

**City of Mason
Ingham County, Michigan**

FINANCIAL STATEMENTS

June 30, 2017

City of Mason
Ingham County, Michigan
June 30, 2017

CITY COUNCIL AND ADMINISTRATION

Russ Whipple	Mayor
Marlon Brown	Mayor Pro-Tem
Mike Waltz	Council member
Angela Madden	Council member
Jon Droscha	Council member
Elaine Ferris	Council member
Rita Vogel	Council member
Deborah Stuart	City Administrator
Michelle Pietsch	Interim Finance Director/ Treasurer

City of Mason

TABLE OF CONTENTS

June 30, 2017

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-viii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	6
Proprietary Funds	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Fiduciary Fund	
Statement of Assets and Liabilities	10
Component Unit Financial Statements	
Combining Statement of Net Position	11
Combining Statement of Activities	12
Notes to Financial Statements	13-37
REQUIRED SUPPLEMENTARY INFORMATION	
General Fund	
Budgetary Comparison Schedule	38-40
Special Assessment Fund	
Budgetary Comparison Schedule	41
Schedule of Changes in Employer's Net Pension Liability and Related Ratios	42
Schedule of Employer Contributions	43
Note to Required Supplementary Information	44
OTHER SUPPLEMENTARY INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet	45-46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	47-48
Agency Funds	
Combining Statement of Fiduciary Assets and Liabilities	49

City of Mason

TABLE OF CONTENTS - CONTINUED

June 30, 2017

Page

OTHER SUPPLEMENTARY INFORMATION - CONTINUED

COMPONENT UNIT FUNDS

Local Development Finance Authority

Balance Sheet

50

Reconciliation of the Combining Balance Sheet to the Statement of Net Position

51

Statement of Revenues, Expenditures, and Changes in Fund Balances

52

Downtown Development Authority

Balance Sheet

53

Statement of Revenues, Expenditures, and Changes in Fund Balance

54

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*

55-56



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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note M to the financial statements, the City implemented GASB Statement No. 77, *Tax Abatement Disclosures*, during the year. The Statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that were not consistently or comprehensively reported to the public. 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 30, 2017, 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.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

September 30, 2017

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017. 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, 2017

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

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

Fund Financial Statements

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 through 37 of the report.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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, 2017:

- The City's total net position decreased as a result of the fiscal year's operations. The net position of the governmental activities increased by \$252,955, or 1.18 percent, and the net position of the business-type activities increased by \$1,936,815, or 13.03 percent.
- During the year, the City's governmental activities' revenues were \$252,955 more than the approximate \$6.51 million in expenses.
- State shared revenues, the largest individual revenue source after property taxes, increased \$38,170 to \$711,477 during the current fiscal year.
- In the City's business-type activities, revenues were approximately \$5.05 million while expenses were approximately \$3.12 million.
- Total costs of all the City's programs were approximately \$9.62 million, an increase of approximately 3.23 percent over the prior fiscal year.
- The General Fund reported an increase in fund balance of \$953,671.

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, 2017 and 2016:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 10,542,768	\$ 9,499,244	\$ 2,890,117	\$ 3,100,566	\$ 13,432,885	\$ 12,599,810
Capital assets, net	20,150,104	20,631,428	18,622,778	17,025,170	38,772,882	37,656,598
Total assets	30,692,872	30,130,672	21,512,895	20,125,736	52,205,767	50,256,408
Deferred Outflows of Resources	1,007,744	1,517,132	406,258	623,456	1,414,002	2,140,588
Liabilities						
Current	734,435	841,402	624,334	932,940	1,358,769	1,774,342
Noncurrent	9,407,758	9,678,132	6,359,928	6,894,118	15,767,686	16,572,250
Total liabilities	10,142,193	10,519,534	6,984,262	7,827,058	17,126,455	18,346,592
Net Position						
Net invested in capital assets	15,641,053	16,122,136	14,034,104	12,071,496	29,675,157	28,193,632
Restricted	2,151,672	2,202,819	-	-	2,151,672	2,202,819
Unrestricted	3,588,500	2,803,315	824,845	850,638	4,413,345	3,653,953
Total net position	<u>\$ 21,381,225</u>	<u>\$ 21,128,270</u>	<u>\$ 14,858,949</u>	<u>\$ 12,922,134</u>	<u>\$ 36,240,174</u>	<u>\$ 34,050,404</u>

The City's combined net position increased from approximately \$34.05 million a year ago to \$36.24 million.

Approximately 73.15 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 \$3.59 million represents the amount that may be used to meet the City's ongoing obligations.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Net position of the City's governmental activities increased approximately 1.18 percent to \$21.38 million. This increase demonstrates the ongoing commitment to continue providing municipal services, maintaining major streets, local streets, and city parks, and providing public safety technology and personal protection equipment.

The net position of the City's business-type activities increased by 13.03 percent to \$14.86 million during the fiscal year. This increase is due to continued investment in infrastructure such as completion of a water well, replacement and maintenance of 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, 2017 and 2016.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenue						
Charges for services	\$ 1,067,674	\$ 974,249	\$ 2,953,847	\$ 2,867,635	\$ 4,021,521	\$ 3,841,884
Operating grants and contributions	1,463,822	1,300,613	421,733	51,068	1,885,555	1,351,681
Capital grants and contributions	173,246	49,843	1,709,355	194,308	1,882,601	244,151
General revenues						
Property taxes	2,838,675	2,885,217	-	-	2,838,675	2,885,217
State Revenue Sharing	711,477	673,307	-	-	711,477	673,307
Investment earnings	335,362	12,586	6,487	8,334	341,849	20,920
Miscellaneous	129,973	101,591	-	-	129,973	101,591
Transfers	39,362	41,011	(39,362)	(41,011)	-0-	-0-
Total revenues	6,759,591	6,038,417	5,052,060	3,080,334	11,811,651	9,118,751
Expenses						
General government	2,083,999	2,090,140	-	-	2,083,999	2,090,140
Public safety	1,807,951	1,741,533	-	-	1,807,951	1,741,533
Public works	1,987,234	1,980,694	-	-	1,987,234	1,980,694
Community and economic development	133,377	106,364	-	-	133,377	106,364
Recreation and culture	345,444	245,145	-	-	345,444	245,145
Interest on long-term debt	148,631	148,563	-	-	148,631	148,563
Water and Sewer	-	-	3,115,245	3,008,778	3,115,245	3,008,778
Total expenses	6,506,636	6,312,439	3,115,245	3,008,778	9,621,881	9,321,217
Change in net position	\$ 252,955	\$ (274,022)	\$ 1,936,815	\$ 71,556	\$ 2,189,770	\$ (202,466)

Governmental activities. Governmental activities increased the City's net position by \$252,955. Key elements of this increase are as follows:

- The cost of all governmental activities this year was approximately \$6.51 million.
- The amount that City taxpayers paid for these activities through City taxes was approximately \$2.84 million.
- Some of the cost was paid by the beneficiaries of the program's activities (approximately \$1.07 million), or by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$1.46 million).
- Increase in capital spending in governmental activities areas.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Business-type activities. Business-type activities increased the City's net position by \$1,936,815. Key elements of this increase are as follows:

- 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 completion of a water well and phase 1 of the Wastewater Treatment Plant upgrades.
- 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 governmental funds for fiscal year 2017 were the General Fund and Special Assessment Fund. These funds, along with the remaining nonmajor governmental funds, reported a combined fund balance of \$9.19 million, an increase from last year's combined fund balance of \$8.04 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 76.76 percent of the total General Fund expenditures.

The Special Assessment Fund accounts for special assessments revenue used for the payment of principal and interest on long-term special assessment debt. Fund balance decreased approximately 3.02% to \$397,370 as of the fiscal year end.

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 \$124,430 of the General Fund's fund balance and ended the year anticipating a fund balance increase of approximately \$178,685. The City's amendments included decreasing both revenue and expenditures as actual amounts became known. The result was an actual increase of \$953,671 to the General Fund's fund balance.

Capital Asset and Debt Administration

At the end of the 2017 fiscal year, the City had invested approximately \$38.77 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	207,072	23,568	230,640
Land improvements	878,633	-	878,633
Buildings and improvements	5,332,175	209,273	5,541,448
Infrastructure	10,717,421	18,364,328	29,081,749
Vehicles and Equipment	1,159,316	-	1,159,316
Capital assets, net	<u>\$ 20,150,104</u>	<u>\$ 18,622,778</u>	<u>\$ 38,772,882</u>

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

At year end, the City had \$9.57 million in bonds and notes outstanding. This represents a decrease of \$0.35 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	\$ 3,595,000	\$ -	\$ 3,595,000
Special assessment bonds	210,000	-	210,000
Loans payable	634,487	-	634,487
Revolving fund loan	-	4,588,674	4,588,674
Accrued compensated absences	399,032	139,042	538,074
	<u>\$ 4,838,519</u>	<u>\$ 4,727,716</u>	<u>\$ 9,566,235</u>
Total outstanding debt	<u>\$ 4,838,519</u>	<u>\$ 4,727,716</u>	<u>\$ 9,566,235</u>

The City also \$129,364 in unamortized bond items at June 30, 2017. The City of Mason has been given a bond rating of "AA-" by Standards and Poor.

Economic Factors and Next Year's Budgets and Rates

The City's budget for the 2017/2018 fiscal year includes a 2 mill property tax rate increase. Total expenses in the General Fund for the 2017/2018 fiscal year are estimated to be \$7.29 million. Economic factors contributing to the total expenses for 2017/2018 include the General Fund's contribution to the 5-year street program, improvements to the City Parks, Library and Cemetery and the continued increasing costs for pension and other post-employment benefits.

The City reached completion of Well 9/10, and phase 1 of the Wastewater Treatment Plant upgrades during the 2016/2017 fiscal year.

The 2017/2018 budget includes paying off some debt, planning/saving for equipment, extension of the Hayhoe Riverwalk trail and continued improvements to the Wastewater Treatment Plant (POTW). A new cost study for water and sewer fees will also be completed during the 2017/2018 fiscal year to ensure that user fees adequately cover current and future needs.

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

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, 2017

	Primary Government		Total	Component Units
	Governmental Activities	Business-type Activities		
ASSETS				
Current assets				
Cash and cash equivalents	\$ 6,404,264	\$ 2,064,141	\$ 8,468,405	\$ 409,198
Investments	3,317,103	-	3,317,103	-
Receivables	476,183	508,686	984,869	7,631
Due from other governmental units	263,938	292,110	556,048	-
Internal balances	7,776	(7,776)	-0-	-
Inventory	-	32,956	32,956	-
Prepays	19,060	-	19,060	-
Total current assets	10,488,324	2,890,117	13,378,441	416,829
Noncurrent assets				
Net other post-employment benefits asset	54,444	-	54,444	-
Capital assets not being depreciated	2,062,559	49,177	2,111,736	-
Capital assets, net of accumulated depreciation	18,087,545	18,573,601	36,661,146	-
Total noncurrent assets	20,204,548	18,622,778	38,827,326	-0-
TOTAL ASSETS	30,692,872	21,512,895	52,205,767	416,829
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	59,800	-	59,800	-
Deferred outflows of resources related to pensions	947,944	406,258	1,354,202	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,007,744	406,258	1,414,002	-0-
LIABILITIES				
Current liabilities				
Accounts payable	124,645	126,174	250,819	5,807
Accrued wages	12,793	4,828	17,621	-
Accrued liabilities	36,439	-	36,439	-
Due to other governmental units	9,022	-	9,022	292,110
Accrued interest payable	40,407	24,377	64,784	-
Unearned revenue	48,297	-	48,297	-
Current portion of compensated absences	144,858	93,955	238,813	-
Current portion of long-term debt	317,974	375,000	692,974	-
Total current liabilities	734,435	624,334	1,358,769	297,917
Noncurrent liabilities				
Noncurrent portion of compensated absences	254,174	45,087	299,261	-
Noncurrent portion of long-term debt	4,250,877	4,213,674	8,464,551	-
Net pension liability	4,902,707	2,101,167	7,003,874	-
Total noncurrent liabilities	9,407,758	6,359,928	15,767,686	-0-
TOTAL LIABILITIES	10,142,193	6,984,262	17,126,455	297,917
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	177,198	75,942	253,140	-
NET POSITION				
Net investment in capital assets	15,641,053	14,034,104	29,675,157	-
Restricted	2,151,672	-	2,151,672	-
Unrestricted	3,588,500	824,845	4,413,345	118,912
TOTAL NET POSITION	\$ 21,381,225	\$ 14,858,949	\$ 36,240,174	\$ 118,912

See accompanying notes to financial statements.

City of Mason
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 2,083,999	\$ 355,323	\$ 754,406	\$ -	\$ (974,270)	\$ -	\$ (974,270)	\$ -
Public safety	1,807,951	281,130	22,370	-	(1,504,451)	-	(1,504,451)	-
Public works	1,987,234	395,386	657,485	-	(934,363)	-	(934,363)	-
Community and economic development	133,377	-	-	-	(133,377)	-	(133,377)	-
Recreation and culture	345,444	35,835	29,561	173,246	(106,802)	-	(106,802)	-
Interest on long-term debt	148,631	-	-	-	(148,631)	-	(148,631)	-
Total governmental activities	6,506,636	1,067,674	1,463,822	173,246	(3,801,894)	-0-	(3,801,894)	-0-
Business-type activities								
Water and Sewer	3,115,245	2,953,847	421,733	1,709,355	-	1,969,690	1,969,690	-
Total primary government	<u>\$ 9,621,881</u>	<u>\$ 4,021,521</u>	<u>\$ 1,885,555</u>	<u>\$ 1,882,601</u>	(3,801,894)	1,969,690	(1,832,204)	-0-
Component units								
Local Development Finance Authority	\$ 1,732,966	\$ -	\$ -	\$ -	-	-	-0-	(1,732,966)
Downtown Development Authority	70,373	-	5,469	-	-	-	-0-	(64,904)
Total component units	<u>\$ 1,803,339</u>	<u>\$ -0-</u>	<u>\$ 5,469</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(1,797,870)
General revenues								
Property taxes					2,838,675	-	2,838,675	396,319
State shared revenue					711,477	-	711,477	-
Investment earnings					335,362	6,487	341,849	4,805
Miscellaneous					129,973	-	129,973	-
Transfers					39,362	(39,362)	-0-	-
Total general revenues and transfers					<u>4,054,849</u>	<u>(32,875)</u>	<u>4,021,974</u>	<u>401,124</u>
Change in net position					252,955	1,936,815	2,189,770	(1,396,746)
Net position, beginning of year					<u>21,128,270</u>	<u>12,922,134</u>	<u>34,050,404</u>	<u>1,515,658</u>
Net position, end of year					<u>\$ 21,381,225</u>	<u>\$ 14,858,949</u>	<u>\$ 36,240,174</u>	<u>\$ 118,912</u>

See accompanying notes to financial statements.

City of Mason

Governmental Funds

BALANCE SHEET

June 30, 2017

	General	Special Assessment	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,102,271	\$ 397,370	\$ 2,388,172	\$ 5,887,813
Investments	2,516,812	-	800,291	3,317,103
Receivables				
Accounts	31,952	-	3,617	35,569
Taxes	5,860	-	-	5,860
Special assessments	-	434,754	-	434,754
Due from other governmental units	141,918	-	122,020	263,938
Due from other funds	13,744	-	78,199	91,943
Prepays	19,060	-	-	19,060
TOTAL ASSETS	<u>\$ 5,831,617</u>	<u>\$ 832,124</u>	<u>\$ 3,392,299</u>	<u>\$ 10,056,040</u>
LIABILITIES				
Accounts payable	\$ 90,799	\$ -	\$ 11,098	\$ 101,897
Accrued wages	11,417	-	1,032	12,449
Accrued liabilities	36,439	-	-	36,439
Due to other governmental units	9,022	-	-	9,022
Due to other funds	36,442	-	70,888	107,330
Unearned revenue	48,297	-	-	48,297
TOTAL LIABILITIES	232,416	-0-	83,018	315,434
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	115,527	434,754	-	550,281
FUND BALANCES				
Nonspendable	19,060	-	-	19,060
Restricted	161,931	221,435	1,808,713	2,192,079
Committed	-	-	312,190	312,190
Assigned	596,738	175,935	1,188,378	1,961,051
Unassigned	4,705,945	-	-	4,705,945
TOTAL FUND BALANCES	<u>5,483,674</u>	<u>397,370</u>	<u>3,309,281</u>	<u>9,190,325</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 5,831,617</u>	<u>\$ 832,124</u>	<u>\$ 3,392,299</u>	<u>\$ 10,056,040</u>

See accompanying notes to financial statements.

City of Mason

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

June 30, 2017

Total fund balances - governmental funds \$ 9,190,325

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	\$ 39,094,778	
Accumulated depreciation is	<u>(19,543,914)</u>	
Capital assets, net		19,550,864

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		809,039
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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		434,754
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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.

		115,527
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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	947,944	
Deferred inflows of resources related to pensions	<u>(177,198)</u>	
		770,746

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		54,444
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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		59,800
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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	4,155,619	
Capitalized bond premiums	129,364	
Accrued interest payable	38,722	
Compensated absences	377,862	
Net pension liability	<u>4,902,707</u>	
		<u>(9,604,274)</u>

Net position of governmental activities \$ 21,381,225

City of Mason

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2017

	General	Special Assessment	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 3,128,797	\$ -	\$ -	\$ 3,128,797
Licenses and permits	110,432	-	-	110,432
Intergovernmental	1,318,498	-	657,485	1,975,983
Charges for services	715,545	-	12,352	727,897
Fines and forfeits	46,505	-	-	46,505
Investment earnings, rents, and royalties	447,262	29,443	(43,906)	432,799
Contributions	-	-	173,246	173,246
Other	123,855	115,464	4,859	244,178
TOTAL REVENUES	5,890,894	144,907	804,036	6,839,837
EXPENDITURES				
Current				
General government	1,929,190	-	-	1,929,190
Public safety	1,909,965	-	-	1,909,965
Public works	434,289	-	908,942	1,343,231
Community and economic development	117,109	-	7,999	125,108
Recreation and culture	277,048	-	-	277,048
Capital outlay	-	-	43,745	43,745
Debt service	334,201	65,591	50,597	450,389
TOTAL EXPENDITURES	5,001,802	65,591	1,011,283	6,078,676
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	889,092	79,316	(207,247)	761,161
OTHER FINANCING SOURCES (USES)				
Loan proceeds	350,619	-	-	350,619
Transfers in	140,966	-	479,402	620,368
Transfers out	(427,006)	(91,698)	(62,302)	(581,006)
TOTAL OTHER FINANCING SOURCES (USES)	64,579	(91,698)	417,100	389,981
NET CHANGE IN FUND BALANCES	953,671	(12,382)	209,853	1,151,142
Fund balance, beginning of year	4,530,003	409,752	3,099,428	8,039,183
Fund balances, end of year	<u>\$ 5,483,674</u>	<u>\$ 397,370</u>	<u>\$ 3,309,281</u>	<u>\$ 9,190,325</u>

See accompanying notes to financial statements.

City of Mason

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

Year Ended June 30, 2017

Net change in fund balances - total governmental funds **\$ 1,151,142**

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	\$ 829,049	
Depreciation expense	<u>(1,286,787)</u>	
Excess of depreciation expense over capital outlay		(457,738)

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		83,215
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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		(119,608)
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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 proceeds	(350,619)	
Long-term debt principal retirements	<u>299,213</u>	
		(48,382)

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

(Decrease) in deferred outflows of resources related to pensions	(506,788)	
(Increase) in deferred inflows of resources related to pensions	(177,198)	
(Increase) in accrued interest payable	(479)	
(Increase) in compensated absences	(14,035)	
Decrease in net pension liability	314,803	
Decrease in net other post-employment benefits	<u>28,023</u>	
		<u>(355,674)</u>

Change in net position of governmental activities **\$ 252,955**

City of Mason

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2017

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,064,141	\$ 516,451
Accounts receivable	508,686	-
Due from other governmental units	292,110	-
Due from other funds	1,000	23,163
Inventory	32,956	-
Total current assets	2,898,893	539,614
Noncurrent assets		
Capital assets not being depreciated	49,177	19,859
Capital assets, net of accumulated depreciation	18,573,601	579,381
Total noncurrent assets	18,622,778	599,240
TOTAL ASSETS	21,521,671	1,138,854
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	406,258	-
LIABILITIES		
Current liabilities		
Accounts payable	126,174	22,748
Accrued wages	4,828	344
Accrued interest payable	24,377	1,685
Due to other funds	8,776	-
Current portion of compensated absences	93,955	7,685
Current portion of long-term debt	375,000	50,012
Total current liabilities	633,110	82,474
Noncurrent liabilities		
Noncurrent portion of compensated absences	45,087	13,485
Noncurrent portion of long-term debt	4,213,674	233,856
Net pension liability	2,101,167	-
Total noncurrent liabilities	6,359,928	247,341
TOTAL LIABILITIES	6,993,038	329,815
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	75,942	-
NET POSITION		
Net investment in capital assets	14,034,104	315,372
Unrestricted	824,845	493,667
TOTAL NET POSITION	\$ 14,858,949	\$ 809,039

See accompanying notes to financial statements.

City of Mason

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2017

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
OPERATING REVENUES		
Internal user charges	\$ -	\$ 405,361
Water user charges	1,533,952	-
Sewer user charges	1,331,797	-
Interest and penalty charges	60,105	-
Rent	500	-
Other	27,493	25,330
TOTAL OPERATING REVENUES	2,953,847	430,691
OPERATING EXPENSES		
Cost of water produced	473,956	-
Cost of sewage treatment	931,723	-
Operation and maintenance	661,599	235,334
Billing and administrative costs	176,056	-
Depreciation	768,584	103,770
TOTAL OPERATING EXPENSES	3,011,918	339,104
OPERATING INCOME (LOSS)	(58,071)	91,587
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental	2,131,088	-
Investment income	6,487	1,124
Interest expense and fees	(103,327)	(9,496)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,034,248	(8,372)
INCOME BEFORE TRANSFERS	1,976,177	83,215
TRANSFERS OUT	(39,362)	-
CHANGE IN NET POSITION	1,936,815	83,215
Net position, beginning of year	12,922,134	725,824
Net position, end of year	<u>\$ 14,858,949</u>	<u>\$ 809,039</u>

See accompanying notes to financial statements.

City of Mason
Proprietary Funds
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,718,829	\$ 430,691
Cash paid to suppliers	(1,469,492)	(128,457)
Cash paid to employees	<u>(958,401)</u>	<u>(81,349)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	290,936	220,885
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipt (payment) of interfund balances	(41,313)	12,270
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Intergovernmental	2,131,088	-
Payments on borrowing	(365,000)	(48,623)
Purchase of capital assets	(2,366,192)	(80,184)
Interest expense and fees	<u>(105,266)</u>	<u>(9,928)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(705,370)	(138,735)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>6,487</u>	<u>1,124</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(449,260)	95,544
Cash and cash equivalents, beginning of year	<u>2,513,401</u>	<u>420,907</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,064,141</u></u>	<u><u>\$ 516,451</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (58,071)	\$ 91,587
Adjustment to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	768,584	103,770
(Increase) decrease in:		
Accounts receivable	57,092	-
Due from other governmental units	(292,110)	-
Inventory	(1,842)	-
Deferred outflow of resources related to pensions	217,198	-
Increase (decrease) in:		
Accounts payable	(347,655)	22,748
Accrued wages	2,450	180
Compensated absences	4,257	2,600
Net pension liability	(134,909)	-
Deferred inflow of resources related to pensions	<u>75,942</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 290,936</u></u>	<u><u>\$ 220,885</u></u>

See accompanying notes to financial statements.

City of Mason

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2017

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 24,052</u>
LIABILITIES	
Due to individuals and agencies	<u>\$ 24,052</u>

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF NET POSITION

June 30, 2017

	Local Development Finance Authority	Downtown Development Authority	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	\$ 297,180	\$ 112,018	\$ 409,198
Receivables	-	7,631	7,631
	<u>297,180</u>	<u>119,649</u>	<u>416,829</u>
TOTAL ASSETS	297,180	119,649	416,829
LIABILITIES			
Current liabilities			
Accounts payable	-	5,807	5,807
Due to other governmental units	292,110	-	292,110
	<u>292,110</u>	<u>5,807</u>	<u>297,917</u>
TOTAL LIABILITIES	292,110	5,807	297,917
NET POSITION			
Unrestricted	<u>\$ 5,070</u>	<u>\$ 113,842</u>	<u>\$ 118,912</u>

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Position		
			Local Development Finance Authority	Downtown Development Authority	Total Component Units
Governmental activities					
Local Development Finance Authority	\$ 1,732,966	\$ -	\$ (1,732,966)	\$ -	\$ (1,732,966)
Downtown Development Authority	<u>70,373</u>	<u>5,469</u>	<u>-</u>	<u>(64,904)</u>	<u>(64,904)</u>
Total component units	<u>\$ 1,803,339</u>	<u>\$ 5,469</u>	<u>(1,732,966)</u>	<u>(64,904)</u>	<u>(1,797,870)</u>
General revenues					
Property taxes			326,762	69,557	396,319
Investment earnings			<u>4,375</u>	<u>430</u>	<u>4,805</u>
Total general revenues			<u>331,137</u>	<u>69,987</u>	<u>401,124</u>
Change in net position			(1,401,829)	5,083	(1,396,746)
Net position, beginning of year			<u>1,406,899</u>	<u>108,759</u>	<u>1,515,658</u>
Net position, end of year			<u>\$ 5,070</u>	<u>\$ 113,842</u>	<u>\$ 118,912</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2017

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The City reports the following major enterprise fund:

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

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

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

5. Measurement Focus

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

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

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

6. Basis of Accounting

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

6. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

7. Budgets and Budgetary Accounting

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

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

8. Cash and Cash Equivalents

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

9. 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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, 2017, the City levied 13.2500 mills per \$1,000 of taxable valuation for general governmental services. The total ad valorem taxable value for the 2016 levy for property within the City was \$212,275,551.

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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 acquisition 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

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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 and deferred inflows 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.

NOTE B: DEPOSITS 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

- 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, 2017, 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	\$ 7,172,965	\$ 7,038,245
FIDUCIARY FUNDS		
Checking	24,052	25,058
COMPONENT UNITS		
Checking and savings	<u>390,153</u>	<u>388,935</u>
TOTAL REPORTING ENTITY	<u>\$ 7,587,170</u>	<u>\$ 7,452,238</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, 2017, the City accounts were federally insured for \$1,000,000 and the amount of \$6,452,238 was uninsured and uncollateralized. The City had \$412 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.

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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

Fair Value Measurements - continued

The City had the following fair value measurements as of June 30, 2017:

	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	\$ -	\$ 1,295,028	\$ -	\$ 1,295,028	46 days	AAAm
Natural resources	-	-	800,291	800,291	N/A	N/A
Land	-	-	2,516,812	2,516,812	N/A	N/A
COMPONENT UNITS						
Uncategorized pooled investment funds						
Michigan CLASS	-	19,045	-	19,045	46 days	AAAm
Total investments at fair value	<u>\$ -0-</u>	<u>\$ 1,314,073</u>	<u>\$ 3,317,103</u>	<u>\$ 4,631,176</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, 2017, 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.

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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

Custodial Credit Risk - continued

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, 2017:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 8,468,405	\$ 24,052	\$ 409,198	\$ 8,901,655
Investments	3,317,103	-	-	3,317,103
	<u>\$ 11,785,508</u>	<u>\$ 24,052</u>	<u>\$ 409,198</u>	<u>\$ 12,218,758</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2017, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 13,744</u>
Due to Water and Sewer Fund from:	
General Fund	<u>\$ 1,000</u>
Due to nonmajor governmental funds from:	
General Fund	25,803
Nonmajor governmental funds	<u>52,396</u>
	<u>\$ 78,199</u>
Due to Internal Service Funds from:	
General Fund	\$ 9,639
Water and Sewer Fund	8,776
Nonmajor governmental funds	<u>4,748</u>
	<u>\$ 23,163</u>

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

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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	\$ 91,698
Water and Sewer Fund	39,362
Nonmajor governmental funds	<u>9,906</u>
	<u>\$ 140,966</u>
Transfer to nonmajor governmental funds from:	
General Fund	\$ 427,006
Nonmajor governmental funds	<u>52,396</u>
	<u>\$ 479,402</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

Primary Government

	<u>Balance July 1, 2016</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2017</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,855,487	\$ -	\$ -	\$ 1,855,487
Construction in progress	<u>583,817</u>	<u>86,158</u>	<u>(462,903)</u>	<u>207,072</u>
Subtotal	2,439,304	86,158	(462,903)	2,062,559
Capital assets being depreciated				
Land improvements	1,952,802	49,529	-	2,002,331
Buildings and improvements	6,843,075	9,931	-	6,853,006
Infrastructure	25,555,421	748,516	-	26,303,937
Vehicles and equipment	<u>4,260,995</u>	<u>478,002</u>	<u>(527,092)</u>	<u>4,211,905</u>
Subtotal	38,612,293	1,285,978	(527,092)	39,371,179

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance July 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2017
Governmental activities - continued				
Less accumulated depreciation for:				
Land improvements	\$ (1,032,692)	\$ (91,006)	\$ -	\$ (1,123,698)
Buildings and improvements	(1,351,405)	(169,426)	-	(1,520,831)
Infrastructure	(14,700,665)	(885,851)	-	(15,586,516)
Vehicles and equipment	(3,335,407)	(244,274)	527,092	(3,052,589)
Subtotal	(20,420,169)	(1,390,557)	527,092	(21,283,634)
Net capital assets being depreciated	18,192,124	(104,579)	-0-	18,087,545
Capital assets, net	<u>\$ 20,631,428</u>	<u>\$ (18,421)</u>	<u>\$ (462,903)</u>	<u>\$ 20,150,104</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 206,133
Public safety	138,687
Public works	965,124
Recreation and culture	80,613
Total depreciation expense	<u>\$ 1,390,557</u>

	Balance July 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2017
Business-type activities				
Capital assets not being depreciated				
Land	\$ 25,609	\$ -	\$ -	\$ 25,609
Construction in progress	1,382,472	23,564	(1,382,468)	23,568
Subtotal	1,408,081	23,564	(1,382,468)	49,177
Capital assets being depreciated				
Buildings and improvements	482,220	-	(6,195)	476,025
Infrastructure	26,380,641	3,725,096	-	30,105,737
Subtotal	26,862,861	3,725,096	(6,195)	30,581,762
Less accumulated depreciation for:				
Buildings and improvements	(262,089)	(10,858)	6,195	(266,752)
Infrastructure	(10,983,683)	(757,726)	-	(11,741,409)
Subtotal	(11,245,772)	(768,584)	6,195	(12,008,161)
Net capital assets being depreciated	15,617,089	2,956,512	-0-	18,573,601
Capital assets, net	<u>\$ 17,025,170</u>	<u>\$ 2,980,076</u>	<u>\$ (1,382,468)</u>	<u>\$ 18,622,778</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE E: CAPITAL ASSETS - CONTINUED

Component Unit

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Component Unit (LDFA)				
Capital assets being depreciated				
Equipment	\$ 710,587	\$ -	\$ -	\$ 710,587
Less accumulated depreciation for:				
Equipment	(710,587)	-	-	(710,587)
Capital assets, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2017.

Primary Government

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Governmental activities					
1997 Building Authority Bonds	\$ 110,000	\$ -	\$ (35,000)	\$ 75,000	\$ 35,000
2015 Refunding Bonds	3,625,000	-	(105,000)	3,520,000	105,000
Special Assessment Bonds	265,000	-	(55,000)	210,000	55,000
Loans payable	436,704	350,619	(152,836)	634,487	117,350
Compensated absences	382,397	155,454	(138,819)	399,032	144,858
	4,819,101	506,073	(486,655)	4,838,519	457,208
Capitalized bond premiums	134,988	-	(5,624)	129,364	5,624
Total governmental activities	4,954,089	506,073	(492,279)	4,967,883	462,832
Business-type activities					
Drinking Water Revolving Fund Loan	4,953,674	-	(365,000)	4,588,674	375,000
Compensated absences	134,785	95,335	(91,078)	139,042	93,955
Total business-type activities	5,088,459	95,335	(456,078)	4,727,716	468,955
Total reporting entity	<u>\$ 10,042,548</u>	<u>\$ 601,408</u>	<u>\$ (948,357)</u>	<u>\$ 9,695,599</u>	<u>\$ 931,787</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F: LONG-TERM DEBT - CONTINUED

Primary Government - continued

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.

\$ 75,000

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.

\$ 3,520,000

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 4.40 to 4.55 percent, payable semi-annually.

\$ 210,000

Loans Payable

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.

\$ 85,862

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.

198,006

Dart National Bank Loan due in an annual installment of \$74,448 through December 31, 2021, with interest of 2.00 percent, for a fire truck with an original cost of \$350,619.

350,619

\$ 634,487

Drinking Water Revolving Fund Loan

\$8,000,000 Water Supply System Bonds dated September 27, 2007, due in annual installments ranging from \$375,000 to \$463,674 through April 1, 2028, with interest of 2.125 percent, payable semi-annually.

\$ 4,588,674

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F: LONG-TERM DEBT - CONTINUED

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 \$538,074 at June 30, 2017. Of this amount, \$399,032 and \$139,042 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
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	115,000	118,475	-	-
2023-2027	645,000	529,925	-	-
2028-2032	760,000	393,925	-	-
2033-2037	925,000	229,213	-	-
2038-2040	640,000	48,563	-	-
	<u>\$ 3,595,000</u>	<u>\$ 1,827,584</u>	<u>\$ 210,000</u>	<u>\$ 18,699</u>

Year Ending June 30,	Loans Payable		Drinking Water Revolving Fund Loan	
	Principal	Interest	Principal	Interest
2018	\$ 117,350	\$ 15,650	\$ 375,000	\$ 97,509
2019	120,133	12,867	380,000	89,541
2020	122,971	10,028	390,000	81,466
2021	95,809	7,102	400,000	73,178
2022	98,048	4,862	405,000	64,678
2023-2027	80,176	5,213	2,175,000	190,047
2028-2032	-	-	463,674	9,853
	<u>\$ 634,487</u>	<u>\$ 55,722</u>	<u>\$ 4,588,674</u>	<u>\$ 606,272</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, 2017, bonds due and payable April 1, 2018 through April 1, 2040, for the 2010 Building Authority Bonds in the amount of \$3,490,000 are considered defeased.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 purpose, 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.

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 13.57%.

At the December 31, 2016, 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>42</u>
	<u><u>86</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 3.27% to 3.88% based on annual payroll for open divisions. Four divisions, closed to new employees, had a total annual employer contribution of \$440,720.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G: RETIREMENT PLAN - CONTINUED

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2016, 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, 2016, 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.

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	55.50%	8.65%
Global Fixed Income	18.50%	3.76%
Real Assets	13.50%	9.72%
Diversifying Strategies	12.50%	7.50%

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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G: RETIREMENT PLAN - CONTINUED

Changes in Net Pension Liability

	Calculating the Net Pension Liability		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 12/31/2015	\$ 18,370,876	\$ 10,917,290	\$ 7,453,586
Changes for the Year			
Service Cost	308,162	-	308,162
Interest on Total Pension Liability	1,439,908	-	1,439,908
Changes in benefits	17,991	-	17,991
Difference between expected and actual experience	(316,425)	-	(316,425)
Employer contributions	-	465,129	(465,129)
Employee contributions	-	226,555	(226,555)
Net investment income	-	1,231,987	(1,231,987)
Benefit payments, including employee refunds	(1,052,211)	(1,052,211)	-0-
Administrative expense	-	(24,324)	24,324
Other changes	(1)	-	(1)
Net changes	<u>397,424</u>	<u>847,136</u>	<u>(449,712)</u>
Balances as of 12/31/2016	<u>\$ 18,768,300</u>	<u>\$ 11,764,426</u>	<u>\$ 7,003,874</u>

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	\$ 9,221,614	\$ 7,003,874	\$ 5,153,306

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G: RETIREMENT PLAN - CONTINUED

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

For the year ended June 30, 2017, the employer recognized pension expenses of \$1,036,441. 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	\$ 61,264	\$ 253,140
Changes in assumptions	595,442	-
Net difference between projected and actual earnings on pension plan investments	414,702	-
Contributions subsequent to the measurement date*	<u>282,794</u>	<u>-</u>
Total	<u>\$ 1,354,202</u>	<u>\$ 253,140</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, 2018.

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 (\$282,794), which will impact the net pension liability in fiscal year 2018, 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	\$ 330,601
2018	330,603
2019	295,147
2020	(138,083)

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2017, 17 retirees and their beneficiaries were receiving benefits. Expenditures for post-employment benefits are recognized when claims are paid. During the year, expenditures of \$145,710 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, 2017, 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>1,887</u>
Annual OPEB cost	117,687
Amounts contributed:	
Payments of current requirements (gross of employee reimbursement)	<u>145,710</u>
(Decrease) in net OPEB obligation (asset)	(28,023)
OPEB obligation (asset) - Beginning of year	<u>(26,421)</u>
OPEB obligation (asset) - End of year	<u><u>\$ (54,444)</u></u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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,		
	2015	2016	2017
Annual OPEB cost	\$ 160,678	\$ 115,809	\$ 117,687
Percentage contributed	100.0%	122.7%	123.8%
Net OPEB obligation (asset)	\$ (133)	\$ (26,421)	\$ (54,444)

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, 2017

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, 2017:

Surplus at July 1, 2016	\$ 140,795
REVENUES	
Licenses and permits	
Permits	99,836
EXPENDITURES	
Building Department	<u>(78,700)</u>
Cumulative surplus at June 30, 2017	<u>\$ 161,931</u>

NOTE K: PROPERTY TAX ABATEMENT

The City entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. An industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term of 1-12 years as determined by the local unit of government. The IFT on a new plant and non-industrial property, such as some high- tech personal property, is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50%.

For the year ended June 30, 2017, the City abated property taxes revenues totaling \$181,254 under this program, including the following tax abatement agreements that exceeded 10 percent of the total amount abated:

- A 50 percent property tax reduction for a metal manufacturer allowing for additional investments in equipment, facilities, and employment. The abatement amounts to \$154,563.
- A 50 percent property tax reduction for a packaging company allowing for additional investments in equipment, facilities, and employment. The abatement amounts to \$21,743.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE L: RESTRICTED NET POSITION

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various restrictions in net position as of June 30, 2017:

PRIMARY GOVERNMENT	
Community enrichment	\$ 1,456,000
Construction code activity	161,931
Cemetery operations	332,671
Flowers	19,494
Debt service	<u>181,576</u>
	<u>\$ 2,151,672</u>

NOTE M: CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 77, *Tax Abatement Disclosures*, was also implemented during the year. This Statement improves financial reporting through disclosure of information about the nature and magnitude of tax abatements that were previously not consistently or comprehensively reported to the public.

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.

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.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE N: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

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

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

	<u>General Fund</u>	<u>Special Assessment</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund Balances				
Nonspendable				
Prepays	\$ 19,060	\$ -	\$ -	\$ 19,060
Restricted				
Community enrichment	-	-	1,456,000	1,456,000
Construction code activity	161,931	-	-	161,931
Cemetery operations	-	-	332,671	332,671
Flowers	-	-	19,494	19,494
Debt service	-	221,435	548	221,983
Committed				
Community enrichment	-	-	312,190	312,190
Assigned				
Highways	-	-	1,188,378	1,188,378
Subsequent year's expenditures	550,065	-	-	550,065
Grant matching	46,673	-	-	46,673
Other purposes	-	175,935	-	175,935
Unassigned	<u>4,705,945</u>	<u>-</u>	<u>-</u>	<u>4,705,945</u>
TOTAL FUND BALANCES	<u>\$ 5,483,674</u>	<u>\$ 397,370</u>	<u>\$ 3,309,281</u>	<u>\$ 9,190,325</u>

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENTS

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 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Statement establishes criteria for identifying fiduciary activities for all state and local governments, focusing on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries for whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The City is current evaluating the impact this standard will have on the financial statements when adopted during the 2018-2019 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 2,834,040	\$ 3,015,625	\$ 3,019,507	\$ 3,882
Penalties and interest	10,000	19,970	21,303	1,333
Administration fees	88,000	88,200	87,987	(213)
Total taxes	2,932,040	3,123,795	3,128,797	5,002
Licenses and permits	40,700	110,700	110,432	(268)
Intergovernmental				
State	703,500	708,500	714,847	6,347
Local	1,121,275	603,630	603,651	21
Total intergovernmental	1,824,775	1,312,130	1,318,498	6,368
Charges for services				
Refuse collection	350,890	354,825	354,822	(3)
Cable franchise fee	44,000	46,600	46,643	43
Other	267,915	311,805	314,080	2,275
Total charges for services	662,805	713,230	715,545	2,315
Fines and forfeits	38,000	48,880	46,505	(2,375)
Interest and rents	44,465	54,005	447,262	393,257
Other	96,570	127,345	123,855	(3,490)
TOTAL REVENUES	5,639,355	5,490,085	5,890,894	400,809

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2017

EXPENDITURES	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Current				
General government				
Clerk	\$ 142,830	\$ 143,495	\$ 133,349	\$ 10,146
City Council	40,005	40,005	35,912	4,093
Administrator	242,470	194,865	187,947	6,918
Assessor	51,295	53,295	52,328	967
Board of Review	650	650	570	80
Treasurer	522,155	425,275	420,395	4,880
Technology	67,445	83,845	75,253	8,592
Building office and City Hall	419,060	409,380	386,075	23,305
Attorney	100,000	117,500	112,139	5,361
Cemetery	219,200	181,655	161,637	20,018
Workers compensation	77,910	78,830	74,301	4,529
Retiree benefits	198,685	198,160	195,736	2,424
Administrative services	143,445	104,680	93,548	11,132
Total general government	2,225,150	2,031,635	1,929,190	102,445
Public safety				
Police administration	340,405	330,505	317,209	13,296
Crossing guards	28,920	22,405	20,536	1,869
Police patrolling	1,038,040	905,645	890,374	15,271
Fire department	352,530	692,320	679,957	12,363
Civil defense	1,955	2,700	1,889	811
Total public safety	1,761,850	1,953,575	1,909,965	43,610
Public works				
Public services	6,830	5,930	5,166	764
Sidewalks	2,090	-	-	-0-
Street lighting	94,990	91,740	83,632	8,108
Refuse collection	358,230	345,640	345,491	149
Total public works	462,140	443,310	434,289	9,021
Community and economic development				
Cable commission	3,920	3,600	1,500	2,100
Planning and zoning	130,085	119,080	112,103	6,977
Planning commission	1,085	1,210	302	908
Christmas decorations	6,350	3,985	3,204	781
Total community and economic development	141,440	127,875	117,109	10,766

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture				
Parks	\$ 210,295	\$ 202,735	\$ 173,693	\$ 29,042
Library	52,700	18,835	15,234	3,601
Forestry	78,290	95,845	81,421	14,424
Senior citizens	8,090	6,700	6,700	-0-
Total recreation and culture	349,375	324,115	277,048	47,067
Debt service				
Principal	195,175	198,445	198,442	3
Interest and fiscal fees	138,385	135,765	135,759	6
Total debt service	333,560	334,210	334,201	9
TOTAL EXPENDITURES	5,273,515	5,214,720	5,001,802	212,918
EXCESS OF REVENUES OVER EXPENDITURES	365,840	275,365	889,092	613,727
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	350,620	350,619	(1)
Transfers in	137,030	140,745	140,966	221
Transfers out	(627,300)	(588,045)	(427,006)	161,039
TOTAL OTHER FINANCING SOURCES (USES)	(490,270)	(96,680)	64,579	161,259
NET CHANGE IN FUND BALANCE	(124,430)	178,685	953,671	774,986
Fund balance, beginning of year	4,530,003	4,530,003	4,530,003	-0-
Fund balance, end of year	<u>\$ 4,405,573</u>	<u>\$ 4,708,688</u>	<u>\$ 5,483,674</u>	<u>\$ 774,986</u>

City of Mason

Special Assessment Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$ 29,200	\$ 29,400	\$ 29,443	\$ 43
Other				
Special assessments	108,160	115,160	115,464	304
TOTAL REVENUES	137,360	144,560	144,907	347
EXPENDITURES				
Debt service	65,595	65,595	65,591	4
EXCESS OF REVENUES OVER EXPENDITURES	71,765	78,965	79,316	351
OTHER FINANCING (USES)				
Transfers out	(88,855)	(91,700)	(91,698)	2
NET CHANGE IN FUND BALANCE	(17,090)	(12,735)	(12,382)	353
Fund balance, beginning of year	409,752	409,752	409,752	-0-
Fund balance, end of year	\$ 392,662	\$ 397,017	\$ 397,370	\$ 353

City of Mason

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 308,162	\$ 286,412	\$ 344,630
Interest	1,439,908	1,302,779	1,248,831
Changes of benefit terms	17,991	(20,699)	-
Difference between expected and actual experience	(316,425)	102,106	-
Changes of assumptions	-	992,404	-
Benefit payments, including employee refunds	(1,052,211)	(948,754)	(909,285)
Other	(1)	40,713	39,026
	<u>397,424</u>	<u>1,754,961</u>	<u>723,202</u>
Net Change in Total Pension Liability			
Total Pension Liability, beginning	<u>18,370,876</u>	<u>16,615,915</u>	<u>15,892,713</u>
Total Pension Liability, ending	<u>\$ 18,768,300</u>	<u>\$ 18,370,876</u>	<u>\$ 16,615,915</u>
Plan Fiduciary Net Position			
Contributions-employer	\$ 465,129	\$ 364,270	\$ 302,481
Contributions-employee	226,555	239,773	273,318
Net Investment income	1,231,987	(169,894)	697,815
Benefit payments including employee refunds	(1,052,211)	(948,754)	(909,285)
Administrative expense	(24,324)	(24,907)	(25,588)
	<u>847,136</u>	<u>(539,512)</u>	<u>338,741</u>
Net Change in Plan Fiduciary Net Position			
Plan Fiduciary Net Position, beginning	<u>10,917,290</u>	<u>11,456,802</u>	<u>11,118,061</u>
Plan Fiduciary Net Position, ending	<u>\$ 11,764,426</u>	<u>\$ 10,917,290</u>	<u>\$ 11,456,802</u>
City's Net Pension Liability	<u>\$ 7,003,874</u>	<u>\$ 7,453,586</u>	<u>\$ 5,159,113</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	63%	59%	69%
Covered employee payroll	\$ 2,123,390	\$ 2,101,401	\$ 2,232,680
City's Net Pension Liability as a percentage of covered employee payroll	329.8%	354.7%	231.1%

City of Mason

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 459,148	\$ 426,002	\$ 340,936
Contributions in relation to the actuarially determined contribution	<u>459,148</u>	<u>426,002</u>	<u>340,936</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered employee payroll	\$ 2,254,766	\$ 2,298,302	\$ 2,191,564
Contributions as a percentage of covered employee payroll	20.4%	18.5%	15.6%

City of Mason

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

NOTE A: EMPLOYEE RETIREMENT PLAN

Changes of benefits terms: There were no changes of benefit terms for the measurement date December 31, 2016.

Changes in assumptions: There were no changes of assumptions for the measurement date December 31, 2016.

OTHER SUPPLEMENTARY INFORMATION

City of Mason

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2017

	Special Revenue			
	Major Street	Local Street	Economic Development Corporation	Rayner Bond
ASSETS				
Cash and cash equivalents	\$ 989,356	\$ 76,945	\$ 16,442	\$ 777,607
Investment	-	-	-	800,291
Accounts receivable	-	900	-	2,717
Due from other governmental units	90,358	31,662	-	-
Due from other funds	12,818	65,381	-	-
TOTAL ASSETS	\$ 1,092,532	\$ 174,888	\$ 16,442	\$ 1,580,615
LIABILITIES				
Accounts payable	\$ 4,469	\$ 4,129	\$ 2,500	\$ -
Accrued wages	576	456	-	-
Due to other funds	55,215	14,197	-	-
TOTAL LIABILITIES	60,260	18,782	2,500	-0-
FUND BALANCES				
Restricted				
Community enrichment	-	-	13,942	1,442,058
Cemetery operations	-	-	-	-
Flowers	-	-	-	-
Debt service	-	-	-	-
Committed				
Community enrichment	-	-	-	138,557
Assigned				
Highways	1,032,272	156,106	-	-
TOTAL FUND BALANCES	1,032,272	156,106	13,942	1,580,615
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,092,532	\$ 174,888	\$ 16,442	\$ 1,580,615

Debt Service		Capital Projects	Permanent	Total Nonmajor Governmental Funds
Park Street Property	Mason Building Authority	Capital Improvement	Cemetery Trust	
\$ -	\$ 548	\$ 173,633	\$ 353,641	\$ 2,388,172
-	-	-	-	800,291
-	-	-	-	3,617
-	-	-	-	122,020
-	-	-	-	78,199
<u>\$ -0-</u>	<u>\$ 548</u>	<u>\$ 173,633</u>	<u>\$ 353,641</u>	<u>\$ 3,392,299</u>
\$ -	\$ -	\$ -	\$ -	11,098
-	-	-	-	1,032
-	-	-	1,476	70,888
-0-	-0-	-0-	1,476	83,018
-	-	-	-	1,456,000
-	-	-	332,671	332,671
-	-	-	19,494	19,494
-	548	-	-	548
-	-	173,633	-	312,190
-	-	-	-	1,188,378
<u>-0-</u>	<u>548</u>	<u>173,633</u>	<u>352,165</u>	<u>3,309,281</u>
<u>\$ -0-</u>	<u>\$ 548</u>	<u>\$ 173,633</u>	<u>\$ 353,641</u>	<u>\$ 3,392,299</u>

City of Mason

Nonmajor Governmental Funds

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

Year Ended June 30, 2017

	Special Revenue			
	Major Street	Local Street	Economic Development Corporation	Rayner Bond
REVENUES				
Intergovernmental	\$ 467,112	\$ 190,373	\$ -	\$ -
Charges for services	5,896	6,456	-	-
Investment earnings and royalties	2,770	132	38	(48,323)
Contributions	-	-	-	-
Other	-	-	-	-
TOTAL REVENUES	475,778	196,961	38	(48,323)
EXPENDITURES				
Current				
Public works	532,116	376,826	-	-
Community and economic development	-	-	7,999	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
TOTAL EXPENDITURES	532,116	376,826	7,999	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(56,338)	(179,865)	(7,961)	(48,323)
OTHER FINANCING SOURCES (USES)				
Transfers in	205,195	179,865	-	-
Transfers out	(52,396)	-	-	(8,430)
TOTAL OTHER FINANCING SOURCES (USES)	152,799	179,865	-0-	(8,430)
NET CHANGE IN FUND BALANCES	96,461	-0-	(7,961)	(56,753)
Fund balances, beginning of year	935,811	156,106	21,903	1,637,368
Fund balances, end of year	\$ 1,032,272	\$ 156,106	\$ 13,942	\$ 1,580,615

Debt Service		Capital Projects	Permanent	Total Nonmajor Governmental Funds
Park Street Property	Mason Building Authority	Capital Improvement	Cemetery Trust	
\$ -	\$ -	\$ -	\$ -	\$ 657,485
-	-	-	-	12,352
-	1	-	1,476	(43,906)
-	-	173,246	-	173,246
-	-	-	4,859	4,859
-0-	1	173,246	6,335	804,036
-	-	-	-	908,942
-	-	-	-	7,999
-	-	43,745	-	43,745
10,868	39,729	-	-	50,597
10,868	39,729	43,745	-0-	1,011,283
(10,868)	(39,728)	129,501	6,335	(207,247)
10,868	39,729	43,745	-	479,402
-	-	-	(1,476)	(62,302)
10,868	39,729	43,745	(1,476)	417,100
-0-	1	173,246	4,859	209,853
-	547	387	347,306	3,099,428
\$ -0-	\$ 548	\$ 173,633	\$ 352,165	\$ 3,309,281

City of Mason

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2017

	<u>Delinquent Tax</u>	<u>Payroll</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	<u>\$ 3,449</u>	<u>\$ 20,603</u>	<u>\$ 24,052</u>
LIABILITIES			
Due to individuals and agencies	<u>\$ 3,449</u>	<u>\$ 20,603</u>	<u>\$ 24,052</u>

City of Mason

Component Unit Funds

BALANCE SHEET - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2017

	<u>General</u>
ASSETS	
Cash and cash equivalents	<u>\$ 297,180</u>
LIABILITIES	
Due to other governmental units	\$ 292,110
FUND BALANCES	
Unassigned	<u>5,070</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 297,180</u>

City of Mason

Component Unit Funds

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

June 30, 2017

Total fund balances - governmental funds \$ 5,070

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>\$ 5,070</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, 2017

	<u>General</u>
REVENUES	
Taxes	\$ 326,762
Interest	<u>4,375</u>
TOTAL REVENUES	331,137
EXPENDITURES	
Current	
Community and economic development	<u>1,732,966</u>
NET CHANGE IN FUND BALANCES	(1,401,829)
Fund balances, beginning of year	<u>1,406,899</u>
Fund balances, end of year	<u><u>\$ 5,070</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, 2017.

City of Mason

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2017

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 112,018
Taxes receivable	3,538
Accounts receivable	<u>4,093</u>
TOTAL ASSETS	<u>\$ 119,649</u>
LIABILITIES	
Accounts payable	\$ 5,807
FUND BALANCE	
Unassigned	<u>113,842</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 119,649</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, 2017.

City of Mason

Component Unit Funds

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

Year Ended June 30, 2017

	<u>General</u>
REVENUES	
Taxes	\$ 69,557
Interest	430
Other	<u>5,469</u>
TOTAL REVENUES	75,456
EXPENDITURES	
Current	
Community and economic development	<u>70,373</u>
NET CHANGE IN FUND BALANCE	5,083
Fund balance, beginning of year	<u>108,759</u>
Fund balance, end of year	<u><u>\$ 113,842</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, 2017.



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, 2017, 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 30, 2017.

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.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

September 30, 2017