

CITY OF BRONSON
BRANCH COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bronson, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

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

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019, on our consideration of the City of Bronson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bronson's internal control over financial reporting and compliance.

Gabridge & Company, PLC
Sturgis, Michigan
November 25, 2019



Management's Discussion and Analysis

Management's Discussion and Analysis

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, 2019. We encourage our readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,510,939 (net position). Of this amount, \$2,608,471 represents unrestricted net position, which may be used to meet the government’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 \$1,530,983, an increase of \$267,269 in comparison with the prior year. Approximately 58.7% of this amount, or \$898,944, is available for spending at the government’s discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$898,944, or approximately 75.0% of total general fund expenditures.

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 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 and the major 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 enterprise 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.

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 \$6,510,939 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.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Assets						
Cash and Cash Equivalents	\$ 839,385	\$ 1,264,472	\$ 876,057	\$ 985,820	\$ 1,715,442	\$ 2,250,292
Investments	1,037,800	293,800	882,200	674,200	1,920,000	968,000
Receivables, Net	74,527	71,105	134,143	101,831	208,670	172,936
Internal Balances	(1,850)	-	1,850	-	-	-
Prepaid and Other Assets	19,906	50,245	8,439	17,850	28,345	68,095
Restricted Assets	-	-	30,578	30,067	30,578	30,067
Loans Receivable, Net	34,647	30,686	-	-	34,647	30,686
Capital Assets, Net	<u>1,176,785</u>	<u>1,221,863</u>	<u>2,550,498</u>	<u>2,761,122</u>	<u>3,727,283</u>	<u>3,982,985</u>
Total Assets	<u>3,181,200</u>	<u>2,932,171</u>	<u>4,483,765</u>	<u>4,570,890</u>	<u>7,664,965</u>	<u>7,503,061</u>
Deferred Outflows of Resources						
Pension	<u>121,208</u>	<u>149,666</u>	<u>76,255</u>	<u>100,766</u>	<u>197,463</u>	<u>250,432</u>
Liabilities						
Accounts Payable	33,999	26,288	76,110	29,420	110,109	55,708
Accrued and Other Liabilities	16,184	15,779	36,863	36,574	53,047	52,353
Debt Obligations:						
Due within One Year	-	-	19,000	18,000	19,000	18,000
Due in More Than One Year	-	-	281,000	300,000	281,000	300,000
Compensated Absences	26,000	21,600	-	-	26,000	21,600
Net Pension Liability	<u>493,881</u>	<u>503,847</u>	<u>310,715</u>	<u>339,226</u>	<u>804,596</u>	<u>843,073</u>
Total Liabilities	<u>570,064</u>	<u>567,514</u>	<u>723,688</u>	<u>723,220</u>	<u>1,293,752</u>	<u>1,290,734</u>
Deferred Inflows of Resources						
Pension	<u>35,440</u>	<u>74,673</u>	<u>22,297</u>	<u>50,275</u>	<u>57,737</u>	<u>124,948</u>
Net Position						
Net Investment in Capital Assets	1,176,785	1,221,863	2,250,498	2,443,122	3,427,283	3,664,985
Restricted	444,607	328,068	30,578	30,067	475,185	358,135
Unrestricted	<u>1,075,512</u>	<u>889,719</u>	<u>1,532,959</u>	<u>1,424,972</u>	<u>2,608,471</u>	<u>2,314,691</u>
Total Net Position	<u>\$ 2,696,904</u>	<u>\$ 2,439,650</u>	<u>\$ 3,814,035</u>	<u>\$ 3,898,161</u>	<u>\$ 6,510,939</u>	<u>\$ 6,337,811</u>

The largest portion of the City's net position of \$3,427,283 or 52.6%, 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 \$475,185 or 7.3%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,608,471 or 40.1%, is unrestricted and may be used to meet the government'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 long-term debt due to bond repayment.

The following chart presents a summary of the changes in net position for years ended June 30, 2019 and 2018:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue						
Program Revenues						
Charges for Services	\$ 310,393	\$ 280,059	\$ 680,955	\$ 653,799	\$ 991,348	\$ 933,858
Operating Grants and Contributions	309,151	276,227	216,492	27,811	525,643	304,038
Capital Grants and Contributions	-	-	-	2,500	-	2,500
Total Program Revenues	<u>619,544</u>	<u>556,286</u>	<u>897,447</u>	<u>684,110</u>	<u>1,516,991</u>	<u>1,240,396</u>
General Revenues						
Taxes	551,403	536,397	33,901	33,730	585,304	570,127
State Sources	533,441	540,601	-	-	533,441	540,601
Investment Income	17,773	9,116	22,546	14,081	40,319	23,197
Miscellaneous	3,836	2,276	12,546	15,629	16,382	17,905
Gain (Loss) on Disposal of Fixed Assets	-	12,392	-	-	-	12,392
Total General Revenues	<u>1,106,453</u>	<u>1,100,782</u>	<u>68,993</u>	<u>63,440</u>	<u>1,175,446</u>	<u>1,164,222</u>
Total Revenues	<u>1,725,997</u>	<u>1,657,068</u>	<u>966,440</u>	<u>747,550</u>	<u>2,692,437</u>	<u>2,404,618</u>
Expenses						
General Government	546,676	514,120	-	-	546,676	514,120
Public Safety	525,367	428,033	-	-	525,367	428,033
Public Works	334,928	303,450	-	-	334,928	303,450
Recreation and Cultural	61,772	85,108	-	-	61,772	85,108
Wastewater	-	-	793,275	523,788	793,275	523,788
Water	-	-	257,291	270,704	257,291	270,704
Total Expenses	<u>1,468,743</u>	<u>1,330,711</u>	<u>1,050,566</u>	<u>794,492</u>	<u>2,519,309</u>	<u>2,125,203</u>
Change in Net Position	257,254	326,357	(84,126)	(46,942)	173,128	279,415
Net Position at the Beginning of Period	<u>2,439,650</u>	<u>2,113,293</u>	<u>3,898,161</u>	<u>3,945,103</u>	<u>6,337,811</u>	<u>6,058,396</u>
Net Position at the End of Period	<u>\$ 2,696,904</u>	<u>\$ 2,439,650</u>	<u>\$ 3,814,035</u>	<u>\$ 3,898,161</u>	<u>\$ 6,510,939</u>	<u>\$ 6,337,811</u>

Governmental Activities. Government activities increased the City's net position by \$257,254, compared to an increase of \$326,357 during the prior year. Revenues were comparable with the prior year, increasing by \$68,929 during the year with expenses increasing by \$138,032. The increase in expense is primarily due to increased public safety expenses.

Business-type Activities. Business-type activities decreased the City’s net position by \$84,126, compared to a decrease of \$46,942 during the prior year. Both total revenues and total expenses increased for the business-type activities. Revenue increased due to a Storm Water, Asset Management, and Wastewater (“SAW grant”) received during the year in the amount of \$216,492. This was the primary reason for the overall increase in revenues of \$218,890. 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 \$256,074 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, 2019, the City’s governmental funds reported combined fund balances of \$1,530,983, an increase of \$267,269 in comparison with the prior year. Approximately 58.7% of this amount (\$898,944) constitutes unassigned fund balance, which is available for spending at the government’s discretion. The remainder of the fund balance is either restricted or committed to indicate that it is: 1) restricted for particular purposes (\$441,696), 2) committed for particular purposes (\$171,054), or 3) nonspendable (\$19,289).

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 \$898,944. 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 74.4% of total general fund expenditures and transfers out.

The fund balance of the City’s general fund increased by \$108,466 during the current fiscal year. The increase in fund balance directly relates to the continuing PPT reimbursement from the state for essential services, offsetting the increase in expenditures across each activity of the general fund.

The major streets fund, a major fund, had an \$83,138 increase in fund balance during the current fiscal year which put the overall fund balance at \$301,688. The increase is a result of not having to transfer all available funds out to the other funds.

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 \$814,337 and \$718,622, respectively. The funds decreased by \$104,257 and increased by \$20,131, 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, intergovernmental revenues, general government and public safety expenses were increased, while public works expenses were reduced. In the major streets fund, intergovernmental revenues were increased, while routine and winter maintenance expenses were reduced.

Final budget compare to actual results. The city had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2019:

<u>Fund/Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Public Safety	\$ 547,358	\$ 548,403	\$ (1,045)
Public Works	155,001	156,668	(1,667)
Recreation and Cultural	65,856	67,860	(2,004)

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, 2019, amounted to \$3,727,283 (net of accumulated depreciation). Of this amount, \$1,176,785 was for its governmental activities and \$2,550,498 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Significant capital asset additions during the year include the following:

Governmental:

- Vehicles and Equipment additions of \$51,500, including the purchase of a sub-compact tractor and one new truck for the department of public works.

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 \$300,000 for business-type activities.

The City made principal payments of \$18,000 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 2019 with the exception of an increase in public works for an anticipated lighting project. 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 2020, the City plans again to use current revenues to provide essential services and to maintain the City's financial reserves at similar levels. The ongoing costs of providing essential services for the citizens of the City will again need to be monitored in order to maintain the financial condition of the City.

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, 2019

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	
Assets				
Cash and Cash Equivalents	\$ 839,385	\$ 876,057	\$ 1,715,442	\$ 658
Investments	1,037,800	882,200	1,920,000	-
Receivables, Net	74,527	134,143	208,670	-
Internal Balances	(1,850)	1,850	-	-
Prepaid and Other Assets	19,906	8,439	28,345	-
Restricted Assets	-	30,578	30,578	-
Loans Receivable, Net	34,647	-	34,647	-
Capital Assets, Net	<u>1,176,785</u>	<u>2,550,498</u>	<u>3,727,283</u>	<u>-</u>
Total Assets	<u>3,181,200</u>	<u>4,483,765</u>	<u>7,664,965</u>	<u>658</u>
Deferred Outflows of Resources				
Pension	<u>121,208</u>	<u>76,255</u>	<u>197,463</u>	<u>-</u>
Liabilities				
Accounts Payable	33,999	76,110	110,109	-
Accrued and Other Liabilities	16,184	36,863	53,047	-
Debt Obligations:				
Due Within One Year	-	19,000	19,000	-
Due in More Than One Year	-	281,000	281,000	-
Compensated Absences	26,000	-	26,000	-
Net Pension Liability	<u>493,881</u>	<u>310,715</u>	<u>804,596</u>	<u>-</u>
Total Liabilities	<u>570,064</u>	<u>723,688</u>	<u>1,293,752</u>	<u>-</u>
Deferred Inflows of Resources				
Pension	<u>35,440</u>	<u>22,297</u>	<u>57,737</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets	1,176,785	2,250,498	3,427,283	-
Restricted for:				
Public Safety	3,472	-	3,472	-
Streets	441,135	-	441,135	-
Debt Service	-	30,578	30,578	-
Unrestricted	<u>1,075,512</u>	<u>1,532,959</u>	<u>2,608,471</u>	<u>658</u>
Total Net Position	<u>\$ 2,696,904</u>	<u>\$ 3,814,035</u>	<u>\$ 6,510,939</u>	<u>\$ 658</u>

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, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>		<u>Total</u>	<u>Component Unit</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		
Primary Government								
Governmental Activities:								
General Government	\$ 546,676	\$ 288,071	\$ 2,300	\$ -	\$ (256,305)	\$ -	\$ (256,305)	\$ -
Public Safety	525,367	19,522	-	-	(505,845)	-	(505,845)	-
Public Works	334,928	-	306,851	-	(28,077)	-	(28,077)	-
Recreation and Cultural	61,772	2,800	-	-	(58,972)	-	(58,972)	-
Total Governmental Activities	<u>1,468,743</u>	<u>310,393</u>	<u>309,151</u>	<u>-</u>	<u>(849,199)</u>	<u>-</u>	<u>(849,199)</u>	<u>-</u>
Business-Type Activities:								
Wastewater	793,275	417,724	216,492	-	-	(159,059)	(159,059)	-
Water	257,291	263,231	-	-	-	5,940	5,940	-
Total Business-Type Activities	<u>1,050,566</u>	<u>680,955</u>	<u>216,492</u>	<u>-</u>	<u>-</u>	<u>(153,119)</u>	<u>(153,119)</u>	<u>-</u>
Total Primary Government	<u>\$ 2,519,309</u>	<u>\$ 991,348</u>	<u>\$ 525,643</u>	<u>\$ -</u>	<u>(849,199)</u>	<u>(153,119)</u>	<u>(1,002,318)</u>	<u>-</u>
Component Unit								
Downtown Development Authority	\$ -	\$ -	\$ -	\$ -				-
Total Component Unit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>-</u>
General Purpose Revenues:								
Taxes					551,403	33,901	585,304	-
State Sources					533,441	-	533,441	-
Investment Income					17,773	22,546	40,319	45
Miscellaneous					3,836	12,546	16,382	-
Gain (Loss) on Disposal of Fixed Assets					-	-	-	-
Total General Revenues					<u>1,106,453</u>	<u>68,993</u>	<u>1,175,446</u>	<u>45</u>
Change in Net Position					257,254	(84,126)	173,128	45
Net Position at Beginning of Period					<u>2,439,650</u>	<u>3,898,161</u>	<u>6,337,811</u>	<u>613</u>
Net Position at End of Period					<u>\$ 2,696,904</u>	<u>\$ 3,814,035</u>	<u>\$ 6,510,939</u>	<u>\$ 658</u>

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

**City of Bronson
Balance Sheet
Governmental Funds
June 30, 2019**

	<u>General Fund</u>	<u>Special Revenue Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and Cash Equivalents	\$ 299,986	\$ 151,131	\$ 169,085	\$ 620,202
Investments	613,800	118,000	133,000	864,800
Accounts Receivable	26,736	-	-	26,736
Due from Other Funds	-	100	146	246
Due from Other Governmental Units	-	35,350	12,441	47,791
Prepaid and Other Assets	16,214	1,462	1,613	19,289
Loans Receivable	-	-	34,647	34,647
Total Assets	<u>\$ 956,736</u>	<u>\$ 306,043</u>	<u>\$ 350,932</u>	<u>\$ 1,613,711</u>
Liabilities				
Accounts Payable	\$ 21,262	\$ 3,605	\$ 5,020	\$ 29,887
Accrued and Other Liabilities	14,684	750	600	16,034
Due to Other Funds	2,160	-	-	2,160
Total Liabilities	<u>38,106</u>	<u>4,355</u>	<u>5,620</u>	<u>48,081</u>
Deferred Inflows of Resources				
Unavailable Rehab Project Revenues	-	-	34,647	34,647
Fund Balance				
Nonspendable:				
Prepaid Expenditures	16,214	1,462	1,613	19,289
Restricted For:				
Public Safety	3,472	-	-	3,472
Streets	-	300,226	137,998	438,224
Committed For:				
Fire Protection Equipment	-	-	96,817	96,817
Cemetery	-	-	43,958	43,958
Community Development	-	-	30,279	30,279
Unassigned	898,944	-	-	898,944
Total Fund Balance	<u>918,630</u>	<u>301,688</u>	<u>310,665</u>	<u>1,530,983</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 956,736</u>	<u>\$ 306,043</u>	<u>\$ 350,932</u>	<u>\$ 1,613,711</u>

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, 2019

Total Fund Balance - Governmental Funds \$ 1,530,983

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

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

Governmental capital assets	\$ 2,493,526	
Less accumulated depreciation	<u>(1,506,735)</u>	986,791

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

Deferred long-term receivables	34,647
--------------------------------	--------

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

Compensated absences	(26,000)
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Certain pension-related amounts, such as net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.

Deferred outflows related to the net pension liability	121,208	
Net pension liability	(493,881)	
Deferred inflows related to the net pension liability	(35,440)	

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

Net position of the internal service funds	<u>578,596</u>
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Total Net Position - Governmental Activities **\$ 2,696,904**

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, 2019

	<u>General Fund</u>	<u>Special Revenue Major Streets</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 524,695	\$ -	\$ 26,708	\$ 551,403
Licenses and Permits	13,511	-	-	13,511
Intergovernmental	533,441	203,095	103,756	840,292
Charges for Services	216,318	-	8,291	224,609
Fines and Forfeitures	16,491	-	-	16,491
Miscellaneous	<u>12,925</u>	<u>3,165</u>	<u>10,474</u>	<u>26,564</u>
Total Revenues	<u>1,317,381</u>	<u>206,260</u>	<u>149,229</u>	<u>1,672,870</u>
Expenditures				
General Government	425,984	-	-	425,984
Public Safety	548,403	-	-	548,403
Public Works	156,668	-	-	156,668
Recreation and Cultural	67,860	-	-	67,860
Highways and Streets	-	73,122	101,217	174,339
Community Enrichment, Development and Services	<u>-</u>	<u>-</u>	<u>32,347</u>	<u>32,347</u>
Total Expenditures	<u>1,198,915</u>	<u>73,122</u>	<u>133,564</u>	<u>1,405,601</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>118,466</u>	<u>133,138</u>	<u>15,665</u>	<u>267,269</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	-	60,000	60,000
Operating Transfers Out	<u>(10,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>(60,000)</u>
Net Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(50,000)</u>	<u>60,000</u>	<u>-</u>
Net Change in Fund Balance	108,466	83,138	75,665	267,269
Fund Balance at Beginning of Period	<u>810,164</u>	<u>218,550</u>	<u>235,000</u>	<u>1,263,714</u>
Fund Balance at End of Period	<u>\$ 918,630</u>	<u>\$ 301,688</u>	<u>\$ 310,665</u>	<u>\$ 1,530,983</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, 2019

Total Net Change in Fund Balances - Governmental Funds	\$ 267,269
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.</p>	
Contributed capital assets	-
Expenditures for capital assets	-
Depreciation expense	(50,484)
<p>Revenues in the statements of activities that do not provide current resources are not reported as revenues in the funds, but rather are deferred to subsequent fiscal years.</p>	
Change in rehab projects receivables	3,961
Gain (loss) on disposal of fixed assets	-
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.</p>	
Change in the accrual for compensated absences	(4,400)
Change in the net pension liability and related deferred amounts	20,741
<p>Internal service funds are used by management to charge the cost of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.</p>	
Net change from internal service funds related to governmental activities	<u>20,167</u>
Change in Net Position Governmental Activities	<u>\$ 257,254</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, 2019**

	<u>Business-Type Activities – Enterprise Funds</u>			Motor Pool Internal Service Fund
	<u>Wastewater Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>	<u>Fund</u>
Assets				
<i>Current Assets</i>				
Cash and Cash Equivalents	\$ 459,090	\$ 416,967	\$ 876,057	\$ 219,183
Investments	505,200	377,000	882,200	173,000
Receivables, Net	95,176	38,967	134,143	-
Due from Other Funds	1,320	530	1,850	64
Prepaid and Other Assets	<u>7,638</u>	<u>801</u>	<u>8,439</u>	<u>617</u>
Total Current Assets	<u>1,068,424</u>	<u>834,265</u>	<u>1,902,689</u>	<u>392,864</u>
<i>Noncurrent Assets</i>				
Restricted Cash and Cash Equivalents	17,578	-	17,578	-
Restricted Investments	13,000	-	13,000	-
Capital Assets, Net of Depreciation	<u>1,739,835</u>	<u>810,663</u>	<u>2,550,498</u>	<u>189,994</u>
Total Noncurrent Assets	<u>1,770,413</u>	<u>810,663</u>	<u>2,581,076</u>	<u>189,994</u>
Total Assets	<u>2,838,837</u>	<u>1,644,928</u>	<u>4,483,765</u>	<u>582,858</u>
Deferred Outflows of Resources				
Pension	<u>46,437</u>	<u>29,818</u>	<u>76,255</u>	<u>-</u>
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	75,159	951	76,110	4,112
Accrued and Other Liabilities	22,569	14,294	36,863	150
Current Portion of Long-Term Debt	19,000	-	19,000	-
Due to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>116,728</u>	<u>15,245</u>	<u>131,973</u>	<u>4,262</u>
<i>Noncurrent Liabilities</i>				
Long-Term Debt, Net of Current Portion	281,000	-	281,000	-
Net Pension Liability	<u>189,218</u>	<u>121,497</u>	<u>310,715</u>	<u>-</u>
Total Noncurrent Liabilities	<u>470,218</u>	<u>121,497</u>	<u>591,715</u>	<u>-</u>
Total Liabilities	<u>586,946</u>	<u>136,742</u>	<u>723,688</u>	<u>4,262</u>
Deferred Inflows of Resources				
Pension	<u>13,578</u>	<u>8,719</u>	<u>22,297</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets	1,439,835	810,663	2,250,498	189,994
Restricted for Debt Service	30,578	-	30,578	-
Unrestricted	<u>814,337</u>	<u>718,622</u>	<u>1,532,959</u>	<u>388,602</u>
Total Net Position	<u>\$ 2,284,750</u>	<u>\$ 1,529,285</u>	<u>\$ 3,814,035</u>	<u>\$ 578,596</u>

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, 2019

	<u>Business-Type Activities – Enterprise Funds</u>			Motor
	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	Pool
	<u>Fund</u>	<u>Fund</u>	<u>Enterprise</u>	Internal
			<u>Funds</u>	Service
				<u>Fund</u>
Operating Revenues				
Charges for Services	\$ 417,724	\$ 263,231	\$ 680,955	\$ 123,135
Operating Expenses				
Operating and Administrative	419,439	184,644	604,083	62,019
Depreciation	<u>137,977</u>	<u>72,647</u>	<u>210,624</u>	<u>46,094</u>
Total Operating Expenses	<u>557,416</u>	<u>257,291</u>	<u>814,707</u>	<u>108,113</u>
Operating Income (Loss)	<u>(139,692)</u>	<u>5,940</u>	<u>(133,752)</u>	<u>15,022</u>
Non-Operating Revenues (Expenses)				
Taxes	33,901	-	33,901	-
Grant Revenues	216,492	-	216,492	-
Grant Related Expenditures	(219,959)	-	(219,959)	-
Investment Income	12,937	9,609	22,546	5,145
Other Revenue	7,964	4,582	12,546	-
Interest Expense	<u>(15,900)</u>	<u>-</u>	<u>(15,900)</u>	<u>-</u>
Net Non-Operating Revenues (Expenses)	<u>35,435</u>	<u>14,191</u>	<u>49,626</u>	<u>5,145</u>
Capital Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	(104,257)	20,131	(84,126)	20,167
<i>Net Position at Beginning of Period</i>	<u>2,389,007</u>	<u>1,509,154</u>	<u>3,898,161</u>	<u>558,429</u>
Net Position at End of Period	<u>\$ 2,284,750</u>	<u>\$ 1,529,285</u>	<u>\$ 3,814,035</u>	<u>\$ 578,596</u>

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, 2019

	<u>Business-Type Activities – Enterprise Funds</u>			Motor Pool Internal Service Fund
	<u>Wastewater Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>	<u>Fund</u>
Cash Flows from Operating Activities				
Receipts from Customers	\$ 416,797	\$ 262,327	\$ 679,124	\$ -
Receipts for Internal Services	-	-	-	123,135
Payments to Employees and Suppliers	(409,709)	(209,285)	(618,994)	(50,713)
Net Cash Provided by (Used in) Operating Activities	<u>7,088</u>	<u>53,042</u>	<u>60,130</u>	<u>72,422</u>
Cash Flows from Non-Capital and Related Financing Activities				
Change in Interfund Balances	(1,320)	(530)	(1,850)	(64)
Grant Receipts	186,010	-	186,010	-
Grant Expenses Paid	(180,635)	-	(180,635)	-
Other Receipts	7,964	4,582	12,546	-
Net Cash Provided by (Used in) Non-Capital Financing Activities	<u>12,019</u>	<u>4,052</u>	<u>16,071</u>	<u>(64)</u>
Cash Flows from Capital and Related Financing Activities				
Collection of Taxes	33,901	-	33,901	-
Principal Paid on Debt	(18,000)	-	(18,000)	-
Interest Paid on Debt	(15,900)	-	(15,900)	-
Acquisition of Capital Assets	-	-	-	(51,500)
Proceeds from Sale of Assets	-	-	-	-
Receipts from Capital Grants/Contributions	-	-	-	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>1</u>	<u>-</u>	<u>1</u>	<u>(51,500)</u>
Cash Flows from Investing Activities				
Interest Received on Investments	12,937	9,609	22,546	5,145
Net change in of Investments	6,000	(227,000)	(221,000)	(173,000)
Net Cash Provided by (Used in) Investing Activities	<u>18,937</u>	<u>(217,391)</u>	<u>(198,454)</u>	<u>(167,855)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	38,045	(160,297)	(122,252)	(146,997)
Cash and Cash Equivalents - Beginning of Period	<u>438,623</u>	<u>577,264</u>	<u>1,015,887</u>	<u>366,180</u>
Cash and Cash Equivalents - End of Period	<u>\$ 476,668</u>	<u>\$ 416,967</u>	<u>\$ 893,635</u>	<u>\$ 219,183</u>

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, 2019

	<u>Business-Type Activities – Enterprise Funds</u>			Motor
	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	<u>Pool</u>
	<u>Fund</u>	<u>Fund</u>	<u>Enterprise</u>	<u>Internal</u>
			<u>Funds</u>	<u>Service</u>
				<u>Fund</u>
Classification of Cash and Cash Equivalents				
Cash and Cash Equivalents	\$ 459,090	\$ 416,967	\$ 876,057	\$ 219,183
Restricted Cash and Cash Equivalents	17,578	-	17,578	-
Total Cash and Cash Equivalents	<u>\$ 476,668</u>	<u>\$ 416,967</u>	<u>\$ 893,635</u>	<u>\$ 219,183</u>
Reconciliation of Operating Income (Loss) to				
Net Cash from Operating Activities				
Operating Income (Loss)	\$ (139,692)	\$ 5,940	\$ (133,752)	\$ 15,022
Adjustments to Reconcile Operating Income				
(Loss) to Net Cash from Operating Activities				
Cash from Operating Activities:				
Depreciation	137,977	72,647	210,624	46,094
Changes in Assets, Outflows, Liabilities and inflows				
Receivables	(927)	(904)	(1,831)	-
Prepaid and Other Assets	5,143	4,268	9,411	10,362
Deferred Outflows	14,856	9,656	24,512	-
Accounts Payable	23,781	(16,415)	7,366	944
Accrued Other Liabilities	71	218	289	-
Net Pension Liability	(17,119)	(11,392)	(28,511)	-
Deferred Inflows	(17,002)	(10,976)	(27,978)	-
Net Cash Provided by Operating Activities	<u>\$ 7,088</u>	<u>\$ 53,042</u>	<u>\$ 60,130</u>	<u>\$ 72,422</u>

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

City of Bronson
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	Agency Funds
Assets	
Cash and Cash Equivalents	<u>\$ 1,432</u>
Liabilities	
Due to Other Governmental Units	<u>\$ 1,432</u>

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

Notes to the Financial Statements

City of Bronson

Notes to the Financial Statements

Note 1 - Nature of Business and 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 \$14,138 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 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.

City of Bronson

Notes to the Financial Statements

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 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.

City of Bronson

Notes to the Financial Statements

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 2018 tax us levied and collectible on July 1, 2018 and is recognized as revenue in the year ended June 30, 2019, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2018 taxable valuation of the City totaled \$30.8 million (a portion of which is captured by the DDA).

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.

City of Bronson

Notes to the Financial Statements

- 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.”

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.

City of Bronson

Notes to the Financial Statements

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 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.

City of Bronson

Notes to the Financial Statements

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 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.

City of Bronson

Notes to the Financial Statements

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.

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. Subsequent to year end an amendment was made affecting the June 30, 2019 year end.

City of Bronson

Notes to the Financial Statements

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.

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, 2019:

<u>Fund/Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Public Safety	\$ 547,358	\$ 548,403	\$ (1,045)
Public Works	155,001	156,668	(1,667)
Recreation and Cultural	65,856	67,860	(2,004)

Note 3 – Deposits and Investments

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

City of Bronson

Notes to the Financial Statements

Following is a reconciliation of deposit and investment balances as of June 30, 2019:

	Primary Government	Component Units	Totals
Statement of Net Position			
Cash and Cash Equivalents	\$ 1,715,442	\$ 658	\$ 1,716,100
Investments	1,920,000	-	1,920,000
Restricted Cash and Cash Equivalents	17,578	-	17,578
Restricted Investments	13,000	-	13,000
Statement of Fiduciary Net Position			
Cash and Cash Equivalents	1,432	-	1,432
Total Deposits and Investments	\$ 3,667,452	\$ 658	\$ 3,668,110
Deposits and Investments			
Checking and Savings Accounts		\$ 988,910	
Money Markets		6,200	
Certificates of Deposit		2,673,000	
Total		\$ 3,668,110	

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, \$1,009,400 of the City’s bank balance of \$3,683,365 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, 2019, 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.

City of Bronson

Notes to the Financial Statements

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

<u>Maturity</u>	<u>Certificates of Deposit</u>
Less than 1 Year	\$ 1,590,000
1 – 5 Years	1,083,000
Over 5 Years	-
Total Certificates of Deposits	2,673,000
Less certificates of deposit meeting the definition of cash and cash equivalents	(740,000)
Total Investments	<u>\$ 1,933,000</u>

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.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

City of Bronson

Notes to the Financial Statements

The City has the following recurring fair value measurements as of June 30, 2019:

- A portion of the total investments, with a balance of \$933,000 at June 30, 2019, which are valued using quoted market prices (level 1 inputs).

Note 4 – Interfund Transactions

Interfund transfers in and out for the year ended June 30, 2019 are as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Cemetery	General	\$ 10,000
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.

The composition of interfund balances for the year ended June 30, 2019 are as follows:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
Major Streets	General Fund	\$ 100
Local Streets	General Fund	74
Cemetery	General Fund	72
Wastewater	General Fund	1,320
Water	General Fund	530
Motor Pool	General Fund	64

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, 2019	<u>\$ 34,647</u>
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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, 2019, was as follows:

Governmental Activities	<u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>
Capital assets, not being depreciated				
Land	\$ 424,389	\$ -	\$ -	\$ 424,389
Total capital assets not being depreciated	<u>424,389</u>	<u>-</u>	<u>-</u>	<u>424,389</u>
Capital assets, being depreciated				
Land Improvements	96,344	-	-	96,344
Buildings & Improvements	471,949	-	-	471,949
Machinery & Equipment	897,367	17,900	14,588	900,679
Vehicles	410,959	33,600	-	444,559
Streets	839,709	-	-	839,709
Total capital assets, being depreciated	<u>2,716,328</u>	<u>51,500</u>	<u>14,588</u>	<u>2,753,240</u>
Less accumulated depreciation				
Land Improvements	67,441	3,854	-	71,295
Buildings & Improvements	340,988	9,471	-	350,459
Machinery & Equipment	876,722	4,879	14,588	867,013
Vehicles	247,015	41,216	-	288,231
Streets	386,688	37,158	-	423,846
Total accumulated depreciation	<u>1,918,854</u>	<u>96,578</u>	<u>14,588</u>	<u>2,000,844</u>
Net capital assets being depreciated	<u>797,474</u>	<u>(45,078)</u>	<u>-</u>	<u>752,396</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,221,863</u>	<u>\$ (45,078)</u>	<u>\$ -</u>	<u>\$ 1,176,785</u>

City of Bronson

Notes to the Financial Statements

Business-Type Activities	<u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2019</u>
Capital assets not being depreciated				
Land	\$ 14,655	\$ -	\$ -	\$ 14,655
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>14,655</u>	<u>-</u>	<u>-</u>	<u>14,655</u>
Capital assets being depreciated				
Wastewater system	5,949,043	-	7,077	5,941,966
Water system	<u>2,086,384</u>	<u>-</u>	<u>172,276</u>	<u>1,914,108</u>
Total capital assets, being depreciated	<u>8,035,427</u>	<u>-</u>	<u>179,353</u>	<u>7,856,074</u>
Less accumulated depreciation				
Wastewater system	4,074,231	137,977	7,077	4,205,131
Water system	<u>1,214,729</u>	<u>72,647</u>	<u>172,276</u>	<u>1,115,100</u>
Total accumulated depreciation	<u>5,288,960</u>	<u>210,624</u>	<u>179,353</u>	<u>5,320,231</u>
Net capital assets being depreciated	<u>2,746,467</u>	<u>(210,624)</u>	<u>-</u>	<u>2,535,843</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,761,122</u>	<u>\$ (210,624)</u>	<u>\$ -</u>	<u>\$ 2,550,498</u>

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

Governmental Activities

General Government	\$ 1,002
Public Safety	1,971
Public Works	41,799
Recreation and Culture	5,712
Internal Service Funds	<u>46,094</u>
Total Government Activities	<u>\$ 96,578</u>

Business-Type Activities

Wastewater	\$ 137,977
Water	<u>72,647</u>
Total Business-Type Activities	<u>\$ 210,624</u>

Note 7 – Long-Term Debt

The following is a summary of the debt transactions of the City for the year ended June 30, 2019:

<u>Governmental Activities</u>	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2019</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 25,879	\$ 4,805	\$ -	\$ 30,684	\$ 4,684
Total Government Activities	<u>\$ 25,879</u>	<u>\$ 4,805</u>	<u>\$ -</u>	<u>\$ 30,684</u>	<u>\$ 4,684</u>

City of Bronson

Notes to the Financial Statements

<u>Business-Type Activities</u>	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2019</u>	<u>Due Within One Year</u>
1993 General Obligation Limited Tax Bonds					
Amount of Issue - \$590,000					
Installments of					
\$5,000 - \$23,000					
Interest Rate 5.0%					
Maturing through 2033	\$ 318,000	\$ -	\$ 18,000	\$ 300,000	\$ 19,000
Total Bond Obligations	318,000	-	18,000	300,000	19,000
Compensated Absences	31,074	289	-	31,363	31,363
Total Business-Type Activities	349,074	289	18,000	331,363	50,363
Total Governmental and Business-Type Activities	\$ 374,953	\$ 5,094	\$ 18,000	\$ 362,047	\$ 55,047

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 19,000	\$ 15,000	\$ 34,000
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
2025-2029	109,000	39,450	148,450
2030-2034	92,000	11,500	103,500
Totals	<u>\$ 300,000</u>	<u>\$ 116,300</u>	<u>\$ 416,300</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.

City of Bronson

Notes to the Financial Statements

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 percent 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.

Employees Covered by Benefit Terms

At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	6
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	<u>12</u>
Total employees covered by MERS	<u><u>22</u></u>

Contributions

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

Employer contributions were 39.56% of covered payroll based on annual payroll for the open division. This percentage was impacted by two voluntary contributions of \$100,000 each the City made during the pension plan's year. Without these voluntary contributions, the employer contribution rate would have been 8.13%.

Net Pension Liability

The net pension liability reported at June 30, 2019 was determined using a measure of the total pension liability and the pension net position as December 31, 2018. The December 31, 2018 total pension liability was determined by an actuarial valuation performed as of that date.

City of Bronson

Notes to the Financial Statements

Actuarial Assumption

The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.5%
Salary Increases:	3.75% in the long-term
Investment rate of return:	7.75%, net of investment and administrative 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	55.5%	8.65%
Global fixed income	18.5%	3.76%
Real assets	13.5%	9.72%
Diversifying strategies	12.5%	7.50%

Discount rate

The discount rate used to measure the total pension liability is 8.00% for 2018. 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:

<u>Changes in Net Pension Liability</u>	Increase (Decrease)		<u>Net Pension Liability</u>
	Total Pension Liability	Plan Net Position	
Balances at December 31, 2017	\$ 2,334,574	\$ 1,491,501	\$ 843,073
Changes for the year:			
Service cost	50,344	-	50,344
Interest	185,553	-	185,553
Changes in benefit terms	(4,779)	-	(4,779)
Differences between expected & Experiences	(28,013)	-	(28,013)
Changes in assumptions	-	-	-
Employer contributions	-	251,764	(251,764)
Employee contributions	-	59,030	(59,030)
Net investment loss	-	(66,083)	66,083
Benefit payments, including refunds	(80,656)	(80,656)	-
Administrative expenses	-	(3,129)	3,129
Other changes	-	-	-
<i>Net changes for the year</i>	<u>122,449</u>	<u>160,926</u>	<u>(38,477)</u>
Balances at December 31, 2018	<u>\$ 2,457,023</u>	<u>\$ 1,652,427</u>	<u>\$ 804,596</u>

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 8.00 percent, as well as what the City's net position liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent) or one percentage higher (9.00 percent) than the current rate:

	1% Decrease	Current	1% Increase
	(7.00%)	Discount Rate (8.00%)	(9.00%)
Net pension liability of the City	<u>\$ 1,079,402</u>	<u>\$ 804,596</u>	<u>\$ 570,770</u>

City of Bronson

Notes to the Financial Statements

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

For the year ended June 30, 2019, the City recognized pension expense of \$101,807. The City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 120,786	\$ -	\$ 120,786
Differences between expected and actual experience	14,702	57,737	(43,035)
Changes in assumptions	34,986	-	34,986
Contributions subsequent to the measurement date	<u>26,989</u>	<u>-</u>	<u>26,989</u>
Total	<u>\$ 197,463</u>	<u>\$ 57,737</u>	<u>\$ 139,726</u>

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, 2020. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2020	\$ 50,258
2021	26,788
2022	10,100
2023	32,243
2024	<u>(6,652)</u>
Total	<u>\$ 112,737</u>

Payable to the Pension Plan - At June 30, 2019, the City reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

City of Bronson

Notes to the Financial Statements

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.

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 \$619,928 in relation to this contract.

Required Supplemental Information

City of Bronson
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
Revenues				
Taxes	\$ 526,348	\$ 524,699	\$ 524,695	\$ (4)
Licenses and Permits	11,250	12,848	13,511	663
Intergovernmental	327,688	532,222	533,441	1,219
Charges for Services	204,914	211,218	216,318	5,100
Fines and Forfeitures	14,250	16,090	16,491	401
Miscellaneous	2,075	11,325	12,925	1,600
Total Revenues	1,086,525	1,308,402	1,317,381	8,979
Expenditures				
General Government	367,046	441,917	425,984	15,933
Public Safety	517,147	547,358	548,403	(1,045)
Public Works	227,751	155,001	156,668	(1,667)
Recreation and Cultural	82,658	65,856	67,860	(2,004)
Total Expenditures	1,194,602	1,210,132	1,198,915	11,217
Excess (Deficiency) of Revenues Over Expenditures	(108,077)	98,270	118,466	20,196
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers Out	(10,000)	(10,000)	(10,000)	-
Total Other Financing Sources (Uses)	(10,000)	(10,000)	(10,000)	-
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	(118,077)	88,270	108,466	20,196
Fund Balance at Beginning of Period	810,164	810,164	810,164	-
Fund Balance at End of Period	\$ 692,087	\$ 898,434	\$ 918,630	\$ 20,196

The Notes to The Financial Statements are an integral part of these Financial Statements

City of Bronson
Budgetary Comparison Schedule
Major Streets Fund
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Intergovernmental	\$ 212,635	\$ 241,439	\$ 203,095	\$ (38,344)
Miscellaneous	<u>150</u>	<u>2,343</u>	<u>3,165</u>	<u>822</u>
Total Revenues	212,785	243,782	206,260	(37,522)
Expenditures				
Routine Maintenance	107,358	65,013	56,142	8,871
Winter Maintenance	<u>25,656</u>	<u>17,022</u>	<u>16,980</u>	<u>42</u>
Total Expenditures	<u>133,014</u>	<u>82,035</u>	<u>73,122</u>	<u>8,913</u>
Excess (Deficiency) of Revenues Over Expenditures	79,771	161,747	133,138	(28,609)
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers Out	<u>(75,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(75,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	4,771	111,747	83,138	(28,609)
Fund Balance at Beginning of Period	<u>218,550</u>	<u>218,550</u>	<u>218,550</u>	<u>-</u>
Fund Balance at End of Period	<u>\$ 223,321</u>	<u>\$ 330,297</u>	<u>\$ 301,688</u>	<u>\$ (28,609)</u>

The Notes to The Financial Statements are an integral part of these Financial Statements

City of Bronson
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Five Fiscal Years

	<u>Year Ended</u> <u>June 30, 2019</u>	<u>Year Ended</u> <u>June 30, 2018</u>	<u>Year Ended</u> <u>June 30, 2017</u>
Total Pension Liability			
Service Cost	\$ 50,344	\$ 49,594	\$ 48,643
Interest	185,553	177,338	172,980
Changes in Benefit Terms	(4,779)	2,616	3,881
Differences Between Expected and Actual Experience	(28,013)	(46,570)	(6,925)
Changes in Assumptions	-	-	-
Benefit Payments, Including Refunds	(80,656)	(80,656)	(78,638)
Other Changes	-	(1)	(6,292)
Net Change in Total Pension Liability	<u>122,449</u>	<u>102,321</u>	<u>133,649</u>
<i>Total Pension Liability - Beginning</i>	<u>2,334,574</u>	<u>2,232,253</u>	<u>2,098,604</u>
Total Pension Liability – Ending (a)	<u>\$ 2,457,023</u>	<u>\$ 2,334,574</u>	<u>\$ 2,232,253</u>
Plan Fiduciary Net Position			
Employer Contributions	\$ 251,764	\$ 51,363	\$ 50,666
Employee Contributions	59,030	49,785	41,651
Net Investment Income (Loss)	(66,083)	174,574	133,591
Benefit of Payments, Including Refunds	(80,656)	(80,656)	(78,638)
Administrative Expense	(3,129)	(2,758)	(2,634)
Net Change in Plan Fiduciary Net Position	<u>160,926</u>	<u>192,308</u>	<u>144,636</u>
<i>Plan Fiduciary Net Position - Beginning</i>	<u>1,491,501</u>	<u>1,299,193</u>	<u>1,154,557</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,652,427</u>	<u>\$ 1,491,501</u>	<u>\$ 1,299,193</u>
Net Pension Liability – Ending (a) – (b)	<u>\$ 804,596</u>	<u>\$ 843,073</u>	<u>\$ 933,060</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.25%	63.89%	58.20%
Covered Payroll	<u>\$ 636,341</u>	<u>\$ 621,433</u>	<u>\$ 600,891</u>
Net Pension Liability as a Percentage of Covered Payroll	126.44%	135.67%	155.28%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

* Note: Built prospectively upon implementation of GASB 68.

City of Bronson
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Five Fiscal Years - Continued

<u>Year Ended</u> <u>June 30, 2016</u>	<u>Year Ended</u> <u>June 30, 2015</u>
\$ 37,584	\$ 42,986
153,792	143,063
(29,069)	-
44,110	-
104,954	-
(72,472)	(74,562)
<u>(1,668)</u>	<u>-</u>
237,231	111,487
<u>1,861,373</u>	<u>1,749,886</u>
<u>\$ 2,098,604</u>	<u>\$ 1,861,373</u>
\$ 43,251	\$ 38,729
37,132	36,616
(17,966)	69,909
(72,472)	(74,562)
<u>(2,591)</u>	<u>(2,573)</u>
(12,646)	68,119
<u>1,167,203</u>	<u>1,099,084</u>
<u>\$ 1,154,557</u>	<u>\$ 1,167,203</u>
<u>\$ 944,047</u>	<u>\$ 694,170</u>
55.02%	62.71%
<u>\$ 521,335</u>	<u>\$ 595,833</u>
181.08%	116.50%

City of Bronson
Required Supplementary Information
Schedule of Contributions
Last Five Fiscal Years

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 38,729	\$ 38,729	\$ -	\$ 595,833	6.50%
2016	43,251	43,251	-	521,335	8.30%
2017	50,666	50,666	-	600,891	8.43%
2018	51,363	51,363	-	621,433	8.27%
2019	51,764	251,764	(200,000)	636,341	39.56%

* *Note: Built prospectively upon implementation of GASB 68.*

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, eighteen months prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years
Asset valuation method	5 year smoothed
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	50-60 years of age depending on years of credited service.
Mortality	50% female/50% male blend of RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables.
Other information	None

Other Supplemental Information

**City of Bronson
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2019**

	Special Revenue		Permanent				Total Nonmajor Governmental Funds
	Local Streets	Fire Sinking	Cemetery	Cemetery Redevelopment Fund	Cemetery Perpetual Care	Community Development Fund	
Assets							
Cash and Cash Equivalents	\$ 72,953	\$ 53,817	\$ 13,790	\$ 5,028	\$ 6,218	\$ 17,279	\$ 169,085
Investments	56,000	43,000	8,000	4,000	9,000	13,000	133,000
Accounts Receivable	-	-	-	-	-	-	-
Due from Other Funds	74	-	72	-	-	-	146
Due from Other Governmental Units	12,441	-	-	-	-	-	12,441
Prepaid and Other Assets	1,449	-	164	-	-	-	1,613
Loans Receivable	-	-	-	-	-	34,647	34,647
Total Assets	<u>\$ 142,917</u>	<u>\$ 96,817</u>	<u>\$ 22,026</u>	<u>\$ 9,028</u>	<u>\$ 15,218</u>	<u>\$ 64,926</u>	<u>\$ 350,932</u>
Liabilities							
Accounts Payable	\$ 2,970	\$ -	\$ 2,050	\$ -	\$ -	\$ -	\$ 5,020
Accrued and Other Liabilities	500	-	100	-	-	-	600
Due to Other Funds	-	-	-	-	-	-	-
Total Liabilities	<u>3,470</u>	<u>-</u>	<u>2,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,620</u>
Deferred Inflows of Resources							
Unavailable Rehab Project Revenues	-	-	-	-	-	34,647	34,647
Fund Balance							
Nonspendable:							
Prepaid Expenditures	1,449	-	164	-	-	-	1,613
Restricted for:							
Streets	137,998	-	-	-	-	-	137,998
Committed for:							
Fire Protection Equipment	-	96,817	-	-	-	-	96,817
Cemetery	-	-	19,712	9,028	15,218	-	43,958
Community Development	-	-	-	-	-	30,279	30,279
Total Fund Balance	<u>139,447</u>	<u>96,817</u>	<u>19,876</u>	<u>9,028</u>	<u>15,218</u>	<u>30,279</u>	<u>310,665</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 142,917</u>	<u>\$ 96,817</u>	<u>\$ 22,026</u>	<u>\$ 9,028</u>	<u>\$ 15,218</u>	<u>\$ 64,926</u>	<u>\$ 350,932</u>

City of Bronson
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2019

	Special Revenue		Permanent				Total Nonmajor Governmental Funds
	Local Streets	Fire Sinking	Cemetery	Cemetery Redevelopment Fund	Cemetery Perpetual Care	Community Development Fund	
Revenues							
Taxes	\$ -	\$ 26,708	\$ -	\$ -	\$ -	\$ -	\$ 26,708
Intergovernmental	103,756	-	-	-	-	-	103,756
Charges for Services	-	-	6,791	-	1,500	-	8,291
Miscellaneous	784	1,031	201	1,820	180	6,458	10,474
Total Revenues	<u>104,540</u>	<u>27,739</u>	<u>6,992</u>	<u>1,820</u>	<u>1,680</u>	<u>6,458</u>	<u>149,229</u>
Expenditures							
Highways and Streets	101,217	-	-	-	-	-	101,217
Community Enrichment, Development and Services	-	-	22,297	-	-	10,050	32,347
Total Expenditures	<u>101,217</u>	<u>-</u>	<u>22,297</u>	<u>-</u>	<u>-</u>	<u>10,050</u>	<u>133,564</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,323	27,739	(15,305)	1,820	1,680	(3,592)	15,665
Other Financing Sources (Uses)							
Operating Transfers In	50,000	-	10,000	-	-	-	60,000
Operating Transfers Out	-	-	-	-	-	-	-
Net Other Financing Sources (Uses)	<u>50,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,000</u>
Net Change in Fund Balance	53,323	27,739	(5,305)	1,820	1,680	(3,592)	75,665
Fund Balance at Beginning of Period	<u>86,124</u>	<u>69,078</u>	<u>25,181</u>	<u>7,208</u>	<u>13,538</u>	<u>33,871</u>	<u>235,000</u>
Fund Balance - End of Period	<u>\$ 139,447</u>	<u>\$ 96,817</u>	<u>\$ 19,876</u>	<u>\$ 9,028</u>	<u>\$ 15,218</u>	<u>\$ 30,279</u>	<u>\$ 310,665</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, 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 25, 2019.

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 2019-001 and 2019-002, 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 Finding

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.

November 25, 2019

Halbridge & Company

City of Bronson

Schedule of Findings and Responses

Material Weakness

2019-001 Segregation of Incompatible Duties and Documented Independent Review

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

2019-002 Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements

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.