

**CITY OF BRONSON  
BRANCH COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

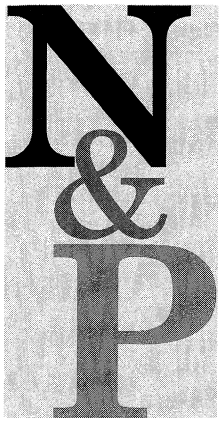
**JUNE 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and  
Members of the City Council  
City of Bronson, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

Bruce S. A. Gosling, CPA, CVA  
Michael R. Wilson, CPA  
Ricky L. Strawser, CPA  
Dwight M. Blodgett, CPA

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter – Change in Accounting Principle

As discussed in Note 12 to the financial statements, the City of Bronson implemented Governmental Accounting Standards Board Statement No 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

## Other Matters

Required Supplementary Information – Accounting principles generally accepted in the United States of America require that *management's discussion and analysis and budgetary comparison information*, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information – Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Bronson's basic financial statements. The additional supplementary information, as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014, on our consideration of the City of Bronson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bronson's internal control over financial reporting and compliance.

October 15, 2014

Norman & Paulsen, P.C.

## **CITY OF BRONSON**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the City of Bronson financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the City's financial statements.

#### **Financial Highlights**

The City's overall financial position increased by \$14,385 during the fiscal year ended June 30, 2014, which represents 0.2 percent of the net position at the beginning of the year. Included in the City's total net position of \$6,361,588 are the Sewage Disposal System Fund net position of \$2,874,768 and the Water Supply System Fund net position of \$1,626,646. The Sewage Disposal System's net position decreased by \$50,947 and the Water Supply System's net position increased by \$3,787.

The City's Governmental Funds reflected a total fund balance at June 30, 2014 of \$530,387, which was an increase of \$68,524 from the prior year end.

The total Governmental Fund expenditures for the year ended June 30, 2014, amounted to \$1,143,217, of which \$489,888 (43 percent) was for public safety and \$364,456 (32 percent) was for public works and streets.

#### **Using This Annual Report**

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# CITY OF BRONSON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### The City as a Whole

The following table shows, in a condensed format, the net position as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets	\$ 604	\$ 485	\$ 4,935	\$ 4,987
Liabilities	74	23	434	438
Fund Equity				
Invested in capital assets, net of related debt	-	-	2,798	2,947
Retained Earnings				
Restricted	-	-	25	25
Unreserved	-	-	1,678	1,577
Fund Balances				
Nonspendable	49	28	-	-
Restricted	104	51	-	-
Committed	63	61	-	-
Unassigned	<u>314</u>	<u>322</u>	<u>-</u>	<u>-</u>
Total Fund Equity	<u>\$ 530</u>	<u>\$ 462</u>	<u>\$ 4,501</u>	<u>\$ 4,549</u>



# CITY OF BRONSON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity increased by 14.8 percent or \$68,524 from a year ago. In contrast the prior year's governmental fund equity increased by 7.5 percent or \$32,219.

The City's enterprise fund equity decreased by 1.0 percent or \$47,160 from a year ago. In contrast the prior year's enterprise fund equity decreased by 1.5 percent or \$69,335.

The following table shows, in a condensed format, the net position of the current year compared to the prior year as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Current and other assets	\$ 960	\$ 792	\$ 1,750	\$ 1,639
Capital assets	<u>979</u>	<u>1,104</u>	<u>3,185</u>	<u>3,348</u>
Total assets	1,939	1,896	4,935	4,987
Long-term debt outstanding	16	42	386	402
Other liabilities	<u>63</u>	<u>55</u>	<u>48</u>	<u>36</u>
Total liabilities	79	97	434	438
Net position				
Invested in capital assets, net of related debt	963	1,061	2,798	2,947
Restricted	111	56	25	25
Unrestricted	<u>786</u>	<u>682</u>	<u>1,678</u>	<u>1,577</u>
Total net position	<u>\$ 1,860</u>	<u>\$ 1,799</u>	<u>\$ 4,501</u>	<u>\$ 4,549</u>

# CITY OF BRONSON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net position during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenue				
Property taxes	\$ 650	\$ 669	\$ 36	\$ 35
Licenses and permits	11	10	-	-
Intergovernmental	443	420	-	-
Charges for services	71	73	593	588
Fines and forfeits	14	12	-	-
Other	22	17	20	23
Loan proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	1,211	1,201	649	646
Program expenses				
General government	193	157	-	-
Public safety	490	478	-	-
Public works	175	214	-	-
Parks and recreation	51	48	-	-
Highways and streets	189	216	-	-
Community development	16	19	-	-
Debt service	29	37	-	-
Sewer system	-	-	308	320
Water system	-	-	171	174
Depreciation	-	-	197	200
Interest expense	<u>-</u>	<u>-</u>	<u>20</u>	<u>21</u>
Total expenses	<u>1,143</u>	<u>1,169</u>	<u>696</u>	<u>715</u>
Excess (deficit)	<u>\$ 68</u>	<u>\$ 32</u>	<u>\$ (47)</u>	<u>\$ (69)</u>

# CITY OF BRONSON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net position during the current year as compared to the prior year as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
<b>Revenues</b>				
Program revenues				
Charges for services	\$ 119	\$ 129	\$ 593	\$ 588
Operating grants and contributions	196	180	-	-
Capital grants and contributions	-	-	-	-
General revenues				
Property taxes	650	669	36	35
State shared revenues	259	250	-	-
Unrestricted investment earnings	3	2	3	6
Gain (loss) on sale	-	-	-	-
Miscellaneous	<u>28</u>	<u>2</u>	<u>17</u>	<u>17</u>
Total revenues	1,255	1,232	649	646
<b>Expenses</b>				
General government	323	321	-	-
Public safety	505	473	-	-
Public works	307	368	-	-
Parks and recreation	56	53	-	-
Community development	-	4	-	-
Interest on long-term debt	2	4	-	-
Sewer system	-	-	466	482
Water system	<u>-</u>	<u>-</u>	<u>230</u>	<u>233</u>
Total expenses	<u>1,193</u>	<u>1,223</u>	<u>696</u>	<u>715</u>
Change in net position	<u>\$ 62</u>	<u>\$ 9</u>	<u>\$ (47)</u>	<u>\$ (69)</u>

### The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended June 30, 2014 include the General Fund.

The General fund pays for most of the City's governmental services. The primary services include police and fire services, and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes and state shared revenues.

## **CITY OF BRONSON**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **General Fund Budgetary Highlights**

As shown in the required supplemental information, the City budgeted a decrease of \$27,690 in the original budget and a decrease of \$2,940 in the amended budget. Actual operating results ended up as an increase of \$13,601.

The actual results ended the fiscal year within \$16,541 of the amended budget.

#### **Capital Assets and Debt Administration**

During the year ended June 30, 2014, the total capital assets of the City increased by \$33,457. This amount was comprised entirely of water system improvements.

During the year ended June 30, 2014, the City incurred no additional long-term debt borrowings and made principal payments of \$42,808. Total debt obligations at June 30, 2014, amounted to \$401,813.

#### **Economic Factors and Next Year's Budgets and Rates**

Government – wide, balanced budgets are anticipated due to the extensive cost cutting of the previous three years, while the future appears more stable with a smaller workforce and better capital planning. The 2014-2015 budget was adopted with a \$17,859 projected excess of expenditures over revenues.

Property tax revenue and investment income are projected to continue to decrease. State revenue sharing is expected to see small increases over the prior years. Act 51 Gas Tax revenue continues to fall short of the funding necessary for street maintenance. The General Fund continues to make up the shortfall for street maintenance in the Major and Local Street Funds.

Water and Sewer rates continue to be revised annually to reflect the required cash flow to run an effective water supply and wastewater treatment system. To maintain the integrity of the City's Water and Sewer Systems a capital improvement plan was developed.

City Staff are dedicated to maintaining a high level of service for our citizens. We will continue to do our best while working with a smaller revenue stream.

#### **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 City office.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF BRONSON**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 831,443	\$ 1,614,425	\$ 2,445,868
Receivables, net	32,269	92,345	124,614
Internal balances	(601)	601	-
Prepaid and other assets	58,649	18,209	76,858
Restricted assets	-	24,989	24,989
Loans receivable, net	37,664	-	37,664
Capital assets, net	<u>979,265</u>	<u>3,184,605</u>	<u>4,163,870</u>
Total assets	1,938,689	4,935,174	6,873,863
<b>LIABILITIES</b>			
Accounts payable	22,162	23,464	45,626
Accrued and other liabilities	17,540	24,296	41,836
Debt obligations:			
Due within one year	15,813	16,000	31,813
Due in more than one year	-	370,000	370,000
Compensated absences	<u>23,000</u>	<u>-</u>	<u>23,000</u>
Total liabilities	<u>78,515</u>	<u>433,760</u>	<u>512,275</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	963,452	2,798,605	3,762,057
Restricted for:			
Public safety	6,176	-	6,176
Streets	104,480	-	104,480
Debt service	-	24,989	24,989
Unrestricted	<u>786,066</u>	<u>1,677,820</u>	<u>2,463,886</u>
Total net position	<u>\$ 1,860,174</u>	<u>\$ 4,501,414</u>	<u>\$ 6,361,588</u>

See accompanying notes to financial statements

# CITY OF BRONSON

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 323,136	\$ 102,820	\$ 8,540	\$ -
Public safety	505,085	14,254	2,655	-
Public works	306,665	-	184,407	-
Parks and recreation	55,777	1,670	-	-
Interest on long-term debt	<u>1,808</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	1,192,471	118,744	195,602	-
Business-type activities:				
Sanitary sewer	466,293	367,842	-	-
Water	<u>230,273</u>	<u>225,261</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>696,566</u>	<u>593,103</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 1,889,037</u>	<u>\$ 711,847</u>	<u>\$ 195,602</u>	<u>\$ -</u>

### General revenues:

Property taxes

State shared revenues

Unrestricted investment earnings

Miscellaneous

Total general revenues

CHANGE IN NET POSITION

NET POSITION - BEGINNING OF YEAR

NET POSITION - END OF YEAR

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Position  
Primary Government

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (211,776)	\$ -	\$ (211,776)
(488,176)	-	(488,176)
(122,258)	-	(122,258)
(54,107)	-	(54,107)
<u>(1,808)</u>	<u>-</u>	<u>(1,808)</u>
(878,125)	-	(878,125)
-	(98,451)	(98,451)
<u>-</u>	<u>(5,012)</u>	<u>(5,012)</u>
<u>-</u>	<u>(103,463)</u>	<u>(103,463)</u>
(878,125)	(103,463)	(981,588)
650,332	36,084	686,416
258,664	-	258,664
3,125	3,358	6,483
<u>27,549</u>	<u>16,861</u>	<u>44,410</u>
<u>939,670</u>	<u>56,303</u>	<u>995,973</u>
61,545	(47,160)	14,385
<u>1,798,629</u>	<u>4,548,574</u>	<u>6,347,203</u>
<u>\$ 1,860,174</u>	<u>\$ 4,501,414</u>	<u>\$ 6,361,588</u>



## **FUND FINANCIAL STATEMENTS**

**CITY OF BRONSON**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2014**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 343,086	\$ 141,230	\$ 484,316
Accounts receivable	3,679	-	3,679
Due from other funds	-	79	79
Due from other governments	-	28,590	28,590
Prepaid and other assets	42,166	7,271	49,437
Loans receivable	<u>-</u>	<u>37,664</u>	<u>37,664</u>
 Total assets	 <u>\$ 388,931</u>	 <u>\$ 214,834</u>	 <u>\$ 603,765</u>
 <b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 10,984	\$ 6,648	\$ 17,632
Accrued and other liabilities	14,539	2,851	17,390
Due to other funds	<u>692</u>	<u>-</u>	<u>692</u>
 Total liabilities	 26,215	 9,499	 35,714
 <b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable rehab project revenues	-	37,664	37,664
 <b>FUND BALANCE</b>			
Nonspendable:			
Prepaid expenditures	42,166	7,271	49,437
Restricted for:			
Public safety	6,176	-	6,176
Streets	-	97,644	97,644
Committed for:			
Fire protection equipment	-	2,714	2,714
Cemetery	-	35,105	35,105
Community development	-	24,937	24,937
Unassigned	<u>314,374</u>	<u>-</u>	<u>314,374</u>
 Total fund balance	 <u>362,716</u>	 <u>167,671</u>	 <u>530,387</u>
 Total liabilities, deferred inflows of resources and fund balance	 <u>\$ 388,931</u>	 <u>\$ 214,834</u>	 <u>\$ 603,765</u>

See accompanying notes to financial statements

**CITY OF BRONSON**

**GOVERNMENTAL FUNDS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2014**

Total governmental fund balances \$ 530,387

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Governmental capital assets	\$ 2,337,255	
Less accumulated depreciation	<u>(1,390,479)</u>	946,776

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay current expenditures. These assets are offset by unavailable revenues in the governmental funds and, therefore, not included in fund balance.

37,664

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Note payable	(15,813)
Compensated absences	(23,000)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities.

Net position of the internal service funds	<u>384,160</u>
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Net position of governmental activities	<u>\$ 1,860,174</u>
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See accompanying notes to financial statements

**CITY OF BRONSON**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2014**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 624,588	\$ 25,744	\$ 650,332
Licenses and permits	11,196	-	11,196
Intergovernmental	258,664	184,406	443,070
Charges for services	65,683	6,633	72,316
Fines and forfeits	14,254	-	14,254
Miscellaneous	<u>5,041</u>	<u>15,532</u>	<u>20,573</u>
Total revenues	979,426	232,315	1,211,741
<b>EXPENDITURES</b>			
General government	193,484	-	193,484
Public safety	489,888	-	489,888
Public works	175,384	-	175,384
Parks and recreation	50,569	-	50,569
Highways and streets	-	189,072	189,072
Community enrichment, development and services	-	16,203	16,203
Debt service	<u>-</u>	<u>28,617</u>	<u>28,617</u>
Total expenditures	<u>909,325</u>	<u>233,892</u>	<u>1,143,217</u>
Excess (deficiency) of revenues over expenditures	70,101	(1,577)	68,524
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	-	71,500	71,500
Operating transfers out	<u>(56,500)</u>	<u>(15,000)</u>	<u>(71,500)</u>
Total other financing sources (uses)	<u>(56,500)</u>	<u>56,500</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	13,601	54,923	68,524
FUND BALANCE - Beginning of year	<u>349,115</u>	<u>112,748</u>	<u>461,863</u>
FUND BALANCE - End of year	<u>\$ 362,716</u>	<u>\$ 167,671</u>	<u>\$ 530,387</u>

See accompanying notes to financial statements

# CITY OF BRONSON

## GOVERNMENTAL FUNDS RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014

Net change in fund balances - total governmental funds	\$	68,524
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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	-
Depreciation expense	(80,866)

Revenues in the statements of activities that do not provide current resources are not reported as revenues in the funds, but rather are deferred to subsequent fiscal years.

Decrease of rehab projects receivables	12,323
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Loan proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of assets.

Proceeds from debt obligations	-
Principal payments on debt obligations	26,808

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 the funds.

Decrease in the accrual for compensated absences	7,000
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Internal service funds are used by management to charge the cost of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

Net change from internal service funds related to governmental activities	<u>27,756</u>
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Change in net position of governmental activities	\$	<u>61,545</u>
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See accompanying notes to financial statements

**CITY OF BRONSON**

**PROPRIETARY FUNDS**

**STATEMENT OF NET POSITION**

**JUNE 30, 2014**

	Sewage Disposal System <u>Fund</u>	Water Supply System <u>Fund</u>	<u>Total</u>	Motor Pool Internal Service <u>Fund</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 4,846	\$ 4,579	\$ 9,425	\$ 347,127
Investments	755,200	849,800	1,605,000	-
Accounts receivable	58,307	34,038	92,345	-
Due from other funds	421	180	601	12
Prepaid and other assets	<u>12,982</u>	<u>5,227</u>	<u>18,209</u>	<u>9,212</u>
Total current assets	831,756	893,824	1,725,580	356,351
<b>NONCURRENT ASSETS</b>				
Restricted assets	24,989	-	24,989	-
Capital assets, net of depreciation	<u>2,432,856</u>	<u>751,749</u>	<u>3,184,605</u>	<u>32,489</u>
Total noncurrent assets	<u>2,457,845</u>	<u>751,749</u>	<u>3,209,594</u>	<u>32,489</u>
Total assets	3,289,601	1,645,573	4,935,174	388,840
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	14,762	8,702	23,464	4,530
Accrued and other liabilities	14,071	10,225	24,296	150
Current portion of long-term debt	16,000	-	16,000	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	44,833	18,927	63,760	4,680
<b>NONCURRENT LIABILITIES</b>				
Long-term debt, net of current portion	<u>370,000</u>	<u>-</u>	<u>370,000</u>	<u>-</u>
Total liabilities	<u>414,833</u>	<u>18,927</u>	<u>433,760</u>	<u>4,680</u>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	2,046,856	751,749	2,798,605	32,489
Restricted for debt service	24,989	-	24,989	-
Unrestricted	<u>802,923</u>	<u>874,897</u>	<u>1,677,820</u>	<u>351,671</u>
Total net position	<u>\$ 2,874,768</u>	<u>\$ 1,626,646</u>	<u>\$ 4,501,414</u>	<u>\$ 384,160</u>

See accompanying notes to financial statements

**CITY OF BRONSON**

**PROPRIETARY FUNDS**

**STATEMENT OF REVENUES, EXPENSES,**

**AND CHANGES IN NET POSITION**

**YEAR ENDED JUNE 30, 2014**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
OPERATING REVENUE				
Charges for services	\$ 367,842	\$ 225,261	\$ 593,103	\$ 148,776
OPERATING EXPENSES				
Operating and administrative	307,846	171,214	479,060	78,238
Depreciation	<u>138,347</u>	<u>59,059</u>	<u>197,406</u>	<u>43,572</u>
Total operating expenses	<u>446,193</u>	<u>230,273</u>	<u>676,466</u>	<u>121,810</u>
OPERATING INCOME (LOSS)	(78,351)	(5,012)	(83,363)	26,966
NONOPERATING REVENUE (EXPENSES)				
Property taxes	36,084	-	36,084	-
Investment income	930	2,428	3,358	790
Other revenue	10,490	6,371	16,861	-
Interest expense	<u>(20,100)</u>	<u>-</u>	<u>(20,100)</u>	<u>-</u>
Total nonoperating revenue (expense)	<u>27,404</u>	<u>8,799</u>	<u>36,203</u>	<u>790</u>
CHANGE IN NET POSITION	(50,947)	3,787	(47,160)	27,756
NET POSITION - BEGINNING OF YEAR	<u>2,925,715</u>	<u>1,622,859</u>	<u>4,548,574</u>	<u>356,404</u>
NET POSITION - ENDING OF YEAR	<u>\$ 2,874,768</u>	<u>\$ 1,626,646</u>	<u>\$ 4,501,414</u>	<u>\$ 384,160</u>

See accompanying notes to financial statements

**CITY OF BRONSON  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2014**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Cash flows from operating activities				
Receipts from customers	\$ 365,716	\$ 228,819	\$ 594,535	\$ -
Receipts for internal services	-	-	-	148,776
Payments to employees and suppliers	<u>(312,275)</u>	<u>(161,999)</u>	<u>(474,274)</u>	<u>(85,243)</u>
Net cash provided (used) by operating activities	53,441	66,820	120,261	63,533
Cash flows from non-capital financing activities				
Other receipts	10,490	6,371	16,861	-
Cash flows from capital and related financing activities				
Property taxes	36,084	-	36,084	-
Principal paid on debt	(16,000)	-	(16,000)	-
Interest paid on debt	(20,100)	-	(20,100)	-
Acquisition of capital assets	-	(33,457)	(33,457)	-
Proceeds from sale of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	(16)	(33,457)	(33,473)	-
Cash flows from investing activities				
Interest received on investments	<u>1,254</u>	<u>2,765</u>	<u>4,019</u>	<u>864</u>
Net increase (decrease) in cash	65,169	42,499	107,668	64,397
Cash and Cash Equivalents - Beginning of Year	<u>719,866</u>	<u>811,880</u>	<u>1,531,746</u>	<u>282,730</u>
Cash and Cash Equivalents - End of Year	<u>\$ 785,035</u>	<u>\$ 854,379</u>	<u>\$ 1,639,414</u>	<u>\$ 347,127</u>

See accompanying notes to financial statements



**CITY OF BRONSON**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS - Continued**  
**YEAR ENDED JUNE 30, 2014**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (78,351)	\$ (5,012)	\$ (83,363)	\$ 26,966
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	138,347	59,059	197,406	43,572
(Increase) decrease in:				
Accounts receivable	(2,126)	3,558	1,432	-
Other current assets	(6,235)	(656)	(6,891)	(8,731)
Increase (decrease) in:				
Accounts payable	2,849	7,845	10,694	1,726
Accrued liabilities	(1,043)	2,026	983	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 53,441</u>	<u>\$ 66,820</u>	<u>\$ 120,261</u>	<u>\$ 63,533</u>

See accompanying notes to financial statements

**CITY OF BRONSON  
FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	<u>\$ 101</u>
<b>LIABILITIES</b>	
Due to other governmental units	<u>\$ 101</u>

See accompanying notes to financial statements

## **CITY OF BRONSON**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Bronson is incorporated under the provisions of the Home Rule Act of the State of Michigan. The City of Bronson operates under a Council - Manager form of government and provides the following services as authorized by its charter: Public safety (police, fire, and inspections), highways and streets, public utilities, sanitation, health and social services, culture, parks and recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Bronson conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

#### **Reporting Entity**

As required by generally accepted accounting principles these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. There are no component units to be included in these financial statements.

**Basis of Accounting - Government-Wide Financial Statements -** The statement of net position and the statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling-up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

## CITY OF BRONSON

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**Basis of Accounting - Fund Financial Statements** - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- \* Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- \* Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

## CITY OF BRONSON

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The City reports the following major funds:

**General Fund** - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

#### **Enterprise Funds**

**Water Supply System Fund** - To account for user charges and for operating expenses and debt service of the City's water system.

**Sewage Disposal System Fund** - To account for user charges and for operating expenses and debt service of the City's sewer system.

The following is a description of three major categories and various fund types within those categories into which the funds are grouped:

**Governmental Fund** - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Revenue Recognition** - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

**Expenditure Recognition** - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

## CITY OF BRONSON

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the governmental fund types of the City:

**General Fund** - The general fund is the general operating fund of the City. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

**Proprietary Funds** - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following is a description of the proprietary fund types of the City:

**Enterprise Funds** - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

**Internal Service Funds** - Internal service funds are used to record the financing of goods or services provided by the City to other departments and funds or to other governmental units on a cost reimbursement basis.

## CITY OF BRONSON

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following is a description of the proprietary fund types of the City: continued

**Fiduciary Funds (Not Included in Government-Wide Financial Statements)** - Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

**Agency Funds** - Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Budgets and Budgetary Accounting** - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The City adopts its budget in accordance with City Charter and Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- \* Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- \* Public hearings are conducted at the City hall to obtain public comments.
- \* Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Council. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary.
- \* All budget appropriations lapse at the end of the year.
- \* Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

## **CITY OF BRONSON**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014**

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

**Deposits and Investments** - Statutes authorize the primary government and component units to invest in the following:

- \* In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- \* In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- \* In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- \* In United States government or federal agency obligation repurchase agreements.
- \* In banker's acceptances of United States banks.
- \* In obligations of this state 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.
- \* In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.



## CITY OF BRONSON

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Receivables and Payables** - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on July 1 of the following year and are payable from the date of levy through August 15. Taxes are recognized as revenue (and become available for appropriation) in the fiscal year of the levy date. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of all the taxes and remittance of them to the other taxing authorities are accounted for in the current tax fund.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Restricted Cash and Cash Equivalents** - Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**Capital Assets and Depreciation** - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Land improvements	15–40
Streets	15–20
Utility systems	30–50
Buildings and improvements	15–50
Machinery and equipment	5–20
Vehicles	2–7
Furniture and other	3–7

## CITY OF BRONSON

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Deferred Outflows of Resources** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have items that qualify for reporting as deferred outflows of resources.

**Compensated Absences** - City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. The City follows the accounting and reporting principles outlined in GASB 16, with regard to employee vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources while the proprietary funds report the liability as it is incurred.

**Long-Term Obligations** - In the government-wide financial statements and the 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, 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 the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

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 while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Deferred Inflows of Resources** - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, from rehab project loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## CITY OF BRONSON

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

**Net Position and Fund Equity** - The difference between fund assets and liabilities is “Net Position” on the government-wide, proprietary, and fiduciary fund statements and “Fund Balance” on governmental fund statements. Net Position is classified as “Invested in Capital Assets, Net of Related Debt,” legally “Restricted” for specific purpose, or “Unrestricted” and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are a) not in a spendable form or b) legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purpose because of the City Charter, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed - Amounts that can be used only for specific purpose determined by a formal action by City Council ordinance or resolution. These amounts can not be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.

Assigned - Amounts that are designated by the Manager for a particular purpose but are not spendable until a budget ordinance is passed by the City Council.

Unassigned - Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

**Use of Restricted Resources** - When an expense is incurred that can be paid using restricted or unrestricted resources (net position), the City’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City’s policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

**Use of Estimates** - The preparation of financial statements in conformity with 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.

## CITY OF BRONSON

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

#### NOTE 2 - DEPOSITS AND INVESTMENTS

The City's deposits and investments are included on the balance sheet under the following classifications:

	<u>Primary Government</u>
Statement of Net Position:	
Cash and investments	\$ 2,445,868
Restricted assets	24,989
Statement of Fiduciary Net Position:	
Cash	<u>101</u>
 Total	 <u>\$ 2,470,958</u>
 Deposits and Investments:	
Bank deposits (checking accounts and savings accounts)	\$ 865,708
Certificates of deposit	1,605,000
Cash on hand	<u>250</u>
 Total	 <u>\$ 2,470,958</u>

**Deposits** - The deposits of the City were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,473,990. Of that amount, approximately \$2,061,440 was covered by federal depository insurance and \$412,550 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution it deposits City Funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 89 percent due from other governments and 11 percent accounts receivable. Business-type activities receivables are 100 percent due from customers.

Accounts receivable in the governmental activities and the business-type activities are reported net of an allowance for uncollectible accounts of \$-0-.

# CITY OF BRONSON

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at June 30, 2014:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
Major Street Fund	\$ 40	General Fund	<u>\$ 692</u>
Local Street Fund	39		
Wastewater Fund	421		
Water Fund	180		
Motor Pool Fund	<u>12</u>		
Total	<u>\$ 692</u>		

The Due From/To Other Fund balances resulted from temporary loans to cover cash short falls in a given fund and from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Transfers consisted of the following for the year ended June 30, 2014:

<u>Fund</u>	<u>Transfers Out</u>	<u>Fund</u>	<u>Transfers In</u>
General	<u>\$ 56,500</u>	Local Street Cemetery	\$ 49,000 <u>7,500</u>
	<u>56,500</u>		<u>56,500</u>
Major Street	<u>15,000</u>	Local Street	<u>15,000</u>
Total Primary Government	<u>\$ 71,500</u>		<u>\$ 71,500</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# CITY OF BRONSON

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### NOTE 5 - LOANS RECEIVABLE

The City of Bronson issued loans in the community for the purpose of real estate improvements. These loans are non-interest bearing and collectible in varying monthly installments.

Loans receivable at June 30, 2014 \$ 37,664

Loans receivable are reported net of an allowance for uncollectible accounts of \$-0-.

### NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 434,389	\$ -	\$ -	\$ 434,389
Capital assets, being depreciated:				
Land improvements	96,344	-	-	96,344
Buildings and improvements	662,592	-	-	662,592
Machinery and equipment	962,823	-	578	962,245
Vehicles	356,246	-	-	356,246
Streets	<u>482,796</u>	<u>-</u>	<u>-</u>	<u>482,796</u>
Subtotal	2,560,801	-	578	2,560,223
Accumulated depreciation				
Land improvements	48,172	3,854	-	52,026
Buildings and improvements	419,094	14,701	-	433,795
Machinery and equipment	831,054	67,842	578	898,318
Vehicles	322,370	18,730	-	341,100
Streets	<u>270,796</u>	<u>19,312</u>	<u>-</u>	<u>290,108</u>
Subtotal	<u>1,891,486</u>	<u>124,439</u>	<u>578</u>	<u>2,015,347</u>
Net capital assets being depreciated	<u>669,315</u>			<u>544,876</u>
Net capital assets	<u>\$ 1,103,704</u>			<u>\$ 979,265</u>

**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 6 - CAPITAL ASSETS – Continued**

	Balance July 1, 2013	Additions	Disposals/ Transfers	Balance June 30, 2014
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 14,655	\$ -	\$ -	\$ 14,655
Capital assets, being depreciated:				
Sewage disposal system	5,971,930	-	1,001	5,970,929
Water supply system	<u>1,692,233</u>	<u>33,457</u>	<u>22,795</u>	<u>1,702,895</u>
Subtotal	7,664,163	33,457	23,796	7,673,824
Accumulated depreciation				
Sewage disposal system	3,403,727	138,347	1,001	3,541,073
Water supply system	<u>926,537</u>	<u>59,059</u>	<u>22,795</u>	<u>962,801</u>
Subtotal	<u>4,330,264</u>	<u>197,406</u>	<u>23,796</u>	<u>4,503,874</u>
Net capital assets being depreciated	<u>3,333,899</u>			<u>3,169,950</u>
Net capital assets	<u>\$ 3,348,554</u>			<u>\$ 3,184,605</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 44,574
Public safety	50,200
Public works	23,953
Parks and recreation	<u>5,712</u>
Total	<u>\$ 124,439</u>

Business-type activities:

Sanitary Sewer	\$ 138,347
Water	<u>59,059</u>
Total	<u>\$ 197,406</u>

**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 7 - LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
<b>Governmental Activities</b>					
Note payable - fire equipment	\$ 42,621	\$ -	\$ 26,808	\$ 15,813	\$ 15,813
Compensated absences	<u>30,000</u>	<u>-</u>	<u>7,000</u>	<u>23,000</u>	<u>-</u>
	72,621	-	33,808	38,813	15,813
<b>Business-Type Activities</b>					
General obligation bonds	<u>402,000</u>	<u>-</u>	<u>16,000</u>	<u>386,000</u>	<u>16,000</u>
Total Primary Government Long-Term Debt	<u>\$ 474,621</u>	<u>\$ -</u>	<u>\$ 49,808</u>	<u>\$ 424,813</u>	<u>\$ 31,813</u>

Long-term debt payable at June 30, 2014, consisted of the following individual issues:

**Governmental Activities**

Note payable for purchase of 2001 Pierce Dash rescue pumper truck, down payment of \$96,500 and monthly payments of \$2,201 through June 26, 2015; including interest at 4.29%	\$ 15,813
Long-term compensated absences	<u>23,000</u>
Total Governmental Activities Long-Term Liabilities	38,813



# CITY OF BRONSON

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

### NOTE 7 - LONG-TERM DEBT - Continued

#### Business-Type Activities

\$590,000 - 1993 Sewage Disposal System Improvement Bonds, due in annual installments of \$5,000 to \$23,000 through April 1, 2033; interest at 5.0%

386,000

Total Primary Government Long-Term Debt

\$ 424,813

#### Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2014 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 15,813	\$ 691	\$ 16,504
Total	<u>\$ 15,813</u>	<u>\$ 691</u>	<u>\$ 16,504</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 16,000	\$ 19,300	\$ 35,300
2016	17,000	18,500	35,500
2017	17,000	17,650	34,650
2018	18,000	16,800	34,800
2019	18,000	15,900	33,900
2020-2024	99,000	65,350	164,350
2025-2029	109,000	39,450	148,450
2030-2033	<u>92,000</u>	<u>11,500</u>	<u>103,500</u>
Total	<u>\$ 386,000</u>	<u>\$ 204,450</u>	<u>\$ 590,450</u>

## **CITY OF BRONSON**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014**

#### **NOTE 8 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

#### **NOTE 9 - RETIREMENT PLAN**

Effective July 1, 1996, the City established a defined contribution retirement plan which covers substantially all City employees except police officers. The City contributes 6.5% of compensation. For the year ended June 30, 2014, pension expense was \$24,793.

Effective July 1, 1997, the City's police officers began participating in an agent multi employer-defined pension plan with the Municipal Employee's Retirement System (MERS), administered by the State of Michigan. For the year ended June 30, 2014, pension expense was \$12,732.

#### **NOTE 10 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a fund level basis.

During the year ended June 30, 2014, the City incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control.

#### **NOTE 11 - BRONSON RURAL FIRE ASSOCIATION**

Bronson City contracts fire protection services from the Bronson Rural Fire Association; as a member with Batavia, Bethel, Bronson, Gilead, Matteson and Noble Townships. Member fees are determined by an average fire run count and a percent of State Equalized Value of township properties. For the year ended June 30, 2014, the City incurred net fire protection services expenditures in the amount of \$36,618.

## **CITY OF BRONSON**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014**

#### **NOTE 12 - NEW ACCOUNTING STANDARDS**

For the year ended June 30, 2014 the City implemented the following new pronouncements:

*GASB Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and 65 Items previously reported as Assets and Liabilities.*

#### **SUMMARY:**

These Statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

#### **NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENT**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the City's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

## **REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF BRONSON**

**REQUIRED SUPPLEMENTAL INFORMATION  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2014**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b>REVENUES</b>				
Taxes	\$ 625,624	\$ 626,347	\$ 624,588	\$ (1,759)
Licenses and permits	10,000	11,249	11,196	(53)
Intergovernmental	257,000	252,456	258,664	6,208
Charges for services	63,250	61,599	65,683	4,084
Fines and forfeits	10,500	12,013	14,254	2,241
Miscellaneous	<u>2,950</u>	<u>4,591</u>	<u>5,041</u>	<u>450</u>
Total revenues	969,324	968,255	979,426	11,171
<b>EXPENDITURES</b>				
General government	182,946	194,481	193,484	997
Public safety	498,906	497,833	489,888	7,945
Public works	183,818	173,497	175,384	(1,887)
Parks and recreation	<u>54,844</u>	<u>48,884</u>	<u>50,569</u>	<u>(1,685)</u>
Total expenditures	<u>920,514</u>	<u>914,695</u>	<u>909,325</u>	<u>5,370</u>
Excess (deficiency) of revenues over expenditures	48,810	53,560	70,101	16,541
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(76,500)</u>	<u>(56,500)</u>	<u>(56,500)</u>	<u>-</u>
Total other financing sources (uses)	<u>(76,500)</u>	<u>(56,500)</u>	<u>(56,500)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other uses	(27,690)	(2,940)	13,601	16,541
FUND BALANCE - Beginning of year	<u>349,115</u>	<u>349,115</u>	<u>349,115</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 321,425</u>	<u>\$ 346,175</u>	<u>\$ 362,716</u>	<u>\$ 16,541</u>

See accompanying notes to financial statements

## **OTHER SUPPLEMENTAL INFORMATION**

**CITY OF BRONSON**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2014**

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Sinking</u>	<u>Cemetery</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 40,443	\$ 36,431	\$ 2,714	\$ 5,141
Loans receivable	-	-	-	-
Due from other funds	40	39	-	-
Due from other governments	21,145	7,445	-	-
Prepaid and other assets	<u>3,673</u>	<u>3,163</u>	<u>-</u>	<u>435</u>
 Total assets	 <u>\$ 65,301</u>	 <u>\$ 47,078</u>	 <u>\$ 2,714</u>	 <u>\$ 5,576</u>
 <b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 3,121	\$ 2,027	\$ -	\$ 1,500
Accrued and other liabilities	1,501	1,250	-	100
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities	 4,622	 3,277	 -	 1,600
 <b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable rehab project revenues	-	-	-	-
 <b>FUND BALANCE</b>				
Nonspendable:				
Prepaid expenditures	3,673	3,163	-	435
Restricted for:				
Streets	57,006	40,638	-	-
Committed for:				
Fire protection equipment	-	-	2,714	-
Cemetery	-	-	-	3,541
Community development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total fund balance	 <u>60,679</u>	 <u>43,801</u>	 <u>2,714</u>	 <u>3,976</u>
 Total liabilities, deferred inflows of resources and fund balance	 <u>\$ 65,301</u>	 <u>\$ 47,078</u>	 <u>\$ 2,714</u>	 <u>\$ 5,576</u>

<u>Cemetery Redevelopment Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Community Development Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 10,778	\$ 20,786	\$ 24,937	\$ 141,230
-	-	37,664	37,664
-	-	-	79
-	-	-	28,590
-	-	-	7,271
<u>\$ 10,778</u>	<u>\$ 20,786</u>	<u>\$ 62,601</u>	<u>\$ 214,834</u>

\$ -	\$ -	\$ -	\$ 6,648
-	-	-	2,851
-	-	-	-
-	-	-	9,499
-	-	37,664	37,664
-	-	-	7,271
-	-	-	97,644
-	-	-	2,714
10,778	20,786	-	35,105
-	-	24,937	24,937
<u>10,778</u>	<u>20,786</u>	<u>24,937</u>	<u>167,671</u>
<u>\$ 10,778</u>	<u>\$ 20,786</u>	<u>\$ 62,601</u>	<u>\$ 214,834</u>

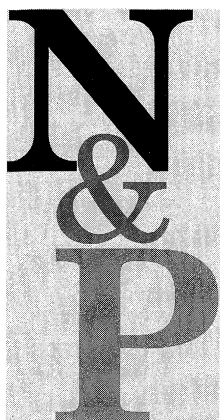


**CITY OF BRONSON**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2014**

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Sinking</u>	<u>Cemetery</u>
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 25,744	\$ -
Intergovernmental	128,513	55,893	-	-
Charges for services	-	-	-	4,983
Miscellaneous	<u>8,311</u>	<u>16</u>	<u>13</u>	<u>8</u>
Total revenues	136,824	55,909	25,757	4,991
<b>EXPENDITURES</b>				
Highways and streets	98,742	90,330	-	-
Community enrichment, development and services	-	-	-	14,860
Debt service	<u>-</u>	<u>-</u>	<u>28,617</u>	<u>-</u>
Total expenditures	<u>98,742</u>	<u>90,330</u>	<u>28,617</u>	<u>14,860</u>
Excess (deficiency) of revenues over expenditures	38,082	(34,421)	(2,860)	(9,869)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	-	64,000	-	7,500
Operating transfers out	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(15,000)</u>	<u>64,000</u>	<u>-</u>	<u>7,500</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	23,082	29,579	(2,860)	(2,369)
FUND BALANCE - Beginning of year	<u>37,597</u>	<u>14,222</u>	<u>5,574</u>	<u>6,345</u>
FUND BALANCE - End of year	<u>\$ 60,679</u>	<u>\$ 43,801</u>	<u>\$ 2,714</u>	<u>\$ 3,976</u>

Cemetery Redevelopment Fund	Cemetery Perpetual Care	Community Development Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 25,744
-	-	-	184,406
-	1,650	-	6,633
<u>94</u>	<u>52</u>	<u>7,038</u>	<u>15,532</u>
94	1,702	7,038	232,315
-	-	-	189,072
-	-	1,343	16,203
<u>-</u>	<u>-</u>	<u>-</u>	<u>28,617</u>
<u>-</u>	<u>-</u>	<u>1,343</u>	<u>233,892</u>
94	1,702	5,695	(1,577)
-	-	-	71,500
<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>56,500</u>
94	1,702	5,695	54,923
<u>10,684</u>	<u>19,084</u>	<u>19,242</u>	<u>112,748</u>
<u>\$ 10,778</u>	<u>\$ 20,786</u>	<u>\$ 24,937</u>	<u>\$ 167,671</u>



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

To the Members of the City Council  
City of Bronson, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 15, 2014.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did identify two deficiencies in internal control that we consider to be material weaknesses. However, other material weaknesses may exist that have not been identified. We consider the deficiencies described below as 2007-1 and 2007-2 to be material weaknesses.

**2007-1-Preparation of Financial Statements in Accordance with GAAP (Repeat Comment)**

- Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).
- Condition:** As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.
- Cause:** This condition was caused by management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
- Effect:** As a result of this condition, the City lacks internal control over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
- View of Responsible Officials:** Management has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

## 2007-2-Segregation of Incompatible Duties (Repeat Comment)

**Criteria:** Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

**Condition:** As is the case with many governments of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

**Cause:** This condition is a result of the City's limited resources and the small size of its accounting staff.

**Effect:** As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.

**Recommendation:** While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

**View of Responsible Officials:** The City Council is aware of the risks associated with this condition, and has made the determination that given the City's resource limitations, full segregation of duties is not feasible at this time. Accordingly, the City Council will continue to review monthly information to mitigate this risk, and rely on the annual external audit to help identify and correct misstatements, as needed.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **City of Bronson Responses to Finding**

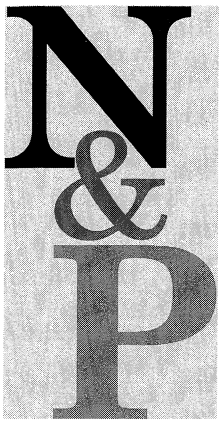
The City's responses to the findings in our audit are above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of the Report**

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

*Norman S. Paulson, P.C.*

October 15, 2014



REQUIRED COMMUNICATION TO THE CITY OF BRONSON IN  
ACCORDANCE WITH PROFESSIONAL STANDARDS

October 15, 2014

To the City Council  
City of Bronson, Michigan

**Norman & Paulsen, P.C.**

*Certified Public Accountants*

127 W. Chicago Road  
Sturgis, MI 49091  
269.651.3228  
Fax 269.651.5146

123 N. Main Street  
Three Rivers, MI 49093  
269.273.8641  
Fax 269.278.8252

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bronson for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 30, 2014. Professional standards also require that we communicate to you the following information related to our audit.

***Compliance***

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, the objective of our audit was not to provide an opinion on compliance with such provisions.

***Internal Controls***

In planning and performing our audit of the financial statements of the City, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

We have issued our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* thereon dated October 15, 2014.

Bruce S. A. Gosling, CPA, CVA  
Michael R. Wilson, CPA  
Ricky L. Strawser, CPA  
Dwight M. Blodgett, CPA

### *Significant Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Bronson are described in Note 1 to the financial statements. No new significant accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### *Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

### *Disclosures*

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 15, 2014.



### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. During the course of the audit, certain items came to our attention which require further comments.

- The City of Bronson participates in shared fire protection services with the townships of Bronson, Gilead, Bethel, Matteson and Noble pursuant to an agreement entered into by the respective governmental units on July 1, 1976. This was accomplished by formation of the Bronson Rural Fire Association, Inc. The Michigan Department of Treasury Numbered Letter 2001-3 dated January 12, 2001, clarifies that this type of entity is subject to the audit requirement of the Uniform Budgeting and Accounting Act and should be filing an annual audited financial statement with the Treasury.
- We also noticed that the Michigan Department of Licensing and Regulatory Affairs lists the Bronson Rural Fire Association, Inc. as an AUTOMATIC DISSOLUTION effective 10-1-2009 as a result of failure to file the Michigan Annual Report for corporate entities.

### *Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not been changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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This communication is intended solely for the information and use of management, Council, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Norman & Paulsen, P.C.*