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CITY OF MASON, MICHIGAN
33-2040
INGHAM COUNTY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

AND

INDEPENDENT AUDITORS' REPORT

L&R
Layton & Richardson, P.C.
Certified Public Accountants

Michigan Dept. of Treasury, Local Audit & Finance Division
496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type	Local Government Name	County
☒ City ☐ Township ☐ Village ☐ Other	CITY OF MASON	INGHAM
Audit Date	**Opinion Date**	**Date Accountant Report Submitted to State:**
6-30-04	8-12-04	12-21-04

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

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We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).	X		
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name)			
LAYTON & RICHARDSON, P.C.			
Street Address	**City**	**State**	**ZIP**
1000 COOLIDGE ROAD	EAST LANSING	MI	48823
Accountant Signature			
Thomas A. Richardson CPA			

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Mason
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Mason, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Mason, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the City of Mason, Michigan adopted the provision of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements* – and *Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments Omnibus*. The result is a change in the format and content of the basic financial statements.

The management's discussion and analysis and the required supplementary information on pages 3 through 8 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Mason, Michigan's basic financial statements. The accompanying introductory section and supplemental financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Mason, Michigan. The supplemental financial information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 12, 2004 on our consideration of the City of Mason, Michigan's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report considering the results of our audit.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
August 12, 2004

The City of Mason's discussion and analysis is a narrative overview of the City's financial activities for the fiscal year ended June 30, 2004. The information presented here should be read in conjunction with the City's financial statements.

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, 2004:

- State shared revenues, our second largest revenue source, was reduced by the State of Michigan this fiscal year.
- Interest revenues from investments are down due to lower interest rates.
- Property tax base is growing due to significant local investment which is assisting with leveling the loss of general fund revenues.
- Total net assets related to the City's governmental activities increased by approximately $757,717.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Mason on a government-wide basis. They are designed to present a longer-term view of the City's finances. These statements measure of the cost of providing services during the current year, and estimate how closely the taxpayers have funded the full cost of providing government services.

Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

Reporting the City of Mason as a Whole

One of the most important questions asked about the City of Mason's finances is, "Is the City of Mason as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City of Mason as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City of Mason's *net assets* and changes in them. You can think of the City of Mason's net assets – the difference between assets and liabilities – as one way to measure the City of Mason's financial health, or *financial position*. Over time, *increases* or *decreases* in the City of Mason's net assets are one indicator or whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City of Mason's captured property tax base to assess the *overall health* of the City of Mason.

Reporting the City of Mason's Most Significant Funds

The fund financial statements provide detailed information about the City of Mason's funds. The City of Mason's funds utilize the *governmental* accounting approach.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified* accrual accounting, which measures cash and all other *financial* assets that can readily be 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. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation statement presented with the fund financial statements.

- **Proprietary Funds** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary Fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the propriety fund statement of net assets to the business-type column on the government-wide statement of net assets, the total net assets and liabilities agree.

- **Fiduciary Funds** – Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Mason's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

- **Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

- **Other Information** – In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General Fund. The combining statements in connection with non-major governmental funds are presented immediately following the notes to financial statements.

The City of Mason as a Whole

Statement of Net Assets – As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City of Mason's assets exceeded total liabilities by $16,824,153 at the close of June 30, 2004. The following table shows, in a condensed format, the net assets as of June 30, 2004. Since this is the initial period the City of Mason is reporting on in accordance with GASB Statement # 34, there is no previous year comparable data available. Comparable data will be provided in the June 30, 2005 financial statements.

City of Mason's Net Assets

	Governmental Activities	Business-type Activities	Total
Current assets	$3,009,359	$2,491,426	$5,500,785
Noncurrent assets			
Restricted assets	289,500	2,302,442	2,591,942
Capital assets	4,090,444	8,213,496	12,303,940
Total assets	7,389,303	13,007,364	20,396,667
Current liabilities	668,758	953,934	1,622,692
Long-term liabilities	1,776,803	173,019	1,949,822
Total liabilities	2,445,561	1,126,953	3,572,514
Net assets			
Invested in capital assets- net of related debt	3,265,573		3,235,573
Contributed capital	81,497	3,368,382	3,449,879
Restricted	280,453		280,453
Unrestricted	1,316,219	8,512,029	9,828,248
Total net assets	$4,943,742	$11,880,411	$16,824,153

Approximately 66% of the City's net assets of governmental activities reflect its investment in capital, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of governmental activities of $1,316,219 represent the amount that may be used to meet the City's ongoing obligations.

Changes in Net Assets – The City's total net assets increased by $1,213,031 during the fiscal year. Governmental activities increased net assets by $757,717, or 62.5% of the total growth in net assets of the City of Mason. As noted earlier, there is no previous year comparable data available for the government-wide statements issued in accordance with GASB Statement # 34. Comparable data will be provided in the June 30, 2005 financial statements.

City of Mason Changes in Net Assets

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue			
Charges for services	$ 922,063	$1,855,631	$2,777,694
Operating grants and contributions	1,201,788		1,201,788
General revenue			
Property taxes	2,236,200		2,236,200
Miscellaneous	55,759		83,621
Unrestricted investment earnings	40,192	62,842	103,034
Transfers	226,825	-140,757	86,068
Total revenues	4,682,827	1,805,578	6,488,405
Program Expenses			
General government	1,662,033		1,662,033
Public safety	1,370,232		1,370,232
Public works	234,844		234,844
Highways and streets	216,404		216,404
Culture and recreation	216,015		216,015
Other	159,927		159,927
Interest on long-term debt	65,655		65,655
Water and sewer		1,350,264	1,350,264
Total program expenses	3,925,110	1,350,264	5,275,374
Increase in net assets	757,717	455,314	1,213,031
Net assets – July 1	4,186,025	11,425,097	15,611,122
Net assets – June 30	$4,943,742	$11,880,411	$16,824,153

Governmental Activities – Program revenues, which include user fees and charges and operating grants and contributions, represent 46% of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and State revenue sharing.

Business-type Activities – Business-type activities increased the City of Mason's net assets by $455,314, the majority of which was in the Water and Sewer Fund. The City provides water to residents from municipal water wells. Sewage treatment is provided through a City owned and operated treatment plant. Water and sewer rates and user charges were adjusted for this fiscal year after a study of the Fund showed that current charges were not covering operating expenses. Water and sewer permit revenue had been supplementing the shortfall.

The City of Mason has seen increased revenue for water and sewer permits for four to five years due to new residential construction and the filling of an additional section of a modular home park.

Beginning with construction of a water tower this fiscal year, there are a number of significant improvements planned. These improvements are driven by government regulation and growth.

Financial Analysis of the City's Funds

Our analysis of the City's major funds begins on the pages 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 show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing. The City of Mason's major funds for 2003/2004 are the General Fund, the Major Streets Fund, the Local Streets Fund, the Special Assessments Fund, the Building Authority Fund, and the Water and Sewer Fund.

The General Fund accounts for most of the City's governmental services. General administrative, police, and fire services account for over 81% of the total General Fund expenditures. The reduction in State shared revenues and investment income resulted in the City cutting expenses in preparation for this budget and throughout the year. However, administration stopped short of cutting services or personnel. Operating expenses exceeded revenues and other financing sources by $209,536.

The City of Mason and its taxpayers have invested aggressively in infrastructure since voters passed a 3 mill increase to be dedicated to street improvement and

maintenance. This was in addition to the 2 mills the City was already spending. For fund reporting purposes, however, the infrastructure is not recorded as an asset as it is in the government wide statement of net assets. There is no related debt other than special assessment bonds in some cases.

General Fund Budgetary Highlights

Over the course of the year, the City monitors and amends the budget to take into account unanticipated events during the year. At year end, actual General Fund revenues were only $10,613 more than the final budget and about $80,000 more than the original budget. Expenditures were originally budgeted to exceed revenues and net operating transfers by $324,225. The final budget adjusted expenditures over revenues and net operating transfers to $233,810, and the actual was $209,536. The differences were due to cuts due to loss of revenue sharing funds, change of circumstances affecting a project, and updated bookkeeping practices.

Capital Assets and Debt Administration

At the end of fiscal year 2003/2004, the City had approximately $12,303,940 invested in land, land improvements, buildings, water and sewer lines, vehicles and equipment. See Note 4 to the basic financial statements for additional information.

Debt reported in Note 5 to these financial statements is related to the construction and maintenance of the above-mentioned assets with the exception of Special Assessment bonds. Special Assessment bonds are carried by the City to finance the property owner portion of a street and/or sidewalk improvement project. The assessments are paid back to the City with sufficient interest to cover the bond interest rate and administrative costs.

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2004/2005 fiscal year included the growth of the property tax base due to additions of parcels and residential growth. There is no change in property tax rate. Because of unreliable State revenues and the impact of Proposal A, which limits the growth on existing property to the rate of inflation, the City needs to continue to watch its budget closely.

Despite the concerns, the City continues to operate with an efficient labor force. We expect continued annual increases in medical costs near or above ten percent per year. The funding of retiree health care is a concern that must be addressed in coming years.

Contacting the City's Management

This financial report is intended to provide our 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 questions about this report or need additional information, we welcome you to contact the Clerk's office.

GENERAL PURPOSE FINANCIAL STATMENTS

The General Purpose Financial Statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF MASON, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2004

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash and cash equivalents	$ 2,363,347	$ 2,309,538	$ 4,672,885	$ 858,014
Receivables				
Taxes	386,928		386,928	51,628
Accounts	185,011	161,278	346,289	113
Accrued interest	2,540	357	2,897	
Due from				
Other funds	71,350	20,253	91,603	1,037
Other governmental units	183		183	
Inventory		21,398	21,398	
Restricted cash	280,453	2,156,361	2,436,814	
Deferred expense	9,047	124,683	133,730	718
Fixed assets (net of accumulated depreciation)	4,090,444	8,213,496	12,303,940	426,352
TOTAL ASSETS	$ 7,389,303	$ 13,007,364	$ 20,396,667	$ 1,337,862
LIABILITIES				
Current liabilities				
Accounts payable	$ 109,534	$ 781,187	$ 890,721	$ 18,803
Due to other funds	61,441	6,124	67,565	25,000
Accrued interest	12,487		12,487	19,718
Deferred revenue	362,545		362,545	
Bonds and notes payable	122,751	166,623	289,374	312,923
Noncurrent liabilities				
Bonds and notes payable	1,158,907	173,019	1,331,926	2,098,055
Accrued sick and vacation pay	617,896		617,896	
TOTAL LIABILITIES	2,445,561	1,126,953	3,572,514	2,474,499
NET ASSETS				
Invested in capital assets, net of related debt	3,265,573		3,265,573	426,352
Contributed capital	81,497	3,368,382	3,449,879	
Restricted for				
Cemetery perpetual care	280,453		280,453	
Unrestricted, Reserved for				
Capital projects	70,960		70,960	
Expansion of PTOW		2,156,361	2,156,361	
Unrestricted, unreserved	1,245,259	6,355,668	7,600,927	(1,562,989)
TOTAL NET ASSETS	4,943,742	11,880,411	16,824,153	(1,136,637)
TOTAL LIABILITIES AND NET ASSETS	$ 7,389,303	$ 13,007,364	$ 20,396,667	$ 1,337,862

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

		PROGRAM REVENUES	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
FUNCTIONS/PROGRAMS			
Primary Government			
Governmental activities			
General government	$ 1,662,033	$ 808,353	$ 1,201,788
Public safety	1,370,232	113,710	
Public works	234,844		
Highways and streets	216,404		
Culture and recreation	216,015		
Other	159,927		
Interest on long-term debt	65,655		
Total Governmental Activities	3,925,110	922,063	1,201,788
Business-Type Activities			
Water and sewer	1,350,264	1,855,631	
Total Primary Government	$ 5,275,374	$ 2,777,694	$ 1,201,788
Component Units			
Local Development Finance Authority	$ 169,785	$	$
Downtown Development Authority	70,481		
Total Component Units	$ 240,266	$	$

General Revenues
Property taxes levied for general purposes
Miscellaneous
Unrestricted investment earnings
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, July 1

Net Assets, June 30

See accompanying notes to financial statements.

PROGRAM REVENUES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	PRIMARY GOVERNMENT			COMPONENT UNITS
CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL	
$	$ 348,108	$	$ 348,108	$
	(1,256,522)		(1,256,522)	
	(234,844)		(234,844)	
	(216,404)		(216,404)	
	(216,015)		(216,015)	
	(159,927)		(159,927)	
	(65,655)		(65,655)	
	(1,801,259)		(1,801,259)	
		505,367	505,367	
$	(1,801,259)	505,367	(1,295,892)	
$				(169,785)
				(70,481)
$				(240,266)
	2,236,200		2,236,200	751,946
	55,759	27,862	83,621	
	40,192	62,842	103,034	13,006
	226,825	(140,757)	86,068	(160,173)
	2,558,976	(50,053)	2,508,923	604,779
	757,717	455,314	1,213,031	364,513
	4,186,025	11,425,097	15,611,122	(1,501,150)
	$ 4,943,742	$ 11,880,411	$ 16,824,153	$ (1,136,637)

CITY OF MASON, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2004

	GENERAL	MAJOR STREETS	LOCAL STREETS
ASSETS			
Cash	$ 1,117,564	$ 211,639	$ 206,500
Receivables			
Special assessments	32,423		
Accounts receivable	106,559	58,346	20,080
Accrued interest	2,488	39	11
Due from other funds	12,345	25,945	24,914
Due from other units of government	183		
Restricted cash			
Deferred expense	9,047		
TOTAL ASSETS	$ 1,280,609	$ 295,969	$ 251,505
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable	$ 109,534	$	$
Due to other funds	55,209	6,170	15
Deferred revenue	6,315		
TOTAL LIABILITIES	171,058	6,170	15
EQUITY			
Fund balance			
Reserved for			
Cemetary perpetual care			
Retiree medical benefits	96,682		
Debt service			
Capital project fund			
Unreserved-undesignated reported in			
General fund	1,012,869		
Special revenue funds		289,799	251,490
Permanent fund			
TOTAL EQUITY	1,109,551	289,799	251,490
TOTAL LIABILITIES AND EQUITY	$ 1,280,609	$ 295,969	$ 251,505

See accompanying notes to financial statements.

SPECIAL ASSESSMENTS	BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
$ 99,038	$ 249	$ 486,477	$ 2,121,467
354,505			386,928
			184,985
2			2,540
			63,204
			183
		280,453	280,453
			9,047
$ 453,545	$ 249	$ 766,930	$ 3,048,807
$	$	$	$ 109,534
			61,394
354,502			360,817
354,502			531,745
		280,453	280,453
			96,682
			99,292
99,043	249	70,960	70,960
			1,012,869
		18,475	559,764
		397,042	397,042
99,043	249	766,930	2,517,062
$ 453,545	$ 249	$ 766,930	$ 3,048,807

CITY OF MASON, MICHIGAN

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

JUNE 30, 2004

Total fund balances-governmental funds		$ 2,517,062
Amounts reported for governmental activities in the statement of net assets are different because		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Land	$ 1,276,251	
Land improvements	769,253	
Construction in progress	1,088,410	
Buildings and improvements	1,534,512	
Vehicles and equipment	2,119,406	
Accumulated depreciation	(2,697,388)	4,090,444
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The net capital assets of the internal service fund are reported as capital assets in the governmental funds.		(328,214)
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		576,491
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	$ (1,281,658)	
Accrued interest	(12,487)	
Compensated absences	(617,896)	(1,912,041)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 4,943,742

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	GENERAL	MAJOR STREETS	LOCAL STREETS
REVENUES			
Taxes	$ 1,421,329	$ 275,454	$ 415,559
Licenses and permits	113,710		
State revenue	702,685	342,890	137,895
Charges for services	500,769		
Federal revenue	418		
Interest, rental and royalties	21,644	2,780	3,451
Other	24,123	25,927	1,147
Special assessments			
TOTAL REVENUES	2,784,678	647,051	558,052
EXPENDITURES			
Council	22,559		
Administrator	207,668		
Elections	2,830		
General service administration	1,188,615		
Law enforcement	1,005,743		
Fire department	226,534		
Protective services	78,013		
Public services	4,798		
Engineering	2,526		
Highways, streets, bridges and lighting	76,777	486,970	601,440
Sanitation	226,645		
Recreation	181,458		
Cultural	9,542		
Other			
Commissions	7,008		
Contingency	15,372		
Capital outlay			
Bond/loan principal	5,812		
Interest and fiscal charges	933		
TOTAL EXPENDITURES	3,262,833	486,970	601,440

See accompanying notes to financial statements.

SPECIAL ASSESSMENTS	BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
$	$	$	$ 2,112,342
			113,710
		17,900	1,201,370
		4,313	505,082
			418
18,351	7	38,760	84,993
			51,197
77,632			77,632
95,983	7	60,973	4,146,744
			22,559
			207,668
			2,830
			1,188,615
			1,005,743
			226,534
			78,013
			4,798
			2,526
			1,165,187
			226,645
			181,458
			9,542
21,719			21,719
			7,008
			15,372
		124,836	124,836
55,000	15,000	40,504	116,316
21,846	18,874	25,360	67,013
98,565	33,874	190,700	4,674,382

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS - Concluded

FOR THE YEAR ENDED JUNE 30, 2004

	GENERAL	MAJOR STREETS	LOCAL STREETS
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ (478,155)	$ 160,081	$ (43,388)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	442,200		
Operating transfers out	(173,581)	(50,905)	(49,765)
TOTAL OTHER FINANCING SOURCES (USES)	268,619	(50,905)	(49,765)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(209,536)	109,176	(93,153)
FUND BALANCE, JULY 1	1,319,087	180,623	344,643
FUND BALANCE, JUNE 30	$ 1,109,551	$ 289,799	$ 251,490

See accompanying notes to financial statements.

SPECIAL ASSESSMENTS	BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
$ (2,582)	$ (33,867)	$ (129,727)	$ (527,638)
	33,874	65,872	541,946
		(14,435)	(288,686)
	33,874	51,437	253,260
(2,582)	7	(78,290)	(274,378)
101,625	242	845,220	2,791,440
$ 99,043	$ 249	$ 766,930	$ 2,517,062

CITY OF MASON, MICHIGAN

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

FOR THE YEAR ENDED JUNE 30, 2004

Net changes in fund balances-total governmental funds		$ (274,378)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets - total	$ 1,157,549	
Less expenditures for capital assets - internal service fund	(67,139)	
Less current year depreciation	(143,089)	947,321
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		
Accrued interest		1,358
Principal payments		116,316
Some expenses 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		
Change in long-term compensated absences		(50,727)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.		17,827
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		$ 757,717

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	$ 1,394,900	$ 1,417,665	$ 1,421,329	$ 3,664
Licenses and permits	76,835	112,965	113,710	745
State revenue	653,450	675,625	702,685	27,060
Federal revenue	30,000	1,060	418	(642)
Charges for services	500,400	499,195	500,769	1,574
Interest and rentals	44,255	39,975	21,644	(18,331)
Other	4,730	27,580	24,123	(3,457)
TOTAL REVENUES	2,704,570	2,774,065	2,784,678	10,613
EXPENDITURES				
Council	27,290	22,640	22,559	81
Administrator	206,110	207,025	207,668	(643)
Elections	80,520	2,830	2,830	
General services administration	1,340,940	1,199,040	1,188,615	10,425
Law enforcement	1,188,440	1,008,885	1,005,743	3,142
Fire department	283,470	228,015	226,534	1,481
Protective	78,220	77,535	78,013	(478)
Public services	5,810	4,880	4,798	82
Engineering	8,225	2,530	2,526	4
Highway, streets, bridges and lighting	161,635	76,905	76,777	128
Sanitation	238,315	226,650	226,645	5
Recreation	232,705	183,295	181,458	1,837
Cultural	23,085	9,860	9,542	318
Commissions	9,585	6,865	7,008	(143)
Contingency	25,395	15,375	15,372	3
Bond/loan principal	5,815	5,815	5,812	3
Interest and fiscal charges	935	935	933	2
TOTAL EXPENDITURES	3,916,495	3,279,080	3,262,833	16,247
DEFICIENCY OF REVENUES OVER EXPENDITURES	(1,211,925)	(505,015)	(478,155)	26,860

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - Continued

GENERAL FUND - Concluded

FOR THE YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	$ 887,700	$ 444,790	$ 442,200	$ (2,590)
Operating transfers out		(173,585)	(173,581)	4
TOTAL OTHER FINANCING SOURCES (USES)	887,700	271,205	268,619	(2,586)
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES EXPENDITURES AND OTHER AND OTHER FINANCING USES	(324,225)	(233,810)	(209,536)	24,274
FUND BALANCE, JULY 1	1,319,087	1,319,087	1,319,087	
FUND BALANCE, JUNE 30	$ 994,862	$ 1,085,277	$ 1,109,551	$ 24,274

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

MAJOR STREETS

FOR THE YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	$ 258,855	$ 275,450	$ 275,454	$ 4
State revenue	236,725	284,665	342,890	58,225
Interest	7,535	2,620	2,780	160
Other	325,100	1,020	25,927	24,907
TOTAL REVENUES	828,215	563,755	647,051	83,296
EXPENDITURES				
Highways and streets	795,450	492,470	486,970	5,500
EXCESS OF REVENUES OVER EXPENDITURES	32,765	71,285	160,081	88,796
OTHER FINANCING USES				
Operating transfers out	(50,905)	50,905	50,905	
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(18,140)	20,380	109,176	88,796
FUND BALANCE, JULY 1	180,623	180,623	180,623	
FUND BALANCE, JUNE 30	$ 162,483	$ 201,003	$ 289,799	$ 88,796

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

LOCAL STREETS

FOR THE YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	$ 405,340	$ 415,555	$ 415,559	$ 4
State revenue	79,900	117,810	137,895	20,085
Interest	7,800	3,225	3,451	226
Other	125	1,145	1,147	2
TOTAL REVENUES	493,165	537,735	558,052	20,317
EXPENDITURES				
Highways and streets	624,565	613,950	601,440	12,510
DEFICIENCY OF REVENUES OVER EXPENDITURES	(131,400)	(76,215)	(43,388)	32,827
OTHER FINANCING USES				
Operating transfers out	(49,765)	(49,765)	(49,765)	
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(181,165)	(125,980)	(93,153)	32,827
FUND BALANCE, JULY 1	344,643	344,643	344,643	
FUND BALANCE, JUNE 30	$ 163,478	$ 218,663	$ 251,490	$ 32,827

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

SPECIAL ASSESSMENTS

FOR THE YEAR ENDED JUNE 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Special assessments	$ 17,065	$ 16,825	$ 77,632	$ 60,807
Interest	1,100	1,050	18,351	17,301
TOTAL REVENUES	18,165	17,875	95,983	78,108
EXPENDITURES				
Other	24,800	21,720	21,719	1
Bond/loan principal	55,000	55,000	55,000	
Interest on fiscal charges	21,890	21,890	21,846	44
TOTAL EXPENDITURES	101,690	98,610	98,565	45
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(83,525)	(80,735)	(2,582)	78,153
FUND BALANCE, JULY 1	101,625	101,625	101,625	
FUND BALANCE, JUNE 30	$ 18,100	$ 20,890	$ 99,043	$ 78,153

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND	GOVERNMENTAL ACTIVITIES
	WATER AND SEWER	INTERNAL SERVICE
ASSETS		
CURRENT ASSETS		
Cash	$ 2,309,538	$ 241,880
Receivables		
Accounts receivable	161,278	26
Accrued interest	357	
Due from other funds	20,253	8,146
Inventory	21,398	
Restricted cash	2,156,361	
Deferred expense	124,683	
TOTAL CURRENT ASSETS	4,793,868	250,052
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings and equipment	12,805,181	1,540,025
Less: accumulated depreciation	(4,591,685)	(1,211,812)
NET PROPERTY, PLANT AND EQUIPMENT	8,213,496	328,213
TOTAL ASSETS	$ 13,007,364	$ 578,265
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 781,187	$
Due to other funds	6,124	45
Deferred revenue		1,730
Bonds payable - current portion	166,623	
TOTAL CURRENT LIABILITIES	953,934	1,775
LONG-TERM LIABILITIES		
Bonds payable	173,019	
NET ASSETS		
Contributed capital	3,368,382	81,497
Retained earnings		
Unreserved	6,355,668	494,993
Reserved	2,156,361	
TOTAL NET ASSETS	11,880,411	576,490
TOTAL LIABILITIES AND NET ASSETS	$ 13,007,364	$ 578,265

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND

CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND WATER AND SEWER	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
OPERATING REVENUES		
Charges for services	$ 1,523,242	$ 303,271
Penalties	25,439	
Permits	306,950	
Other	27,862	4,562
TOTAL OPERATING REVENUES	1,883,493	307,833
OPERATING EXPENSES		
Personnel costs	535,064	40,556
Contractual services	126,565	8,877
Supplies	93,302	49,135
Public utilities	111,765	5,862
Equipment rental	64,531	
Depreciation	274,517	130,172
Maintenance	120,393	30,394
TOTAL OPERATING EXPENSES	1,326,137	264,996
INCOME FROM OPERATIONS	557,356	42,837
NONOPERATING REVENUES (EXPENSES)		
Interest income	62,842	1,425
Interest expense and fiscal charges	(24,127)	
TOTAL NONOPERATING REVENUES (EXPENSES)	38,715	1,425
INCOME BEFORE OPERATING TRANSFERS	596,071	44,262
OTHER FINANCING SOURCES (USES)		
Transfers in	152,973	
Transfers out	(293,730)	(26,435)
TOTAL OTHER FINANCING SOURCES (USES)	(140,757)	(26,435)
NET INCOME	455,314	17,827
NET ASSETS, JULY 1	11,425,097	477,166
NET ASSETS, JUNE 30	$ 11,880,411	$ 494,993

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

WATER AND SEWER

FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Charges for services	$ 1,502,296
Penalties	25,439
Permits	306,950
Other	17,609
Payments to suppliers	(1,563,796)
Payments to employees	(535,064)
NET CASH USED IN OPERATING ACTIVITIES	(246,566)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	152,973
Transfers out	(293,730)
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(140,757)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on long-term debt and notes payable	(170,000)
Interest expense and fiscal charges	(15,750)
Purchase of capital assets	(759,937)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(945,687)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investment	607,000
Interest income	71,754
Release of cash from restricted cash	1,176,336
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,855,090
NET INCREASE IN CASH AND CASH EQUIVALENTS	522,080
CASH AND CASH EQUIVALENTS, JULY 1	1,787,458
CASH AND CASH EQUIVALENTS, JUNE 30	$ 2,309,538

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATIONS	
Operating income	$ 557,356
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	274,517
Change in assets and liabilities	
Increase in accounts receivable	(20,946)
Increase in due from other funds	(10,253)
Increase in inventory	(163)
Increase in deferred expense	(124,683)
Decrease in accounts payable	(928,515)
Increase in due to other funds	6,121
NET CASH USED IN OPERATING ACTIVITIES	$ (246,566)

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	CURRENT TAX	DELINQUENT TAX	TAX ESCROW	STREET CONSTRUCTION
ASSETS				
Cash and cash equivalents	$ 2	$ 1,174	$ 2	$ 207,098
Accounts receivable				10,699
Accrued interest receivable				123
Due from general fund				15
Deferred expenses				347,579
TOTAL ASSETS	$ 2	$ 1,174	$ 2	$ 565,514
LIABILITIES				
Accounts payable	$	$	$	$ 430,458
Retainers payable				12,018
Due to other funds	2	2	2	85
Deferred revenue				122,953
Due to other units of government		1,172		
TOTAL LIABILITIES	$ 2	$ 1,174	$ 2	$ 565,514

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
CURRENT TAX				
ASSETS				
Cash and cash equivalents	$ 2	$ 9,470,742	$ 9,470,742	$ 2
Property taxes receivable		8,022,913	8,022,913	
Personal property taxes receivable		1,008,027	1,008,027	
Tax receivable - IFT & CFT		744,936	744,936	
Returned check receivable		735	735	
Due from general fund		8,053	8,053	
TOTAL ASSETS	$ 2	$ 19,255,406	$ 19,255,406	$ 2
LIABILITIES				
Due to other funds	$ 2	$ 3,813,415	$ 3,813,415	$ 2
Due to County		1,559,230	1,559,230	
Due to schools		8,562,511	8,562,511	
Due to other units of government		72,773	72,773	
TOTAL LIABILITIES	$ 2	$ 14,007,929	$ 14,007,929	$ 2
DELINQUENT TAX				
ASSETS				
Cash and cash equivalents	$ 2	$ 24,595	$ 23,423	$ 1,174
Reimbursement receivable		713	713	
Due from DDA	100		100	
TOTAL ASSETS	$ 102	$ 25,308	$ 24,236	$ 1,174
LIABILITIES				
Due to other funds	$ 2	$ 3,878	$ 3,878	$ 2
Accounts payable		17,193	17,193	
Due to other units of government	100	20,616	19,544	1,172
TOTAL LIABILITIES	$ 102	$ 41,687	$ 40,615	$ 1,174
TAX ESCROW				
ASSETS				
Cash and cash equivalents	$ 2	$ 18,218	$ 18,218	$ 2
LIABILITIES				
Accounts payable	$	$ 18,215	$ 18,215	$
Due to other funds	2	2	2	2
Taxes collected in advance		18,215	18,215	
TOTAL LIABILITIES	$ 2	$ 36,432	$ 36,432	$ 2

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FIDUCIARY FUNDS - Concluded

FOR THE YEAR ENDED JUNE 30, 2004

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
STREET CONSTRUCTION				
ASSETS				
Cash and cash equivalents	$ 547,382	$ 2,563,037	$ 2,903,321	$ 207,098
Accounts receivable		21,398	10,699	10,699
Accrued interest receivable		123		123
Due from other funds	15,565	15	15,565	15
Deferred expenses	179,311	353,701	185,433	347,579
TOTAL ASSETS	$ 742,258	$ 2,938,274	$ 3,115,018	$ 565,514
LIABILITIES				
Accounts payable	$ 543,924	$ 1,386,043	$ 1,499,509	$ 430,458
Retainers payable	18,687	12,552	19,221	12,018
Due to other funds	336	4,009	4,260	85
Deferred revenue	179,311	122,952	179,310	122,953
TOTAL LIABILITIES	$ 742,258	$ 1,525,556	$ 1,702,300	$ 565,514

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2004

	DEBT SERVICE GENERAL OBLIGATIONS	CAPITAL PROJECTS CAPITAL IMPROVEMENTS	SPECIAL REVENUE ECONOMIC DEVELOPMENT CORPORATION	PERMANENT	TOTAL
ASSETS					
Cash and cash equivalents	$	$ 70,960	$ 18,475	397,042	$ 486,477
Restricted cash				280,453	280,453
TOTAL ASSETS	$	$ 70,960	$ 18,475	677,495	$ 766,930
FUND BALANCE					
Reserved	$	$	$	280,453	$ 280,453
Unreserved		70,960	18,475	397,042	486,477
TOTAL FUND BALANCE	$	$ 70,960	$ 18,475	677,495	$ 766,930

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	DEBT SERVICE GENERAL OBLIGATIONS	CAPITAL PROJECTS CAPITAL IMPROVEMENTS	SPECIAL REVENUE ECONOMIC DEVELOPMENT CORPORATION	PERMANENT	TOTAL
REVENUES					
Charges for services	$	$	$ 10	$ 4,303	$ 4,313
Interest and royalties		1,026	450	37,284	38,760
State revenue		17,900			17,900
TOTAL REVENUES		18,926	460	41,587	60,973
EXPENDITURES					
Capital outlay		124,836			124,836
Bond/loan principal	22,504	18,000			40,504
Interest on fiscal charges	19,478	5,882			25,360
	41,982	148,718			190,700
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(41,982)	(129,792)	460	41,587	(129,727)
OTHER FINANCING SOURCES (USES)					
Net operating transfers	41,982	23,890		(14,435)	51,437
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES		(105,902)	460	27,152	(78,290)
FUND BALANCE, JULY 1		176,862	18,015	650,343	845,220
FUND BALANCE, JUNE 30	$	$ 70,960	$ 18,475	$ 677,495	$ 766,930

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF NET ASSETS

COMPONENT UNITS

JUNE 30, 2004

	LOCAL DEVELOPMENT FINANCE AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY	TOTAL
ASSETS			
Cash and cash equivalents	$ 692,855	$ 165,159	$ 858,014
Receivables			
Delinquent taxes	260	51,368	51,628
Accounts receivable		113	113
Deferred expenses		718	718
Due from other funds		1,037	1,037
Capital assets (net of accumulated depreciation)	426,352		426,352
TOTAL ASSETS	$ 1,119,467	$ 218,395	$ 1,337,862
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Current liabilities			
Accounts payable	$	$ 18,803	$ 18,803
Accrued interest	19,718		19,718
Due to other funds		25,000	25,000
Bonds payable	312,923		312,923
TOTAL CURRENT LIABILITIES	332,641	43,803	376,444
NONCURRENT LIABILITIES			
Bonds payable	2,098,055		2,098,055
TOTAL LIABILITIES	2,430,696	43,803	2,474,499
NET ASSETS			
Invested in capital assets, net of related debt	426,352		426,352
Unreserved	(1,737,581)	174,592	(1,562,989)
TOTAL NET ASSETS	(1,311,229)	174,592	(1,136,637)
TOTAL LIABILITIES AND NET ASSETS	$ 1,119,467	$ 218,395	$ 1,337,862

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF ACTIVITIES

COMPONENT UNITS

FOR THE YEAR ENDED JUNE 30, 2004

		PROGRAM REVENUES	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Component Units			
Local Development Finance Authority	$ 169,785	$	$
Downtown Development Authority	70,481		
Total Component Units	$ 240,266	$	$

General Revenues
Property taxes
Unrestricted investment earnings
Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, July 1

Net Assets, June 30

See accompanying notes to financial statements.

PROGRAM REVENUES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
CAPITAL GRANTS AND CONTRIBUTIONS	LOCAL DEVELOPMENT FINANCE AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY	TOTAL
$	$ (169,785)	$	$ (169,785)
		(70,481)	(70,481)
$	(169,785)	(70,481)	(240,266)
	710,315	41,631	751,946
	11,556	1,450	13,006
	(160,173)		(160,173)
	561,698	43,081	604,779
	391,913	(27,400)	364,513
	(1,703,142)	201,992	(1,501,150)
	$ (1,311,229)	$ 174,592	$ (1,136,637)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mason was incorporated in 1865 and covers an area of approximately 4.94 square miles. The City of Mason operates under an elected Council (7 members) and provides services to its more than 7,000 residents in many areas including law enforcement and community enrichment and development.

The accounting policies of the City of Mason conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

All funds and account groups under direct control of the City are included in this report. These funds and account groups are those which meet the criteria established by Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity, and Statement on Michigan Governmental Accounting and Auditing No.5.

The criteria established by GASB for determining which of the City's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the City.

Blended Component Units

The Building Authority accounts for the acquisition, furnishing, equipping, improving and enlarging of buildings, automobile parking lots or structures, recreational facilities and the necessary sites therefore, and the payment of the bond principal and interest for any related debt incurred. The Building Authority is reported as a debt service fund.

The Economic Development Corporation was formed by the City of Mason under the laws of the State of Michigan to finance projects that will create employment and growth for the City. The Economic Development Corporation is reported as a special revenue fund.

Discretely Presented Component Units

The following entities are listed as discretely presented component units of the City in the component unit column to emphasize their legally separate status from the primary government. The City is financially accountable, and exclusion from the general-purpose financial statements would be misleading or incomplete.

The financial statements of the component units are available at City Hall.

The Local Development Finance Authority

In accordance with provision of Act 425, Public Act of 1984, the City of Mason and the Township of VeVay signed an agreement dated November 3, 1989 in which approximately 134 acres is conditionally transferred from the Township to the City for a period of 30 years from the date of the agreement. As a condition of this agreement, the Local Development Finance Authority was created in 1989 in accordance with provisions of Act 281, Public Acts of Michigan, 1986 as amended. The purpose of the Local Development Finance Authority 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. The Local Development Finance Authority consists of approximately 96 acres. Tax increment financing revenues captured from eligible property shall be used for public facilities to serve eligible property within the tax increment financing district and may include road facilities and other public facilities which are necessary to serve the eligible property whether or not located on that eligible property. Any tax revenues not required by the Local Development Finance Authority to finance public facilities to serve the eligible property within the district shall revert proportionally to the respective taxing jurisdiction.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

The Local Development Finance Authority - Concluded

On July 5, 1994, the City Council amended the P.A. 425 agreement with VeVay Township to include additional land. On October 3, 1994, the City Council amended the boundary for the LDFA to include an additional 67.87 acres. Of that amount, 31.87 acres belong to Michigan Packaging Corporation, and 36 acres belong to Aggregate Industries, Inc. Mason plant. Michigan Packaging Corporation constructed a large manufacturing plant.

The Downtown Development Authority

In accordance with the provision of Act 197 of the Public Acts of 1975 the City Council of the City of Mason established, by ordinance, the Downtown Development Authority on October 15, 1984. The purpose of the Downtown Development Authority is to operate for and on behalf of the City and 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, to strengthen existing areas and encourage new private development in the Downtown District. The Downtown Development District includes approximately 20 City blocks in which the primary zoning is commercial. The Downtown Development Authority developed a 20-year development plan and tax increment finance plan, which were both adopted by the City Council on March 16, 1987. Downtown Development Authority Bonds were sold to finance certain improvements as outlined in the Downtown Development Plan. Tax increment financing revenues captured from eligible property is used to pay for the bond and interest payments as well as for other public improvement within the District. Any tax revenues not required by the Downtown Development Authority to finance public improvements within the district shall revert proportionally to the respective taxing jurisdiction. The plan was amended in 2001 to include a part time DDA Director and a 30 year development plan.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the City of Mason and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services. The primary government of the City of Mason is reported separately from certain legally separate component units for which the City of Mason, the primary government, is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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 funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds and fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Mason.

The City of Mason reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those to be accounted for in another fund.

The Major Street Fund accounts for major street improvements and resurfacing projects.

The Local Street Fund accounts for local street improvements and resurfacing projects.

The Special Assessments Fund accounts for payment of interest and principal on all special assessment debt.

The Building Authority Fund accounts for expenditures for the purpose of acquiring, furnishing, equipping, improving, enlarging operating and maintaining a building or buildings, and automobile parking lots or structures, recreational facilities and the necessary site or sites there for, for the use of the City of Mason.

The City of Mason reports the following major proprietary funds:

The Water and Sewer Fund accounts for utility operations that are financed primarily by user charges.

Additionally, the City of Mason reports the following fund types:

Special Revenue Funds are used to finance particular activities and are created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory provisions to pay for certain activities with some special form of continuing revenues.

Internal Service Funds are used to account for Motor Vehicle Pool Services provided to other departments on a cost reimbursement basis.

Debt Service Funds are used to account for payment of interest and principal on general obligation debt of governmental funds.

Capital Project Funds account for resources expended to acquire assets of a relatively permanent nature.

Fiduciary Funds account for resources reserved and held by a governmental unit as the trustee or as the agent for others.

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

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statements - Concluded

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City of Mason's policy to use restricted resources first. Unrestricted resources are used as they are needed.

D. Budgetary Accounting Controls

The General and certain Special Revenue funds are subject to cash basis budgetary control. Formal budgets are adopted (as required by law) and budgetary transfers, additional appropriations from additional revenues received or from unexpended funds appropriated but not spent in prior years, etc., are made as and when required. Under the City's budget procedures, amounts appropriated by functional classification as revenue and expenditures of the General fund include interfund transfers. Since such transfers represent internal transactions within the City government, they are reported separately in the financial statements of the various funds. Budgets lapse at the end of the fiscal year.

E. Receivables

Receivables have been recognized for all significant amounts due the City. No allowances have been made for non-collectable accounts because most delinquent receivables can be added to the tax roll if they remain unpaid and become a lien against the property.

F. Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary and fiduciary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

G. Investments

Investments are stated at cost.

H. Inventories

Inventories of materials and supplies are stated at the lower of cost (first-in, first-out) or market. The cost is accounted for as expenditure at the time the inventories are used.

I. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Mason as assets with an initial, individual cost of $2,500 or more and an estimated useful life in excess of one year.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

I. Capital Assets - Concluded

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. Straight-line deprecation methods are applied over the estimated useful life of fixed assets.

The straight-line and declining balance depreciation methods are used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Buildings and improvements	10-40 years
Equipment	5-66 years
Vehicles	3-10 years
Utility systems	20-67 years

J. Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

K. Deposits and Investments

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents. All investments for both the primary government and all the component units are reported at fair value.

L. Compensated Absences

City employees are granted vacation amounts based on length of service. Sick pay is earned at the rate of one day per month. Vacation and sick pay are recorded as expenditures when paid. 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 unused sick pay. The estimated liability for unused vacation pay at June 30, 2004 and 2003, was approximately $108,050 and $107,916, respectively.

Sick leave credits can be applied to absences for illness, visits to doctors and dentists, etc. The dollar equivalent of the aggregate accumulated credits at June 30, 2004 and 2003, was approximately $509,846 and $459,253, respectively.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Concluded

M. Property Tax Revenue

Properties are assessed as of December 31, and the related taxes become a lien on July 1 of the following year. These taxes are due on August 31, with a final collection date of February 28 before they are returned to the County as delinquent.

N. Comparative Data

Comparative total data for the prior year has been presented in the accompanying fund financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data (i.e. presentation of prior year totals by fund type) has not been presented in the statement of net assets and statement of activities since their inclusion would make the statements unduly complex and difficult to read.

O. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: **EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2004, the City incurred the following expenditures in certain budgetary funds that were in excess of the amounts appropriated:

	BUDGET	ACTUAL	EXCESS OF AMOUNT APPROPRIATED
GENERAL FUND			
Administrator	$ 207,025	$ 207,668	$(643)
Protective	83,675	84,153	(478)
Commissions	7,250	7,393	(143)

NOTE 3: **CASH AND INVESTMENTS**

RECONCILIATION TO FINANCIAL STATEMENTS

	CASH AND CASH EQUIVALENTS	RESTRICTED CASH	TOTAL
Governmental Funds	$ 2,121,467	$ 280,453	$ 2,401,920
Proprietary Funds			
Business-type	2,309,538	2,156,361	4,465,899
Internal service	241,880		241,880
Fiduciary Funds	207,098		207,098
Component Units	858,014		858,014
	$ 5,737,997	$ 2,436,814	$ 8,174,811

NOTE 3: **CASH AND INVESTMENTS** - Concluded

A summary by type are:

Deposits	
Cash in demand accounts	$ 4,166,066
Imprest cash	355
Certificates of deposit	4,008,390
TOTAL	$ 8,174,811

Deposits. At year-end, the banks were carrying a cash balance of $8,462,121 not including any pooled investment funds. These deposit classifications are covered by Federal Depository Insurance as follows:

Non-debt deposits were insured up to $200,000, leaving a balance of $8,262,121 uninsured.

Investments. Act 196, P.A. 1997, authorizes the City to deposit and invest in the following:

(a) Bonds, securities and other direct obligations of the United States or its agencies.

(b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, P.A. 1855, as amended (MCL 21.145 and 21.146).

(c) Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after the date of purchase.

(d) Repurchase agreements consisting of instruments listed in subdivision (a).

(e) Bankers' acceptance of United States banks.

(f) Obligation of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

(g) Investment pools organized under the local government investment pool act.

Investments of the City are in accordance with statutory authority.

There are three levels of risk by which investments are classified. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the City's name. There are $4,008,000 in investments classified under Category 2 and $0 in pooled investment funds which cannot be classified.

The City has adopted a formal investment policy, as required by Act 20, P.A. 1943 as amended, that complies with State law.

NOTE 4: **CAPITAL ASSETS**

The following schedule summarizes the changes in governmental capital assets for the year ending June 30, 2004.

	BALANCE, JULY 1, 2003	ADDITIONS	DELETIONS	BALANCE, JUNE 30, 2004
Governmental Activities				
Capital assets not being depreciated				
Land	$ 1,274,251	$ 2,000	$	$ 1,276,251
Capital assets being depreciated				
Land improvements	769,253			769,253
Construction in progress		1,088,410		1,088,410
Building and improvements	1,534,512			1,534,512
Vehicles and equipment	2,062,679	67,139	10,412	2,119,406
Total capital assets being depreciated	4,366,444	1,155,549	10,412	5,511,581
Accumulated depreciation				
Land improvements	303,094	40,262		343,356
Building and improvements	487,817	63,974		551,791
Vehicles and equipment	1,643,628	169,025	10,412	1,802,241
Total accumulated depreciation	2,434,539	273,261	10,412	2,697,388
Net Capital assets being depreicated	1,931,905	882,288		2,814,193
TOTAL GOVERNMENTAL ACTIVITIES	$ 3,206,156	$ 884,288	$	$ 4,090,444

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

GOVERNMENTAL ACTIVITY	INTERNAL SERVICE FUND	OTHER GOVERN-MENTAL FUNDS	TOTAL
General government	$ 19,422	$ 143,089	$ 162,511
Public safety	29,875		29,875
Culture and recreation	12,288		12,288
Highways and streets	68,587		68,587
	$ 130,172	$ 143,089	$ 273,261

The following schedule summarizes the changes in governmental activity component units capital assets for the year ending June 30, 2004.

	BALANCE, JULY 1, 2003	ADDITIONS	DELETIONS	BALANCE, JUNE 30, 2004
Component Unit - Local Development Finance Authority				
Capital assets being depreciated				
Equipment	$ 710,587	$	$	$ 710,587
Accumulated depreciation				
Equipment	213,176	71,059		284,235
Net capital assets being Depreciated -Local Development Finance Authority	$ 497,411	$(71,059)	$	$ 426,352

NOTE 4: **CAPITAL ASSETS** - Concluded

Depreciation expense for the governmental activities component unit was charged to the following functions and activities of the component unit:

GOVERNMENTAL ACTIVITY	AMOUNT
Wastewater	$ 71,059

The following schedule summarizes the changes in business-type capital assets for the year ending June 30, 2004.

	BALANCE, JULY 1, 2003	ADDITIONS	DELETIONS	BALANCE, JUNE 30, 2004
Business-Type Activities				
Capital assets not being depreciated				
Land	$ 25,609	$	$	$ 25,609
Capital assets being depreciated				
Building and improvements	103,637	252,000		355,637
Infrastructure	10,181,543	31,587		10,213,130
Construction in progress	1,482,456	728,350		2,210,806
Total capital assets being depreciated	11,767,636	1,011,937		12,779,573
Accumulated depreciation				
Building and improvements	48,147	8,460		56,607
Infrastructure	4,269,022	266,057		4,535,079
Total accumulated depreciation	4,317,169	274,517		4,591,686
Net Capital assets being depreicated	7,450,467	737,420		8,187,887
TOTAL BUSINESS TYPE ACTIVITIES	$ 7,476,076	$ 737,420	$	$ 8,213,496

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

GOVERNMENTAL ACTIVITY	AMOUNT
Water and Sewer	$ 274,517

NOTE 5: **LONG-TERM DEBT**

The following is a summary of long-term debt transactions of the primary government and all component units for the year ended June 30, 2004

	BALANCE, JULY 1, 2003	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2004	DUE WITHIN ONE YEAR
Governmental Activities - Primary Government				
$39,170 note payable to Dart National Bank for purchase of computer, due in annual installments of $6,745 through August 7, 2005; interest at 4.90%	$ 18,402	$(5,843)	$ 12,559	$ 6,129
$247,000 note payable to Dart National Bank for purchase of Honeywell System due in annual installments of $11,000 to $23,000 through April 1, 2009; interest at 4.90%	120,000	(18,000)	102,000	19,000

NOTE 5: **LONG-TERM DEBT** - Continued

	BALANCE, JULY 1, 2003	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2004	DUE WITHIN ONE YEAR
Governmental Activities - Primary Government - Concluded				
$325,877 note payable to Dart National Bank for purchase of 416 and 426 Park Street due in annual installments of $31,116 through June 28, 2016; interest at 4.80%	$ 294,576	$(16,741)	$ 277,835	$ 17,595
$115,500 note payable to Mason State Bank for purchase of 502 S. Park Street due in annual installments of $10,868 through May 1, 2017; interest at 4.65%	110,005	(5,741)	104,264	6,027
$90,000 1998 Special Assessment Bonds due in annual installments of $6,000 to $7,000 through September 1, 2012; interest at 4.90%	66,000	(6,000)	60,000	6,000
$52,000 1999 Special Assessment Bonds due in annual installments of $3,000 to $5,000 through October 1, 2013; interest interest at 4.90%	43,000	(3,000)	40,000	3,000
$50,000 2002 Special Assessment Bonds due in annual installments of $14,000 to $20,000 through May 1, 2005; interest at 3.00%	36,000	(16,000)	20,000	20,000
$205,000 2001 Special Assessment Bonds due in annual installments of $5,000 to $20,000 through November 1, 2007; interest interest at 4.30% to 5.00%	185,000	(15,000)	170,000	15,000
$205,000 1996 Special Assessment Bonds due in annual installments of $15,000 to $20,000 through November 1, 2010; interest interest at 4.45% to 5.50%	125,000	(15,000)	110,000	15,000
$450,000 1997 Building Authority Bonds due in annual installments of $10,000 to $40,000 through October 1, 2018; interest at 3.85% to 5.15%	400,000	(15,000)	385,000	15,000
Accumulated compensated absences	567,169	50,727	617,896	
TOTAL PRIMARY GOVERNMENT	$ 1,965,152	$(65,598)	1,899,554	$ 122,751
Less: amounts payable within one year			(122,751)	
TOTAL LONG TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES PRIMARY GOVERNEMENT			$ 1,776,803	

NOTE 5: **LONG-TERM DEBT** - Continued

	BALANCE, JULY 1, 2003	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2004	DUE WITHIN ONE YEAR
Component Units				
$425,000 1992 Local Development Finance Authority Bonds due in annual installments of $10,000 to $35,000 through October 1, 2013; interest at 5.75% to 8.00%	$ 295,000	$(20,000)	$ 275,000	$ 20,000
$1,125,000 1994 Local Development Finance Authority Bonds due in annual installments of $75,000 to $85,000 through April 1, 2010; interest at 6.10% to 7.65%	585,000	(80,000)	505,000	80,000
$1,386,000 1998 Local Development Finance Authority, Michigan Jobs Commission, Series A, due in annual installments of $106,615 through August 1, 2011	959,538	(106,615)	852,923	106,615
$1,414,000 1998 Local Development Finance Authority, Series B, due in annual installments of $117,833 including interest, through March 1, 2011; effective interest rate of 14.81%	882,811	(104,756)	778,055	106,308
TOTAL COMPONENT UNITS	$ 2,722,349	$(311,371)	2,410,978	$ 312,923
Less: amounts payable within one year			(312,923)	
TOTAL LONG TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES COMPONENT UNITS			$ 2,098,055	
Business-Type Activities				
$690,000 Water and Sewage Disposal System Revenue Refunding Bonds, Series 2002, due in annual installments of $165,000 to $180,000 through May 1, 2006; interest at 3.00%	$ 525,000	$(170,000)	$ 355,000	$ 175,000
Less: bond premium	(23,735)	8,377	(15,358)	(8,377)
TOTAL BUSINESS-TYPE ACTIVITIES	$ 501,265	$(161,623)	339,642	$ 166,623
Less: amounts payable within one year			(166,623)	
TOTAL LONG TERM OBLIGATIONS BUSINESS-TYPE ACTIVITIES			$ 173,019	

NOTE 5: **LONG-TERM DEBT** - Concluded

Annual debt service requirements to maturity for primary government obligations are as follows:

YEAR ENDING JUNE 30,	GOVERNMENTAL ACTIVITIES PRINCIPAL	GOVERNMENTAL ACTIVITIES INTEREST	BUSINESS-TYPE ACTIVITIES PRINCIPAL	BUSINESS-TYPE ACTIVITIES INTEREST
2005	$ 122,751	$ 60,745	$ 166,623	$ 10,650
2006	109,179	55,035	173,019	5,400
2007	110,940	49,414		
2008	109,151	44,199		
2009	112,501	38,933		
2010	95,866	33,406		
2011	97,303	28,778		
2012	83,786	24,476		
2013	86,391	20,399		
2014	86,042	16,263		
2015	77,776	12,311		
2016	69,588	8,746		
2017	45,384	5,211		
2018	35,000	2,953		
2019	40,000	1,030		
Unknown	617,896			
	$ 1,899,554	$ 401,899	$ 339,642	$ 16,050

Annual debt service requirements to maturity for component unit long-term obligations are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST
2005	$ 312,923	$ 63,723
2006	319,498	55,628
2007	326,096	46,667
2008	327,718	37,508
2009	329,364	28,306
2010	336,034	18,905
2011	252,729	9,303
2012	136,616	5,610
2013	35,000	3,465
2014	35,000	1,155
	$ 2,410,978	$ 270,270

NOTE 6: **DEFINED BENEFIT PENSION PLAN**

Plan Description

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

Funding Policy

The City is required to contribute the amounts necessary to fund the system.

NOTE 6: **DEFINED BENEFIT PENSION PLAN** - Concluded

Annual Pension Cost

For year ended June 30, 2004, the City's annual pension cost of $120,271 was more than the City's required contribution of $119,304. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal funding method. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to merit/longevity; and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement for persons under Benefit E-1 or E-2.

Five Year Trend Information

	DECEMBER 31,				
	1999	2000	2001	2003	2004
Annual pension cost	$ 48,942	$ 46,705	$ 44,022	$ 65,161	$ 120,271
Percentage of annual pension cost contributed	100%	100%	98%	76%	100%
Actuarial value of assets	6,454,667	7,100,801	7,512,215	7,745,570	8,307,716
Actuarial accrued liability	6,173,867	7,270,598	7,800,753	8,503,029	9,476,465
Unfunded actuarial accrued liability		169,797	288,538	757,459	1,168,749
Funded ratio	105%	98%	96%	91%	88%
Covered payroll	1,513,754	1,568,856	1,611,077	1,863,376	2,078,653
Unfunded actuarial accrued liability as a percentage of covered payroll	0%	11%	18%	41%	57%

NOTE 7: **INTERFUND TRANSFERS**

The following are the operating transfers for the year ending June 30, 2004:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
General Fund	$ 442,200	Cemetery Trust	$ 9,410
		Major Streets	50,905
		Local Streets	49,765
		Water and Sewer	293,730
		Rayner Bond	5,025
		Motor Vehicle Pool	26,165
		Local Development Finance Authority	7,200
Subtotal	442,200	Subtotal	442,200
Park Street Property	41,982	General	41,982
Street Construction	95,451	General	74,105
		Water and Sewer	21,346
Subtotal	95,451	Subtotal	95,451
Capital Projects	23,890	General Fund	23,620
		Motor Vehicle Pool	270
Subtotal	23,890	Subtotal	23,890
Water and Sewer	152,973	Local Development Finance Authority	152,973
Building Authority	33,874	General Fund	33,874
TOTAL	$ 790,370	TOTAL	$ 790,370

NOTE 7: **INTERFUND TRANSFERS** - Concluded

RECONCILIATION TO FINANCIAL STATEMENTS

	TRANSFERS IN		TRANSFERS OUT
Governmental funds	$ 541,946		$ 288,686
Proprietary funds			
Business-type	152,973		293,730
Internal service			47,781
Fiduciary	95,451		
Component units			160,173
TOTAL	$ 790,370	TOTAL	$ 790,370

NOTE 8: **INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables are as follows:

FUND	INTERFUND RECEIVABLE	INTERFUND PAYABLE
General	$ 12,345	$ 55,210
Special Revenue	50,859	6,185
Trust and Agency	15	91
Internal Service	8,146	45
Enterprise	20,253	6,124
Component Units	1,037	25,000
	$ 92,655	$ 92,655

NOTE 9: **ENTERPRISE FUND - RESTRICTED ASSETS**

According to City ordinances regarding Water and Sewer Fund Revenue Bonds, the City is required to restrict a portion of its cash for a Replacement Fund. As of June 30, 2004, the following amounts of cash are restricted to these accounts:

Replacement reserve – expansion of POTW	$ 2,156,361

NOTE 10: **SEGMENT INFORMATION FOR ENTERPRISE FUND**

The City maintains one Enterprise Fund: the Water and Sewer Fund.

Segment information for the year ended June 30, 2004, was as follows:

Total assets	$ 13,007,364
Total liabilities	1,126,953
Net assets	11,880,411
Operating revenues	1,883,493
Operating expenses	1,326,137
Operating income (loss)	557,356
Nonoperating revenue (expense)	38,715
Transfers in (out)	(140,757)
Change in net assets	455,314
Net assets, July 1	11,425,097
Net assets, June 30	11,880,411
Net cash provided by (used in)	
Operating activities	(246,566)
Noncapital financing activities	(140,757)
Capital and related financing activities	(945,687)
Investing activities	1,855,090
Net increase in cash and cash equivalents	522,080
Cash and cash equivalents, July 1	1,787,458
Cash and cash equivalents, June 30	2,309,538

GENERAL FUND

The General Fund exists to account for the resources devoted to finance the services traditionally associated with local government. Included in these services are law enforcement, fire department, protective services and general administration of the City. Any other activity for which a special fund has not been created is accounted for in the General Fund.

CITY OF MASON, MICHIGAN

BALANCE SHEET

GENERAL FUND

JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2003)

	2004	2003
ASSETS		
Cash	$ 1,117,564	$ 1,434,072
Receivables		
Special assessments	32,423	31,136
Accounts receivable	106,559	101,253
Accrued interest	2,488	
Due from other funds	12,345	12,505
Due from other units of government	183	
Deferred expense	9,047	19,516
TOTAL ASSETS	$ 1,280,609	$ 1,598,482
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable	$ 109,534	$ 265,036
Due to other funds	55,209	8,896
Due to other units of government		
Deferred revenue	6,315	5,463
TOTAL LIABILITIES	171,058	279,395
EQUITY		
Fund balance		
Reserved	96,682	109,634
Unreserved	1,012,869	1,209,453
TOTAL EQUITY	1,109,551	1,319,087
TOTAL LIABILITIES AND EQUITY	$ 1,280,609	$ 1,598,482

See accompanying notes to financial statements.

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES - BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	BUDGET			VARIANCE FAVORABLE
	ORIGINAL	FINAL	ACTUAL	(UNFAVORABLE)
REVENUES				
Clerk	$ 2,060	$ 475	$ 535	$ 60
Treasurer				
General administrative	71,090	69,880	69,901	21
Property taxes, penalties on taxes and other	1,394,900	1,417,665	1,421,329	3,664
Licenses and permits	73,500	107,390	107,919	529
State revenues	644,000	670,000	698,476	28,476
Interest and rentals	44,255	39,975	21,644	(18,331)
Sundry	20,430	13,905	13,920	15
Total Treasurer	2,248,175	2,318,815	2,333,189	14,374
Cemetery	37,450	34,580	35,263	683
Police Department	34,360	57,775	53,459	(4,316)
Fire Department	111,635	89,975	89,855	(120)
Forestry	28,465	28,465	28,515	50
Sidewalks and Construction	2,000	1,550	1,550	
Refuse collection	240,315	242,330	242,211	(119)
Recreation	110	100	101	1
TOTAL REVENUES	$ 2,704,570	$ 2,774,065	$ 2,784,678	$ 10,613

CITY OF MASON, MICHIGAN

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	BUDGET ORIGINAL	BUDGET FINAL	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
EXPENDITURES				
Council	$ 27,290	$ 22,640	$ 22,559	$ 81
Administrator	206,110	207,025	207,668	(643)
Elections	80,520	2,830	2,830	
General Service Administration				
Assessing	96,515	130,675	131,996	(1,321)
City attorney	51,000	67,730	67,727	3
Board of review	900	630	630	
Treasurer	418,540	312,040	313,599	(1,559)
Buildings and grounds	180,615	106,035	102,707	3,328
Forestry	39,630	42,105	41,006	1,099
Cemetery	186,720	153,950	151,446	2,504
Unallocated	367,020	385,875	379,504	6,371
Total General Service Administration	1,340,940	1,199,040	1,188,615	10,425
Fire Department	283,470	228,015	226,534	1,481
Protective				
Building inspector	76,285	76,520	77,145	(625)
Civil defense and disaster	1,935	1,015	868	147
Total Protective	78,220	77,535	78,013	(478)
Law Enforcement				
Police administration	221,495	181,405	181,739	(334)
Crossing guard	40,875	35,240	35,231	9
Police patrolling	926,070	792,240	788,773	3,467
Total Law Enforcement	1,188,440	1,008,885	1,005,743	3,142
Public Services	5,810	4,880	4,798	82
Engineering	8,225	2,530	2,526	4
Highways, streets, bridges and lighting	161,635	76,905	76,777	128
Sanitation	238,315	226,650	226,645	5
Recreation				
Recreation activities	227,670	181,040	179,136	1,904
Christmas decorations	5,035	2,255	2,322	(67)
Total Recreation	232,705	183,295	181,458	1,837
Cultural Library	23,085	9,860	9,542	318
Cable Commission	4,435	3,185	3,331	(146)
Contingencies	25,395	15,375	15,372	3
Planning Commission	5,150	3,680	3,677	3
Debt Service				
Bond/loan principal	5,815	5,815	5,812	3
Interest	935	935	933	2
Total Debt Service	6,750	6,750	6,745	5
TOTAL EXPENDITURES	$ 3,916,495	$ 3,279,080	$ 3,262,833	$ 16,247

SPECIAL REVENUE FUNDS

A Special Revenue Fund is used to finance particular activities and is created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

Special Revenue Funds in the City are Major Streets, Local Streets and the Economic Development Corporation.

CITY OF MASON, MICHIGAN

COMBINING BALANCE SHEET

SPECIAL REVENUE FUNDS

JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2003)

	MAJOR STREETS	LOCAL STREETS	ECONOMIC DEVELOPMENT CORPORATION	TOTAL 2004	TOTAL 2003
ASSETS					
Cash and cash equivalents	$ 211,639	$ 206,500	$ 18,475	436,614	$ 318,219
Receivables					
Accounts receivable	58,346	20,080		78,426	73,566
Accrued interest	39	11		50	199
Deferred expenses					168,160
Due from other funds	25,945	24,914		50,859	112,426
TOTAL ASSETS	$ 295,969	$ 251,505	$ 18,475	565,949	$ 672,570
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	$	$	$		$ 13,295
Due to other funds	6,170	15		6,185	128,994
TOTAL LIABILITIES	6,170	15		6,185	142,289
FUND BALANCE					
Unreserved	289,799	251,490	18,475	559,764	543,281
TOTAL LIABILITIES AND FUND BALANCE	$ 295,969	$ 251,505	$ 18,475	565,949	$ 685,570

CITY OF MASON, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE

SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30 ,2003)

	MAJOR STREETS	LOCAL STREETS	ECONOMIC DEVELOPMENT CORPORATION	TOTAL 2004	TOTAL 2003
REVENUES					
Taxes	$ 275,454	$ 415,559	$	$ 691,013	$ 764,540
State revenue	342,890	137,895		480,785	425,589
Interest	2,780	3,451	450	6,681	15,951
Other	25,927	1,147	10	27,084	3,998
TOTAL REVENUES	647,051	558,052	460	1,205,563	1,210,078
EXPENDITURES					
Highways and streets	486,970	601,440		(1,088,410)	1,104,224
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	160,081	(43,388)	460	117,153	105,854
OTHER FINANCING USES					
Operating transfers out	(50,905)	(49,765)		(100,670)	(132,885)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	109,176	(93,153)	460	16,483	(27,031)
FUND BALANCE, JULY 1	180,623	344,643	18,015	543,281	570,312
FUND BALANCE, JUNE 30	$ 289,799	$ 251,490	$ 18,475	$ 559,764	$ 543,281

DEBT SERVICE FUNDS

Debt Service Funds are established to finance and account for the payment of interest and principal on all general obligation debt and other assessment debt other than that payable exclusively from revenue bonds issued for and serviced by a governmental enterprise.

The City's Debt Service Funds are legal in nature. They were established in accordance with statutes and/or bond indentures. Their use enhances the attractiveness of bonds to prospective buyers resulting, possibly, in a lower rate of interest. Inclusion of debt service fund provisions in the indenture indicates to the buyer that the timing of the acquisition of assets with which to satisfy maturing debt has been formalized and that a sophisticated administrative approach to servicing the debt will be followed.

The City's Debt Service Funds include Special Assessment Bonds, General Obligations and the Building Authority.

CITY OF MASON, MICHIGAN

COMBINING BALANCE SHEET

DEBT SERVICE FUNDS

JUNE 30, 2004

(WITH COMPARATIVE TOTAL FOR JUNE 30 ,2003)

	SPECIAL ASSESSMENTS	GENERAL OBILIGATIONS	BUILDING AUTHORITY	TOTAL 2004	TOTAL 2003
ASSETS					
Cash and cash equivalents	$ 99,038	$	$ 249	$ 99,287	$ 101,869
Receivables					
Special assessments	354,505			354,505	310,436
Accrued interest	2			2	
TOTAL ASSETS	$ 453,545	$	$ 249	$ 453,794	$ 412,305
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Deferred revenue	$ 354,502	$	$	$ 354,502	$ 310,438
FUND BALANCE	99,043		249	99,292	101,867
TOTAL LIABILITIES AND FUND BALANCE	$ 453,545	$	$ 249	$ 453,794	$ 412,305

CITY OF MASON, MICHIGAN

COMBINING STATEMENT OF REVENUES,

EXPENDITURES AND CHANGES IN FUND BALANCE

DEBT SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2003)

	SPECIAL ASSESSMENTS	GENERAL OBILIGATIONS	BUILDING AUTHORITY	TOTAL 2004	TOTAL 2003
REVENUES					
Special assessments	$ 77,632	$	$	$ 77,632	$ 88,683
Interest	18,351		7	18,358	70,816
TOTAL REVENUES	95,983		7	95,990	159,499
EXPENDITURES					
Other	21,719			21,719	63,755
Bond/loan principal	55,000	22,504	15,000	92,504	89,515
Interest on fiscal charges	21,846	19,478	18,874	60,198	63,612
TOTAL EXPENDITURES	98,565	41,982	33,874	174,421	216,882
DEFICIENCY OF REVENUES OVER EXPENDITURES	(2,582)	(41,982)	(33,867)	(78,431)	(57,383)
OTHER FINANCING SOURCES					
Operating transfers in		41,982	33,874	75,856	76,475
Bond proceeds					50,000
TOTAL OTHER FINANCING SOURCES		41,982	33,874	75,856	126,475
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(2,582)		7	(2,575)	69,092
FUND BALANCE, JULY 1	101,625		242	101,867	32,775
FUND BALANCE, JUNE 30	$ 99,043	$	$ 249	$ 99,292	$ 101,867

CAPITAL PROJECT FUNDS

Capital Project Funds are designed to account for the resources expended to acquire assets of a relatively permanent nature. These funds satisfy the special accounting requirements for bond proceeds and projects utilizing more than one funding source.

Capital Project Funds provide a formal mechanism which enables administrators to ensure that revenues dedicated to a certain purpose are used only for that purpose and further enables them to report to creditors and other grantors of Capital Project Funds revenues that their requirements regarding the use of the revenue were fully satisfied.

The City's Capital Project Fund is Capital Improvements.

CITY OF MASON, MICHIGAN

BALANCE SHEET

CAPITAL PROJECTS FUND

CAPITAL IMPROVEMENTS

JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2003)

	2004	2003
ASSETS		
Cash and cash equivalents	$ 70,960	$ 176,862
FUND BALANCE		
Reserved	$ 70,960	$ 176,862

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE

CAPITAL PROJECTS FUND

FOR THE YEAR ENDED JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2003)

	TOTAL	
	2004	2003
REVENUES		
Interest	$ 1,026	$ 2,842
State revenue	17,900	102,458
Contributions and donations		208,892
TOTAL REVENUES	18,926	314,192
EXPENDITURES		
Capital outlay	124,836	409,364
Loan payment	18,000	17,000
Interest	5,882	6,702
TOTAL EXPENDITURES	148,718	433,066
DEFICIENCY OF REVENUES OVER EXPENDITURES	(129,792)	(118,874)
OTHER FINANCING SOURCES		
Transfers in	23,890	113,685
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(105,902)	(5,189)
FUND BALANCE, JULY 1	176,862	182,051
FUND BALANCE, JUNE 30	$ 70,960	$ 176,862

INTERNAL SERVICE FUNDS

Internal Service Funds are established to finance and account for services and/or commodities furnished by a designated program to other programs within the City. Since the services and commodities are supplied exclusively to programs under the City's jurisdiction, they are distinguishable from those services which are rendered to the public in general and which are accounted for in General, Special Revenue or Enterprise Funds.

The City's Motor Vehicle Pool is operated as an Internal Service Fund.

CITY OF MASON, MICHIGAN

BALANCE SHEET

INTERNAL SERVICE FUND

JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2003)

	TOTAL	
	2004	2003
ASSETS		
Cash	$ 241,881	$ 182,904
Accounts receivable	26	-
Due from other funds	8,146	-
Land, buildings and equipment	1,540,025	1,483,298
Less: accumulated depreciation	(1,211,812)	(1,092,052)
TOTAL ASSETS	$ 578,266	$ 574,150
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable	$	$ 3,227
Due to other funds	45	12,260
Deferred revenue	1,730	
TOTAL LIABILITIES	1,775	15,487
EQUITY		
Contributed capital	81,497	81,497
Retained earnings		
Unreserved	494,994	477,166
TOTAL EQUITY	576,491	558,663
TOTAL LIABILITIES AND EQUITY	$ 578,266	$ 574,150

CITY OF MASON, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND

CHANGES IN FUND NET ASSETS

INTERNAL SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2003)

	TOTAL	
	2004	2003
OPERATING REVENUES		
Charges for services	$ 303,271	$ 316,641
Other	4,562	9,208
TOTAL OPERATING REVENUES	307,833	325,849
OPERATING EXPENSES		
Personnel costs	40,556	64,848
Contractual services	8,877	18,580
Supplies	49,135	52,280
Public utilities	5,862	4,341
Depreciation	130,172	153,182
Maintenance	30,394	11,680
TOTAL OPERATING EXPENSES	264,996	304,911
INCOME FROM OPERATIONS	42,837	20,938
NONOPERATING REVENUES (EXPENSES)		
Interest income	1,425	2,152
INCOME BEFORE OPERATING TRANSFERS	44,262	23,090
OTHER FINANCING SOURCES (USES)		
Transfers in		500
Transfers out	(26,435)	(88,825)
TOTAL OTHER FINANCING SOURCES (USES)	(26,435)	(88,325)
NET INCOME (LOSS)	17,827	(65,235)
NET ASSETS, JULY 1	477,166	542,401
NET ASSETS, JUNE 30	$ 494,993	$ 477,166

CITY OF MASON, MICHIGAN

STATEMENT OF CASH FLOWS

INTERNAL SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2003)

	TOTALS	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 42,837	$ 20,938
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	130,172	153,182
(Increase) decrease in		
Receivables	(26)	
Due from other funds	(8,146)	5,419
Increase (decrease) in		
Accounts payable	(3,227)	3,226
Due to other funds	(12,215)	12,260
Deferred revenue	1,730	
NET CASH PROVIDED BY OPERATING ACTIVITIES	151,125	195,025
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in		500
Transfers out	(26,435)	(88,825)
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	(26,435)	(88,325)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(67,138)	(76,241)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	1,425	2,152
NET INCREASE IN CASH AND CASH EQUIVALENTS	58,977	32,611
CASH AND CASH EQUIVALENTS, JULY 1	182,904	150,293
CASH AND CASH EQUIVALENTS, JUNE 30	$ 241,881	$ 182,904

PERMANENT FUNDS

Permanent Funds are established to administer resources received and held by a governmental unit as the trustee or as the agent for others. Use of these funds facilitates the discharge of responsibilities placed upon the governmental unit by virtue of law or other similar authority.

The City's Permanent Funds are Cemetery Trust and Rayner Bond.

CITY OF MASON, MICHIGAN

COMBINING BALANCE SHEET

PERMANENT FUNDS

JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR JUNE 30, 2003)

	CEMETERY TRUST	RAYNER BOND	TOTAL 2004	TOTAL 2003
ASSETS				
Cash and cash equivalents	$	$ 397,042	$ 397,042	$ 118,975
Restricted cash	280,453		280,453	44,004
Investment - at cost				250,000
Restricted investment - at cost				230,000
Accounts receivable				7,364
TOTAL ASSETS	$ 280,453	$ 397,042	$ 677,495	$ 650,343
FUND BALANCE				
Reserved	$ 280,453	$	$ 280,453	$ 277,550
Unreserved		397,042	397,042	372,793
TOTAL FUND BALANCE	$ 280,453	$ 397,042	$ 677,495	$ 650,343

CITY OF MASON, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE

PERMANENT FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2003)

	CEMETERY TRUST	RAYNER BOND	TOTAL 2004	TOTAL 2003
REVENUES				
Charges for services	$ 4,303	$	$ 4,303	$ 6,845
Interest and royalties	8,010	29,274	37,284	57,936
TOTAL REVENUES	12,313	29,274	41,587	64,781
EXPENDITURES				
Other				792
EXCESS OF REVENUES OVER EXPENDITURES	12,313	29,274	41,587	63,989
OTHER FINANCING USES				
Operating transfers out	(9,410)	(5,025)	(14,435)	(109,498)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES	2,903	24,249	27,152	(45,509)
FUND BALANCE, JULY 1	277,550	372,793	650,343	695,852
FUND BALANCE, JUNE 30	$ 280,453	$ 397,042	$ 677,495	$ 650,343

GENERAL LONG-TERM DEBT ACCOUNT GROUP

General obligation bonds and other forms of long-term debt supported by general revenues are obligations of the governmental unit as a whole and not its individual constituent funds. Also, the proceeds of such debt may be spent on facilities which are utilized in the operations of several funds. For these reasons, the amount of such unmatured long-term indebtedness is recorded and accounted for in a separate self-balancing group of accounts titled "General Long-Term Debt Account Group."

CITY OF MASON, MICHIGAN

STATEMENT OF GENERAL LONG-TERM DEBT

GENERAL LONG-TERM DEBT ACCOUNT GROUP

JUNE 30, 2004

AMOUNTS AVAILABLE AND TO BE PROVIDED FOR PAYMENT OF LONG-TERM DEBT		
Amount available in Debt Service Funds	$	99,287
Amount to be provided for payment of long-term debt		1,182,371
Amount to be provided by City for accumulated vacation and sick pay		617,896
TOTAL	$	1,899,554
GENERAL LONG-TERM DEBT PAYABLE		
4.9% Bank note for computer purchase dated August 12, 1998	$	12,559
4.9% Bank note for Honeywell System dated April 22, 1994		102,000
4.8% Bank note for 416 & 426 Park Street dated June 29, 2002		277,835
4.9% Bank note for 502 S. Park Street dated April 11, 2003		104,264
4.9% Special Assessment Bonds, Series 1998		60,000
4.9% Special Assessment Bonds, Series 1999		40,000
3.0% Special Assessment Bonds, Series 2002		20,000
4.3% - 5.0% Special Assessment Bonds, Series 2001		170,000
4.45% - 5.5% Special Assessment Bonds, Series 1996		110,000
3.85% 5.15% Building Authority Bonds, Series 1997		385,000
Accumulated unpaid vacation and sick pay		617,896
	$	1,899,554

SINGLE AUDIT REPORT

Layton & Richardson, P.C.

Certified Public Accountants

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Mason
Mason, Michigan

We have audited the general-purpose financial statements of the City of Mason, Michigan as of and for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Mason, Michigan's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Mason, Michigan, in a separate letter dated August 12, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mason, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Mason, Michigan, in a separate letter dated August 12, 2004.

This report is intended solely for the information and use of management, others within the organization, the Honorable Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
August 12, 2004

Layton & Richardson, P.C.
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council
City of Mason
Mason, Michigan

Compliance

We have audited the compliance of the City of Mason, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The City of Mason, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Mason, Michigan's management. Our responsibility is to express an opinion on the City of Mason, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about the City of Mason, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Mason, Michigan's compliance with those requirements.

In our opinion, the City of Mason, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Mason, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Mason, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Honorable Mayor and City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
August 12, 2004

CITY OF MASON, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2004

A. **SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Mason.

2. No reportable conditions relating to the audit of the financial statements are reported.

3. No instances of noncompliance material to the financial statements of the City of Mason were disclosed during the audit.

4. No reportable conditions relating to the audit of the major federal award programs are reported.

5. The auditor's report on compliance for the major federal award programs for the City of Mason expresses an unqualified opinion.

6. There are no audit findings relative to the major federal award programs for the City of Mason.

7. The program tested as a major program was: Community Development Block Grant, CFDA No. 14.228.

8. The threshold for distinguishing Types A and B programs was $500,000.

9. City of Mason was determined to be a low-risk auditee.

B. **FINDINGS - FINANCIAL STATEMENT AUDIT**

None.

C. **FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

CITY OF MASON, MICHIGAN

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	LOAN PERIOD FROM	LOAN PERIOD TO	LOAN BALANCE
Department of Housing and Urban Development/Michigan Department of Commerce					
Community Development Block Grant - Loan	14.228	MSC960024-EDIG	01-01-99	6-30-04	$ 852,923

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LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Council
City of Mason
Mason, Michigan

We have examined the financial statements of the City of Mason, Michigan for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. As part of our audit, we made a study and evaluation of the City's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the City of Mason is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system.

PRIOR YEAR FINDINGS

PAYROLL

Employee W-4 information should be updated annually. **Management response: This has been implemented.**

For the firefighters' annual pay, the only back-up information the payroll clerk receives is a spreadsheet printout detailing pay for responses, meetings and fixed amounts. This spreadsheet is created by one of the volunteers. There is no signature from the volunteer or the fire chief. We recommend the spreadsheet be signed by both the volunteer and the fire chief. This will increase control over payroll, verify the amount of pay is accurate, and authorize the payroll expense. **Management response: This has been implemented.**

We recommend payroll checks be hand delivered at least once a year, by the finance department. This helps to increase controls over payroll, and verifies all payroll checks are printed for current and existing employees. **Management response: City Council declined to implement.**

CURRENT YEAR FINDINGS

CASH RECEIPTS

Checks are not stamped "For Deposit Only" immediately after opening the mail. We recommend endorsing incoming checks "For Deposit Only" immediately upon receipt. This will help prevent fraud and will improve internal controls over cash receipts

The person who opens the mail (the clerk) is generally the same person who enters the cash receipts into the computer and cash drawer. We recommend segregating duties so that mail is opened by an individual who does not enter the receipts into the computer. This increase in segregation of duties will help prevent the opportunity for fraud and will improve internal controls over cash receipts.

ACCOUNTS PAYABLE

Accounts payable listings at year end are not prepared. Such a listing should include all items (and their related dollar amounts) that make up the balance as of June 30. Current procedures carry forward balances from year to year showing increases and decreases. Utilizing this method does not lend itself to facilitating proper verification that an accurate cut-off of accounts payable has been accomplished.

We are grateful to the officials and employees of the City of Mason for the assistance and cooperation which we received during the audit, and we thank them.

Very truly yours,

Layton + Richardson

Certified Public Accountants

East Lansing, Michigan
August 12, 2004