

CITY OF BRONSON
BRANCH COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan (the "City"), as of and for the year ended June 30, 2020, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules for the pension plan, and budgetary comparison information, as listed 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 the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in dark ink that reads "Gabridge & Company". The signature is written in a cursive, flowing style.

Gabridge & Company, PLC
Sturgis, Michigan
December 11, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Bronson
Management's Discussion and Analysis
June 30, 2020

As management of the City of Bronson, Michigan (the "City" or "government") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020. We encourage our readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$6,453,569 (net position). Of this amount, \$2,719,168 represents unrestricted net position, which may be used to meet the City's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,522,114, a decrease of \$8,869 in comparison with the prior year. Approximately 64.7% of this amount, or \$984,697, is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$984,697, or approximately 76.7% of total general fund expenditures and transfers out.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, deferred outflows/inflows, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in

future fiscal periods (e.g., earned but unused vacation leave and depreciation of long-term capital assets).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and recreation and cultural. The business-type activities of the City include the wastewater and water operations.

Component Unit

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Downtown Development Authority for which the City is financially accountable (see Note 1 in the financial statement footnotes for more information). Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, major street fund, and local street

fund, which are considered to be major funds. Data is combined into a single aggregated presentation for the other governmental funds (nonmajor governmental funds). Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for the general fund and all special revenue funds, as required by state law. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains two separate enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprises funds to account for its wastewater and water operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City utilizes an internal service fund to account for motor pool fund costs and allocating the cost to the funds that are using the resources. Because this service primarily benefits the City's governmental rather than business-type functions, it has been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater and water operations, which are reported as enterprise funds. Conversely, the internal service fund is presented in the proprietary fund financial statements separately from the enterprise funds.

Notes to the Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis, required pension information, and budgetary comparison presentations. Supplemental information follows the required pension information and includes combining and individual fund statements and schedules.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$6,453,569 at the close of the most recent fiscal year. The following chart illustrates the comparison of net position at the close of each of the past two fiscal years.

City of Bronson's Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
ASSETS						
<i>Current Assets</i>						
Cash and Cash Equivalents	\$ 824,487	\$ 839,385	\$ 837,892	\$ 876,057	\$ 1,662,379	\$ 1,715,442
Investments	971,800	1,037,800	1,198,200	882,200	2,170,000	1,920,000
Receivables, net	97,059	109,174	167,506	134,143	264,565	243,317
Due from Other Governments	40,037	-	-	-	40,037	-
Prepaid Items	48,262	19,906	17,054	8,439	65,316	28,345
Total Current Assets	1,981,645	2,006,265	2,220,652	1,900,839	4,202,297	3,907,104
<i>Noncurrent Assets</i>						
Restricted Cash and Cash Equivalents	-	-	18,382	17,578	18,382	17,578
Restricted Investments	-	-	13,000	13,000	13,000	13,000
Capital Assets, net	1,115,207	1,176,785	2,363,977	2,550,498	3,479,184	3,727,283
Total Assets	3,096,852	3,183,050	4,616,011	4,481,915	7,712,863	7,664,965
DEFERRED OUTFLOWS OF RESOURCES						
Pension Related Deferred Outflows	71,024	121,208	45,065	76,255	116,089	197,463
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	65,568	33,999	132,149	76,110	197,717	110,109
Payroll Related Liabilities	17,755	16,184	5,500	36,863	23,255	53,047
Current Portion of Long-term Debt	-	-	19,000	19,000	19,000	19,000
Compensated Absences, Current	6,255	-	25,915	-	32,170	-
Internal Balances	(110,445)	1,850	110,445	(1,850)	-	-
Total Current Liabilities	(20,867)	52,033	293,009	130,123	272,142	182,156
<i>Noncurrent Liabilities</i>						
Compensated Absences	31,000	26,000	-	-	31,000	26,000
Long-term Debt	-	-	262,000	281,000	262,000	281,000
Net Pension Liability	446,704	493,881	283,436	310,715	730,140	804,596
Total Liabilities	456,837	571,914	838,445	721,838	1,295,282	1,293,752
DEFERRED INFLOWS OF RESOURCES						
Pension Related Deferred Inflows	49,006	35,440	31,095	22,297	80,101	57,737
NET POSITION						
Net Investment in Capital Assets	1,115,207	1,176,785	2,082,977	2,250,498	3,198,184	3,427,283
Restricted	504,835	444,607	31,382	30,578	536,217	475,185
Unrestricted	1,041,991	1,075,512	1,677,177	1,532,959	2,719,168	2,608,471
Total Net Position	\$ 2,662,033	\$ 2,696,904	\$ 3,791,536	\$ 3,814,035	\$ 6,453,569	\$ 6,510,939

The largest portion of the City's net position of \$3,198,184, or 49.6%, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of \$536,217, or 8.3%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,719,168, or 42.1%, is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

The most significant changes between the current year and the prior year are a decrease in net capital assets related to depreciation expense and a decrease in the City's net pension liability due to better-than-expected rates of return on the City's pension assets.

The following chart presents a summary of the changes in net position for years ended June 30, 2020 and 2019:

City of Bronson's Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Revenues						
Program Revenues						
Charges for Services	\$ 309,357	\$ 314,229	\$ 724,580	\$ 693,501	\$ 1,033,937	\$ 1,007,730
Operating Grants and Contributions	539,439	309,151	762,754	216,492	1,302,193	525,643
Total Program Revenues	<u>848,796</u>	<u>623,380</u>	<u>1,487,334</u>	<u>909,993</u>	<u>2,336,130</u>	<u>1,533,373</u>
General Revenues						
Property Taxes	557,727	551,403	34,062	33,901	591,789	585,304
Interest Income	32,200	17,773	37,101	22,546	69,301	40,319
Intergovernmental Revenues	558,488	533,441	-	-	558,488	533,441
Total General Revenues	<u>1,148,415</u>	<u>1,102,617</u>	<u>71,163</u>	<u>56,447</u>	<u>1,219,578</u>	<u>1,159,064</u>
Total Revenues	<u>1,997,211</u>	<u>1,725,997</u>	<u>1,558,497</u>	<u>966,440</u>	<u>3,555,708</u>	<u>2,692,437</u>
Expenses						
General Government	413,633	546,676	-	-	413,633	546,676
Public Safety	559,737	525,367	-	-	559,737	525,367
Public Works	906,961	334,928	-	-	906,961	334,928
Recreation and Culture	109,538	61,772	-	-	109,538	61,772
Community and Economic Development	42,213	-	-	-	42,213	-
Wastewater Treatment	-	-	1,307,624	793,275	1,307,624	793,275
Water Treatment	-	-	273,372	257,291	273,372	257,291
Total Expenses	<u>2,032,082</u>	<u>1,468,743</u>	<u>1,580,996</u>	<u>1,050,566</u>	<u>3,613,078</u>	<u>2,519,309</u>
Change in Net Position	<u>(34,871)</u>	<u>257,254</u>	<u>(22,499)</u>	<u>(84,126)</u>	<u>(57,370)</u>	<u>173,128</u>
<i>Net Position at the Beginning of Period</i>	<i>2,696,904</i>	<i>2,439,650</i>	<i>3,814,035</i>	<i>3,898,161</i>	<i>6,510,939</i>	<i>6,337,811</i>
Net Position at the End of Period	<u>\$ 2,662,033</u>	<u>\$ 2,696,904</u>	<u>\$ 3,791,536</u>	<u>\$ 3,814,035</u>	<u>\$ 6,453,569</u>	<u>\$ 6,510,939</u>

Governmental Activities. Government activities decreased the City's net position by \$34,871, compared to an increase of \$257,254 during the prior year. Revenues were comparable with the prior year, except for a \$230,288 increase in operating grants as the City received additional Storm Water, Asset Management, and Wastewater ("SAW") grant funding during 2020. Expenses increased by \$572,033 in public works primarily as a result of the SAW grant (public works expenses were reimbursed by the SAW grant) and major and local street projects.

Business-type Activities. Business-type activities decreased the City's net position by \$22,499, compared to a decrease of \$84,126 during the prior year. Both total revenues and total expenses increased for the business-type activities. Revenue increased due to increased funds received on the SAW grant, much like the increase in governmental activities. This was the primary reason for the overall increase in revenues of \$577,341. Given that the SAW grant is a reimbursement grant, business-type activities incurred more expenses during the year (the SAW grant reimbursed 90% of the expense with the other 10% of the grant-related expenses being funded by the City). This is the primary reason for the overall increase of \$530,430 of business-type expenses during the year.

Financial Analysis of Governmental Funds

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At June 30, 2020, the City's governmental funds reported combined fund balances of \$1,522,114, a decrease of \$8,869 in comparison with the prior year. Approximately 64.7% of this amount (\$984,697) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either restricted or committed to indicate that it is: 1) restricted for particular purposes (\$500,306), 2) committed for particular purposes (\$581), or 3) nonspendable (\$36,530).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$984,697. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 76.7% of total general fund expenditures and transfers out.

The fund balance of the City's general fund increased by \$106,558 during the current fiscal year, which is similar to the increase of \$108,466 during the prior year.

The major streets fund, a major fund, had a \$113,552 decrease in fund balance during the current fiscal year which put the overall fund balance at \$188,136. The decrease is a result of expenditures for street repair and maintenance projects during the year as well as a \$50,000 transfer out to the local street fund

The local street fund, a major fund, had a \$3,109 increase in fund balance during the current fiscal year which put the overall fund balance at \$142,556.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at the end of the year for the wastewater fund and the water fund was \$880,697 and \$796,480, respectively. The funds increased (decreased) by \$(32,866) and \$10,367, respectively.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year there were several significant adjustments to the original budget. In the general fund, public works expenditures were increased to account for increased actual activities.

Final budget compared to actual results. The city had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2020:

<u>Fund / Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Public Works	\$ 169,335	\$ 189,276	\$ (19,941)
Recreation and Culture	76,465	103,270	(26,805)

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2020, amounted to \$3,479,184 (net of accumulated depreciation). Of this amount, \$1,115,207 was for its governmental activities and \$2,363,977 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Additional information on the City's capital assets can be found in Note 6 to the financial statements.

Long-term Debt

At the end of the current fiscal year, the City had a total long-term debt outstanding of \$281,000, all in its business-type activities. The City made principal payments of \$19,000 during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 7 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Management estimates that approximately \$1.10 million of revenues will be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to change by small amounts compared to 2020. The City continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2021, the City plans again to use current revenues to provide essential services and to maintain the City's financial reserves at similar levels. Additionally, management and the City Council are currently working to determine the significance that the COVID-19 pandemic will have on the City's upcoming revenues.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Bronson
141 S. Matteson Street
Bronson, MI 49028

BASIC FINANCIAL STATEMENTS

City of Bronson
Statement of Net Position
June 30, 2020

	Primary Government			Component Unit -
	Governmental	Business-type	Total	DDA
	Activities	Activities		
ASSETS				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 824,487	\$ 837,892	\$ 1,662,379	\$ 2,556
Investments	971,800	1,198,200	2,170,000	--
Receivables, net	97,059	167,506	264,565	--
Due from Other Governments	40,037	--	40,037	--
Prepaid Items	48,262	17,054	65,316	--
Total Current Assets	1,981,645	2,220,652	4,202,297	2,556
<i>Noncurrent Assets</i>				
Restricted Cash and Cash Equivalents	--	18,382	18,382	--
Restricted Investments	--	13,000	13,000	--
Capital Assets not being Depreciated	424,389	14,655	439,044	--
Capital Assets being Depreciated, net	690,818	2,349,322	3,040,140	--
Total Assets	3,096,852	4,616,011	7,712,863	2,556
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflows	71,024	45,065	116,089	--
Total Deferred Outflows of Resources	71,024	45,065	116,089	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	65,568	132,149	197,717	--
Payroll Related Liabilities	17,755	5,500	23,255	--
Current Portion of Long-term Debt	--	19,000	19,000	--
Compensated Absences, Current	6,255	25,915	32,170	--
Internal Balances	(110,445)	110,445	--	--
Total Current Liabilities	(20,867)	293,009	272,142	--
<i>Noncurrent Liabilities</i>				
Compensated Absences	31,000	--	31,000	--
Long-term Debt	--	262,000	262,000	--
Net Pension Liability	446,704	283,436	730,140	--
Total Liabilities	456,837	838,445	1,295,282	--
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferred Inflows	49,006	31,095	80,101	--
Total Deferred Inflows of Resources	49,006	31,095	80,101	--
NET POSITION				
Net Investment in Capital Assets	1,115,207	2,082,977	3,198,184	--
<i>Restricted for:</i>				
Debt Service	--	31,382	31,382	--
Public Safety	134,560	--	134,560	--
Streets	330,692	--	330,692	--
Cemetery Trust	39,583	--	39,583	--
<i>Unrestricted</i>	1,041,991	1,677,177	2,719,168	2,556
Total Net Position	\$ 2,662,033	\$ 3,791,536	\$ 6,453,569	\$ 2,556

The Notes to the Financial Statements are an integral part of these financial statements.

City of Bronson
Statement of Activities
For the year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit - DDA
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 413,633	\$ 99,854	\$ 35,000	\$ --	\$ (278,779)	\$ --	\$ (278,779)	\$ --
Public Safety	559,737	20,500	--	--	(539,237)	--	(539,237)	--
Public Works	906,961	144,548	504,439	--	(257,974)	--	(257,974)	--
Recreation and Culture	109,538	1,250	--	--	(108,288)	--	(108,288)	--
Community and Economic Development	42,213	43,205	--	--	992	--	992	--
Total Governmental Activities	2,032,082	309,357	539,439	--	(1,183,286)	--	(1,183,286)	--
Business-type Activities:								
Wastewater	1,307,624	457,518	760,696	--	--	(89,410)	(89,410)	--
Water	273,372	267,062	2,058	--	--	(4,252)	(4,252)	--
Total Business-type Activities	1,580,996	724,580	762,754	--	--	(93,662)	(93,662)	--
Total Primary Government	\$ 3,613,078	\$ 1,033,937	\$ 1,302,193	\$ --	(1,183,286)	(93,662)	(1,276,948)	--
Component Unit								
Downtown Development Authority	\$ --	\$ --	\$ --	\$ --	--	--	--	--
Total Component Unit	\$ --	\$ --	\$ --	\$ --	--	--	--	--
General Purpose Revenues:								
Property Taxes					557,727	34,062	591,789	1,897
Interest Income					32,200	37,101	69,301	1
Intergovernmental Revenues					558,488	--	558,488	--
Total General Revenues					1,148,415	71,163	1,219,578	1,898
Change in Net Position					(34,871)	(22,499)	(57,370)	1,898
<i>Net Position at Beginning of Period</i>					2,696,904	3,814,035	6,510,939	658
Net Position at End of Period					\$ 2,662,033	\$ 3,791,536	\$ 6,453,569	\$ 2,556

The Notes to the Financial Statements are an integral part of these financial statements.

**City of Bronson
Balance Sheet
Governmental Funds
June 30, 2020**

		<u>Special Revenue</u>			
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 373,199	\$ 72,458	\$ 43,963	\$ 103,371	\$ 592,991
Investments	643,800	52,000	32,000	72,000	799,800
Receivables, net	27,836	--	--	69,223	97,059
Due from Other Governments	--	29,614	10,423	--	40,037
Prepaid Items	32,001	2,173	1,925	431	36,530
Due from Other Funds	--	44,798	67,205	4,012	116,015
Total Assets	\$ 1,076,836	\$ 201,043	\$ 155,516	\$ 249,037	\$ 1,682,432
LIABILITIES					
Accounts Payable	\$ 22,370	\$ 12,157	\$ 12,460	\$ 14,080	\$ 61,067
Payroll Related Liabilities	16,255	750	500	100	17,605
Due to Other Funds	13,023	--	--	--	13,023
Total Liabilities	51,648	12,907	12,960	14,180	91,695
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenues	--	--	--	68,623	68,623
Total Liabilities and Deferred Inflows of Resources	51,648	12,907	12,960	82,803	160,318
FUND BALANCE					
Nonspendable	32,001	2,173	1,925	431	36,530
Restricted	8,490	185,963	140,631	165,222	500,306
Committed	--	--	--	581	581
Unassigned	984,697	--	--	--	984,697
Total Fund Balance	1,025,188	188,136	142,556	166,234	1,522,114
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 1,076,836	\$ 201,043	\$ 155,516	\$ 249,037	\$ 1,682,432

The Notes to the Financial Statements are an integral part of these financial statements.

City of Bronson
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2020

Total Fund Balance - Governmental Funds	\$ 1,522,114
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.	596,336
Compensated absences are not due in and payable in the current period and, therefore, are not reported in the funds.	(37,255)
General government capital assets of \$1,832,392, net of accumulated depreciation of \$895,491, are not financial resources and, accordingly, are not reported in the funds.	936,901
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.	(424,686)
Unavailable revenues are not available to pay current expenditures and, therefore, are deferred inflows of resources in the funds.	68,623
Total Net Position - Governmental Activities	\$ <u>2,662,033</u>

The Notes to the Financial Statements are an integral part of these financial statements.

City of Bronson
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the year Ended June 30, 2020

		<u>Special Revenue</u>		<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Governmental</u>	<u>Governmental</u>
				<u>Funds</u>	<u>Funds</u>
Revenues					
Property Taxes	\$ 530,220	\$ --	\$ --	\$ 27,507	\$ 557,727
Licenses and Permits	13,695	--	--	--	13,695
Intergovernmental Revenues	593,488	362,643	141,796	--	1,097,927
Charges for Services	173,379	--	--	6,946	180,325
Fines and Forfeits	12,790	--	--	--	12,790
Investment Income and Rentals	64,234	2,603	1,167	4,188	72,192
Other Revenues	2,692	--	--	8,147	10,839
Total Revenues	<u>1,390,498</u>	<u>365,246</u>	<u>142,963</u>	<u>46,788</u>	<u>1,945,495</u>
Expenditures					
General Government	384,654	--	--	23,559	408,213
Public Safety	542,740	--	--	--	542,740
Public Works	189,276	428,798	239,854	--	857,928
Recreation and Culture	103,270	--	--	--	103,270
Community and Economic Development	--	--	--	42,213	42,213
Total Expenditures	<u>1,219,940</u>	<u>428,798</u>	<u>239,854</u>	<u>65,772</u>	<u>1,954,364</u>
Excess of Revenues Over					
(Under) Expenditures	<u>170,558</u>	<u>(63,552)</u>	<u>(96,891)</u>	<u>(18,984)</u>	<u>(8,869)</u>
Other Financing Sources (Uses)					
Transfers In	--	--	100,000	14,000	114,000
Transfers Out	(64,000)	(50,000)	--	--	(114,000)
Net Other Financing Sources (Uses)	<u>(64,000)</u>	<u>(50,000)</u>	<u>100,000</u>	<u>14,000</u>	<u>--</u>
Net Change in Fund Balance	<u>106,558</u>	<u>(113,552)</u>	<u>3,109</u>	<u>(4,984)</u>	<u>(8,869)</u>
Fund Balance at Beginning of Period	<u>918,630</u>	<u>301,688</u>	<u>139,447</u>	<u>171,218</u>	<u>1,530,983</u>
Fund Balance at End of Period	<u>\$ 1,025,188</u>	<u>\$ 188,136</u>	<u>\$ 142,556</u>	<u>\$ 166,234</u>	<u>\$ 1,522,114</u>

The Notes to the Financial Statements are an integral part of these financial statements.

City of Bronson
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the year Ended June 30, 2020

Total Net Change in Fund Balances - Governmental Funds	\$ (8,869)
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.	17,740
Change to compensated absences are not shown in the fund financial statements. The net effect of the current year increase is to decrease net position.	(11,255)
Some receivables are long-term in nature and are collectible over several years. However, only the current receipts are reflected as revenue on the fund statements.	33,976
Governmental fund report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is current year depreciation expense of \$49,890.	(49,890)
The statement of activities reports changes to net pension liability and pension related deferrals as pension expense; however, the expenditures recorded on the governmental funds equals actual pension contributions.	(16,573)
Changes in Net Position - Governmental Activities	\$ <u>(34,871)</u>

The Notes to the Financial Statements are an integral part of these financial statements.

City of Bronson
Statement of Net Position
Proprietary Funds
June 30, 2020

	Business-type Activities - Enterprise Funds			Governmental Activities
	Wastewater	Water	Total Enterprise Funds	Internal Service Fund
ASSETS				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 418,362	\$ 419,530	\$ 837,892	\$ 231,496
Investments	750,200	448,000	1,198,200	172,000
Receivables, net	127,059	40,447	167,506	--
Prepaid Items	12,221	4,833	17,054	11,732
Due from Other Funds	1,041	2,435	3,476	7,453
Total Current Assets	1,308,883	915,245	2,224,128	422,681
<i>Noncurrent Assets</i>				
Restricted Cash and Cash Equivalents	18,382	--	18,382	--
Restricted Investments	13,000	--	13,000	--
Capital Assets not being Depreciated	3,000	11,655	14,655	--
Capital Assets being Depreciated, net	1,617,805	731,517	2,349,322	178,306
Total Assets	2,961,070	1,658,417	4,619,487	600,987
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflows	27,379	17,686	45,065	--
Total Deferred Outflows of Resources	27,379	17,686	45,065	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	130,231	1,918	132,149	4,501
Payroll Related Liabilities	3,500	2,000	5,500	150
Current Portion of Long-term Debt	19,000	--	19,000	--
Compensated Absences, Current	16,825	9,090	25,915	--
Due to Other Funds	113,921	--	113,921	--
Total Current Liabilities	283,477	13,008	296,485	4,651
<i>Noncurrent Liabilities</i>				
Long-term Debt	262,000	--	262,000	--
Net Pension Liability	172,197	111,239	283,436	--
Total Liabilities	717,674	124,247	841,921	4,651
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferred Inflows	18,891	12,204	31,095	--
Total Deferred Inflows of Resources	18,891	12,204	31,095	--
NET POSITION				
Net Investment in Capital Assets	1,339,805	743,172	2,082,977	178,306
<i>Restricted for:</i>				
Debt Service	31,382	--	31,382	--
<i>Unrestricted</i>	880,697	796,480	1,677,177	418,030
Total Net Position	\$ 2,251,884	\$ 1,539,652	\$ 3,791,536	\$ 596,336

The Notes to the Financial Statements are an integral part of these financial statements.

City of Bronson
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the year Ended June 30, 2020

	Business-type Activities - Enterprise Funds			Governmental Activities
	Wastewater	Water	Total Enterprise Funds	Internal Service Fund
Operating Revenues				
Charges for Services	\$ 451,026	\$ 267,062	\$ 718,088	\$ 123,135
Other Revenues	6,492	--	6,492	7,052
Total Operating Revenues	457,518	267,062	724,580	130,187
Operating Expenses				
Personnel	244,192	115,030	359,222	5,557
Operating Expenses	156,812	90,851	247,663	59,141
Depreciation	119,030	67,491	186,521	54,187
Total Operating Expenses	520,034	273,372	793,406	118,885
Operating Income (Loss)	(62,516)	(6,310)	(68,826)	11,302
Non-Operating Revenues (Expenses)				
Interest Income	22,482	14,619	37,101	6,438
Property Taxes	34,062	--	34,062	--
Operating Grants	760,696	2,058	762,754	--
Interest Expense	(15,000)	--	(15,000)	--
Operating Grant Expenses	(772,590)	--	(772,590)	--
Net Non-Operating Revenues (Expenses)	29,650	16,677	46,327	6,438
Change In Net Position	(32,866)	10,367	(22,499)	17,740
<i>Net Position at Beginning of Period</i>	<i>2,284,750</i>	<i>1,529,285</i>	<i>3,814,035</i>	<i>578,596</i>
Net Position at End of Period	\$ 2,251,884	\$ 1,539,652	\$ 3,791,536	\$ 596,336

The Notes to the Financial Statements are an integral part of these financial statements.

City of Bronson
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Fund
	Wastewater	Water	Total Enterprise Funds	
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 425,635	\$ 265,582	\$ 691,217	\$ 130,187
Cash Payments to Employees for Services and Fringe Benefits	(239,086)	(112,875)	(351,961)	(5,557)
Cash Payments to Suppliers for Goods and Services	(106,323)	(93,916)	(200,239)	(69,867)
Net Cash Provided by Operating Activities	80,226	58,791	139,017	54,763
Cash Flows from Non-capital and Related Financing Activities				
Change in Interfund Balances	114,200	(1,905)	112,295	(7,389)
Operating Grants Revenue	760,696	2,058	762,754	-
Operating Grant Expenses	(772,590)	-	(772,590)	-
Net Cash Provided (Used) by Non-capital and Related Financing Activities	102,306	153	102,459	(7,389)
Cash Flows from Capital and Related Financing Activities				
Debt Service Charges / Property Taxes	34,062	-	34,062	-
Interest Expense	(15,000)	-	(15,000)	-
Principal Payment on Long-term Debt	(19,000)	-	(19,000)	-
Purchases of Capital Assets	-	-	-	(42,499)
Net Cash Provided (Used) by Capital and Related Financing Activities	62	-	62	(42,499)
Cash Flows from Investing Activities				
Interest Income	22,482	14,619	37,101	6,438
Net Cash Provided by Investing Activities	22,482	14,619	37,101	6,438
Net Increase in Cash and Investments	205,076	73,563	278,639	11,313
Cash and Investments - Beginning of Year	994,868	793,967	1,788,835	392,183
Cash and Investments - End of Year	\$ 1,199,944	\$ 867,530	\$ 2,067,474	\$ 403,496

The Notes to the Financial Statements are an integral part of these financial statements.

City of Bronson
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Fund</u>
	<u>Wastewater</u>	<u>Water</u>	<u>Total Enterprise Funds</u>	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ (62,516)	\$ (6,310)	\$ (68,826)	\$ 11,302
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities				
Depreciation Expense	119,030	67,491	186,521	54,187
Changes in Assets and Liabilities				
Accounts Receivable	(31,883)	(1,480)	(33,363)	-
Prepaid Items	(4,583)	(4,032)	(8,615)	(11,115)
Accounts Payable	55,072	967	56,039	389
Payroll Related Liabilities	(19,069)	(12,294)	(31,363)	-
Net Pension Liability and Pension Related Deferrals	7,350	5,359	12,709	-
Compensated Absences	16,825	9,090	25,915	-
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 80,226</u>	<u>\$ 58,791</u>	<u>\$ 139,017</u>	<u>\$ 54,763</u>

The Notes to the Financial Statements are an integral part of these financial statements.

City of Bronson
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2020

	<u>Agency</u>
	<u>Trust Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,156
<i>Total Assets</i>	<u>1,156</u>
LIABILITIES	
Due to Governmental Units	1,156
<i>Total Liabilities</i>	<u>\$ 1,156</u>

The Notes to the Financial Statements are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

City of Bronson

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Bronson, Michigan (the “City” or “government”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Units

The *Downtown Development Authority* (“DDA”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The DDA’s governing body, which consists of 9 members, is appointed by the City Council.

Joint Venture

The City of Bronson participates with the Townships of Batavia, Bethel, Bronson, Gilead, Matteson, and Noble in the Bronson Area Fire Association, a joint venture pursuant to an agreement entered into between the seven parties. The Association is governed by a fourteen-member board, two members are appointed by each participating municipality. In accordance with GASB 61, the Association is not considered to be a component unit of the City. The City contributed \$30,431 to the Association for operations. Complete financial statements for the Association can be obtained from the City office.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these financial statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function

City of Bronson

Notes to the Financial Statements

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds, fiduciary funds, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

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

The ***major streets fund*** is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The ***local streets fund*** is used to account for gas and weight tax allocations to the City by the

City of Bronson

Notes to the Financial Statements

Michigan Department of Transportation for construction and maintenance of local streets within the City.

The City reports the following major proprietary funds:

The *wastewater fund* accounts for the activities of the sewage disposal and treatment systems.

The *water fund* accounts for the activities of the water treatment and distribution systems.

Additionally, the City reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than permanent trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *permanent fund* is used to account for resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the City programs.

The *internal service funds* are used to account for shared services and equipment usage provided to the City departments and funds on a cost reimbursement basis.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent after September 14th of the year levied, at which time penalties and interest are assessed.

The City's 2019 tax is levied and collectible on July 1, 2019 and is recognized as revenue in the year ended June 30, 2020, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2019 taxable valuation of the City totaled \$31.2 million (a portion of which is captured by the DDA). The City levied 16.8414 mills for operations, 1.0 mills for fire sinking, and 1.0898 mills for debt service.

City of Bronson

Notes to the Financial Statements

Assets, Liabilities, Deferred Inflows, Deferred Outflows and Net Position or Equity

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes and City policy authorize the City to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Banker's acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investments

Investments are stated at fair market value. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/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."

City of Bronson

Notes to the Financial Statements

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items

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

Restricted Cash and Cash Equivalents and Investments

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

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 if purchased or constructed. Donated capital assets are valued at the acquisition cost.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land Improvements	15 to 40 years
Streets	15 to 20 years
Utility Systems	30 to 50 years
Buildings and Improvements	15 to 50 years
Machinery and Equipment	5 to 20 years
Vehicles	2 to 7 years
Furniture and Other	3 to 7 years

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for an estimate of the amount payable from expendable available financial resources.

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

City of Bronson

Notes to the Financial Statements

applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. 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. The general fund and debt service funds are generally used to liquidate governmental long-term debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Pensions

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

Deferred Outflows / Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City has several items that qualify for reporting in these categories and are reported in the government-wide financial statement of net position. These items relate to the City's net pension liability. The net pension liability amounts are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

Additionally, the City has a deferred inflow, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, this item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: receivables for revenues that are not considered to be

City of Bronson

Notes to the Financial Statements

available to liquidate liabilities of the current period. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position Flow Assumptions

Sometimes the government will fund outlays for a particular order from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In to calculate the amounts to report as restricted and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, and the nonspendable portion of endowments. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

City of Bronson

Notes to the Financial Statements

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the City Council.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 period. Actual results could differ from those estimates.

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and all special revenue funds, except that operating transfers and debt proceeds have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year-end, except for those approved by the City Council for carry forward. The annual budget is prepared by the City's management and adopted by the City Council; subsequent amendments are approved by the City Council. During the current year, the budget was amended in a legally permissible manner.

The budget process is initiated in January, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the manager on or before the second Monday in March. During March, the manager reviews the appropriation requests, meets with departments, and puts together the budget. The budget is submitted to the City Council on or before the first regular meeting in May, as required by the City's Charter. During the next month, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by resolution no later than the first regular meeting in June.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is by department.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

City of Bronson

Notes to the Financial Statements

Note 2 - Statutory Compliance

Excess of Expenditures Over Appropriations in Budgetary Funds

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated.

The City's actual expenditures and budgeted expenditures for the budgeted funds have been shown at the department level. The approved budgets of the City for these budgeted funds were also adopted at the department level.

The City had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2020:

<u>Fund / Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Public Works	\$ 169,335	\$ 189,276	\$ (19,941)
Recreation and Culture	76,465	103,270	(26,805)
Major Streets			
Public Works	477,056	478,798	(1,742)

Note 3 - Deposits and Investments

The City maintains pooled and individual fund demand deposits, certificates of deposit, and short-term investment accounts.

Following is a reconciliation of deposit and investment balances as of June 30, 2020:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Totals</u>
Statement of Net Position			
Cash and Cash Equivalents	\$ 1,662,379	\$ 2,556	\$ 1,664,935
Investments	2,170,000	-	2,170,000
Restricted Cash and Cash Equivalents	18,382	-	18,382
Restricted Investments	13,000	-	13,000
Statement of Fiduciary Assets and Liabilities			
Cash and Investments	1,156	-	1,156
Total Deposits and Investments	<u>\$ 3,864,917</u>	<u>\$ 2,556</u>	<u>\$ 3,867,473</u>

City of Bronson

Notes to the Financial Statements

Deposits and Investments

Checking and Savings Accounts	\$ 632,906
Money Markets	811,567
Certificates of Deposit	<u>2,423,000</u>
Total	<u>\$ 3,867,473</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$1,188,983 of the City's bank balance of \$3,872,008 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC and NCUA insurance, the City believes it is impractical to insure all bank deposits.

As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to minimize this risk, City policy limits the types of investments and pre-qualifies financial institutions. As of June 30, 2020, none of the City's investments were exposed to risk since the securities are held in the City's name by the counterparty.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk.

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

City of Bronson

Notes to the Financial Statements

Maturity dates for investments and certificates of deposit held at year-end are summarized as follows:

Maturity	Certificates of Deposit
Less than 1 Year	\$ 1,640,000
1 - 5 Years	783,000
<i>Total Certificates of Deposit</i>	<i>2,423,000</i>
Less: certificates of deposit meeting the definition of cash and cash equivalents	(240,000)
<i>Total Investments</i>	<i>\$ 2,183,000</i>

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a percentage of the total investment portfolio. All investments held at year end are reported above.

Note 4 - Interfund Transactions

Interfund transfers in and out for the year ended June 30, 2020 are as follows:

Transfer In	Transfer Out	Amount
Local Streets	General	\$ 50,000
Cemetery	General	10,000
Community Development	General	4,000
Local Streets	Major Streets	50,000

Interfund transfers are used to: 1) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and 2) move Act 51 revenues to fund local street projects.

City of Bronson

Notes to the Financial Statements

The composition of interfund balances for the year ended June 30, 2020 are as follows:

Due To	Due From	Amount
Major Streets	General	\$ 53
Local Streets	General	87
Cemetery	General	12
Wastewater	General	1,041
Water	General	377
Motor Pool	General	7,453
Community Development	General	4,000
Major Streets	Wastewater	44,745
Local Streets	Wastewater	67,118
Water	Wastewater	2,058

The interfund 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.

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, 2020: \$ 68,623

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

City of Bronson

Notes to the Financial Statements

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	\$ 424,389	\$ -	\$ -	\$ 424,389
Capital assets being depreciated				
Land Improvements	96,344	-	-	96,344
Buildings and Improvements	471,949	-	-	471,949
Machinery and Equipment	900,679	42,500	-	943,179
Vehicles	444,559	-	(25,759)	418,800
Streets	839,709	-	-	839,709
<i>Subtotal</i>	<u>2,753,240</u>	<u>42,500</u>	<u>(25,759)</u>	<u>2,769,981</u>
Less accumulated depreciation				
Land Improvements	71,295	3,853	-	75,148
Buildings and Improvements	350,459	8,880	-	359,339
Machinery and Equipment	867,013	10,925	-	877,938
Vehicles	288,231	43,262	(25,759)	305,734
Streets	423,847	37,157	-	461,004
<i>Subtotal</i>	<u>2,000,845</u>	<u>104,077</u>	<u>(25,759)</u>	<u>2,079,163</u>
Net capital assets being depreciated	<u>752,395</u>	<u>(61,577)</u>	<u>-</u>	<u>690,818</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,176,784</u>	<u>\$ (61,577)</u>	<u>\$ -</u>	<u>\$ 1,115,207</u>
Business-type Activities	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated				
Land	\$ 14,655	\$ -	\$ -	\$ 14,655
Capital assets being depreciated				
Wastewater System	5,941,966	-	-	5,941,966
Water System	1,914,108	-	-	1,914,108
<i>Subtotal</i>	<u>7,856,074</u>	<u>-</u>	<u>-</u>	<u>7,856,074</u>
Less accumulated depreciation				
Wastewater System	4,205,131	119,030	-	4,324,161
Water System	1,115,100	67,491	-	1,182,591
<i>Subtotal</i>	<u>5,320,231</u>	<u>186,521</u>	<u>-</u>	<u>5,506,752</u>
Net capital assets being depreciated	<u>2,535,843</u>	<u>(186,521)</u>	<u>-</u>	<u>2,349,322</u>
Business-type Activities Capital Assets, Net	<u>\$ 2,550,498</u>	<u>\$ (186,521)</u>	<u>\$ -</u>	<u>\$ 2,363,977</u>

City of Bronson

Notes to the Financial Statements

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

Governmental Activities

General Government	\$	410
Public Safety		1,970
Public Works		41,798
Recreation and Culture		5,712
Internal Service Funds		54,187
Total Governmental Activities	\$	104,077

Business-type Activities

Wastewater	\$	119,030
Water		67,491
Total Business-type Activities	\$	186,521

Note 7 - Long-term Debt

The following is a summary of the debt transactions of the City for the year ended June 30, 2020:

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated Absences	\$ 26,000	\$ 11,255	\$ -	\$ 37,255	\$ 6,255
Business-type Activities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
1993 General Obligation Limited Tax Bonds					
Amount of Issue - \$590,000					
Installments of \$5,000 to \$23,000					
Interest Rate 5.0%					
Maturing through 2033	\$ 300,000	\$ -	\$ (19,000)	\$ 281,000	\$ 19,000
Compensated Absences	31,363	-	(5,448)	25,915	25,915
Total Business-type Activities	\$ 331,363	\$ -	\$ (24,448)	\$ 306,915	\$ 44,915

City of Bronson

Notes to the Financial Statements

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2020 are as follows:

Year Ending June 30	Business-type Activities		
	Principal	Interest	Total
2021	\$ 19,000	\$ 14,050	\$ 33,050
2022	20,000	13,100	33,100
2023	20,000	12,100	32,100
2024	21,000	11,100	32,100
2025	21,000	10,050	31,050
2026-2030	111,000	34,000	145,000
2031-2033	69,000	6,900	75,900
Totals:	<u>\$ 281,000</u>	<u>\$ 101,300</u>	<u>\$ 382,300</u>

Note - 8 Defined Benefit Pension Plan

Plan Description

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

Benefits Provided

The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The MERS plan covers all full-time employees of the City. Retirement benefits for employees are calculated as 1.5% of the employee's five-year final average compensation times the employee's years of service. Normal retirement age is 60 with early retirement at a reduced benefit at age 50 with 25 years of service or age 55 with 15 years of service. There is also an option for early retirement with unreduced benefits at age 55 with 20 years of service for police officers. The vesting period is 10 years for all employees. An employee who leaves service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions. Police employee benefits terms may be subject to binding arbitration in certain circumstances.

City of Bronson

Notes to the Financial Statements

Employees Covered by Benefit Terms

At the December 31, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries receiving benefits	7
Inactive plan members entitled to but not yet receiving benefits	9
Active members	12
<i>Total employees covered by MERS</i>	<u>28</u>

Contributions

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

Employer contributions ranged from 7.5%-8.5% of covered payroll based on annual payroll for the open division and employee contributions ranged from 9.52%-10.76% of covered payroll.

Net Pension Liability

The net pension liability reported at June 30, 2020 was determined using a measure of the total pension liability and the pension net position as December 31, 2019. The December 31, 2019 total pension liability was determined by an actuarial valuation performed as of that date.

Actuarial Assumption

The total pension liability in the December 31, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.00% in the long-term
Investment rate of return	7.35%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study of 2009-2013.

City of Bronson

Notes to the Financial Statements

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	60.00%	6.15%
Global Fixed Income	20.00%	1.26%
Private Investments	20.00%	6.56%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability is 7.60% for 2019. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for the employees and the actuarially determined rates for the employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Bronson

Notes to the Financial Statements

Changes in Net Pension Liability

Changes in the net pension liability during the measurement year were as follows:

	Increase (Decrease)	
	Total Pension	Net Pension
Changes in Net Pension Liability	Liability	Liability
Balance at December 31, 2018	\$ 2,457,023	\$ 1,652,427
Service Cost	57,350	-
Interest on TPL	194,077	-
Contributions - Employer	-	55,445
Contributions - Employee	-	66,627
Net Investment Income	-	226,754
Benefit Payments, Including Refunds	(119,459)	(119,459)
Changes of Benefit Terms	(10,083)	-
Changes in Assumptions	78,683	-
Experience Differences	(49,566)	-
Administrative Expenses	-	(3,909)
Net Changes	151,002	225,458
Balance at December 31, 2019	\$ 2,608,025	\$ 1,877,885

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.60%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage higher (8.60%) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Net Pension Liability of the City	\$ 1,026,832	\$ 730,140	\$ 478,342

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

For the year ended June 30, 2020, the City recognized pension expense of \$85,098.

City of Bronson

Notes to the Financial Statements

The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 4,873	\$ -
Difference between expected and actual experience	7,351	80,101
Changes in assumptions	76,505	-
*Employer contributions to the plan subsequent to the measurement date	27,360	-
Total	\$ 116,089	\$ 80,101

*The amount of deferred outflows of resources related to City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Plan Year Ended	
December 31,	Amount
2020	\$ 15,145
2021	(1,542)
2022	20,600
2023	(25,575)

Note 9 - 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 medical claims, claims relating to general liability and property loss, and participates in the Michigan Municipal League Workers' Compensation Fund risk pool for claims relating to workers' compensation. Settled claims related to commercial insurances have historically not exceeded the City's insurance coverages.

The Michigan Municipal Workers' Compensation Fund risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Litigation

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses to legal actions have not been included as a liability in the financial statements.

City of Bronson

Notes to the Financial Statements

Note 11 - Commitment

The City is receiving grant assistance from the Michigan Department of Environmental Quality Stormwater, Asset Management, and Wastewater grant program. The grant funding will be \$1,477,889 with a match from the City in the amount of \$142,218 for total project costs of \$1,620,107. A \$1,620,107 contract was entered into by the City in order to complete the project. As of the date of this report, the City spent \$1,343,017 in relation to this contract.

Note 12 - Subsequent Events

Subsequent events have been evaluated through December 11, 2020, the date the financial statements were available to be issued. The City will be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. COVID-19 has caused significant government and business disruptions through mandated and voluntary closings and stay at home orders. Management and City Council are in the process of determining the significance that the outbreak will have on the City's upcoming budget, which is highly uncertain as of the date of this report.

REQUIRED SUPPLEMENTARY INFORMATION

City of Bronson
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the year Ended June 30, 2020

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 534,370	\$ 527,570	\$ 530,220	\$ 2,650
Licenses and Permits	11,450	13,581	13,695	114
Intergovernmental Revenues	333,857	582,905	593,488	10,583
Charges for Services	162,225	165,227	173,379	8,152
Fines and Forfeits	12,750	11,290	12,790	1,500
Investment Income and Rentals	48,900	62,917	64,234	1,317
Other Revenues	500	1,030	2,692	1,662
Total Revenues	1,104,052	1,364,520	1,390,498	25,978
Expenditures				
General Government	377,538	393,692	384,654	9,038
Public Safety	543,699	546,310	542,740	3,570
Public Works	269,205	169,335	189,276	(19,941)
Recreation and Culture	77,807	76,465	103,270	(26,805)
Total Expenditures	1,268,249	1,185,802	1,219,940	(34,138)
Other Financing Uses				
Transfers Out	60,000	60,000	64,000	(4,000)
Total Expenditures and Other Financing Uses	1,328,249	1,245,802	1,283,940	(38,138)
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	(224,197)	118,718	106,558	(12,160)
Net Change in Fund Balance	(224,197)	118,718	106,558	(12,160)
Fund Balance at Beginning of Period	918,630	918,630	918,630	--
Fund Balance at End of Period	\$ 694,433	\$ 1,037,348	\$ 1,025,188	\$ (12,160)

City of Bronson
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the year Ended June 30, 2020

	Budgeted Amounts			Variance Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Intergovernmental Revenues	\$ 212,636	\$ 324,055	\$ 362,643	\$ 38,588
Investment Income and Rentals	500	2,485	2,603	118
Total Revenues	213,136	326,540	365,246	38,706
Expenditures				
Public Works	413,298	477,056	478,798	(1,742)
Total Expenditures	413,298	477,056	478,798	(1,742)
Excess (Deficiency) of Revenues Over Expenditures	(200,162)	(150,516)	(113,552)	36,964
Net Change in Fund Balance	(200,162)	(150,516)	(113,552)	36,964
<i>Fund Balance at Beginning of Period</i>	301,688	301,688	301,688	--
Fund Balance at End of Period	\$ 101,526	\$ 151,172	\$ 188,136	\$ 36,964

City of Bronson
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Streets
For the year Ended June 30, 2020

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Intergovernmental Revenues	\$ 74,938	\$ 54,861	\$ 141,796	\$ 86,935
Investment Income and Rentals	150	1,096	1,167	71
Total Revenues	75,088	55,957	142,963	87,006
Other Financing Sources				
Transfers In	100,000	100,000	100,000	--
Total Revenues and Other Financing Sources	175,088	155,957	242,963	87,006
Expenditures				
Public Works	170,545	265,083	239,854	25,229
Total Expenditures	170,545	265,083	239,854	25,229
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	4,543	(109,126)	3,109	112,235
Net Change in Fund Balance	4,543	(109,126)	3,109	112,235
Fund Balance at Beginning of Period	139,447	139,447	139,447	--
Fund Balance at End of Period	\$ 143,990	\$ 30,321	\$ 142,556	\$ 112,235

City of Bronson
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios - MERS
Last Six Plan Years (Schedule is built prospectively upon implementation of GASB 68)

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service Cost	\$ 57,350	\$ 50,344	\$ 49,594	\$ 48,643	\$ 37,584	\$ 42,986
Interest	194,077	185,553	177,338	172,980	153,792	143,063
Changes in Benefit Terms	(10,083)	(4,779)	2,616	3,881	(29,069)	-
Differences Between Expected and Actual Experience	(49,566)	(28,013)	(46,570)	(6,925)	44,110	-
Changes in Assumptions	78,683	-	-	-	104,954	-
Benefit Payments, Including Refunds	(119,459)	(80,656)	(80,656)	(78,638)	(72,472)	(74,562)
Other Changes	-	-	(1)	(6,292)	(1,668)	-
Net Change in Pension Liability	<u>151,002</u>	<u>122,449</u>	<u>102,321</u>	<u>133,649</u>	<u>237,231</u>	<u>111,487</u>
<i>Total Pension Liability - Beginning</i>	<u>2,457,023</u>	<u>2,334,574</u>	<u>2,232,253</u>	<u>2,098,604</u>	<u>1,861,373</u>	<u>1,749,886</u>
Total Pension Liability - Ending (a)	<u>\$ 2,608,025</u>	<u>\$ 2,457,023</u>	<u>\$ 2,334,574</u>	<u>\$ 2,232,253</u>	<u>\$ 2,098,604</u>	<u>\$ 1,861,373</u>
Plan Fiduciary Net Position						
Contributions - Employer	\$ 55,445	\$ 251,764	\$ 51,363	\$ 50,666	\$ 43,251	\$ 38,729
Contributions - Member	66,627	59,030	49,785	41,651	37,132	36,616
Net Investment Income (Loss)	226,754	(66,083)	174,574	133,591	(17,966)	69,909
Benefit Payments, Including Refunds	(119,459)	(80,656)	(80,656)	(78,638)	(72,472)	(74,562)
Administrative Expenses	(3,909)	(3,129)	(2,758)	(2,634)	(2,591)	(2,573)
Net Change in Plan Fiduciary Net Position	<u>225,458</u>	<u>160,926</u>	<u>192,308</u>	<u>144,636</u>	<u>(12,646)</u>	<u>68,119</u>
<i>Plan Fiduciary Net Position - Beginning</i>	<u>1,652,427</u>	<u>1,491,501</u>	<u>1,299,193</u>	<u>1,154,557</u>	<u>1,167,203</u>	<u>1,099,084</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,877,885</u>	<u>\$ 1,652,427</u>	<u>\$ 1,491,501</u>	<u>\$ 1,299,193</u>	<u>\$ 1,154,557</u>	<u>\$ 1,167,203</u>
Net Pension Liability - Ending (a) - (b)	\$ 730,140	\$ 804,596	\$ 843,073	\$ 933,060	\$ 944,047	\$ 694,170
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	72.0%	67.3%	63.9%	58.2%	55.0%	62.7%
Covered Payroll	\$ 680,835	\$ 636,341	\$ 621,433	\$ 600,891	\$ 521,335	\$ 595,833
Net Pension Liability as a Percentage of Covered Payroll	107.2%	126.4%	135.7%	155.3%	181.1%	116.5%

City of Bronson
Required Supplementary Information
Schedule of Contributions - MERS
Last Six Fiscal Years

	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 55,445	\$ 51,764	\$ 51,363	\$ 50,666	\$ 43,251	\$ 38,729
Contributions in Relation to the Actuarially Determined Contribution	55,445	251,764	51,363	50,666	43,251	38,729
Contribution Deficiency (Excess)	\$ -	\$ (200,000)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	680,835	636,341	621,433	600,891	521,335	595,833
Contributions as a Percentage of Covered Payroll	8.14%	39.56%	8.27%	8.43%	8.30%	6.50%

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry-age Normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	19 years
Asset valuation method	10-Year smoothed
Inflation	2.50%
Salary increases	3.00%
Investment rate of return	7.35%
Retirement Age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Male - 50% Female blend of the RP-2014 mortality

OTHER SUPPLEMENTARY INFORMATION

City of Bronson
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2020

	Special Revenue			Permanent		Total Nonmajor
	Fire Sinking	Cemetery	Community	Cemetery	Cemetery	Governmental
	Fund		Development	Perpetual Care	Development Fund	Funds
ASSETS						
Cash and Cash Equivalents	\$ 73,070	\$ 9,933	\$ 4,311	\$ 9,376	\$ 6,681	\$ 103,371
Investments	53,000	5,000	3,000	7,000	4,000	72,000
Receivables, net	--	--	69,223	--	--	69,223
Prepaid Items	--	431	--	--	--	431
Due from Other Funds	--	12	4,000	--	--	4,012
<i>Total Assets</i>	\$ 126,070	\$ 15,376	\$ 80,534	\$ 16,376	\$ 10,681	\$ 249,037
LIABILITIES						
Accounts Payable	\$ --	\$ 2,750	\$ 11,330	\$ --	\$ --	\$ 14,080
Payroll Related Liabilities	--	100	--	--	--	100
<i>Total Liabilities</i>	--	2,850	11,330	--	--	14,180
DEFERRED INFLOWS OF RESOURCES						
Unavailable Revenues	--	--	68,623	--	--	68,623
<i>Total Liabilities and Deferred Inflows of Resources</i>	--	2,850	79,953	--	--	82,803
FUND BALANCE						
Nonspendable	--	431	--	--	--	431
Restricted	126,070	12,095	--	16,376	10,681	165,222
Committed	--	--	581	--	--	581
Unassigned	--	--	--	--	--	--
<i>Total Fund Balance</i>	126,070	12,526	581	16,376	10,681	166,234
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</i>	\$ 126,070	\$ 15,376	\$ 80,534	\$ 16,376	\$ 10,681	\$ 249,037

City of Bronson
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year Ended June 30, 2020

	<u>Special Revenue</u>			<u>Permanent</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Fire Sinking Fund</u>	<u>Cemetery</u>	<u>Community Development</u>	<u>Cemetery Perpetual Care</u>	<u>Cemetery Development Fund</u>	
Revenues						
Property Taxes	\$ 27,507	\$ --	\$ --	\$ --	\$ --	\$ 27,507
Charges for Services	--	6,046	--	900	--	6,946
Investment Income and Rentals	1,746	163	368	258	1,653	4,188
Other Revenues	--	--	8,147	--	--	8,147
Total Revenues	<u>29,253</u>	<u>6,209</u>	<u>8,515</u>	<u>1,158</u>	<u>1,653</u>	<u>46,788</u>
Expenditures						
General Government	--	23,559	--	--	--	23,559
Community and Economic Development	--	--	42,213	--	--	42,213
	<u>--</u>	<u>23,559</u>	<u>42,213</u>	<u>--</u>	<u>--</u>	<u>65,772</u>
Excess of Revenues Over (Under) Expenditures	<u>29,253</u>	<u>(17,350)</u>	<u>(33,698)</u>	<u>1,158</u>	<u>1,653</u>	<u>(18,984)</u>
Other Financing Sources (Uses)						
Transfers In	--	10,000	4,000	--	--	14,000
Net Other Financing Sources (Uses)	<u>--</u>	<u>10,000</u>	<u>4,000</u>	<u>--</u>	<u>--</u>	<u>14,000</u>
Net Change in Fund Balance	<u>29,253</u>	<u>(7,350)</u>	<u>(29,698)</u>	<u>1,158</u>	<u>1,653</u>	<u>(4,984)</u>
Fund Balance at Beginning of Period	<u>96,817</u>	<u>19,876</u>	<u>30,279</u>	<u>15,218</u>	<u>9,028</u>	<u>171,218</u>
Fund Balance at End of Period	<u>\$ 126,070</u>	<u>\$ 12,526</u>	<u>\$ 581</u>	<u>\$ 16,376</u>	<u>\$ 10,681</u>	<u>\$ 166,234</u>

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, the discretely presented component unit, 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 11, 2020.

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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2020-001 and 2020-002, which we consider to be material weaknesses.

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 Findings

The City's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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.



Gabridge & Company, PLC
Sturgis, MI
December 11, 2020

City of Bronson

Schedule of Findings and Responses

Material Weakness

2020-001 Segregation of Incompatible Duties and Documented Independent Review *(repeat finding)*

Condition: The City has several accounting functions that are performed by the same individual and are not subject to documented independent review and approval.

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of duties.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities may be occurring on a routine basis, but are not being documented.

Effect: As a result of this condition, the City is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected, and corrected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Views of Responsible

Officials: Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgement in determining how to best allocate the City's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

Planned Corrective

Action: With the status of state funding, the City is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. Management realizes that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. The City and Council will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

City of Bronson

Schedule of Findings and Responses

Material Weakness

2020-002 Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements *(repeat finding)*

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the 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 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 auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government'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 the City's decision that it is more cost effective to outsource the preparation of its 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's internal controls over the preparation of financial statements in accordance with GAAP are incomplete.
Recommendation:	Due to the size and activity of the City, we recommend that the government continue to outsource financial statement preparation.
View of Responsible Officials:	The City has evaluated the cost versus 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.
Planned Corrective Action:	The City will continue to rely on its outside auditors to assist in preparing the GAAP basis financial statements and will evaluate annually for the need to change.

December 11, 2020

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

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 (the “City”) for the year ended June 30, 2020. Our report includes a reference to other auditors. 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 October 1, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Bronson are described in Note 1 to the financial statements. There were no new accounting policies implemented during 2020. We noted no transactions entered into by the City of Bronson 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 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 City’s 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.
- Management’s estimate of the net pension asset/liability and the related income/expense is based on the services of an independent third-party actuary. Estimates are dependent upon underlying assumptions used by the actuary and the accuracy of the underlying data.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely 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 December 11, 2020.

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.

Other Matters

We applied certain limited procedures to management's discussion and analysis, pension schedules, and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements and individual fund statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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 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.

Restriction on Use

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

Very truly yours,

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Sturgis, MI