

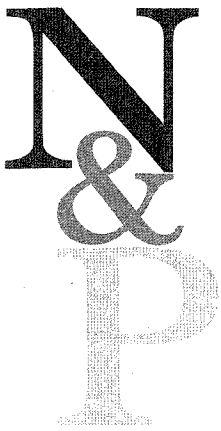
CITY OF BRONSON, MICHIGAN  
FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
JUNE 30, 2011

**CITY OF BRONSON**  
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bronson management. Our responsibility is to express opinions on these financial statements based on our audit.

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

*Certified Public Accountants*

127 W. Chicago Road  
Sturgis, MI 49091  
269.651.3228  
Fax 269.651.5146  
E-mail  
normanpaulsen@charter.net

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

Other Location:  
123 N. Main Street  
Three Rivers, MI 49093  
269.273.8641  
Fax 269.278.8252  
E-mail  
npnr@npaccounting.com

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, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2011, on our consideration of the City of Bronson internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Donald L. Paulsen, CPA  
Patrick J. Monahan, CPA  
Bruce S. A. Gosling, CPA/ABV, CVA  
Michael R. Wilson, CPA  
Rick L. Strawser, CPA  
Jerrold T. Norman (1941-1982)

October 7, 2011

**CITY OF BRONSON  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the City of Bronson financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements.

**Financial Highlights**

The City's overall financial position decreased by \$114,398 during the fiscal year ended June 30, 2011, which represents 1.7 percent of the net asset position at the beginning of the year. Included in the City's total net assets of \$6,604,130 are the Sewage Disposal System Fund net assets of \$3,090,232 and the Water Supply System Fund net assets of \$1,590,367. The Sewage Disposal System's net assets decreased by \$42,579 and the Water Supply System's net assets increased by \$62,031.

The City's Governmental Funds reflected a total fund balance at June 30, 2011 of \$549,769, which was a decrease of \$212,235 from the prior year end.

The total Governmental Fund expenditures for the year ended June 30, 2011, amounted to \$1,561,190, of which \$728,359 (47 percent) was for public safety and \$473,336 (30 percent) was for public works and streets.

**Using This Annual Report**

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

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

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

**The City as a Whole**

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

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2011	2010	2011	2010
Assets	\$ 619	\$ 901	\$ 5,141	\$ 5,358
Liabilities	69	139	460	697
Fund Equity				
Invested in capital assets, net of related debt	-	-	3,200	3,261
Retained Earnings				
Restricted	-	-	25	79
Unreserved	-	-	1,456	1,321
Fund Balances				
Nonspendable	43	41	-	-
Restricted	76	101	-	-
Committed	61	195	-	-
Unassigned	370	425	-	-
Total Fund Equity	\$ 550	\$ 762	\$ 4,681	\$ 4,661

**CITY OF BRONSON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City's governmental fund equity decreased by 27.9 percent or \$212,235 from a year ago. In contrast the prior year's governmental fund equity decreased by 18.5 percent or \$173,471.

The City's enterprise fund equity increased by 0.4 percent or \$19,452 from a year ago. In contrast the prior year's enterprise fund equity increased by 0.1 percent or \$2,144.

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

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2011	2010	2011	2010
Current and other assets	\$ 781	\$ 1,057	\$ 1,512	\$ 1,559
Capital assets	1,366	1,200	3,629	3,799
Total assets	2,147	2,257	5,141	5,358
Long-term debt outstanding	150	70	430	538
Other liabilities	73	130	30	159
Total liabilities	223	200	460	697
Net assets				
Invested in capital assets, net of related debt	1,246	1,160	3,200	3,261
Restricted	85	107	25	80
Unrestricted	593	790	1,456	1,320
Total net assets	\$ 1,924	\$ 2,057	\$ 4,681	\$ 4,661

**CITY OF BRONSON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2011	2010	2011	2010
<b>Revenue</b>				
Property taxes	\$ 695	\$ 689	\$ 35	\$ 36
Licenses and permits	2	2	-	-
Intergovernmental	443	428	-	-
Charges for services	31	26	584	590
Fines and forfeits	16	17	-	-
Other	43	48	32	42
Loan proceeds	119	-	-	-
<b>Total revenue</b>	<b>1,349</b>	<b>1,210</b>	<b>651</b>	<b>668</b>
<b>Program expenses</b>				
General government	222	230	-	-
Public safety	728	567	-	-
Public works	178	169	-	-
Parks and recreation	81	62	-	-
Highways and streets	295	286	-	-
Community development	13	47	-	-
Debt service	44	23	-	-
Sewer system	-	-	274	270
Water system	-	-	129	169
Depreciation	-	-	205	197
Interest expense	-	-	24	30
<b>Total expenses</b>	<b>1,561</b>	<b>1,384</b>	<b>632</b>	<b>666</b>
<b>Excess (deficit)</b>	<b>\$ (212)</b>	<b>\$ (174)</b>	<b>\$ 19</b>	<b>\$ 2</b>



**CITY OF BRONSON**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2011	2010	2011	2010
<b>Revenues</b>				
Program revenues				
Charges for services \$	86	\$ 79	\$ 584	\$ 590
Operating grants and contributions	182	169	-	-
Capital grants and contributions	-	-	-	-
General revenues				
Property taxes	695	689	35	36
State shared revenues	261	261	-	-
Unrestricted investment earnings	6	14	15	19
Gain (loss) on sale	(6)	(1)	-	-
Miscellaneous	18	16	17	23
Total revenues	<u>1,242</u>	<u>1,227</u>	<u>651</u>	<u>668</u>
<b>Expenses</b>				
General government	399	277	-	-
Public safety	472	576	-	-
Public works	426	478	-	-
Parks and recreation	71	68	-	-
Community development	2	5	-	-
Interest on long-term debt	6	3	-	-
Sewer system	-	-	440	438
Water system	-	-	192	228
Total expenses	<u>1,376</u>	<u>1,407</u>	<u>632</u>	<u>666</u>
Change in net assets	<u>\$ (134)</u>	<u>\$ (180)</u>	<u>\$ 19</u>	<u>\$ 2</u>

**The City's Funds**

Our analysis of the City's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended June 30, 2011 include the General Fund.

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

## CITY OF BRONSON

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### General Fund Budgetary Highlights

As shown in the required supplemental information, the City budgeted a decrease of \$238,478 in the original budget and a decrease of \$95,958 in the amended budget. Actual operating results ended up as a decrease of \$48,869.

The actual results ended the fiscal year within \$47,089 of the amended budget.

#### Capital Assets and Debt Administration

During the year ended June 30, 2011, the total capital assets of the City increased by \$350,451. This amount consisted of \$215,000 for fire rescue equipment, \$91,294 for equipment purchased in the Motor Pool Fund and \$44,157 for water system improvements.

During the year ended June 30, 2011, the City incurred additional long-term debt borrowings of \$118,500 and made principal payments of \$146,101. Total debt obligations at June 30, 2011, amounted to \$580,399.

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

The General Fund adopted budget for the next fiscal year ending June 30, 2012 is reflective of the continued poor economy. Property tax revenue, state revenue sharing and investment income are projected to continue to decrease. The 2011-2012 budget was adopted with a \$136,114 projected excess of expenditures over revenues.

State revenue sharing is approximately the same as it was ten years ago. Due to the continued poor economy in the State of Michigan, revenue sharing is projected to decrease. Act 51 Gas Tax revenue continues to fall short of the funding necessary for street maintenance. The General Fund continues to make up the shortfall for street maintenance in the Major and Local Street Funds.

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

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

#### Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City office.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF BRONSON**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 669,576	\$ 1,365,282	\$ 2,034,858
Receivables, net	29,455	103,032	132,487
Internal balances	-	-	-
Prepaid and other assets	52,385	18,453	70,838
Restricted assets	-	24,815	24,815
Long-term receivables	29,340	-	29,340
Capital assets - net	1,366,218	3,629,454	4,995,672
Total assets	2,146,974	5,141,036	7,288,010
<b>LIABILITIES</b>			
Accounts payable	44,843	10,984	55,827
Accrued and other liabilities	28,201	19,453	47,654
Debt obligations:			
Due within one year	42,566	14,000	56,566
Due in more than one year	77,833	416,000	493,833
Compensated absences	30,000	-	30,000
Total liabilities	223,443	460,437	683,880
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,245,819	3,199,454	4,445,273
Restricted for:			
Public safety	18,207	-	18,207
Streets	66,483	-	66,483
Debt service	-	24,815	24,815
Unrestricted	593,022	1,456,330	2,049,352
Total net assets	\$ 1,923,531	\$ 4,680,599	\$ 6,604,130

See accompanying notes to financial statements

**CITY OF BRONSON  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 398,955	\$ 65,143	\$ 11,616	\$ -
Public safety	472,403	15,522	1,693	-
Public works	426,273	-	168,970	-
Parks and recreation	70,671	1,720	-	-
Community development	1,709	3,183	-	-
Interest on long-term debt	5,987	-	-	-
Total governmental activities	1,375,998	85,568	182,279	-
Business-type activities:				
Sanitary sewer	439,728	345,612	-	-
Water	192,011	237,985	-	-
Total business-type activities	631,739	583,597	-	-
Total primary government	\$ 2,007,737	\$ 669,165	\$ 182,279	\$ -

General revenues:  
  Property taxes  
  State shared revenues  
  Unrestricted investment earnings  
  Gain (Loss) on disposal of assets  
  Miscellaneous

Total general revenues

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental</u> <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
\$ (322,196)	\$ -	\$ (322,196)
(455,188)	-	(455,188)
(257,303)	-	(257,303)
(68,951)	-	(68,951)
1,474	-	1,474
<u>(5,987)</u>	<u>-</u>	<u>(5,987)</u>
 (1,108,151)	 -	 (1,108,151)
 -	(94,116)	(94,116)
<u>-</u>	<u>45,974</u>	<u>45,974</u>
 -	(48,142)	(48,142)
 (1,108,151)	(48,142)	(1,156,293)
 695,298	35,169	730,467
261,463	-	261,463
5,777	14,976	20,753
(5,769)	(48)	(5,817)
<u>17,532</u>	<u>17,497</u>	<u>35,029</u>
<u>974,301</u>	<u>67,594</u>	<u>1,041,895</u>
(133,850)	19,452	(114,398)
<u>2,057,381</u>	<u>4,661,147</u>	<u>6,718,528</u>
<u>\$ 1,923,531</u>	<u>\$ 4,680,599</u>	<u>\$ 6,604,130</u>

**FUND FINANCIAL STATEMENTS**

CITY OF BRONSON

GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
ASSETS			
Cash and cash equivalents	\$ 413,902	\$ 132,843	\$ 546,745
Accounts receivable	3,307	50	3,357
Due from other funds	-	-	-
Due from other governments	-	26,046	26,046
Prepaid and other assets	<u>33,844</u>	<u>8,749</u>	<u>42,593</u>
Total assets	<u>\$ 451,053</u>	<u>\$ 167,688</u>	<u>\$ 618,741</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 3,528	\$ 37,393	\$ 40,921
Accrued and other liabilities	25,201	2,850	28,051
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	28,729	40,243	68,972
FUND BALANCE			
Nonspendable	33,844	8,749	42,593
Restricted	18,207	58,222	76,429
Committed	-	60,474	60,474
Unassigned	<u>370,273</u>	<u>-</u>	<u>370,273</u>
Total fund balance	<u>422,324</u>	<u>127,445</u>	<u>549,769</u>
Total liabilities and fund balance	<u>\$ 451,053</u>	<u>\$ 167,688</u>	<u>\$ 618,741</u>

See accompanying notes to financial statements



CITY OF BRONSON  
GOVERNMENTAL FUNDS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2011

Total governmental fund balances \$ 549,769

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

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

Governmental capital assets	\$ 2,337,255	
Less accumulated depreciation	<u>(1,145,708)</u>	1,191,547

Certain receivables are not due and collectible in the current period and therefore are not reported in the funds	29,340
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	(20,000)
Note payable	(100,399)
Compensated absences	(30,000)

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

Net assets of the internal service funds	<u>303,274</u>
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Net assets of governmental activities	<u>\$ 1,923,531</u>
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See accompanying notes to financial statements

**CITY OF BRONSON  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2011**

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>			
Taxes	\$ 695,298	\$ -	\$ 695,298
Licenses and permits	1,821	-	1,821
Intergovernmental	280,615	162,867	443,482
Charges for services	25,475	5,417	30,892
Fines and forfeits	15,522	-	15,522
Miscellaneous	<u>35,201</u>	<u>8,239</u>	<u>43,440</u>
Total revenues	1,053,932	176,523	1,230,455
<b>EXPENDITURES</b>			
General government	222,159	-	222,159
Public safety	728,359	-	728,359
Public works	177,953	-	177,953
Parks and recreation	80,715	-	80,715
Highways and streets	-	295,383	295,383
Community enrichment, development and services	-	12,533	12,533
Debt service	<u>22,013</u>	<u>22,075</u>	<u>44,088</u>
Total expenditures	<u>1,231,199</u>	<u>329,991</u>	<u>1,561,190</u>
Excess (deficiency) of revenues over expenditures	(177,267)	(153,468)	(330,735)
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating transfers in	134,898	154,000	288,898
Operating transfers out	(125,000)	(163,898)	(288,898)
Proceeds from note payable	<u>118,500</u>	<u>-</u>	<u>118,500</u>
Total other financing sources (uses)	<u>128,398</u>	<u>(9,898)</u>	<u>118,500</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(48,869)	(163,366)	(212,235)
FUND BALANCE - Beginning of year	<u>471,193</u>	<u>290,811</u>	<u>762,004</u>
FUND BALANCE - End of year	<u>\$ 422,324</u>	<u>\$ 127,445</u>	<u>\$ 549,769</u>

See accompanying notes to financial statements



**CITY OF BRONSON  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2011**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
ASSETS				
<b>CURRENT ASSETS</b>				
Cash	\$ 19,340	\$ 13,642	\$ 32,982	\$ 122,831
Investments	647,300	685,000	1,332,300	-
Accounts receivable	61,434	41,598	103,032	52
Due from other funds	-	-	-	-
Prepaid and other assets	12,668	5,785	18,453	9,792
Total current assets	740,742	746,025	1,486,767	132,675
<b>NONCURRENT ASSETS</b>				
Restricted assets	24,815	-	24,815	-
Capital assets, net of depreciation	2,776,046	853,408	3,629,454	174,671
Total noncurrent assets	2,800,861	853,408	3,654,269	174,671
Total assets	3,541,603	1,599,433	5,141,036	307,346
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term debt	14,000	-	14,000	-
Accounts payable	9,464	1,520	10,984	3,922
Accrued and other liabilities	11,907	7,546	19,453	150
Due to other funds	-	-	-	-
Total current liabilities	35,371	9,066	44,437	4,072
<b>NONCURRENT LIABILITIES</b>				
Long-term debt, net of current portion	416,000	-	416,000	-
Total liabilities	451,371	9,066	460,437	4,072
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	2,346,046	853,408	3,199,454	174,671
Restricted for debt service	24,815	-	24,815	-
Unrestricted	719,371	736,959	1,456,330	128,603
Total net assets	\$ 3,090,232	\$1,590,367	\$4,680,599	\$ 303,274

See accompanying notes to financial statements

CITY OF BRONSON  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES,  
 AND CHANGES IN NET ASSETS  
 YEAR ENDED JUNE 30, 2011

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Fund</u>
OPERATING REVENUE				
Charges for services	\$ 345,612	\$ 237,985	\$ 583,597	\$ 170,028
OPERATING EXPENSES				
Operating and administrative	273,849	128,919	402,768	86,915
Depreciation	<u>143,416</u>	<u>61,839</u>	<u>205,255</u>	<u>52,474</u>
Total operating expenses	<u>417,265</u>	<u>190,758</u>	<u>608,023</u>	<u>139,389</u>
OPERATING INCOME (LOSS)	(71,653)	47,227	(24,426)	30,639
NONOPERATING REVENUE (EXPENSES)				
Property taxes	35,169	-	35,169	-
Investment income	6,651	8,325	14,976	802
Gain (Loss) on disposal of assets	-	(48)	(48)	(5,769)
Other revenue	9,717	7,780	17,497	-
Interest expense	<u>(22,463)</u>	<u>(1,253)</u>	<u>(23,716)</u>	<u>-</u>
Total nonoperating revenue (expense)	29,074	14,804	43,878	(4,967)
OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(42,579)	62,031	19,452	25,672
NET ASSETS - BEGINNING OF YEAR	<u>3,132,811</u>	<u>1,528,336</u>	<u>4,661,147</u>	<u>277,602</u>
NET ASSETS - ENDING OF YEAR	<u>\$3,090,232</u>	<u>\$1,590,367</u>	<u>\$4,680,599</u>	<u>\$ 303,274</u>

See accompanying notes to financial statements

**CITY OF BRONSON  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 YEAR ENDED JUNE 30, 2011**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Fund</u>
Cash flows from operating activities				
Receipts from customers	\$ 346,795	\$ 245,110	\$ 591,905	\$ -
Receipts for internal services	-	-	-	170,028
Payments to employees and suppliers	<u>(266,851)</u>	<u>(264,938)</u>	<u>(531,789)</u>	<u>(87,378)</u>
Net cash provided (used) by operating activities	79,944	(19,828)	60,116	82,650
Cash flows from non-capital financing activities				
Other receipts	9,717	7,780	17,497	-
Cash flows from capital and related financing activities				
Property taxes	35,169	-	35,169	-
Principal paid on debt	(32,000)	(76,000)	(108,000)	-
Interest paid on debt	(22,724)	(2,298)	(25,022)	-
Acquisition of capital assets	-	(44,157)	(44,157)	(91,294)
Proceeds from sale of assets	<u>-</u>	<u>8,040</u>	<u>8,040</u>	<u>2,802</u>
Net cash provided (used) by capital and related financing activities	(19,555)	(114,415)	(133,970)	(88,492)
Cash flows from investing activities				
Interest received on investments	<u>2,282</u>	<u>6,939</u>	<u>9,221</u>	<u>825</u>
Net increase (decrease) in cash	72,388	(119,524)	(47,136)	(5,017)
Cash and Cash Equivalents - Beginning of Year	<u>619,067</u>	<u>818,166</u>	<u>1,437,233</u>	<u>127,848</u>
Cash and Cash Equivalents - End of Year	<u>\$ 691,455</u>	<u>\$ 698,642</u>	<u>\$1,390,097</u>	<u>\$ 122,831</u>

See accompanying notes to financial statements

CITY OF BRONSON  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS - Continued  
 YEAR ENDED JUNE 30, 2011

	Sewage Disposal System <u>Fund</u>	Water Supply System <u>Fund</u>	<u>Total</u>	Motor Pool Internal Service <u>Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (71,653)	\$ 47,227	\$ (24,426)	\$ 30,639
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	143,416	61,839	205,255	52,474
(Increase) decrease in:				
Accounts receivable	1,183	7,125	8,308	-
Other current assets	(506)	(970)	(1,476)	127
Increase (decrease) in:				
Accounts payable	7,898	(135,213)	(127,315)	(640)
Accrued liabilities	(394)	164	(230)	50
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 79,944</u>	<u>\$ (19,828)</u>	<u>\$ 60,116</u>	<u>\$ 82,650</u>

See accompanying notes to financial statements

CITY OF BRONSON  
FIDUCIARY FUNDS  
BALANCE SHEET  
JUNE 30, 2011

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 2,304</u>
LIABILITIES	
Due to other governmental units	<u>\$ 2,304</u>

See accompanying notes to financial statements



CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

The accounting policies of the City of Bronson conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to cities. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the City are discussed below.

**Reporting Entity**

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

As required by generally accepted accounting principles, GASB 14, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. There are no component units to be included in these financial statements.

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

**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

The City reports the following major funds:

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

**Enterprise Funds**

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

- \* Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- \* Public hearings are conducted at the City hall to obtain public comments.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- \* Budget transfers between appropriation centers or changes to appropriation center totals require formal amendment by the City Council. Budgets for the current year are carefully reviewed throughout the year for any revisions of estimates. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary.
- \* All budget appropriations lapse at the end of the year.
- \* Budgets as presented for the governmental funds are prepared on the modified accrual basis consistent with generally accepted accounting principles.

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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



CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	<u>Primary Government</u>
Statement of Net Assets:	
Cash and investments	\$ 2,034,858
Restricted assets	24,815
Statement of Fiduciary Net Assets:	
Cash	<u>2,304</u>
Total	<u>\$ 2,061,977</u>
Deposits and Investments:	
Bank deposits (checking accounts and savings accounts)	\$ 1,192,798
Certificates of deposit	868,929
Cash on hand	<u>250</u>
Total	<u>\$ 2,061,977</u>

**Deposits** - The deposits of the City were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,065,499. Of that amount, approximately \$1,529,520 was covered by federal depository insurance and \$535,979 was uninsured and uncollateralized.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 2 - DEPOSITS AND INVESTMENTS - Continued**

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

**NOTE 3 - RECEIVABLES**

Receivables in the governmental activities are 88 percent due from other governments and 12 percent accounts receivable. Business-type activities receivables are 91 percent due from customers and 9 percent accrued interest receivable.

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

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

Interfund receivables and payables consisted of the following at June 30, 2011:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General Fund	<u>\$ -</u>	Other Funds	<u>\$ -</u>

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

**CITY OF BRONSON**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued**

Transfers consisted of the following for the year ended June 30, 2011:

Fund	Transfers Out	Fund	Transfers In
General	\$ <u>125,000</u>	Major Street	\$ 80,000
		Local Street	<u>45,000</u>
			<u>125,000</u>
Major Street	<u>29,000</u>	Local Street	<u>29,000</u>
Fire Sinking	<u>134,898</u>	General Fund	<u>134,898</u>
Total Primary Government	<u>\$ 288,898</u>		<u>\$ 288,898</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and (4) use funds accumulated in the sinking fund to purchase fire rescue equipment in the general fund.

**NOTE 5 - LONG-TERM RECEIVABLE**

On May 15, 2008, the City of Bronson loaned the Bronson Community Foundation \$38,140 from the Community Development Fund for the purpose of improvements to a building. The loan is non-interest bearing and collectible in monthly installments of \$200 through June 15, 2024.

Long-term receivable at June 30, 2011 \$ 29,340

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 434,389	\$ -	\$ -	\$ 434,389
Capital assets, being depreciated:				
Land improvements	96,344	-	-	96,344
Buildings and improvements	662,592	-	-	662,592
Machinery and equipment	738,476	256,800	32,453	962,823
Vehicles	306,753	49,494	24,968	331,279
Streets	<u>482,796</u>	<u>-</u>	<u>-</u>	<u>482,796</u>
Subtotal	2,286,961	306,294	57,421	2,535,834
Accumulated depreciation				
Land improvements	36,611	3,853	-	40,464
Buildings and improvements	374,992	14,701	-	389,693
Machinery and equipment	656,511	66,367	23,882	698,996
Vehicles	240,116	27,530	24,967	242,679
Streets	<u>212,860</u>	<u>19,312</u>	<u>-</u>	<u>232,172</u>
Subtotal	<u>1,521,090</u>	<u>131,763</u>	<u>48,849</u>	<u>1,604,004</u>
Net capital assets being depreciated	<u>765,871</u>			<u>931,830</u>
Net capital assets	<u>\$ 1,200,260</u>			<u>\$ 1,366,219</u>

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 6 - CAPITAL ASSETS - Continued

	Balance July 1, 2010	<u>Additions</u>	Disposals/ Transfers	Balance June 30, 2011
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 14,655	\$ -	\$ -	\$ 14,655
Capital assets, being depreciated:				
Sewage disposal system	5,898,025	-	-	5,898,025
Water supply System	<u>1,624,083</u>	<u>44,157</u>	<u>12,539</u>	<u>1,655,701</u>
Subtotal	7,522,108	44,157	12,539	7,553,726
Accumulated depreciation				
Sewage disposal system	2,981,563	143,416	-	3,124,979
Water supply System	<u>756,560</u>	<u>61,839</u>	<u>4,451</u>	<u>813,948</u>
Subtotal	<u>3,738,123</u>	<u>205,255</u>	<u>4,451</u>	<u>3,938,927</u>
Net capital assets being depreciated	<u>3,783,985</u>			<u>3,614,799</u>
Net capital assets	<u>\$ 3,798,640</u>			<u>\$ 3,629,454</u>

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

Governmental activities:

General government	\$ 79,058
Public safety	13,176
Public works	32,941
Parks and recreation	<u>6,588</u>

Total \$ 131,763

Business-type activities:

Sanitary Sewer	\$ 143,416
Water	<u>61,839</u>

Total \$ 205,255

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 7 - LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
<b>Governmental Activities</b>					
General obligation bonds	\$ 40,000	\$ -	\$ 20,000	\$ 20,000	\$ 20,000
Note payable - fire equipment	-	118,500	18,101	100,399	22,566
Compensated absences	30,000	-	-	30,000	-
	70,000	118,500	38,101	150,399	42,566
<b>Business-Type Activities</b>					
General obligation bonds	443,000	-	13,000	430,000	14,000
Revenue bonds	95,000	-	95,000	-	-
	538,000	-	108,000	430,000	14,000
Total Primary Government Long-Term Debt	\$ 608,000	\$ 118,500	\$ 146,101	\$ 580,399	\$ 56,566

Long-term debt payable at June 30, 2011, consisted of the following individual issues:

**Governmental Activities**

\$190,000 - 1997 Michigan Transportation Fund Bonds, due in annual installments of \$5,000 to \$20,000 through October 1, 2011; interest at rates ranging from 4.1% to 5.6%	\$ 20,000
Note payable for purchase of 2001 Pierce Dash rescue pumper truck, down payment of \$96,500 and monthly payments of \$2,201 through August 26, 2015; including interest at 4.29%	100,399
Long-term compensated absences	30,000
Total Governmental Activities Long-Term Liabilities	150,399



CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 7 - LONG-TERM DEBT - Continued**

**Business-Type Activities**

\$590,000 - 1993 Sewage Disposal System Improvement Bonds, due in annual installments of \$5,000 to \$23,000 through April 1, 2033; interest at 5.0%	<u>430,000</u>
Total Primary Government Long-Term Debt	<u>\$ 580,399</u>

**Debt Service Requirements**

The annual requirements to service all debt outstanding as of June 30, 2011 (excluding compensated absences), including both principal and interest, are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 42,566	\$ 4,410	\$ 46,976
2013	23,536	2,880	26,416
2014	24,566	1,850	26,416
2015	25,640	776	26,416
2016	<u>4,091</u>	<u>21</u>	<u>4,112</u>
Total	<u>\$ 120,399</u>	<u>\$ 9,937</u>	<u>\$ 130,336</u>

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 14,000	\$ 21,500	\$ 35,500
2013	14,000	20,800	34,800
2014	16,000	20,100	36,100
2015	16,000	19,300	35,300
2016	17,000	18,500	35,500
2017-2021	91,000	79,400	170,400
2022-2026	104,000	55,350	159,350
2027-2031	112,000	28,450	140,450
2032-2033	<u>46,000</u>	<u>3,450</u>	<u>49,450</u>
Total	<u>\$ 430,000</u>	<u>\$ 266,850</u>	<u>\$ 696,850</u>

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

**NOTE 8 - RISK MANAGEMENT**

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

**NOTE 9 - RETIREMENT PLAN**

Effective July 1, 1996, the City established a defined contribution retirement plan which covers substantially all City employees except police officers. The City contributes 5% of compensation. For the year ended June 30, 2011, pension expense was \$26,534.

Effective July 1, 1997, the City's police officers began participating in an agent multi employer-defined pension plan with the Municipal Employee's Retirement System (MERS), administered by the State of Michigan. For the year ended June 30, 2011, pension expense was \$13,609.

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

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

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

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

During the year ended June 30, 2011, the City incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control.

**REQUIRED SUPPLEMENTAL INFORMATION**

CITY OF BRONSON  
REQUIRED SUPPLEMENTAL INFORMATION  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2011

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance With Amended <u>Budget</u>
<b>REVENUES</b>				
Taxes	\$ 688,470	\$ 695,284	\$ 695,298	\$ 14
Licenses and permits	2,250	1,794	1,821	27
Intergovernmental	268,538	278,819	280,615	1,796
Charges for services	18,025	25,326	25,475	149
Fines and forfeits	15,500	14,835	15,522	687
Miscellaneous	<u>36,709</u>	<u>29,992</u>	<u>35,201</u>	<u>5,209</u>
Total revenues	1,029,492	1,046,050	1,053,932	7,882
<b>EXPENDITURES</b>				
General government	247,039	237,033	222,159	14,874
Public safety	594,298	745,669	728,359	17,310
Public works	185,263	183,409	177,953	5,456
Parks and recreation	71,301	82,282	80,715	1,567
Debt service	<u>-</u>	<u>22,013</u>	<u>22,013</u>	<u>-</u>
Total expenditures	<u>1,097,901</u>	<u>1,270,406</u>	<u>1,231,199</u>	<u>39,207</u>
Excess (deficiency) of revenues over expenditures	(68,409)	(224,356)	(177,267)	47,089
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	-	134,898	134,898	-
Operating transfers out	(170,069)	(125,000)	(125,000)	-
Proceeds from note payable	<u>-</u>	<u>118,500</u>	<u>118,500</u>	<u>-</u>
Total other financing sources (uses)	<u>(170,069)</u>	<u>128,398</u>	<u>128,398</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other uses	(238,478)	(95,958)	(48,869)	47,089
FUND BALANCE - Beginning of year	<u>471,193</u>	<u>471,193</u>	<u>471,193</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 232,715</u>	<u>\$ 375,235</u>	<u>\$ 422,324</u>	<u>\$ 47,089</u>

See accompanying notes to financial statements

**OTHER SUPPLEMENTAL INFORMATION**

CITY OF BRONSON

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2011

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Sinking</u>	<u>Cemetery</u>
ASSETS				
Cash and cash equivalents	\$ 60,305	\$ 11,534	\$ 7,123	\$ 14,624
Accounts receivable	25	5	-	6
Due from other funds	-	-	-	-
Due from other governments	19,242	6,804	-	-
Prepaid and other assets	<u>4,273</u>	<u>3,988</u>	<u>-</u>	<u>488</u>
Total assets	<u>\$ 83,845</u>	<u>\$ 22,331</u>	<u>\$ 7,123</u>	<u>\$ 15,118</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 36,697	\$ 246	\$ -	\$ 450
Accrued and other liabilities	1,500	1,250	-	100
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	38,197	1,496	-	550
FUND BALANCE				
Nonspendable	4,273	3,988	-	488
Restricted	41,375	16,847	-	-
Committed	<u>-</u>	<u>-</u>	<u>7,123</u>	<u>14,080</u>
Total fund balance	<u>45,648</u>	<u>20,835</u>	<u>7,123</u>	<u>14,568</u>
Total liabilities and fund balance	<u>\$ 83,845</u>	<u>\$ 22,331</u>	<u>\$ 7,123</u>	<u>\$ 15,118</u>

<u>Cemetery Redevelopment Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Economic Development Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 6,379	\$ 21,444	\$ 11,434	\$ 132,843
-	9	5	50
-	-	-	-
-	-	-	26,046
-	-	-	<u>8,749</u>
<u>\$ 6,379</u>	<u>\$ 21,453</u>	<u>\$ 11,439</u>	<u>\$ 167,688</u>

\$ -	\$ -	\$ -	\$ 37,393
-	-	-	2,850
-	-	-	-
-	-	-	40,243
-	-	-	8,749
-	-	-	58,222
<u>6,379</u>	<u>21,453</u>	<u>11,439</u>	<u>60,474</u>
<u>6,379</u>	<u>21,453</u>	<u>11,439</u>	<u>127,445</u>
<u>\$ 6,379</u>	<u>\$ 21,453</u>	<u>\$ 11,439</u>	<u>\$ 167,688</u>

CITY OF BRONSON  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2011

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Sinking</u>	<u>Cemetery</u>
REVENUES				
Intergovernmental	\$ 120,694	\$ 42,173	\$ -	\$ -
Charges for services	-	-	-	5,417
Miscellaneous	<u>534</u>	<u>74</u>	<u>40</u>	<u>98</u>
Total revenues	121,228	42,247	40	5,515
EXPENDITURES				
Highways and streets	185,975	109,408	-	-
Community enrichment, development and services	-	-	-	10,824
Debt service	<u>8,912</u>	<u>13,163</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>194,887</u>	<u>122,571</u>	<u>-</u>	<u>10,824</u>
Excess (deficiency) of revenues over expenditures	(73,659)	(80,324)	40	(5,309)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	80,000	74,000	-	-
Operating transfers out	<u>(29,000)</u>	<u>-</u>	<u>(134,898)</u>	<u>-</u>
Total other financing sources (uses)	<u>51,000</u>	<u>74,000</u>	<u>(134,898)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(22,659)	(6,324)	(134,858)	(5,309)
FUND BALANCE - Beginning of year	<u>68,307</u>	<u>27,159</u>	<u>141,981</u>	<u>19,877</u>
FUND BALANCE - End of year	<u>\$ 45,648</u>	<u>\$ 20,835</u>	<u>\$ 7,123</u>	<u>\$ 14,568</u>



<u>Cemetery Redevelopment Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Economic Development Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 162,867
-	-	-	5,417
<u>1,385</u>	<u>269</u>	<u>5,839</u>	<u>8,239</u>
1,385	269	5,839	176,523
-	-	-	295,383
-	-	1,709	12,533
<u>-</u>	<u>-</u>	<u>-</u>	<u>22,075</u>
<u>-</u>	<u>-</u>	<u>1,709</u>	<u>329,991</u>
1,385	269	4,130	(153,468)
-	-	-	154,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>(163,898)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,898)</u>
1,385	269	4,130	(163,366)
<u>4,994</u>	<u>21,184</u>	<u>7,309</u>	<u>290,811</u>
<u>\$ 6,379</u>	<u>\$ 21,453</u>	<u>\$ 11,439</u>	<u>\$ 127,445</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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described below to be material weaknesses.

Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due primarily to the related negative impact on cash funds available to the City, the hiring of accounting personnel capable of writing the City's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

Finding 2007-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

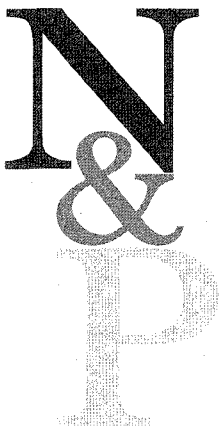
Response: As noted above, due to decreased cash flows of the City, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the City's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the City Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

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

October 7, 2011



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

*Certified Public Accountants*

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

To the Members of the City Council  
City of Bronson

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA/ABV, CVA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)

Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due primarily to the related negative impact on cash funds available to the City, the hiring of accounting personnel capable of writing the City's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

Finding 2007-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to decreased cash flows of the City, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the City's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the City Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

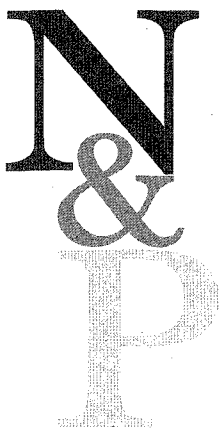
The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

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

October 7, 2011

*Norman & Paulson, P.C.*



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

October 7, 2011

To the City Council  
City of Bronson, Michigan

Norman & Paulsen, P.C.

*Certified Public Accountants*

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We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bronson for the year ended June 30, 2011, and have issued our report thereon dated October 7, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 11, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Bronson are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Donald L. Paulsen, CPA  
Patrick J. Monahan, CPA  
Bruce S. A. Gosling, CPA/ABV, CVA  
Michael R. Wilson, CPA  
Rick L. Strawser, CPA  
Jerrel T. Norman (1941-1982)

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

### Disclosures

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

### Difficulties Encountered in Performing the Audit

We encountered no difficulties in 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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

### Disagreements with Management

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

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 7, 2011.

### 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 governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## Internal Control Matters

In planning and performing our audit of the financial statements of the City of Bronson, Michigan for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described below to be material weaknesses.

The relatively small number of people involved in the accounting functions of the City makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process.



Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot, by definition, be considered a part of the government's *internal* controls. This condition was caused by the City's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

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

Sincerely,

Norman E. Paulson, P.C.