

**City of Mason
Ingham County, Michigan**

FINANCIAL STATEMENTS

June 30, 2016

City of Mason
Ingham County, Michigan
June 30, 2016

CITY COUNCIL AND ADMINISTRATION

Mike Waltz	Mayor
Marlon Brown	Mayor Pro-Tem
Leon Clark	Council member
Les Bruno	Council member
Jon Droscha	Council member
Elaine Ferris	Council member
Jim Mulvaney	Council member
Deborah Stuart	City Administrator
Eric Smith	Finance Director/ Treasurer

City of Mason

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan (the City), as of and for the year ended June 30, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note M to the financial statements, the City implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during the year. As a result, the City has applied fair value to certain investments and disclosures related to all fair value measurements. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in employer's net pension liability and related ratios, and schedule of employer contributions, 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 September 27, 2016, 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

September 27, 2016

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

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, 2016. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

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 5 and 8.
- 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 39 of the report.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

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, 2016:

- The City's total net position decreased as a result of the fiscal year's operations. The net position of the governmental activities decreased by \$274,022, or 1.30 percent, and the net position of the business-type activities increased by \$71,556, or 0.55 percent.
- During the year, the City's governmental activities' revenues were \$274,022 less than the approximate \$6.31 million in expenses.
- State shared revenues, the largest individual revenue source after property taxes, decreased \$18,189 to \$673,307 during the current fiscal year.
- In the City's business-type activities, revenues were approximately \$3.08 million while expenses were also approximately \$3.08 million.
- Total costs of all the City's programs were approximately \$9.32 million, an increase of approximately 3.39 percent over the prior fiscal year.
- The General Fund reported a decrease in fund balance of \$308,295.

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, 2016 and 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 9,499,244	\$ 10,090,793	\$ 3,100,566	\$ 4,116,529	\$ 12,599,810	\$ 14,207,322
Capital assets, net	20,631,428	20,360,475	17,025,170	16,022,665	37,656,598	36,383,140
Total assets	30,130,672	30,451,268	20,125,736	20,139,194	50,256,408	50,590,462
Deferred Outflows of Resources	1,517,132	287,758	623,456	95,467	2,140,588	383,225
Liabilities						
Current	841,402	1,097,574	932,940	801,764	1,774,342	1,899,338
Noncurrent	9,678,132	8,239,160	6,894,118	6,582,319	16,572,250	14,821,479
Total liabilities	10,519,534	9,336,734	7,827,058	7,384,083	18,346,592	16,720,817
Net Position						
Net invested in capital assets	16,122,136	15,716,246	12,071,496	10,708,991	28,193,632	26,425,237
Restricted	2,202,819	1,378,259	-	-	2,202,819	1,378,259
Unrestricted	2,803,315	4,307,787	850,638	2,141,587	3,653,953	6,449,374
Total net position	\$ 21,128,270	\$ 21,402,292	\$ 12,922,134	\$ 12,850,578	\$ 34,050,404	\$ 34,252,870

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

The City's combined net position decreased from approximately \$34.25 million a year ago to \$34.05 million.

Approximately 76.31 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 \$2.83 million represents the amount that may be used to meet the City's ongoing obligations.

Net position of the City's governmental activities decreased approximately 1.30 percent to \$21.13 million. This decrease is primarily due to the implementation of the changes in accounting principles resulting from GASB Statement No. 72. GASB Statement No. 72 requires the City to record assets held for future revenues. Examples of these types of assets include City owned land in the General Fund and the mineral rights in the Rayner Bond Fund. The City has a strong commitment to continue providing municipal services, maintaining major streets, local streets, and city parks, and providing public safety technology and personal protection equipment.

The net position of the City's business-type activities increased by 0.55 percent to \$12.92 million during the fiscal year. This increase is due to continued investment in infrastructure such as completion of a water well, maintaining water and sewer mains, as well as improvements to the water and waste 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, 2016 and 2015.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenue						
Charges for services	\$ 974,249	\$ 1,019,159	\$ 2,867,635	\$ 2,793,285	\$ 3,841,884	\$ 3,812,444
Operating grants and contributions	1,300,613	1,164,037	51,068	52,419	1,351,681	1,216,456
Capital grants and contributions	49,843	-	194,308	15,700	244,151	15,700
General revenues						
Property taxes	2,885,217	2,884,521	-	-	2,885,217	2,884,521
State Revenue Sharing	673,307	691,496	-	-	673,307	691,496
Investment earnings	12,586	11,382	8,334	9,069	20,920	20,451
Miscellaneous	101,591	124,821	-	-	101,591	124,821
Transfers	41,011	42,660	(41,011)	(42,660)	-0-	-0-
Total revenues	6,038,417	5,938,076	3,080,334	2,827,813	9,118,751	8,765,889
Expenses						
General government	2,090,140	3,042,074	-	-	2,090,140	3,042,074
Public safety	1,741,533	1,557,961	-	-	1,741,533	1,557,961
Public works	1,980,694	868,586	-	-	1,980,694	868,586
Community and economic development	106,364	118,769	-	-	106,364	118,769
Recreation and culture	245,145	227,363	-	-	245,145	227,363
Interest on long-term debt	148,563	382,738	-	-	148,563	382,738
Water and Sewer	-	-	3,008,778	2,818,668	3,008,778	2,818,668
Total expenses	6,312,439	6,197,491	3,008,778	2,818,668	9,321,217	9,016,159
Change in net position	\$ (274,022)	\$ (259,415)	\$ 71,556	\$ 9,145	\$ (202,466)	\$ (250,270)

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Governmental activities. Governmental activities decreased the City's net position by \$274,022. Key elements of this decrease are as follows:

- The cost of all governmental activities this year was approximately \$6.31 million.
- The amount that City taxpayers paid for these activities through City taxes was approximately \$2.89 million.
- Some of the cost was paid by the beneficiaries of the program's activities (approximately \$0.97 million), or by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$1.30 million).
- Increase in capital spending in governmental activities areas.

Business-type activities. Business-type activities increased the City's net position by \$71,556. Key elements of this increase are as follows:

Total revenues of the City's business-type activities, water and sewer, increased to \$3.08 million for fiscal year 2016 from \$2.83 million in fiscal year 2015 and total expenses increased to \$3.01 million in fiscal year 2016 from \$2.82 million in fiscal year 2015. The City experienced a change in net position of \$71,556 in its water and sewer operations. Factors contributing to these results included:

- Increase in water and sewer revenue due to new rates associated with the cost study completed in 2013/2014.
- 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 2016 include the General Fund, Major Street Fund, Local Street Fund, Special Assessment Fund, and Rayner Bond Fund. These funds, along with the remaining nonmajor governmental funds, reported a combined fund balance of \$8.04 million, and showed a decrease from last year's combined restated fund balance of \$0.30 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 74.59 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. There was no debt service included in the expenditures for the fiscal year.

The Local Street Fund accounts for resources that are used for the repair and maintenance of the City's local streets. There was no debt service included in the expenditures for 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 Rayner Bond Fund accounts for contribution revenue used for general charitable, benevolent, or recreational purposes within the City.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

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 use approximately \$270,470 of the General Fund's fund balance and ended the year anticipating a fund balance usage of approximately \$638,710. The City's amendments included decreasing both revenue and expenditures as actual amounts became known. The result was an actual decrease of \$308,295 to the General Fund's fund balance.

Capital Asset and Debt Administration

At the end of the 2016 fiscal year, the City had invested approximately \$37.66 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	583,817	1,382,472	1,966,289
Land improvements	920,110	-	920,110
Buildings and improvements	5,491,670	220,131	5,711,801
Infrastructure	10,854,756	15,396,958	26,251,714
Vehicles and Equipment	925,588	-	925,588
Capital assets, net	<u>\$ 20,631,428</u>	<u>\$ 17,025,170</u>	<u>\$ 37,656,598</u>

At year end, the City had \$9.39 million in bonds and notes outstanding. This represents a decrease of \$0.49 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	\$ 3,735,000	\$ -	\$ 3,735,000
Special assessment bonds	265,000	-	265,000
Loans payable	436,704	-	436,704
Revolving fund loan	-	4,953,674	4,953,674
Accrued compensated absences	382,397	134,785	517,182
Total outstanding debt	<u>\$ 4,819,101</u>	<u>\$ 5,088,459</u>	<u>\$ 9,907,560</u>

The City also \$134,988 in unamortized bond items at June 30, 2016. The City of Mason has been given a bond rating of "AA-" by Standards and Poor.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

Economic Factors and Next Year's Budgets and Rates

The City's budget for the 2016/2017 fiscal year is balanced with no property tax rate increase. Total expenses in the General Fund for the 2016/2017 fiscal year are estimated to be \$5.9 million. Economic factors contributing to the total expenses for 2016/2017 include the General Fund's contribution to the 5-year street program and the continued increasing costs for pension and other post-employment benefits.

The City reached completion of Well 8 rehabilitation during the 2015/2016 fiscal year. Well 9/10 is expected to be completed within the 2016/2017 fiscal year. The completion of the project will allow the City of Mason to continue to meet the needs of the community.

The 2016/2017 budget includes major improvements to the Wastewater Treatment Plant (POTW). Officials and employees are proceeding with the construction of this project. A completion date within the 2016/2017 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, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 5,593,850	\$ 2,513,401	\$ 8,107,251	\$ 1,511,119
Investments	2,999,039	-	2,999,039	-
Receivables	596,376	565,778	1,162,154	4,539
Due from other governmental units	253,010	-	253,010	-
Internal balances	9,727	(9,727)	-0-	-
Inventory	-	31,114	31,114	-
Prepays	20,821	-	20,821	-
Total current assets	9,472,823	3,100,566	12,573,389	1,515,658
Noncurrent assets				
Net other post-employment benefits asset	26,421	-	26,421	-
Capital assets not being depreciated	2,439,304	1,408,081	3,847,385	-
Capital assets, net of accumulated depreciation	18,192,124	15,617,089	33,809,213	-
Total noncurrent assets	20,657,849	17,025,170	37,683,019	-0-
TOTAL ASSETS	30,130,672	20,125,736	50,256,408	1,515,658
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	62,400	-	62,400	-
Deferred outflows of resources related to pensions	1,454,732	623,456	2,078,188	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,517,132	623,456	2,140,588	-0-
LIABILITIES				
Current liabilities				
Accounts payable	198,818	473,829	672,647	-
Accrued wages	6,389	2,378	8,767	-
Accrued liabilities	49,942	-	49,942	-
Due to other governmental units	45,765	-	45,765	-
Accrued interest payable	40,360	26,316	66,676	-
Unearned revenue	6,661	-	6,661	-
Current portion of compensated absences	140,270	65,417	205,687	-
Current portion of long-term debt	353,197	365,000	718,197	-
Total current liabilities	841,402	932,940	1,774,342	-0-
Noncurrent liabilities				
Noncurrent portion of compensated absences	242,127	69,368	311,495	-
Noncurrent portion of long-term debt	4,218,495	4,588,674	8,807,169	-
Net pension liability	5,217,510	2,236,076	7,453,586	-
Total noncurrent liabilities	9,678,132	6,894,118	16,572,250	-0-
TOTAL LIABILITIES	10,519,534	7,827,058	18,346,592	-0-
NET POSITION				
Net investment in capital assets	16,122,136	12,071,496	28,193,632	-
Restricted	2,202,819	-	2,202,819	-
Unrestricted	2,803,315	850,638	3,653,953	1,515,658
TOTAL NET POSITION	\$ 21,128,270	\$ 12,922,134	\$ 34,050,404	\$ 1,515,658

See accompanying notes to financial statements.

City of Mason
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 2,090,140	\$ 286,826	\$ 628,115	\$ -	\$ (1,175,199)	\$ -	\$ (1,175,199)	\$ -
Public safety	1,741,533	238,972	13,313	867	(1,488,381)	-	(1,488,381)	-
Public works	1,980,694	413,046	658,098	-	(909,550)	-	(909,550)	-
Community and economic development	106,364	-	-	-	(106,364)	-	(106,364)	-
Recreation and culture	245,145	35,405	1,087	48,976	(159,677)	-	(159,677)	-
Interest on long-term debt	148,563	-	-	-	(148,563)	-	(148,563)	-
Total governmental activities	6,312,439	974,249	1,300,613	49,843	(3,987,734)	-0-	(3,987,734)	-0-
Business-type activities								
Water and Sewer	3,008,778	2,867,635	51,068	194,308	-	104,233	104,233	-
Total primary government	<u>\$ 9,321,217</u>	<u>\$ 3,841,884</u>	<u>\$ 1,351,681</u>	<u>\$ 244,151</u>	(3,987,734)	104,233	(3,883,501)	-0-
Component units								
Local Development Finance Authority	\$ 216,576	\$ -	\$ -	\$ -	-	-	-0-	(216,576)
Downtown Development Authority	82,172	-	-	-	-	-	-0-	(82,172)
Total component units	<u>\$ 298,748</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(298,748)
General revenues								
Property taxes					2,885,217	-	2,885,217	368,611
State shared revenue					673,307	-	673,307	-
Investment earnings					12,586	8,334	20,920	6,133
Miscellaneous					101,591	-	101,591	-
Transfers					41,011	(41,011)	-0-	-
Total general revenues and transfers					<u>3,713,712</u>	<u>(32,677)</u>	<u>3,681,035</u>	<u>374,744</u>
Change in net position					(274,022)	71,556	(202,466)	75,996
Restated net position, beginning of year					<u>21,402,292</u>	<u>12,850,578</u>	<u>34,252,870</u>	<u>1,439,662</u>
Net position, end of year					<u>\$ 21,128,270</u>	<u>\$ 12,922,134</u>	<u>\$ 34,050,404</u>	<u>\$ 1,515,658</u>

See accompanying notes to financial statements.

City of Mason
Governmental Funds
BALANCE SHEET
June 30, 2016

	General	Major Street	Local Street
ASSETS			
Cash and cash equivalents	\$ 2,574,968	\$ 981,646	\$ 75,387
Investments	2,124,600	-	-
Receivables			
Accounts	37,322	126	-
Taxes	6,026	-	-
Special assessments	-	-	-
Due from other governmental units	114,901	82,016	56,093
Due from other funds	1,606	18,665	138,115
Prepays	20,821	-	-
	\$ 4,880,244	\$ 1,082,453	\$ 269,595
LIABILITIES			
Accounts payable	\$ 53,049	\$ 39,170	\$ 106,599
Accrued wages	5,732	247	246
Accrued liabilities	49,942	-	-
Due to other governmental units	45,765	-	-
Due to other funds	69,421	107,225	6,644
Unearned revenue	6,661	-	-
	230,570	146,642	113,489
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	119,671	-	-
FUND BALANCES			
Nonspendable	20,821	-	-
Restricted	140,795	-	-
Committed	-	-	-
Assigned	46,673	935,811	156,106
Unassigned	4,321,714	-	-
	4,530,003	935,811	156,106
	\$ 4,880,244	\$ 1,082,453	\$ 269,595

See accompanying notes to financial statements.

<u>Special Assessment</u>	<u>Rayner Bond</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 409,752	\$ 760,245	\$ 370,945	\$ 5,172,943
-	874,439	-	2,999,039
-	2,684	-	40,132
-	-	-	6,026
550,218	-	-	550,218
-	-	-	253,010
-	-	-	158,386
-	-	-	20,821
<u>\$ 959,970</u>	<u>\$ 1,637,368</u>	<u>\$ 370,945</u>	<u>\$ 9,200,575</u>
\$ -	\$ -	\$ -	\$ 198,818
-	-	-	6,225
-	-	-	49,942
-	-	-	45,765
-	-	802	184,092
-	-	-	6,661
-0-	-0-	802	491,503
550,218	-	-	669,889
-	-	-	20,821
233,817	1,498,811	369,756	2,243,179
-	138,557	387	138,944
175,935	-	-	1,314,525
-	-	-	4,321,714
<u>409,752</u>	<u>1,637,368</u>	<u>370,143</u>	<u>8,039,183</u>
<u>\$ 959,970</u>	<u>\$ 1,637,368</u>	<u>\$ 370,945</u>	<u>\$ 9,200,575</u>

City of Mason

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

June 30, 2016

Total fund balances - governmental funds \$ 8,039,183

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	\$ 38,792,821	
Accumulated depreciation is	<u>(18,784,219)</u>	
Capital assets, net		20,008,602

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		725,824
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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		550,218
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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.		119,671
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Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions		1,454,732
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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		26,421
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Governmental funds report the difference between the carrying amount of the defeased debt and its reacquisition price when debt is issued, whereas these amounts are deferred and amortized in the government-wide statement of net position. These amounts consist of:

Unamortized defeased debt		62,400
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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	4,104,213	
Capitalized bond premiums	134,988	
Accrued interest payable	38,243	
Compensated absences	363,827	
Net pension liability	<u>5,217,510</u>	
		<u>(9,858,781)</u>

Net position of governmental activities \$ 21,128,270

See accompanying notes to financial statements.

City of Mason

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2016

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 2,987,630	\$ -	\$ -
Licenses and permits	58,279	-	-
Intergovernmental	1,315,667	467,063	191,035
Charges for services	667,979	3,684	1,074
Fines and forfeits	41,074	-	-
Interest, rents, and royalties	51,631	2,349	278
Contributions	-	-	-
Other	85,757	-	-
TOTAL REVENUES	5,208,017	473,096	192,387
EXPENDITURES			
Current			
General government	1,897,287	-	-
Public safety	1,490,015	-	-
Public works	432,960	704,782	983,248
Community and economic development	123,576	-	-
Recreation and culture	263,929	-	-
Capital outlay	-	-	-
Debt service	333,230	-	-
TOTAL EXPENDITURES	4,540,997	704,782	983,248
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	667,020	(231,686)	(790,861)
OTHER FINANCING SOURCES (USES)			
Transfers in	154,503	349,096	790,862
Transfers out	(1,129,818)	(97,006)	-
TOTAL OTHER FINANCING SOURCES (USES)	(975,315)	252,090	790,862
NET CHANGE IN FUND BALANCES	(308,295)	20,404	1
Restated fund balance, beginning of year	4,838,298	915,407	156,105
Fund balances, end of year	<u>\$ 4,530,003</u>	<u>\$ 935,811</u>	<u>\$ 156,106</u>

See accompanying notes to financial statements.

Special Assessment	Rayner Bond	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 2,987,630
-	-	-	58,279
-	-	28,976	2,002,741
-	-	-	672,737
-	-	-	41,074
35,058	20,591	844	110,751
-	-	20,000	20,000
125,196	-	4,050	215,003
160,254	20,591	53,870	6,108,215
-	-	-	1,897,287
-	-	-	1,490,015
-	-	-	2,120,990
-	-	-	123,576
-	-	-	263,929
-	-	87,803	87,803
62,862	-	78,153	474,245
62,862	-0-	165,956	6,457,845
97,392	20,591	(112,086)	(349,630)
-	-	99,439	1,393,900
(104,505)	(20,758)	(802)	(1,352,889)
(104,505)	(20,758)	98,637	41,011
(7,113)	(167)	(13,449)	(308,619)
416,865	1,637,535	383,592	8,347,802
\$ 409,752	\$ 1,637,368	\$ 370,143	\$ 8,039,183

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, 2016

Net change in fund balances - total governmental funds \$ (308,619)

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	\$ 1,320,109	
Depreciation expense	<u>(1,254,567)</u>	
Excess of capital outlay over depreciation expense		65,542

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

Increase in net position of Internal Service Funds		105,845
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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 revenue		(110,809)
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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:

Deferred charges on refunding	(2,600)	
Capitalized bond premiums	5,624	
Long-term debt principal retirements	<u>324,761</u>	
		327,785

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:

Increase in deferred outflows of resources related to pensions	1,231,974	
(Increase) in accrued interest payable	(2,103)	
(Increase) in compensated absences	(3,794)	
(Increase) in net pension liability	(1,606,131)	
Decrease in net other post-employment benefits	<u>26,288</u>	
		<u>(353,766)</u>

Change in net position of governmental activities \$ (274,022)

City of Mason
Proprietary Funds
STATEMENT OF NET POSITION
June 30, 2016

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,513,401	\$ 420,907
Accounts receivable	565,778	-
Due from other funds	-	35,461
Inventory	31,114	-
Total current assets	3,110,293	456,368
Noncurrent assets		
Capital assets not being depreciated	1,408,081	-
Capital assets, net of accumulated depreciation	15,617,089	622,826
Total noncurrent assets	17,025,170	622,826
TOTAL ASSETS	20,135,463	1,079,194
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	623,456	-
LIABILITIES		
Current liabilities		
Accounts payable	473,829	-
Accrued wages	2,378	164
Accrued interest payable	26,316	2,117
Due to other funds	9,727	28
Current portion of compensated absences	65,417	6,812
Current portion of long-term debt	365,000	48,626
Total current liabilities	942,667	57,747
Noncurrent liabilities		
Noncurrent portion of compensated absences	69,368	11,758
Noncurrent portion of long-term debt	4,588,674	283,865
Net pension liability	2,236,076	-
Total noncurrent liabilities	6,894,118	295,623
TOTAL LIABILITIES	7,836,785	353,370
NET POSITION		
Net investment in capital assets	12,071,496	290,335
Unrestricted	850,638	435,489
TOTAL NET POSITION	\$ 12,922,134	\$ 725,824

See accompanying notes to financial statements.

City of Mason

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2016

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
OPERATING REVENUES		
Internal user charges	\$ -	\$ 399,175
Water user charges	1,501,014	-
Sewer user charges	1,298,180	-
Interest and penalty charges	50,474	-
Rent	500	-
Other	17,467	29,075
TOTAL OPERATING REVENUES	2,867,635	428,250
OPERATING EXPENSES		
Cost of water produced	477,026	-
Cost of sewage treatment	927,251	-
Operation and maintenance	656,336	229,017
Billing and administrative costs	158,052	-
Depreciation	679,110	84,619
TOTAL OPERATING EXPENSES	2,897,775	313,636
OPERATING INCOME (LOSS)	(30,140)	114,614
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	245,376	-
Investment income	8,334	831
Interest expense and fees	(111,003)	(9,600)
TOTAL NONOPERATING REVENUES (EXPENSES)	142,707	(8,769)
INCOME BEFORE TRANSFERS	112,567	105,845
TRANSFERS OUT	(41,011)	-
CHANGE IN NET POSITION	71,556	105,845
Net position, beginning of year	12,850,578	619,979
Net position, end of year	<u>\$ 12,922,134</u>	<u>\$ 725,824</u>

See accompanying notes to financial statements.

City of Mason
Proprietary Funds
STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,793,080	\$ 428,250
Cash paid to suppliers	(996,846)	(216,000)
Cash paid to employees	(944,920)	(74,998)
	851,314	137,252
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipt (payment) of interfund balances	(32,399)	(34,318)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Intergovernmental	245,376	-
Debt proceeds	-	242,000
Payments on borrowing	(360,000)	(49,152)
Purchase of capital assets	(1,681,615)	(290,030)
Interest expense and fees	(112,916)	(9,400)
	(1,909,155)	(106,582)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	8,334	831
	(1,081,906)	(2,817)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents, beginning of year	3,595,307	423,724
Cash and cash equivalents, end of year	\$ 2,513,401	\$ 420,907
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (30,140)	\$ 114,614
Adjustment to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	679,110	84,619
(Increase) decrease in:		
Accounts receivable	(77,628)	-
Inventory	3,073	-
Deferred outflow of resources related to pensions	(527,989)	-
Increase (decrease) in:		
Accounts payable	126,980	(61,312)
Accrued wages	(25,330)	(1,765)
Compensated absences	14,896	1,096
Net pension liability	688,342	-
	\$ 851,314	\$ 137,252

See accompanying notes to financial statements.

City of Mason

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash	<u>\$ 24,638</u>
LIABILITIES	
Due to individuals and agencies	<u>\$ 24,638</u>

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF NET POSITION

June 30, 2016

	Local Development Finance Authority	Downtown Development Authority	Total Component Units
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,406,899	\$ 104,220	\$ 1,511,119
Receivables	-	4,539	4,539
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	1,406,899	108,759	1,515,658
LIABILITIES			
Current liabilities			
Accounts payable	-	-	-0-
Due to other governmental units	-	-	-0-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	-0-	-0-	-0-
NET POSITION			
Unrestricted	<u>\$ 1,406,899</u>	<u>\$ 108,759</u>	<u>\$ 1,515,658</u>

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Expenses	Net (Expense) Revenues and Changes in Net Position		
		Local Development Finance Authority	Downtown Development Authority	Total Component Units
Governmental activities				
Local Development Finance Authority	\$ 216,576	\$ (216,576)	\$ -	\$ (216,576)
Downtown Development Authority	82,172	-	(82,172)	(82,172)
Total component units	<u>\$ 298,748</u>	(216,576)	(82,172)	(298,748)
General revenues				
Property taxes		308,834	59,777	368,611
Investment earnings		5,828	305	6,133
Total general revenues		<u>314,662</u>	<u>60,082</u>	<u>374,744</u>
Change in net position		98,086	(22,090)	75,996
Net position, beginning of year		<u>1,308,813</u>	<u>130,849</u>	<u>1,439,662</u>
Net position, end of year		<u>\$ 1,406,899</u>	<u>\$ 108,759</u>	<u>\$ 1,515,658</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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, 2016

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, 2016

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

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- c. The Local Street Fund accounts for resources that are used for repairs and maintenance of the City's local streets.
- d. 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.
- e. The Rayner Bond Fund is used to account for contribution revenue used for general charitable, benevolent or recreation purposes within the City.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

6. Basis of Accounting - continued

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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. Investments

Investments are stated at fair value in accordance with the applicable GASB Statement. In accordance with GASB Statement No. 72, the City has accounted for its natural resources and land held for resale as investments of the City.

10. 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.

11. 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.

12. 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, Capital Area Airport Authority, 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, 2016, the City levied 13.2500 mills per \$1,000 of taxable valuation for general governmental services. The total ad valorem taxable value for the 2015 levy for property within the City was \$217,282,969.

13. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

14. 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 fund balance.

15. 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.

16. 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.

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.

17. 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 (1) 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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

18. 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.

19. 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.

20. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has several items that qualify for reporting in these categories and are reported in the government-wide financial statement of net position or in the governmental funds balance sheet.

The City reports deferred outflows of resources for the deferred charge on refunding which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The City also reports deferred outflows of resources which correspond to the City's net pension liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow of resources in the period to which they apply.

The City reports deferred inflows of resources for two (2) types of items, which arise only under a modified accrual basis of accounting and 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.

21. 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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

Deposits

As of June 30, 2016, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 7,319,404	\$ 7,381,241
FIDUCIARY FUNDS		
Checking	24,638	27,341
COMPONENT UNITS		
Checking and savings	<u>1,492,232</u>	<u>1,492,232</u>
TOTAL REPORTING ENTITY	<u>\$ 8,836,274</u>	<u>\$ 8,900,814</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, 2016, the City accounts were federally insured for \$1,000,000 and the amount of \$7,900,814 was uninsured and uncollateralized. The City had \$409 of imprest cash on hand.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Fair Value Measurements - continued

There are three (3) levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The City had the following fair value measurements as of June 30, 2016:

	Fair Value Measurements					
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Weighted Average Maturity	S&P Rating
PRIMARY GOVERNMENT						
Uncategorized pooled investment funds						
Michigan CLASS	\$ -	\$ 787,438	\$ -	\$ 787,438	54 days	AAAm
Natural resources	-	-	874,439	874,439	N/A	N/A
Land	-	-	2,124,600	2,124,600	N/A	N/A
COMPONENT UNITS						
Uncategorized pooled investment funds						
Michigan CLASS	-	18,887	-	18,887	54 days	AAAm
Total investments at fair value	<u>\$ -0-</u>	<u>\$ 806,325</u>	<u>\$ 2,999,039</u>	<u>\$ 3,805,364</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, 2016, rating information on the City's investments is presented above.

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, 2016

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - 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, cash equivalents, and investments referred to above have been reported in the cash and cash and investments 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, 2016:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 8,107,251	\$ 24,638	\$ 1,511,119	\$ 9,643,008
Investments	<u>2,999,039</u>	<u>-</u>	<u>-</u>	<u>2,999,039</u>
	<u>\$ 11,106,290</u>	<u>\$ 24,638</u>	<u>\$ 1,511,119</u>	<u>\$ 12,642,047</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2016, are as follows:

Due to General Fund from:		
Water and Sewer Fund		\$ 776
Nonmajor governmental funds		802
Internal Service Fund		<u>28</u>
		<u>\$ 1,606</u>
Due to Major Street Fund from:		
General Fund		<u>\$ 18,665</u>
Due to Local Street Fund from:		
General Fund		\$ 41,109
Major Street Fund		<u>97,006</u>
		<u>\$ 138,115</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Due to Internal Service Fund from:	
General Fund	\$ 9,647
Major Street Fund	10,219
Local Street Fund	6,644
Water and Sewer Fund	<u>8,951</u>
	<u>\$ 35,461</u>

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

NOTE D: INTERFUND TRANSFERS

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

Transfers to General Fund from:	
Special Assessment Fund	\$ 104,505
Water and Sewer Fund	41,011
Rayner Bond Fund	<u>8,987</u>
	<u>\$ 154,503</u>
Transfer to Major Street Fund from:	
General Fund	<u>\$ 349,096</u>
Transfer to Local Street Fund from:	
General Fund	\$ 693,856
Major Street Fund	<u>97,006</u>
	<u>\$ 790,862</u>
Transfer to nonmajor governmental funds from:	
General Fund	\$ 86,866
Rayner Bond Fund	11,771
Nonmajor governmental funds	<u>802</u>
	<u>\$ 99,439</u>

The transfers to the General Fund from the Special Assessment Fund, Water and Sewer Fund, and nonmajor governmental funds were to fund combined activities paid for by the General Fund. The transfers to the Local Street Fund and Major Street Fund from the General Fund and Major Street Fund were to finance capital asset construction and purchases. The transfers to the nonmajor governmental funds (building authority) from the General Fund and nonmajor governmental funds were to finance the refunding of long-term debt and for debt payments.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

Primary Government

	Balance July 1, 2015	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2016
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,855,487	\$ -	\$ -	\$ 1,855,487
Construction in progress	609,211	473,202	(498,596)	583,817
Subtotal	2,464,698	473,202	(498,596)	2,439,304
Capital assets being depreciated				
Land improvements	1,839,925	112,877	-	1,952,802
Buildings and improvements	6,843,075	-	-	6,843,075
Infrastructure	24,332,570	1,222,851	-	25,555,421
Vehicles and equipment	3,961,190	299,805	-	4,260,995
Subtotal	36,976,760	1,635,533	-0-	38,612,293
Less accumulated depreciation for:				
Land improvements	(946,079)	(86,613)	-	(1,032,692)
Buildings and improvements	(1,182,476)	(168,929)	-	(1,351,405)
Infrastructure	(13,864,098)	(836,567)	-	(14,700,665)
Vehicles and equipment	(3,088,330)	(247,077)	-	(3,335,407)
Subtotal	(19,080,983)	(1,339,186)	-0-	(20,420,169)
Net capital assets being depreciated	17,895,777	296,347	-0-	18,192,124
Capital assets, net	<u>\$ 20,360,475</u>	<u>\$ 769,549</u>	<u>\$ (498,596)</u>	<u>\$ 20,631,428</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 202,896
Public safety	165,185
Public works	893,775
Recreation and culture	77,330
Total depreciation expense	<u>\$ 1,339,186</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance July 1, 2015	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2016
Business-type activities				
Capital assets not being depreciated				
Land	\$ 25,609	\$ -	\$ -	\$ 25,609
Construction in progress	655,923	1,090,912	(364,363)	1,382,472
Subtotal	681,532	1,090,912	(364,363)	1,408,081
Capital assets being depreciated				
Buildings and improvements	482,220	-	-	482,220
Infrastructure	25,425,575	955,066	-	26,380,641
Subtotal	25,907,795	955,066	-0-	26,862,861
Less accumulated depreciation for:				
Buildings and improvements	(251,231)	(10,858)	-	(262,089)
Infrastructure	(10,315,431)	(668,252)	-	(10,983,683)
Subtotal	(10,566,662)	(679,110)	-0-	(11,245,772)
Net capital assets being depreciated	15,341,133	275,956	-0-	15,617,089
Capital assets, net	<u>\$ 16,022,665</u>	<u>\$ 1,366,868</u>	<u>\$ (364,363)</u>	<u>\$ 17,025,170</u>

Component Unit

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
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, 2016

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, 2016.

Primary Government

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Amounts Due Within One Year
Governmental activities					
1997 Building Authority Bonds	\$ 140,000	\$ -	\$ (30,000)	\$ 110,000	\$ 35,000
2015 Refunding Bonds	3,740,000	-	(115,000)	3,625,000	105,000
Special Assessment Bonds	315,000	-	(50,000)	265,000	55,000
Loans payable	373,617	242,000	(178,913)	436,704	152,573
Compensated absences	377,507	143,366	(138,476)	382,397	140,270
	4,946,124	385,366	(512,389)	4,819,101	487,843
Capitalized bond premiums	140,612	-	(5,624)	134,988	5,624
TOTAL GOVERNMENTAL ACTIVITIES	5,086,736	385,366	(518,013)	4,954,089	493,467
Business-type activities					
Drinking Water Revolving Fund Loan	5,313,674	-	(360,000)	4,953,674	365,000
Compensated absences	119,889	73,083	(58,187)	134,785	65,417
Total business-type activities	5,433,563	73,083	(418,187)	5,088,459	430,417
Total reporting entity	\$ 10,520,299	\$ 458,449	\$ (936,200)	\$ 10,042,548	\$ 923,884

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

1997 Building Authority Bonds

\$450,000 General Obligation Bonds dated November 1, 1997, due in annual installments ranging from \$35,000 to \$40,000 through October 1, 2018, with interest ranging from 3.85 to 5.15 percent, payable semi-annually.

\$ 110,000

2015 Refunding Bonds

\$3,740,000 General Obligation Refunding Bonds dated June 6, 2015, due in annual installments ranging from \$105,000 to \$220,000 through April 1, 2040, with interest ranging from 2.00 to 4.00 percent, payable semi-annually.

\$ 3,625,000

Special Assessment Bonds

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

\$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 4.35 to 4.55 percent, payable semi-annually.

\$ 265,000

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F: LONG-TERM DEBT - CONTINUED

Loans Payable

Dart National Bank Loan due in an annual installment of \$93,828 on December 20, 2016, with interest of 3.70 percent, for a fire truck with an original cost of \$605,741.	\$ 93,828
Dart National Bank Loan due in annual installments of \$30,090 through December 18, 2019, with interest of 2.50 percent, for a dump truck with an original cost of \$139,643.	113,093
Mason State Bank Loan due in annual installments of \$10,385 through April 16, 2017, with interest of 4.65 percent, for land with an original cost of \$115,500.	10,385
Dart National Bank Loan due in an annual installment of \$28,462 through June 1, 2025, with interest of 3.17 percent, for a street sweeper with an original cost of \$242,000.	<u>219,398</u>
	<u>\$ 436,704</u>

Drinking Water Revolving Fund Loan

\$8,000,000 Water Supply System Bonds dated September 27, 2007, due in annual installments ranging from \$365,000 to \$463,674 through April 1, 2028, with interest of 2.125 percent, payable semi-annually.	<u>\$ 4,953,674</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 \$517,182 at June 30, 2016. Of this amount, \$382,397 and \$134,785 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:

Year Ending June 30,	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 140,000	\$ 136,204	\$ 55,000	\$ 10,591
2018	140,000	132,328	55,000	8,185
2019	150,000	128,305	50,000	5,863
2020	110,000	125,075	55,000	3,513
2021	110,000	121,775	50,000	1,138
2022-2026	625,000	552,575	-	-
2027-2031	730,000	451,325	-	-
2032-2036	895,000	298,925	-	-
2037-2040	835,000	118,500	-	-
	<u>\$ 3,735,000</u>	<u>\$ 2,065,012</u>	<u>\$ 265,000</u>	<u>\$ 29,290</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F: LONG-TERM DEBT - CONTINUED

Year Ending June 30,	Loans Payable		Drinking Water Revolving Fund Loan	
	Principal	Interest	Principal	Interest
2017	\$ 152,573	\$ 13,927	\$ 365,000	\$ 105,266
2018	50,011	8,540	375,000	97,509
2019	51,429	7,122	380,000	89,541
2020	52,874	5,677	390,000	81,466
2021	24,298	4,164	400,000	73,178
2022-2026	105,519	8,596	2,125,000	235,203
2027-2028	-	-	918,674	29,375
	<u>\$ 436,704</u>	<u>\$ 48,026</u>	<u>\$ 4,953,674</u>	<u>\$ 711,538</u>

Advance Refunding - Prior

On June 6, 2015, the City defeased a portion of the 2010 Building Authority Bonds, which are due and payable April 1, 2017 through May 1, 2040. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The City issued General Obligation 2015 Refunding Bonds in the amount of \$3,740,000 to provide resources to fund the escrow amounts and pay the costs of insurance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 2016, bonds due and payable April 1, 2017 through April 1, 2040, for the 2010 Building Authority Bonds in the amount of \$3,585,000 are considered defeased.

NOTE G: RETIREMENT PLAN

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan's Legislature under Public Act 135 of 1945 and administered by a nine (9) member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing MERS website at www.mersofmich.com.

Summary of Significant Accounting Policies

For the purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided

Benefits provided include plans with multipliers ranging from 1.50% to 2.50%.

Vesting period of 10 years.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE G: RETIREMENT PLAN - CONTINUED

Benefits Provided - continued

Normal retirement age is 60. Unreduced early retirement is available at 55 with 15 years of service. Reduced early retirement is available at 50 with 25 years of service.

Final average compensation is calculated based a range of 3 to 5 years. Member contributions range from 4.00% to 14.76%.

At the December 31, 2015, valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	35
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>43</u>
	<u><u>87</u></u>

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

Employer contributions range from 3.42% to 3.69% based on annual payroll for open divisions. Four divisions, closed to new employees, had a total annual employer contribution of \$411,560.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the December 31, 2015, annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary increases: 3.75% in the long-term plus a percentage based on age related scale to reflect merit, longevity, and promotional pay increases.

Investment rate of return: 7.75%, net of investment expenses, including inflation.

The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male - 50% Female blend of the following tables: 1. the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, 2. the RP-2014 Employee Mortality Tables, and 3. the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.

The actuarial assumptions used in the valuation were based on the results of the 2009-2013 Five-Year Experience Study.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE G: RETIREMENT PLAN - CONTINUED

Actuarial Assumptions - continued

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.50%	8.52%
Global Fixed Income	20.00%	5.68%
Real Assets	12.50%	7.73%
Diversifying Strategies	10.00%	10.06%

Discount Rate

The discount rate used to measure the total pension liability is 8.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	<u>Calculating the Net Pension Liability</u>		
	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balances at 12/31/2014	\$ 16,615,915	\$ 11,456,802	\$ 5,159,113
Changes for the Year			
Service Cost	286,412	-	286,412
Interest on Total Pension Liability	1,302,779	-	1,302,779
Changes in benefits	(20,699)	-	(20,699)
Difference between expected and actual experience	102,106	-	102,106
Changes in assumptions	992,404	-	992,404
Employer contributions	-	364,270	(364,270)
Employee contributions	-	239,773	(239,773)
Net investment income	-	(169,894)	169,894
Benefit payments, including employee refunds	(948,754)	(948,754)	-0-
Administrative expense	-	(24,907)	24,907
Other changes	40,713	-	40,713
Net changes	<u>1,754,961</u>	<u>(539,512)</u>	<u>2,294,473</u>
Balances as of 12/31/2015	<u>\$ 18,370,876</u>	<u>\$ 10,917,290</u>	<u>\$ 7,453,586</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE G: RETIREMENT PLAN - CONTINUED

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the employer, calculated using the discount rates of 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability	\$ 9,677,078	\$ 7,453,586	\$ 5,607,846

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the employer recognized pension expenses of \$961,265. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 81,685	\$ -
Changes in assumptions	793,923	-
Net difference between projected and actual earnings on pension plan investments	963,682	-
Contributions subsequent to the measurement date*	<u>238,898</u>	<u>-</u>
Total	<u>\$ 2,078,188</u>	<u>\$ -0-</u>

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows. These amounts are exclusive of the employer contributions to the plan made subsequent to the measurement date (\$238,898), which will impact the net pension liability in fiscal year 2017, rather than pension expense.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending</u>	<u>Pension Expense</u>
2017	\$ 468,686
2018	468,686
2019	468,686
2020	433,232

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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, 2016, 20 retirees were receiving benefits. Expenditures for post-employment benefits are recognized when claims are paid. During the year, expenditures of \$142,097 were recognized for post-employment benefits.

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

Funding Policy

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

Funding Progress

For the year ended June 30, 2016, the City has determined an estimated cost of providing post-employment benefits through an actuarial valuation as of July 1, 2015. 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 of fifteen (15) years.

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

Annual required contribution (ARC)	\$ 115,800
Adjustment to annual required contribution	<u>9</u>
Annual OPEB cost	115,809
Amounts contributed:	
Payments of current requirements (gross of employee reimbursement)	<u>142,097</u>
(Decrease) in net OPEB obligation	(26,288)
OPEB obligation (asset) - Beginning of year	<u>(133)</u>
OPEB obligation (asset) - End of year	<u><u>\$ (26,421)</u></u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Progress - continued

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,		
	2014	2015	2016
Annual OPEB cost	\$ 156,164	\$ 160,678	\$ 115,809
Percentage contributed	100.0%	100.0%	122.7%
Net OPEB obligation (asset)	\$ (139)	\$ (133)	\$ (26,421)

The current funding progress of the plan is as follows:

	Dec. 31, 2007	July 1, 2012	July 1, 2015
Actuarial value of assets	\$ 77,869	\$ 191,398	\$ 441,323
Actuarial accrued liability (AAL) (entry age)	2,273,747	2,648,079	1,749,786
Unfunded AAL (UAAL)	2,195,878	2,456,681	1,308,463
Funded ratio	3.4%	7.2%	25.2%
Annual covered payroll	\$ 2,102,937	\$ 2,113,365	\$ 2,232,680
UAAL as a percentage of covered payroll	104.4%	116.2%	58.6%

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, 2015 actuarial valuation, the entry age level percent closed 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%.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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, liability, crime, and auto losses. The pool is organized under Public Act 138 of 1982, as amended. State pool members' limits of coverage (per occurrence) are detailed in their policy agreements with the Authority. 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, 2016:

Surplus at July 1, 2015	\$ 160,545
REVENUES	
Licenses and permits	
Permits	44,599
EXPENDITURES	
Building Department	<u>(64,349)</u>
Cumulative surplus at June 30, 2016	<u>\$ 140,795</u>

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, 2016:

PRIMARY GOVERNMENT	
Community enrichment	\$ 1,520,714
Construction code activity	140,795
Cemetery operations	327,812
Flowers	19,494
Debt service	<u>194,004</u>
	<u>\$ 2,202,819</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE L: RESTATEMENT OF BEGINNING NET POSITION

Beginning net position has been restated for the governmental activities and the beginning fund balance has been restated for the General Fund due to a change in accounting principles.

	<u>Governmental Activities</u>	<u>General Fund</u>	<u>Rayner Bond Fund</u>
Beginning net position/fund balance	\$ 18,403,253	\$ 2,713,698	\$ 763,096
Restatement related to investments	<u>2,999,039</u>	<u>2,124,600</u>	<u>874,439</u>
Restated beginning net position/fund balance	<u><u>\$ 21,402,292</u></u>	<u><u>\$ 4,838,298</u></u>	<u><u>\$ 1,637,535</u></u>

NOTE M: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 72, *Fair Value Measurement and Application*, was implemented during the year. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was implemented during the year. The Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was implemented during the year. The Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement.

NOTE N: 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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE N: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

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.

	General Fund	Major Street	Local Street	Special Assessment	Rayner Bond	Nonmajor Governmental Funds	Total
Fund Balances							
Nonspendable							
Prepays	\$ 20,821	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,821
Restricted							
Community enrichment	-	-	-	-	1,498,811	21,903	1,520,714
Construction code activity	140,795	-	-	-	-	-	140,795
Cemetery operations	-	-	-	-	-	327,812	327,812
Flowers	-	-	-	-	-	19,494	19,494
Debt service	-	-	-	233,817	-	547	234,364
Committed							
Community enrichment	-	-	-	-	138,557	387	138,944
Assigned							
Highways	-	935,811	156,106	-	-	-	1,091,917
Grant matching	46,673	-	-	-	-	-	46,673
Other purposes	-	-	-	175,935	-	-	175,935
Unassigned	4,321,714	-	-	-	-	-	4,321,714
TOTAL FUND BALANCES	\$ 4,530,003	\$ 935,811	\$ 156,106	\$ 409,752	\$ 1,637,368	\$ 370,143	\$ 8,039,183

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligations as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB 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 during the 2017-2018 fiscal year.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments and requires the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 2,870,750	\$ 2,887,950	\$ 2,885,217	\$ (2,733)
Penalties and interest	10,000	13,000	13,097	97
Administration fees	87,500	89,315	89,316	1
Total taxes	2,968,250	2,990,265	2,987,630	(2,635)
Licenses and permits	62,550	58,990	58,279	(711)
Intergovernmental				
Federal	300	865	867	2
State	703,500	683,500	682,115	(1,385)
Local	1,142,990	632,655	632,685	30
Total intergovernmental	1,846,790	1,317,020	1,315,667	(1,353)
Charges for services				
Refuse collection	347,640	349,830	349,832	2
Cable franchise fee	44,000	47,560	48,607	1,047
Other	280,500	270,250	269,540	(710)
Total charges for services	672,140	667,640	667,979	339
Fines and forfeits	36,350	46,160	41,074	(5,086)
Interest and rents	45,235	51,235	51,631	396
Other	61,925	86,835	85,757	(1,078)
TOTAL REVENUES	5,693,240	5,218,145	5,208,017	(10,128)

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2016

EXPENDITURES	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Current				
General government				
Clerk	\$ 141,705	\$ 139,665	\$ 135,809	\$ 3,856
City Council	41,570	55,325	50,830	4,495
Administrator	286,320	184,920	175,477	9,443
Assessor	51,295	52,330	51,816	514
Board of Review	650	690	690	-0-
Treasurer	501,600	402,990	394,867	8,123
Technology	100,445	100,445	79,489	20,956
Building office and City Hall	378,065	393,130	379,259	13,871
Attorney	90,000	117,500	114,511	2,989
Cemetery	198,755	160,445	134,930	25,515
Workers compensation	52,645	75,645	75,643	2
Retiree benefits	219,230	192,100	192,097	3
Administrative services	272,515	115,185	111,869	3,316
Total general government	2,334,795	1,990,370	1,897,287	93,083
Public safety				
Police administration	340,520	319,705	305,062	14,643
Crossing guards	24,170	19,690	19,194	496
Police patrolling	1,054,400	867,730	860,240	7,490
Fire department	336,415	321,410	300,571	20,839
Civil defense	1,970	5,565	4,948	617
Total public safety	1,757,475	1,534,100	1,490,015	44,085
Public works				
Public services	6,300	4,495	4,461	34
Sidewalks	5,085	3,610	3,458	152
Street lighting	96,860	89,915	84,591	5,324
Refuse collection	354,715	340,470	340,450	20
Total public works	462,960	438,490	432,960	5,530
Community and economic development				
Cable commission	315	3,600	3,300	300
Planning and zoning	126,710	117,940	113,262	4,678
Planning commission	2,950	2,150	257	1,893
Christmas decorations	5,570	6,985	6,757	228
Total community and economic development	135,545	130,675	123,576	7,099

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture				
Parks	\$ 158,105	\$ 181,455	\$ 171,113	\$ 10,342
Library	15,095	13,710	10,809	2,901
Forestry	77,595	80,745	75,307	5,438
Senior citizens	8,085	6,700	6,700	-0-
Total recreation and culture	258,880	282,610	263,929	18,681
Debt service				
Principal	135,575	205,175	205,174	1
Interest and fiscal fees	18,105	128,060	128,056	4
Total debt service	153,680	333,235	333,230	5
TOTAL EXPENDITURES	5,103,335	4,709,480	4,540,997	168,483
EXCESS OF REVENUES OVER EXPENDITURES	589,905	508,665	667,020	158,355
OTHER FINANCING SOURCES (USES)				
Transfers in	147,790	154,470	154,503	33
Transfers out	(1,008,165)	(1,301,845)	(1,129,818)	172,027
TOTAL OTHER FINANCING SOURCES (USES)	(860,375)	(1,147,375)	(975,315)	172,060
NET CHANGE IN FUND BALANCE	(270,470)	(638,710)	(308,295)	330,415
Restated fund balance, beginning of year	4,838,298	4,838,298	4,838,298	-0-
Fund balance, end of year	\$ 4,567,828	\$ 4,199,588	\$ 4,530,003	\$ 330,415

City of Mason

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 973,000	\$ 445,000	\$ 467,063	\$ 22,063
Charges for services	750	3,600	3,684	84
Interest	1,250	2,325	2,349	24
TOTAL REVENUES	975,000	450,925	473,096	22,171
EXPENDITURES				
Current				
Public works	1,228,540	859,095	704,782	154,313
EXCESS OF REVENUES (UNDER) EXPENDITURES	(253,540)	(408,170)	(231,686)	176,484
OTHER FINANCING SOURCES (USES)				
Transfers in	245,400	468,230	349,096	(119,134)
Transfers out	(99,200)	(126,450)	(97,006)	29,444
TOTAL OTHER FINANCING SOURCES (USES)	146,200	341,780	252,090	(89,690)
NET CHANGE IN FUND BALANCE	(107,340)	(66,390)	20,404	86,794
Fund balance, beginning of year	915,407	915,407	915,407	-0-
Fund balance, end of year	\$ 808,067	\$ 849,017	\$ 935,811	\$ 86,794

City of Mason

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 156,000	\$ 176,000	\$ 191,035	\$ 15,035
Charges for services	875	1,075	1,074	(1)
Interest	250	275	278	3
TOTAL REVENUES	157,125	177,350	192,387	15,037
EXPENDITURES				
Current				
Public works	685,840	1,044,065	983,248	60,817
EXCESS OF REVENUES (UNDER) EXPENDITURES	(528,715)	(866,715)	(790,861)	75,854
OTHER FINANCING SOURCES				
Transfers in	528,715	866,715	790,862	(75,853)
NET CHANGE IN FUND BALANCE	-0-	-0-	1	1
Fund balance, beginning of year	156,105	156,105	156,105	-0-
Fund balance, end of year	\$ 156,105	\$ 156,105	\$ 156,106	\$ 1

City of Mason

Special Assessment Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 34,920	\$ 35,025	\$ 35,058	\$ 33
Other				
Special assessments	117,340	125,000	125,196	196
TOTAL REVENUES	152,260	160,025	160,254	229
EXPENDITURES				
Debt service	62,865	62,865	62,862	3
EXCESS OF REVENUES OVER EXPENDITURES	89,395	97,160	97,392	232
OTHER FINANCING (USES)				
Transfers out	(98,230)	(104,500)	(104,505)	(5)
NET CHANGE IN FUND BALANCE	(8,835)	(7,340)	(7,113)	227
Fund balance, beginning of year	416,865	416,865	416,865	-0-
Fund balance, end of year	\$ 408,030	\$ 409,525	\$ 409,752	\$ 227

City of Mason

Rayner Bond Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest and royalties	\$ 60,950	\$ 19,675	\$ 20,591	\$ 916
EXPENDITURES	-	-	-	-0-
EXCESS OF REVENUES OVER EXPENDITURES	60,950	19,675	20,591	916
OTHER FINANCING (USES)				
Transfers out	(33,720)	(23,025)	(20,758)	2,267
NET CHANGE IN FUND BALANCE	27,230	(3,350)	(167)	3,183
Fund balance, beginning of year	1,637,535	1,637,535	1,637,535	-0-
Fund balance, end of year	\$ 1,664,765	\$ 1,634,185	\$ 1,637,368	\$ 3,183

City of Mason

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS

Last Measurement Date (ultimately ten fiscal years will be displayed)
 (Amounts were determined as of 12/31 of each fiscal year)

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service cost	\$ 286,412	\$ 344,630
Interest	1,302,779	1,248,831
Changes of benefit terms	(20,699)	-
Difference between expected and actual experience	102,106	-
Changes of assumptions	992,404	-
Benefit payments, including employee refunds	(948,754)	(909,285)
Other	40,713	39,026
	<u>1,754,961</u>	<u>723,202</u>
Net Change in Total Pension Liability		
	1,754,961	723,202
Total Pension Liability, beginning	<u>16,615,915</u>	<u>15,892,713</u>
Total Pension Liability, ending	<u>\$ 18,370,876</u>	<u>\$ 16,615,915</u>
Plan Fiduciary Net Position		
Contributions-employer	\$ 364,270	\$ 302,481
Contributions-employee	239,773	273,318
Net Investment income	(169,894)	697,815
Benefit payments including employee refunds	(948,754)	(909,285)
Administrative expense	(24,907)	(25,588)
	<u>(539,512)</u>	<u>338,741</u>
Net Change in Plan Fiduciary Net Position		
	(539,512)	338,741
Plan Fiduciary Net Position, beginning	<u>11,456,802</u>	<u>11,118,061</u>
Plan Fiduciary Net Position, ending	<u>\$ 10,917,290</u>	<u>\$ 11,456,802</u>
City's Net Pension Liability	<u>\$ 7,453,586</u>	<u>\$ 5,159,113</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	59%	69%
Covered employee payroll	\$ 2,101,401	\$ 2,232,680
City's Net Pension Liability as a percentage of covered employee payroll	354.7%	231.1%

City of Mason

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Fiscal Year (ultimately ten fiscal years will be displayed)
 (Amounts were determined as of 6/30 of each fiscal year)

	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 426,002	\$ 340,936
Contributions in relation to the actuarially determined contribution	<u>426,002</u>	<u>340,936</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 2,298,302	\$ 2,191,564
Contributions as a percentage of covered employee payroll	18.5%	15.6%

City of Mason

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2016

NOTE A: EMPLOYEE RETIREMENT PLAN

Changes of benefits terms: There were no changes of benefit terms during fiscal year 2016.

- Changes in assumptions:
- Assumption changes as a result of the 2009-2013 Five-Year Experience Study were adopted by MERS for use in the December 31, 2015 annual pension valuation.
 - For amounts reported prior to the December 31, 2015 actuarial valuation, the expectation of retired life mortality was based on the 1994 Group Annuity Mortality table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table was used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members. For the December 31, 2015 actuarial valuation, the mortality table was adjusted to reflect longer lifetimes. The mortality table used to project the mortality experience of non-disabled plan members is a 50% Male - 50% Female blend of the following tables: 1. the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%, 2. the RP-2014 Employee Mortality Tables, and 3. the RP-2014 Juvenile Mortality Tables. The mortality table used to project the mortality experience of disabled plan members is a 50% Male - 50% Female blend of the RP-2014 Disabled Retiree Mortality Tables.
 - The assumed annual rate of investment return, net of all expenses, was lowered from 8% to 7.75%.

OTHER SUPPLEMENTARY INFORMATION

City of Mason
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 June 30, 2016

	Special Revenue	Debt Service	
	Economic Development Corporation	Park Street Property	Mason Building Authority
ASSETS			
Cash and cash equivalents	\$ 21,903	\$ -	\$ 547
LIABILITIES			
Due to other funds	\$ -	\$ -	\$ -
FUND BALANCES			
Restricted			
Community enrichment	21,903	-	-
Cemetery operations	-	-	-
Flowers	-	-	-
Debt service	-	-	547
Committed			
Community enrichment	-	-	-
TOTAL FUND BALANCES	21,903	-0-	547
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,903	\$ -0-	\$ 547

<u>Capital Projects</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Capital Improvement</u>	<u>Cemetery Trust</u>	
<u>\$ 387</u>	<u>\$ 348,108</u>	<u>\$ 370,945</u>
\$ -	\$ 802	\$ 802
-	-	21,903
-	327,812	327,812
-	19,494	19,494
-	-	547
<u>387</u>	<u>-</u>	<u>387</u>
<u>387</u>	<u>347,306</u>	<u>370,143</u>
<u>\$ 387</u>	<u>\$ 348,108</u>	<u>\$ 370,945</u>

City of Mason

Nonmajor Governmental Funds

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

Year Ended June 30, 2016

	Special Revenue	Debt Service	
	Economic Development Corporation	Park Street Property	Mason Building Authority
REVENUES			
Intergovernmental	\$ -	\$ -	\$ -
Interest, rents, and royalties	42	-	-
Contributions	-	-	-
Other	-	-	-
TOTAL REVENUES	42	-0-	-0-
EXPENDITURES			
Capital outlay	-	-	-
Debt service	-	41,790	36,363
TOTAL EXPENDITURES	-0-	41,790	36,363
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	42	(41,790)	(36,363)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	41,790	36,363
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	41,790	36,363
NET CHANGE IN FUND BALANCES	42	-0-	-0-
Fund balances, beginning of year	21,861	-	547
Fund balances, end of year	\$ 21,903	\$ -0-	\$ 547

<u>Capital Projects</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Capital Improvement</u>	<u>Cemetery Trust</u>	
\$ 28,976	\$ -	\$ 28,976
-	802	844
20,000	-	20,000
-	4,050	4,050
<u>48,976</u>	<u>4,852</u>	<u>53,870</u>
87,803	-	87,803
-	-	78,153
<u>87,803</u>	<u>-0-</u>	<u>165,956</u>
(38,827)	4,852	(112,086)
21,286	-	99,439
-	(802)	(802)
<u>21,286</u>	<u>(802)</u>	<u>98,637</u>
(17,541)	4,050	(13,449)
<u>17,928</u>	<u>343,256</u>	<u>383,592</u>
<u>\$ 387</u>	<u>\$ 347,306</u>	<u>\$ 370,143</u>

City of Mason

Component Unit Funds

BALANCE SHEET - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2016

	<u>General</u>
ASSETS	
Cash and cash equivalents	<u>\$ 1,406,899</u>
LIABILITIES	\$ -
FUND BALANCES	
Unassigned	<u>1,406,899</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,406,899</u>

City of Mason

Component Unit Funds

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

June 30, 2016

Total fund balances - governmental funds \$ 1,406,899

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		<u><u>\$ 1,406,899</u></u>

City of Mason

Component Unit Funds

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

Year Ended June 30, 2016

	<u>General</u>
REVENUES	
Taxes	\$ 308,834
Interest	<u>5,828</u>
TOTAL REVENUES	314,662
EXPENDITURES	
Current	
Community and economic development	<u>216,576</u>
NET CHANGE IN FUND BALANCES	98,086
Fund balances, beginning of year	<u>1,308,813</u>
Fund balances, end of year	<u><u>\$ 1,406,899</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, 2016.

City of Mason

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2016

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 104,220
Taxes receivable	3,569
Accounts receivable	<u>970</u>
TOTAL ASSETS	<u><u>\$ 108,759</u></u>
LIABILITIES	\$ -
FUND BALANCE	
Unassigned	<u>108,759</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 108,759</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, 2016.

City of Mason

Component Unit Funds

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

Year Ended June 30, 2016

	<u>General</u>
REVENUES	
Taxes	\$ 59,777
Interest	<u>305</u>
TOTAL REVENUES	60,082
EXPENDITURES	
Current	
Community and economic development	<u>82,172</u>
NET CHANGE IN FUND BALANCE	(22,090)
Fund balance, beginning of year	<u>130,849</u>
Fund balance, end of year	<u><u>\$ 108,759</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, 2016.

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 27, 2016.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 entity'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 entity'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

September 27, 2016