays for the majority of the City's governmental services. The most significant services provided by the General Fund during the fiscal year were general government, which includes the City Council, City Manager, Clerk, and Treasurer, and public safety, which includes police and fire services. Those two services make up approximately 79.18 percent of the total General Fund expenditures.

The Major Street Fund accounts for resources that are used for the repair and maintenance of the City's major streets. The only expenditures were for the payment of debt service during the fiscal year.

The Special Assessment Fund accounts for special assessments revenue used for the payment of principal and interest on long-term special assessment debt. The only expenditures were for the payment of debt service during the fiscal year.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. The City began the year expecting to increase the General Fund's fund balance approximately \$43,630 and ended the year anticipating a fund balance usage of \$360,980. The City's amendments included decreasing both revenue and expenditures as actual amounts became known. The result was an actual reduction of \$160,182 to the General Fund's fund balance.

Capital Asset and Debt Administration

At the end of the 2014 fiscal year, the City had invested approximately \$37.00 million in a broad range of capital assets, including buildings and improvements, public safety (police and fire) equipment, parks and recreational facilities, roads, a water well, and water and sewer lines. More detailed information about the City's long-term liabilities is presented in Note E to the basic financial statements.

	Governmental Activities	Business-type Activities	Total
Land	\$ 1,855,487	\$ 25,609	\$ 1,881,096
Construction in progress	143,842	291,743	435,585
Land improvements	933,805	-	933,805
Buildings and improvements	5,793,686	241,847	6,035,533
Infrastructure	11,274,468	15,606,755	26,881,223
Vehicles and Equipment	835,608	-	835,608
	<u>\$ 20,836,896</u>	<u>\$ 16,165,954</u>	<u>\$ 37,002,850</u>
Capital assets, net			

Debt

At year end, the City had \$10.88 million in bonds and notes outstanding. This represents a decrease of \$0.65 million from the previous fiscal 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	\$ 3,935,000	\$ -	\$ 3,935,000
Special assessment bonds	380,000	-	380,000
Loans payable	358,655	-	358,655
Revolving fund loan	-	5,683,674	5,683,674
Accrued compensated absences	416,623	101,214	517,837
	<u>\$ 5,090,278</u>	<u>\$ 5,784,888</u>	<u>\$ 10,875,166</u>
Total outstanding debt			

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Economic Factors and Next Year's Budgets and Rates

The City's budget for the 2014/2015 fiscal year is balanced with no property tax rate increase. Total expenses in the General Fund for the 2014/2015 fiscal year are estimated to be \$5.8 million. Economic factors contributing to the total expenses for 2014/2015 include the General Fund's contribution to the 5-year street program and the continued increasing costs of providing employee benefits.

The City is finalizing 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 2014/2015 fiscal year is expected. The City completed 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 2014/2015 budget includes major improvements to the Wastewater Treatment Plant (POTW). Officials and employees are proceeding with the planning and development process for this project. A completion date within the 2015/2016 fiscal year is expected.

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

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, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,457,535	\$ 3,752,670	\$ 9,210,205	\$ 1,462,717
Receivables	803,212	460,763	1,263,975	2,754
Due from other governmental units	199,527	182,201	381,728	4,345
Internal balances	412,073	(412,073)	-0-	-
Inventory	-	23,072	23,072	-
Prepays	12,953	-	12,953	-
Total current assets	6,885,300	4,006,633	10,891,933	1,469,816
Noncurrent assets				
Net other post-employment benefits asset	139	-	139	-
Capital assets not being depreciated	1,999,329	317,352	2,316,681	-
Capital assets, net of accumulated depreciation	18,837,567	15,848,602	34,686,169	-
Total noncurrent assets	20,837,035	16,165,954	37,002,989	-0-
TOTAL ASSETS	27,722,335	20,172,587	47,894,922	1,469,816
LIABILITIES				
Current liabilities				
Accounts payable	495,967	100,946	596,913	31,450
Accrued wages	67,974	24,293	92,267	-
Accrued liabilities	101,026	-	101,026	-
Due to other governmental units	4,570	-	4,570	182,201
Accrued interest payable	48,514	30,195	78,709	-
Unearned revenue	6,063	-	6,063	-
Current portion of compensated absences	145,604	63,265	208,869	-
Current portion of long-term debt	309,704	370,000	679,704	-
Total current liabilities	1,179,422	588,699	1,768,121	213,651
Noncurrent liabilities				
Noncurrent portion of compensated absences	271,019	37,949	308,968	-
Noncurrent portion of long-term debt	4,363,951	5,313,674	9,677,625	-
Total noncurrent liabilities	4,634,970	5,351,623	9,986,593	-0-
TOTAL LIABILITIES	5,814,392	5,940,322	11,754,714	213,651
NET POSITION				
Net investment in capital assets	16,163,241	10,482,280	26,645,521	-
Restricted	1,255,955	-	1,255,955	-
Unrestricted	4,488,747	3,749,985	8,238,732	1,256,165
TOTAL NET POSITION	\$ 21,907,943	\$ 14,232,265	\$ 36,140,208	\$ 1,256,165

See accompanying notes to financial statements.

City of Mason
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

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	\$ 2,111,769	\$ 301,284	\$ 551,140	\$ -	\$ (1,259,345)	\$ -	\$ (1,259,345)	\$ -
Public safety	1,447,428	252,895	24,511	-	(1,170,022)	-	(1,170,022)	-
Public works	1,280,595	383,124	562,254	-	(335,217)	-	(335,217)	-
Community and economic development	118,713	-	-	-	(118,713)	-	(118,713)	-
Recreation and culture	261,705	53,695	5,000	-	(203,010)	-	(203,010)	-
Interest on long-term debt	204,055	-	-	-	(204,055)	-	(204,055)	-
Total governmental activities	5,424,265	990,998	1,142,905	-0-	(3,290,362)	-0-	(3,290,362)	-0-
Business-type activities								
Water and Sewer	2,645,400	2,546,566	9,298	182,201	-	92,665	92,665	-
Total primary government	<u>\$ 8,069,665</u>	<u>\$ 3,537,564</u>	<u>\$ 1,152,203</u>	<u>\$ 182,201</u>	(3,290,362)	92,665	(3,197,697)	-0-
Component units								
Local Development Finance Authority	\$ 203,721	\$ -	\$ -	\$ -	-	-	-0-	(203,721)
Downtown Development Authority	64,114	-	-	-	-	-	-0-	(64,114)
Total component units	<u>\$ 267,835</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(267,835)
General revenues								
Property taxes					2,810,108	-	2,810,108	460,177
State shared revenue					676,624	-	676,624	-
Investment earnings					12,615	9,558	22,173	6,300
Miscellaneous					172,612	-	172,612	-
Transfers					44,309	(44,309)	-0-	-
Total general revenues and transfers					<u>3,716,268</u>	<u>(34,751)</u>	<u>3,681,517</u>	<u>466,477</u>
Change in net position					425,906	57,914	483,820	198,642
Net position, beginning of year					<u>21,482,037</u>	<u>14,174,351</u>	<u>35,656,388</u>	<u>1,057,523</u>
Net position, end of year					<u>\$ 21,907,943</u>	<u>\$ 14,232,265</u>	<u>\$ 36,140,208</u>	<u>\$ 1,256,165</u>

See accompanying notes to financial statements.

City of Mason
Governmental Funds
BALANCE SHEET
June 30, 2014

	General	Major Street	Special Assessment
ASSETS			
Cash and cash equivalents	\$ 2,564,588	\$ 787,020	\$ 434,340
Receivables			
Accounts	31,052	-	-
Taxes	9,726	-	-
Special assessments	-	-	752,165
Due from other governmental units	115,862	62,156	-
Due from other funds	482,820	159,767	-
Prepays	12,953	-	-
	\$ 3,217,001	\$ 1,008,943	\$ 1,186,505
LIABILITIES			
Accounts payable	\$ 72,742	\$ 160,421	\$ -
Accrued wages	61,347	2,447	-
Accrued liabilities	101,026	-	-
Due to other governmental units	4,570	-	-
Due to other funds	401,691	42,243	-
Unearned revenue	6,063	-	-
	647,439	205,111	-0-
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	123,003	-	752,165
FUND BALANCES			
Nonspendable	12,953	-	-
Restricted	125,744	-	258,405
Committed	-	-	-
Assigned	110,782	803,832	175,935
Unassigned	2,197,080	-	-
	2,446,559	803,832	434,340
	\$ 3,217,001	\$ 1,008,943	\$ 1,186,505

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,227,807	\$ 5,013,755
10,269	41,321
-	9,726
-	752,165
21,509	199,527
305,311	947,898
-	12,953
<u>\$ 1,564,896</u>	<u>\$ 6,977,345</u>
\$ 262,452	\$ 495,615
2,649	66,443
-	101,026
-	4,570
67,982	511,916
-	6,063
<u>333,083</u>	<u>1,185,633</u>
-	875,168
-	12,953
920,320	1,304,469
155,000	155,000
156,493	1,247,042
-	2,197,080
<u>1,231,813</u>	<u>4,916,544</u>
<u>\$ 1,564,896</u>	<u>\$ 6,977,345</u>

City of Mason

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

June 30, 2014

Total fund balances - governmental funds **\$ 4,916,544**

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	\$ 36,911,907	
Accumulated depreciation is	<u>(16,310,101)</u>	
Capital assets, net		20,601,806

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		636,757
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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		752,165
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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		139
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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.		123,003
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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	4,673,655	
Accrued interest payable	48,514	
Compensated absences	<u>400,302</u>	
		<u>(5,122,471)</u>

Net position of governmental activities **\$ 21,907,943**

City of Mason

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2014

	General	Major Street	Special Assessment
REVENUES			
Taxes	\$ 2,911,792	\$ -	\$ -
Licenses and permits	78,103	-	-
Intergovernmental	1,242,220	400,909	-
Charges for services	698,771	912	-
Fines and forfeits	27,030	-	-
Interest, rents, and royalties	35,008	1,574	47,584
Contributions	-	-	-
Other	63,085	2,416	120,049
TOTAL REVENUES	5,056,009	405,811	167,633
EXPENDITURES			
Current			
General government	1,820,003	-	-
Public safety	1,356,236	-	-
Public works	431,636	1,046,101	-
Community and economic development	118,713	-	-
Recreation and culture	187,425	-	-
Debt service	97,082	-	93,695
TOTAL EXPENDITURES	4,011,095	1,046,101	93,695
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,044,914	(640,290)	73,938
OTHER FINANCING SOURCES (USES)			
Transfers in	152,946	790,848	-
Transfers out	(1,358,042)	(70,692)	(100,024)
TOTAL OTHER FINANCING SOURCES (USES)	(1,205,096)	720,156	(100,024)
NET CHANGE IN FUND BALANCES	(160,182)	79,866	(26,086)
Fund balances, beginning of year	2,606,741	723,966	460,426
Fund balances, end of year	<u>\$ 2,446,559</u>	<u>\$ 803,832</u>	<u>\$ 434,340</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 2,911,792
-	78,103
161,346	1,804,475
1,760	701,443
-	27,030
113,769	197,935
1,000	1,000
3,776	189,326
<u>281,651</u>	<u>5,911,104</u>
-	1,820,003
-	1,356,236
475,043	1,952,780
-	118,713
-	187,425
326,269	517,046
<u>801,312</u>	<u>5,952,203</u>
(519,661)	(41,099)
637,886	1,581,680
<u>(8,613)</u>	<u>(1,537,371)</u>
<u>629,273</u>	<u>44,309</u>
109,612	3,210
<u>1,122,201</u>	<u>4,913,334</u>
<u>\$ 1,231,813</u>	<u>\$ 4,916,544</u>

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, 2014

Net change in fund balances - total governmental funds \$ 3,210

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	\$ 1,474,241	
Depreciation expense	<u>(1,176,721)</u>	
Excess of capital outlay over depreciation expense		297,520

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	(58,699)
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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	(105,242)
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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	309,794
--------------------------------------	---------

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	3,197	
(Increase) in compensated absences	(23,873)	
(Increase) in net other post-employment benefits	<u>(1)</u>	
		<u>(20,677)</u>

Change in net position of governmental activities \$ 425,906

City of Mason
Proprietary Funds
STATEMENT OF NET POSITION
June 30, 2014

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,752,670	\$ 443,780
Accounts receivable	460,763	-
Due from other governmental units	182,201	-
Due from other funds	880	16,106
Inventory	23,072	-
Total current assets	4,419,586	459,886
Noncurrent assets		
Capital assets not being depreciated	317,352	-
Capital assets, net of accumulated depreciation	15,848,602	235,090
Total noncurrent assets	16,165,954	235,090
TOTAL ASSETS	20,585,540	694,976
LIABILITIES		
Current liabilities		
Accounts payable	100,946	352
Accrued wages	24,293	1,531
Accrued interest payable	30,195	-
Due to other funds	412,953	40,015
Current portion of compensated absences	63,265	4,896
Current portion of long-term debt	370,000	-
Total current liabilities	1,001,652	46,794
Noncurrent liabilities		
Noncurrent portion of compensated absences	37,949	11,425
Noncurrent portion of long-term debt	5,313,674	-
Total noncurrent liabilities	5,351,623	11,425
TOTAL LIABILITIES	6,353,275	58,219
NET POSITION		
Net investment in capital assets	10,482,280	235,090
Unrestricted	3,749,985	401,667
TOTAL NET POSITION	\$ 14,232,265	\$ 636,757

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, 2014

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
OPERATING REVENUES		
Internal user charges	\$ -	\$ 237,007
Water user charges	1,353,045	-
Sewer user charges	1,121,361	-
Interest and penalty charges	55,418	-
Rent	500	-
Other	16,242	-
TOTAL OPERATING REVENUES	2,546,566	237,007
OPERATING EXPENSES		
Cost of water produced	423,620	-
Cost of sewage treatment	835,672	-
Operation and maintenance	582,922	245,499
Billing and administrative costs	41,533	-
Depreciation	635,137	51,322
TOTAL OPERATING EXPENSES	2,518,884	296,821
OPERATING INCOME (LOSS)	27,682	(59,814)
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	191,499	-
Investment income	9,558	1,115
Interest expense and fees	(126,516)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	74,541	1,115
INCOME (LOSS) BEFORE TRANSFERS	102,223	(58,699)
TRANSFERS OUT	(44,309)	-
CHANGE IN NET POSITION	57,914	(58,699)
Net position, beginning of year	14,174,351	695,456
Net position, end of year	<u>\$ 14,232,265</u>	<u>\$ 636,757</u>

See accompanying notes to financial statements.

City of Mason
Proprietary Funds
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Internal Service Fund - Motor Vehicle Pool</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,430,960	\$ 237,007
Cash paid to suppliers	(1,242,902)	(188,509)
Cash paid to employees	<u>(580,032)</u>	<u>(62,584)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	608,026	(14,086)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipt of interfund balances	366,927	36,805
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Intergovernmental	191,499	-
Payments on borrowing	(360,000)	-
Purchase of capital assets	(568,742)	(60,560)
Interest expense and fees	<u>(128,428)</u>	<u>-</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(865,671)	(60,560)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>9,558</u>	<u>1,115</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	118,840	(36,726)
Cash and cash equivalents, beginning of year	<u>3,633,830</u>	<u>480,506</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,752,670</u></u>	<u><u>\$ 443,780</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 27,682	\$ (59,814)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	635,137	51,322
(Increase) decrease in:		
Accounts receivable	(15,218)	-
Due from other governmental units	(102,443)	-
Inventory	2,055	-
Increase (decrease) in:		
Accounts payable	57,640	(6,120)
Accrued liabilities	2,890	(14)
Compensated absences	<u>283</u>	<u>540</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 608,026</u></u>	<u><u>\$ (14,086)</u></u>

See accompanying notes to financial statements.

City of Mason

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2014

	<u>Agency Fund</u>
ASSETS	
Cash	<u>\$ 27,139</u>
LIABILITIES	
Due to individuals and agencies	<u>\$ 27,139</u>

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF NET POSITION

June 30, 2014

	Local Development Finance Authority	Downtown Development Authority	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,223,688	\$ 239,029	\$ 1,462,717
Receivables	-	2,754	2,754
Due from other governmental units	4,345	-	4,345
	<u>1,228,033</u>	<u>241,783</u>	<u>1,469,816</u>
TOTAL ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	-	31,450	31,450
Due to other governmental units	182,201	-	182,201
	<u>182,201</u>	<u>31,450</u>	<u>213,651</u>
TOTAL LIABILITIES			
NET POSITION			
Unrestricted	<u>\$ 1,045,832</u>	<u>\$ 210,333</u>	<u>\$ 1,256,165</u>

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Functions/Programs	Expenses	Changes in Net Position		
		Local Development Finance Authority	Downtown Development Authority	Total Component Units
Governmental activities				
Local Development Finance Authority	\$ 203,721	\$ (203,721)	\$ -	\$ (203,721)
Downtown Development Authority	64,114	-	(64,114)	(64,114)
Total component units	<u>\$ 267,835</u>	(203,721)	(64,114)	(267,835)
General revenues				
Property taxes		411,497	48,680	460,177
Investment earnings		5,802	498	6,300
Total general revenues		<u>417,299</u>	<u>49,178</u>	<u>466,477</u>
Change in net position		213,578	(14,936)	198,642
Net position, beginning of year		<u>832,254</u>	<u>225,269</u>	<u>1,057,523</u>
Net position, end of year		<u>\$ 1,045,832</u>	<u>\$ 210,333</u>	<u>\$ 1,256,165</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

The City of Mason (the City) is located in Ingham County, Michigan and has a population of approximately 8,252. The City 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.

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, these financial statements present the financial activities of the City (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 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 units:

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 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 financial 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 financial 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 Major Street Fund accounts for resources that are used for repairs and maintenance of the City's major streets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- c. The Special Assessment Fund is used to account for the revenue from special assessments used for the payment of principal and interest on long-term special assessment debt.

The City reports the following major enterprise fund:

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

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 fund is the 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 financial 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 fund balance.

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 sixty (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, 2014

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 practice to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and Special Revenue Funds' 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, 2014

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

11. Property Tax

The City 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 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, 2014, the City levied 13.2500 mills per \$1,000 of taxable valuation for general governmental services. The total taxable value for the 2013 levy for property within the City was \$212,947,938.

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, 2014

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, 2014

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 arise only under a modified accrual basis of accounting, that qualify 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 sixty (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, 2014

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Deposits

As of June 30, 2014, 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	\$ 8,425,608	\$ 8,323,524
FIDUCIARY FUNDS		
Checking	27,139	27,201
COMPONENT UNITS		
Checking and savings	<u>1,413,917</u>	<u>1,413,917</u>
TOTAL REPORTING ENTITY	<u>\$ 9,866,664</u>	<u>\$ 9,764,642</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, 2014, the City accounts were insured by the FDIC for \$1,000,000 and the amount of \$8,764,642 was uninsured and uncollateralized. The City had \$410 of imprest cash on hand.

Investments

As of June 30, 2014, 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	\$ 784,187	\$ 784,187	56 days
COMPONENT UNITS			
Uncategorized pooled investment funds			
Cutwater - Michigan Class	<u>48,800</u>	<u>48,800</u>	56 days
TOTAL REPORTING ENTITY	<u>\$ 832,987</u>	<u>\$ 832,987</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, 2014, the Cutwater - 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, 2014

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 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, 2014:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Cash and cash equivalents	<u>\$ 9,210,205</u>	<u>\$ 27,139</u>	<u>\$ 1,462,717</u>	<u>\$ 10,700,061</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2014, are as follows:

Due to General Fund from:		
Major Street Fund	\$	12
Water and Sewer Fund		375,151
Internal Service Fund		40,015
Nonmajor governmental funds		<u>67,642</u>
	<u>\$</u>	<u>482,820</u>
Due to Major Street Fund from:		
General Fund	\$	153,999
Water and Sewer Fund		5,691
Nonmajor governmental funds		<u>77</u>
	<u>\$</u>	<u>159,767</u>
Due to nonmajor governmental funds from:		
General Fund	\$	241,111
Major Street Fund		40,692
Water and Sewer Fund		<u>23,508</u>
	<u>\$</u>	<u>305,311</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Due to Water and Sewer Fund from:	
General Fund	\$ 880
<hr/>	
Due to Internal Service Fund from:	
General Fund	\$ 5,701
Major Street Fund	1,539
Water and Sewer Fund	8,603
Nonmajor governmental funds	263
	<hr/>
	\$ 16,106
	<hr/>

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

NOTE D: INTERFUND TRANSFERS

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

Transfers to General Fund from:	
Special Assessment Fund	\$ 100,024
Water and Sewer Fund	44,309
Nonmajor governmental funds	8,613
	<hr/>
	\$ 152,946
	<hr/>
Transfer to Major Street Fund from:	
General Fund	\$ 790,848
	<hr/>
Transfer to nonmajor governmental funds from:	
General Fund	\$ 567,194
Major Street Fund	70,692
	<hr/>
	\$ 637,886
	<hr/>

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 Major Street Fund from the General Fund were to finance capital asset construction and purchases. The transfers to the nonmajor governmental funds (local streets) 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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

Primary Government

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,855,487	\$ -	\$ -	\$ 1,855,487
Construction in progress	195,333	14,784	(66,275)	143,842
Subtotal	2,050,820	14,784	(66,275)	1,999,329
Capital assets being depreciated				
Land improvements	1,728,132	68,583	-	1,796,715
Buildings and improvements	6,808,389	-	-	6,808,389
Infrastructure	22,895,403	1,437,167	-	24,332,570
Vehicles and equipment	3,628,447	80,542	-	3,708,989
Subtotal	35,060,371	1,586,292	-0-	36,646,663
Less accumulated depreciation for:				
Land improvements	(782,937)	(79,973)	-	(862,910)
Buildings and improvements	(848,086)	(166,617)	-	(1,014,703)
Infrastructure	(12,288,035)	(770,067)	-	(13,058,102)
Vehicles and equipment	(2,661,995)	(211,386)	-	(2,873,381)
Subtotal	(16,581,053)	(1,228,043)	-0-	(17,809,096)
Net capital assets being depreciated	18,479,318	358,249	-0-	18,837,567
Capital assets, net	<u>\$ 20,530,138</u>	<u>\$ 373,033</u>	<u>\$ (66,275)</u>	<u>\$ 20,836,896</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 198,325
Public safety	150,075
Public works	805,363
Recreation and culture	74,280
Total depreciation expense	<u>\$ 1,228,043</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
Business-type activities				
Capital assets not being depreciated				
Land	\$ 25,609	\$ -	\$ -	\$ 25,609
Construction in progress	81,469	211,985	(1,711)	291,743
Subtotal	107,078	211,985	(1,711)	317,352
Capital assets being depreciated				
Buildings and improvements	464,607	17,613	-	482,220
Infrastructure	24,943,406	340,855	-	25,284,261
Subtotal	25,408,013	358,468	-0-	25,766,481
Less accumulated depreciation for:				
Buildings and improvements	(229,499)	(10,874)	-	(240,373)
Infrastructure	(9,053,243)	(624,263)	-	(9,677,506)
Subtotal	(9,282,742)	(635,137)	-0-	(9,917,879)
Net capital assets being depreciated	16,125,271	(276,669)	-0-	15,848,602
Capital assets, net	<u>\$ 16,232,349</u>	<u>\$ (64,684)</u>	<u>\$ (1,711)</u>	<u>\$ 16,165,954</u>

Component Unit

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
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>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014.

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
Primary government					
Governmental activities					
1997 Building Authority Bonds	\$ 200,000	\$ -	\$ (30,000)	\$ 170,000	\$ 30,000
2010 Building Authority Bonds	3,850,000	-	(85,000)	3,765,000	90,000
Special Assessment Bonds	455,000	-	(75,000)	380,000	65,000
Loans Payable	478,449	-	(119,794)	358,655	124,704
Compensated Absences	392,210	161,485	(137,072)	416,623	145,604
	5,375,659	161,485	(446,866)	5,090,278	455,308
Business-type activities					
Drinking Water Revolving Fund Loan	6,043,674	-	(360,000)	5,683,674	370,000
Compensated Absences	100,931	63,371	(63,088)	101,214	63,265
	6,144,605	63,371	(423,088)	5,784,888	433,265
Total primary government	11,520,264	224,856	(869,954)	10,875,166	888,573
Component unit					
Local Development Finance Authority General Obligation Bonds	35,000	-	(35,000)	-0-	-
Total reporting entity	<u>\$ 11,555,264</u>	<u>\$ 224,856</u>	<u>\$ (904,954)</u>	<u>\$ 10,875,166</u>	<u>\$ 888,573</u>

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

Primary Government

1997 Building Authority Bond

\$450,000 General Obligation Bonds dated November 1, 1997, due in annual installments ranging from \$30,000 to \$40,000 through October 1, 2018, with interest ranging from 3.85 to 5.15 percent, payable semi-annually.

\$ 170,000

2010 Building Authority Bond

\$4,100,000 General Obligation Bonds dated April 1, 2010, due in annual installments ranging from \$90,000 to \$230,000 through April 1, 2040, with interest ranging from 3.35 to 6.50 percent, payable semi-annually.

\$ 3,765,000

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: LONG-TERM DEBT - CONTINUED

Primary Government - Continued

Special Assessment Bonds

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

The following summarizes the significant details regarding these bond issues:

\$205,000 2001 Special Assessment dated June 1, 2001, due in annual installments of \$10,000 through November 1, 2014, with interest of 5.00 percent, payable semi-annually.	\$ 10,000
\$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 4.25 to 4.55 percent, payable semi-annually.	<u>370,000</u>
	<u>\$ 380,000</u>

Loans Payable

Dart National Bank Loan due in annual installments of \$86,928 to \$93,563 through December 20, 2016, with interest of 3.70 percent, for a fire truck costing \$605,741.	\$ 270,906
Dart National Bank Loan due in annual installments of \$28,295 to \$29,668 through June 28, 2016, with interest of 4.80 percent, for land costing \$325,877.	57,963
Mason State Bank Loan due in annual installments of \$9,481 to \$10,384 through April 16, 2017, with interest of 4.65 percent, for land costing \$115,500.	<u>29,787</u>
	<u>\$ 358,655</u>

Drinking Water Revolving Fund Loan

\$8,000,000 Water Supply System Bonds dated September 27, 2007, due in annual installments ranging from \$370,000 to \$485,000 through April 1, 2028, with interest of 2.125 percent, payable semi-annually.	<u>\$ 5,683,674</u>
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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 \$517,837 at June 30, 2014. Of this amount, \$416,623 and \$101,214 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:

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE F: LONG-TERM DEBT - CONTINUED

Primary Government - Continued

Year Ending June 30,	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
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	140,000	215,853	50,000	5,863
2020-2024	555,000	987,088	105,000	4,650
2025-2029	675,000	798,938	-	-
2030-2034	825,000	568,050	-	-
2035-2039	1,010,000	277,225	-	-
2040	230,000	13,510	-	-
	<u>\$ 3,935,000</u>	<u>\$ 3,788,808</u>	<u>\$ 380,000</u>	<u>\$ 57,508</u>

Year Ending June 30,	Loans Payable		Drinking Water Revolving Fund Loan	
	Principal	Interest	Principal	Interest
2015	\$ 124,704	\$ 14,360	\$ 370,000	\$ 120,778
2016	129,985	9,287	375,000	112,916
2017	103,966	4,002	385,000	104,947
2018	-	-	395,000	96,766
2019	-	-	400,000	88,372
2020-2024	-	-	2,140,000	310,215
2025-2028	-	-	1,618,674	78,725
	<u>\$ 358,655</u>	<u>\$ 27,649</u>	<u>\$ 5,683,674</u>	<u>\$ 912,719</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 17.15%, depending on the employee division.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE G: RETIREMENT PLAN - CONTINUED

Annual Pension Cost

For year ended June 30, 2014, the City's annual pension cost of \$279,052 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, 2012, 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 8.0 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.

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-five (25) years.

Three (3) year trend information

	Year Ended December 31,		
	2011	2012	2013
Actuarial value of assets	\$ 11,346,721	\$ 11,523,570	\$ 11,805,601
Actuarial accrued liability (AAL) (entry age)	14,884,287	15,367,036	16,060,036
Unfunded AAL (UAAL)	3,537,566	3,843,466	4,254,435
Funded ratio	76%	75%	74%
Annual covered payroll	\$ 2,102,937	\$ 2,040,185	\$ 2,004,450
UAAL as a percentage of covered payroll	168%	188%	212%

	Year Ended June 30,		
	2012	2013	2014
Annual pension cost	\$ 253,102	\$ 249,606	\$ 279,052
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 (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, 2014, 19 retirees were receiving benefits. Expenditures for post-employment benefits are recognized when claims are paid. During the year, expenditures of \$93,993 were recognized for post-employment benefits.

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

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Policy

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

Funding Progress

For the year ended June 30, 2014, 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-six (26) years.

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

Annual required contribution (ARC)	\$ 156,159
Adjustment to annual required contribution	<u>5</u>
Annual OPEB cost	156,164
Amounts contributed:	
Payments of current requirements (gross of employee reimbursement)	<u>156,163</u>
Increase in net OPEB obligation	1
OPEB obligation (asset) - Beginning of year	<u>(140)</u>
OPEB obligation (asset) - End of year	<u><u>\$ (139)</u></u>

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

	Year Ended June 30,		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual OPEB cost	\$ 150,529	\$ 146,790	\$ 156,164
Percentage contributed	100.0%	100.0%	100.0%
Net OPEB obligation (asset)	\$ (145)	\$ (140)	\$ (139)

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%

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Methods and Assumptions

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

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

In the 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 \$25,712,455 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, 2014:

Surplus at July 1, 2013	\$ 120,013
REVENUES	
Licenses and permits	
Permits	66,173
EXPENDITURES	
Building Department	<u>(60,442)</u>
Cumulative surplus at June 30, 2014	<u>\$ 125,744</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE K: 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, 2014:

PRIMARY GOVERNMENT	
Community enrichment	\$ 580,275
Construction code activity	125,744
Cemetery operations	320,012
Flowers	19,494
Debt service	<u>210,430</u>
	<u>\$ 1,255,955</u>

NOTE L: 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.

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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

	<u>General Fund</u>	<u>Major Street</u>	<u>Special Assessment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund Balances					
Nonspendable					
Prepays	\$ 12,953	\$ -	\$ -	\$ -	\$ 12,953
Restricted					
Community enrichment	-	-	-	580,275	580,275
Construction code activity	125,744	-	-	-	125,744
Cemetery operations	-	-	-	320,012	320,012
Flowers	-	-	-	19,494	19,494
Debt service	-	-	258,405	539	258,944
Committed					
Community enrichment	-	-	-	155,000	155,000
Assigned					
Highways	-	803,832	-	156,106	959,938
Subsequent year's expenditures	86,110	-	-	-	86,110
Grant matching	24,672	-	-	-	24,672
Other purposes	-	-	175,935	387	176,322
Unassigned	<u>2,197,080</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,197,080</u>
 TOTAL FUND BALANCES	 <u>\$ 2,446,559</u>	 <u>\$ 803,832</u>	 <u>\$ 434,340</u>	 <u>\$ 1,231,813</u>	 <u>\$ 4,916,544</u>

NOTE M: 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 supplementary 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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 2,885,330	\$ 2,810,100	\$ 2,810,108	\$ 8
Penalties and interest	15,000	14,685	14,102	(583)
Administration fees	87,500	87,700	87,582	(118)
Total taxes	2,987,830	2,912,485	2,911,792	(693)
Licenses and permits	40,500	83,675	78,103	(5,572)
Intergovernmental				
Federal	-	900	903	3
State	668,340	679,200	695,127	15,927
Local	1,053,665	547,210	546,190	(1,020)
Total intergovernmental	1,722,005	1,227,310	1,242,220	14,910
Charges for services				
Refuse collection	333,065	334,150	334,152	2
Cable franchise fee	41,000	45,195	45,196	1
Other	269,610	317,700	319,423	1,723
Total charges for services	643,675	697,045	698,771	1,726
Fines and forfeits	22,700	33,105	27,030	(6,075)
Interest and rents	33,650	34,635	35,008	373
Other	93,860	70,005	63,085	(6,920)
TOTAL REVENUES	5,544,220	5,058,260	5,056,009	(2,251)

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2014

EXPENDITURES	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Current				
General government				
City Council	\$ 40,585	\$ 38,500	\$ 34,233	\$ 4,267
Administrator	240,980	192,920	186,028	6,892
Assessor	47,205	49,190	49,070	120
Board of Review	650	720	720	-0-
Treasurer	472,590	378,380	369,415	8,965
Technology	80,945	68,445	45,827	22,618
Election	117,370	116,560	110,855	5,705
Building office and City Hall	387,890	402,820	383,423	19,397
Attorney	87,125	105,285	98,768	6,517
Cemetery	220,160	152,765	147,190	5,575
Workers compensation	43,520	45,050	45,049	1
Retiree benefits	156,670	158,160	156,163	1,997
Administrative services	239,420	197,205	193,262	3,943
Total general government	2,135,110	1,906,000	1,820,003	85,997
Public safety				
Police administration	325,325	280,940	264,517	16,423
Crossing guards	23,975	20,260	19,541	719
Police patrolling	1,004,145	802,180	790,223	11,957
Fire department	347,000	324,245	280,949	43,296
Civil defense	715	1,110	1,006	104
Total public safety	1,701,160	1,428,735	1,356,236	72,499
Public works				
Public services	6,650	4,100	2,977	1,123
Sidewalks	33,000	-	-	-0-
Street lighting	125,700	106,560	103,340	3,220
Refuse collection	339,570	325,500	325,319	181
Total public works	504,920	436,160	431,636	4,524
Community and economic development				
Cable commission	4,560	4,250	3,600	650
Planning and zoning	116,355	111,975	109,423	2,552
Planning commission	755	990	469	521
Christmas decorations	6,945	5,465	5,221	244
Total community and economic development	128,615	122,680	118,713	3,967

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture				
Parks	\$ 143,425	\$ 128,210	\$ 118,705	\$ 9,505
Library	8,020	8,660	7,364	1,296
Forestry	63,465	59,000	54,806	4,194
Senior citizens	8,040	6,700	6,550	150
Total recreation and culture	222,950	202,570	187,425	15,145
Debt service				
Principal	83,790	83,760	83,752	8
Interest and fiscal fees	13,300	13,330	13,330	-0-
Total debt service	97,090	97,090	97,082	8
TOTAL EXPENDITURES	4,789,845	4,193,235	4,011,095	182,140
EXCESS OF REVENUES OVER EXPENDITURES	754,375	865,025	1,044,914	179,889
OTHER FINANCING SOURCES (USES)				
Transfers in	152,120	152,970	152,946	(24)
Transfers out	(862,865)	(1,378,975)	(1,358,042)	20,933
TOTAL OTHER FINANCING SOURCES (USES)	(710,745)	(1,226,005)	(1,205,096)	20,909
NET CHANGE IN FUND BALANCE	43,630	(360,980)	(160,182)	200,798
Fund balance, beginning of year	2,606,741	2,606,741	2,606,741	-0-
Fund balance, end of year	<u>\$ 2,650,371</u>	<u>\$ 2,245,761</u>	<u>\$ 2,446,559</u>	<u>\$ 200,798</u>

City of Mason

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 330,000	\$ 395,000	\$ 400,909	\$ 5,909
Charges for services	500	910	912	2
Interest	17,500	1,400	1,574	174
Other	-	2,415	2,416	1
TOTAL REVENUES	348,000	399,725	405,811	6,086
EXPENDITURES				
Current				
Public works	464,030	1,058,280	1,046,101	12,179
EXCESS OF REVENUES (UNDER) EXPENDITURES	(116,030)	(658,555)	(640,290)	18,265
OTHER FINANCING SOURCES (USES)				
Transfers in	177,505	784,325	790,848	6,523
Transfers out	(84,345)	(87,120)	(70,692)	16,428
TOTAL OTHER FINANCING SOURCES (USES)	93,160	697,205	720,156	22,951
NET CHANGE IN FUND BALANCE	(22,870)	38,650	79,866	41,216
Fund balance, beginning of year	723,966	723,966	723,966	-0-
Fund balance, end of year	\$ 701,096	\$ 762,616	\$ 803,832	\$ 41,216

City of Mason
Special Assessment Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 57,665	\$ 47,540	\$ 47,584	\$ 44
Other				
Special assessments	143,975	119,495	120,049	554
TOTAL REVENUES	201,640	167,035	167,633	598
EXPENDITURES				
Debt service	93,695	93,695	93,695	-0-
EXCESS OF REVENUES OVER EXPENDITURES	107,945	73,340	73,938	598
OTHER FINANCING (USES)				
Transfers out	(100,025)	(100,025)	(100,024)	1
NET CHANGE IN FUND BALANCE	7,920	(26,685)	(26,086)	599
Fund balance, beginning of year	460,426	460,426	460,426	-0-
Fund balance, end of year	\$ 468,346	\$ 433,741	\$ 434,340	\$ 599

OTHER SUPPLEMENTARY INFORMATION

City of Mason
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 June 30, 2014

	Special Revenue		
	Local Street	Rayner Bond	Economic Development Corporation
ASSETS			
Cash and cash equivalents	\$ 160,973	\$ 702,907	\$ 21,819
Accounts receivable	720	9,549	-
Due from other governmental units	21,509	-	-
Due from other funds	305,311	-	-
TOTAL ASSETS	\$ 488,513	\$ 712,456	\$ 21,819
LIABILITIES			
Accounts payable	\$ 262,452	\$ -	\$ -
Accrued wages	2,649	-	-
Due to other funds	67,306	-	-
TOTAL LIABILITIES	332,407	-0-	-0-
FUND BALANCES			
Restricted			
Community enrichment	-	557,456	21,819
Cemetery operations	-	-	-
Flowers	-	-	-
Debt service	-	-	-
Committed			
Community enrichment	-	155,000	-
Assigned			
Highways	156,106	-	-
Other purposes	-	-	-
TOTAL FUND BALANCES	156,106	712,456	21,819
TOTAL LIABILITIES AND FUND BALANCES	\$ 488,513	\$ 712,456	\$ 21,819

Debt Service		Capital Projects	Permanent	Total Nonmajor Governmental Funds
Park Street Property	Mason Building Authority	Capital Improvement	Cemetery Trust	
\$ -	\$ 539	\$ 1,387	\$ 340,182	\$ 1,227,807
-	-	-	-	10,269
-	-	-	-	21,509
-	-	-	-	305,311
<u>\$ -0-</u>	<u>\$ 539</u>	<u>\$ 1,387</u>	<u>\$ 340,182</u>	<u>\$ 1,564,896</u>
\$ -	\$ -	\$ -	\$ -	\$ 262,452
-	-	-	-	2,649
-	-	-	676	67,982
-0-	-0-	-0-	676	333,083
-	-	1,000	-	580,275
-	-	-	320,012	320,012
-	-	-	19,494	19,494
-	539	-	-	539
-	-	-	-	155,000
-	-	-	-	156,106
-	-	387	-	387
<u>-0-</u>	<u>539</u>	<u>1,387</u>	<u>339,506</u>	<u>1,231,813</u>
<u>\$ -0-</u>	<u>\$ 539</u>	<u>\$ 1,387</u>	<u>\$ 340,182</u>	<u>\$ 1,564,896</u>

City of Mason

Nonmajor Governmental Funds

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

Year Ended June 30, 2014

	Special Revenue		
	Local Street	Rayner Bond	Economic Development Corporation
REVENUES			
Intergovernmental	\$ 161,346	\$ -	\$ -
Charges for services	1,760	-	-
Interest, rents, and royalties	321	112,709	56
Contributions	-	-	-
Other	-	-	-
TOTAL REVENUES	163,427	112,709	56
EXPENDITURES			
Current			
Public works	475,043	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	475,043	-0-	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(311,616)	112,709	56
OTHER FINANCING SOURCES (USES)			
Transfers in	311,617	-	-
Transfers out	-	(7,937)	-
TOTAL OTHER FINANCING SOURCES (USES)	311,617	(7,937)	-0-
NET CHANGE IN FUND BALANCES	1	104,772	56
Fund balances, beginning of year	156,105	607,684	21,763
Fund balances, end of year	\$ 156,106	\$ 712,456	\$ 21,819

Debt Service		Capital Projects	Permanent	Total Nonmajor Governmental Funds
Park Street Property	Mason Building Authority	Capital Improvement	Cemetery Trust	
\$ -	\$ -	\$ -	\$ -	\$ 161,346
-	-	-	-	1,760
-	7	-	676	113,769
-	-	1,000	-	1,000
-	-	-	3,776	3,776
-0-	7	1,000	4,452	281,651
-	-	-	-	475,043
41,982	284,287	-	-	326,269
41,982	284,287	-0-	-0-	801,312
(41,982)	(284,280)	1,000	4,452	(519,661)
41,982	284,287	-	-	637,886
-	-	-	(676)	(8,613)
41,982	284,287	-0-	(676)	629,273
-0-	7	1,000	3,776	109,612
-	532	387	335,730	1,122,201
\$ -0-	\$ 539	\$ 1,387	\$ 339,506	\$ 1,231,813

City of Mason

Component Unit Funds

COMBINING BALANCE SHEET - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2014

	<u>General</u>	<u>Debt Service 1992 Bond</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,223,688	\$ -	\$ 1,223,688
Due from other governmental units	4,345	-	4,345
TOTAL ASSETS	<u><u>\$ 1,228,033</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 1,228,033</u></u>
LIABILITIES			
Due to other governmental units	\$ 182,201	\$ -	\$ 182,201
FUND BALANCES			
Unassigned	<u>1,045,832</u>	-	<u>1,045,832</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,228,033</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 1,228,033</u></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, 2014

Total fund balances - governmental funds \$ 1,045,832

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>	
		<u>-0-</u>

Net position of governmental activities \$ 1,045,832

City of Mason

Component Unit Funds

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

Year Ended June 30, 2014

	General	<u>Debt Service</u> 1992 Bond	Total
REVENUES			
Taxes	\$ 411,497	\$ -	\$ 411,497
Interest	5,802	-	5,802
TOTAL REVENUES	417,299	-0-	417,299
EXPENDITURES			
Current			
Community and economic development	202,794	-	202,794
Debt service	-	36,505	36,505
TOTAL EXPENDITURES	202,794	36,505	239,299
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	214,505	(36,505)	178,000
OTHER FINANCING SOURCES (USES)			
Transfers in	-	36,505	36,505
Transfers out	(36,505)	-	(36,505)
TOTAL OTHER FINANCING SOURCES (USES)	(36,505)	36,505	-0-
NET CHANGE IN FUND BALANCES	178,000	-0-	178,000
Fund balances, beginning of year	867,832	-	867,832
Fund balances, end of year	<u>\$ 1,045,832</u>	<u>\$ -0-</u>	<u>\$ 1,045,832</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, 2014

Net change in fund balances - governmental funds \$ 178,000

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

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 578

Change in net position of governmental activities \$ 213,578

City of Mason

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2014

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 239,029
Taxes receivable	1,784
Accounts receivable	<u>970</u>
TOTAL ASSETS	<u><u>\$ 241,783</u></u>
LIABILITIES	
Accounts payable	\$ 31,450
FUND BALANCE	
Unassigned	<u>210,333</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 241,783</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, 2014.

City of Mason

Component Unit Funds

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

Year Ended June 30, 2014

	<u>General</u>
REVENUES	
Taxes	\$ 48,680
Interest	<u>498</u>
TOTAL REVENUES	49,178
EXPENDITURES	
Current	
Community and economic development	<u>64,114</u>
NET CHANGE IN FUND BALANCE	(14,936)
Fund balance, beginning of year	<u>225,269</u>
Fund balance, end of year	<u><u>\$ 210,333</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, 2014.

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 (the City), as of and for the year ended June 30, 2014, 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 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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'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 13, 2014