

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Bronson City	County Branch
Fiscal Year End June 30, 2007	Opinion Date September 10, 2007	Date Audit Report Submitted to State December 10, 2007	

We affirm that:

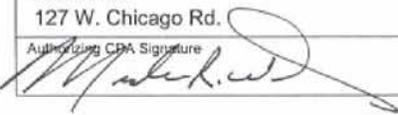
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	Letter on Internal Control and Compliance - Govn Auditing Standards
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.	Telephone Number 269-651-3228	
Street Address 127 W. Chicago Rd.	City Sturgis	State Zip MI 49091
Authorizing CPA Signature 	Printed Name Michael R. Wilson CPA	License Number 1101017570

CITY OF BRONSON, MICHIGAN
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2007

CITY OF BRONSON

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bronson management. Our responsibility is to express opinions on these financial statements based on our audit.

Norman & Paulsen, P.C.

Certified Public Accountants

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Sturgis, MI 49091
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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2007, on our consideration of the City of Bronson internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

September 10, 2007

Norman & Paulsen, P.C.

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

Our discussion and analysis of the City of Bronson financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

The City's overall financial position increased by \$123,777 during the fiscal year ended June 30, 2007, which represents 1.86 percent of the net asset position at the beginning of the year. Included in the City's total net assets of \$6,774,808 are the Sewage Disposal System Fund net assets of \$3,247,698 and the Water Supply System Fund net assets of \$1,264,992. The Sewage Disposal System's net assets decreased by \$10,739 and the Water Supply System's net assets increased by \$109,235.

The City's Governmental Funds reflected a total fund balance at June 30, 2007 of \$1,031,452, which was an increase of \$46,161 from the prior year end.

The total Governmental Fund expenditures for the year ended June 30, 2007, amounted to \$1,222,648, of which \$541,252 (44 percent) was for public safety and \$380,289 (31 percent) was for public works and streets.

Using This Annual Report

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

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

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City as a Whole

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

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2007	2006	2007	2006
	Assets	\$ 1,068	\$ 1,019	\$ 5,235
Liabilities	36	34	722	762
Fund Equity				
Invested in capital assets, net of related debt	-	-	2,841	2,938
Retained Earnings				
Restricted	-	-	78	90
Unreserved	-	-	1,594	1,386
Fund Balances				
Reserved	22	22	-	-
Unreserved	1,010	963	-	-
Total Fund Equity	\$ 1,032	\$ 985	\$ 4,513	\$ 4,414

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's governmental fund equity increased by 4.7 percent or \$46,161 from a year ago. In contrast the prior years governmental fund equity increased by 5.7 percent or \$53,542.

The City's enterprise fund equity increased by 2.2 percent or \$98,496 from a year ago. In contrast the prior years enterprise fund equity increased by 2.4 percent or \$102,699.

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

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Current and other assets	\$ 1,106	\$ 1,059	\$ 1,694	\$ 1,492
Capital assets	1,318	1,351	3,541	3,684
Total assets	2,424	2,410	5,235	5,176
Long-term debt outstanding	120	135	700	746
Other liabilities	42	38	22	16
Total liabilities	162	173	722	762
Net assets				
Invested in capital assets, net of related debt	1,228	1,246	2,841	2,938
Restricted	21	22	78	90
Unrestricted	1,013	969	1,594	1,386
Total net assets	\$ 2,262	\$ 2,237	\$ 4,513	\$ 4,414

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2007	2006	2007	2006
Revenue				
Property taxes	\$ 652	\$ 643	\$ 36	\$ 36
Licenses and permits	1	1	-	-
Intergovernmental	493	499	-	-
Charges for services	27	26	550	513
Fines and forfeits	25	28	-	-
Other	71	68	98	82
Total revenue	1,269	1,265	684	631
Program expenses				
General government	207	253	-	-
Public safety	541	474	-	-
Public works	160	175	-	-
Parks and recreation	57	54	-	-
Highways and streets	220	203	-	-
Community development	17	20	-	-
Debt service	21	21	-	-
Sewer system	-	-	251	203
Water system	-	-	133	102
Depreciation	-	-	163	163
Interest expense	-	-	39	60
Total expenses	1,223	1,200	586	528
Excess	<u>\$ 46</u>	<u>\$ 65</u>	<u>\$ 98</u>	<u>\$ 103</u>

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

(dollars presented in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues				
Program revenues				
Charges for services\$	68	\$ 73	\$ 550	\$ 513
Operating grants and contributions	181	183	-	-
Capital grants and contributions	-	-	-	-
General revenues				
Property taxes	652	643	36	36
State shared revenues	313	316	-	-
Unrestricted investment earnings	54	44	78	59
Gain (loss) on sale	-	4	-	-
Miscellaneous	18	21	20	23
Total revenues	<u>1,286</u>	<u>1,284</u>	<u>684</u>	<u>631</u>
Expenses				
General government	369	446	-	-
Public safety	502	439	-	-
Public works	334	315	-	-
Parks and recreation	49	47	-	-
Community development	2	-	-	-
Interest on long-term debt	5	6	-	-
Sewer system	-	-	412	384
Water system	-	-	174	144
Total expenses	<u>1,261</u>	<u>1,253</u>	<u>586</u>	<u>528</u>
Change in net assets	<u>\$ 25</u>	<u>\$ 31</u>	<u>\$ 98</u>	<u>\$ 103</u>

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended June 30, 2007 include the General Fund.

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

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

As shown in the required supplemental information, the City budgeted a decrease of \$35,460 in the original budget and an increase of \$16,012 in the amended budget. Actual operating results ended up as an increase of \$65,866.

The actual results ended the fiscal year within \$49,854 of the amended budget.

Capital Assets and Debt Administration

During the year ended June 30, 2007, the total capital assets of the City increased by \$91,759. This amount consisted of \$24,000 for new roofs, \$45,265 for a bucket truck and \$2,002 for equipment purchased in the Motor Pool Fund and \$20,492 for sewer improvements and equipment in the Wastewater System Fund.

During the year ended June 30, 2007, the City incurred no additional long-term debt borrowings and made principal payments of \$61,000. Total debt obligations at June 30, 2007, amounted to \$790,000.

Economic Factors and Next Year's Budgets and Rates

The adopted budget for the next fiscal year ending June 30, 2008 is reflective of a down or stagnant economy. Camp Branch laborers have been canceled by the State. The City will try mowing and regular maintenance done with its DPW crew. The crew size has been reduced to just four men including the Supervisor. Gordon Bidwell retired in September of 2007 and was not replaced in a cost saving measure. The use of part-time or seasonal labor may become a necessity.

Act 51 monies continue to fall short of funding necessary road maintenance. While it won't be necessary for the General Fund to supplement the Major Street Fund this year, the General Fund will have to supplement the Local Street Fund a total of \$41,840 just to effect normal maintenance of seal coating, patching and snow removal. Health insurance rates continue a double digit inflation rate. Interest rates have plateaued at just below 5 percent for invested monies.

Water and Sewer rates continue to be revised annually to reflect the required cash flow to run an effective water supply and wastewater treatment system. New rates go into effect July 1 and will be reflected on bills received in September. The City continues to plan for water system improvements. Land for a new well and an iron removal plant is hoped to be purchased in FY 07-08. The actual well and plant construction could be bid in FY 08-09. It is hoped that system upgrades can be done over time without drastically increasing water/sewer rates.

CITY OF BRONSON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates - Continued

Because of the difficult times and limited funds, the General Fund will make only a \$10,000 payment into the Fire Sinking Fund, this is actually an improvement over last year where no payment was made, but is short of the normal \$15,000 payment. The Fire Sinking Fund is developed to capture monies over time to make scheduled equipment replacement purchases. The Bronson Rural Fire Association is asking for an addition to the Fire Barn in the near future as they wish to purchase a rescue type vehicle, larger than the 20 year old Chevrolet Suburban currently being used. The City has budgeted \$25,000 toward the addition. The Fire Chief continues to seek out grants that could help fund the projects.

The Cemetery continues to need help to break even. We are continuing the recent protocol of funding the deficit out of the Cemetery Perpetual Care Fund. Rates for grave openings and lot sales will be reviewed later in the year.

We are dedicated to maintaining a high service level for our citizens. We will try our best to do so while working with a smaller revenue stream and a smaller work force.

Contacting the City's Management

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF BRONSON
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and investments	\$ 968,129	\$ 1,501,345	\$ 2,469,474
Receivables, net	74,178	92,865	167,043
Internal balances	-	-	-
Prepaid and other assets	63,443	22,064	85,507
Restricted assets	-	77,530	77,530
Capital assets - net	1,317,818	3,540,847	4,858,665
Total assets	2,423,568	5,234,651	7,658,219
LIABILITIES			
Accounts payable	7,888	-	7,888
Accrued and other liabilities	33,562	21,961	55,523
Debt obligations:			
Due within one year	15,000	52,000	67,000
Due in more than one year	75,000	648,000	723,000
Compensated absences	30,000	-	30,000
Total liabilities	161,450	721,961	883,411
NET ASSETS			
Invested in capital assets, net of related debt	1,227,818	2,840,847	4,068,665
Restricted:			
Debt service	-	77,530	77,530
Other purposes	21,531	-	21,531
Unrestricted	1,012,769	1,594,313	2,607,082
Total net assets	\$ 2,262,118	\$ 4,512,690	\$ 6,774,808

See accompanying notes to financial statements

**CITY OF BRONSON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 368,322	\$ 41,311	\$ -	\$ -
Public safety	501,572	24,676	1,975	-
Public works	334,290	-	178,855	-
Parks and recreation	48,931	860	-	-
Community development	2,114	1,840	-	-
Interest on long-term debt	5,359	-	-	-
Total governmental activities	1,260,588	68,687	180,830	-
Business-type activities:				
Sanitary sewer	411,627	325,293	-	-
Water	173,733	224,482	-	-
Total business-type activities	585,360	549,775	-	-
Total primary government	\$ 1,845,948	\$ 618,462	\$ 180,830	\$ -

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

Total general revenues

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

NET ASSETS - END OF YEAR

See accompanying notes to financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental</u> <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
\$ (327,011)	\$ -	\$ (327,011)
(474,921)	-	(474,921)
(155,435)	-	(155,435)
(48,071)	-	(48,071)
(274)	-	(274)
<u>(5,359)</u>	<u>-</u>	<u>(5,359)</u>
(1,011,071)	-	(1,011,071)
-	(86,334)	(86,334)
<u>-</u>	<u>50,749</u>	<u>50,749</u>
-	(35,585)	(35,585)
(1,011,071)	(35,585)	(1,046,656)
651,568	36,267	687,835
312,712	-	312,712
53,783	77,514	131,297
-	-	-
<u>18,289</u>	<u>20,300</u>	<u>38,589</u>
<u>1,036,352</u>	<u>134,081</u>	<u>1,170,433</u>
25,281	98,496	123,777
<u>2,236,837</u>	<u>4,414,194</u>	<u>6,651,031</u>
<u>\$ 2,262,118</u>	<u>\$ 4,512,690</u>	<u>\$ 6,774,808</u>

FUND FINANCIAL STATEMENTS

CITY OF BRONSON

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 499,123	\$ 316,082	\$ 815,205
Investments	83,916	44,156	128,072
Accounts receivable	4,849	1,376	6,225
Due from other funds	-	-	-
Due from other governments	39,789	28,077	67,866
Prepaid and other assets	<u>40,882</u>	<u>9,362</u>	<u>50,244</u>
Total assets	<u>\$ 668,559</u>	<u>\$ 399,053</u>	<u>\$ 1,067,612</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 7,888	\$ -	\$ 7,888
Accrued and other liabilities	23,568	4,704	28,272
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	31,456	4,704	36,160
FUND BALANCE			
Reserved for public safety	21,531	-	21,531
Unreserved - undesignated	<u>615,572</u>	<u>394,349</u>	<u>1,009,921</u>
Total Fund balance	<u>637,103</u>	<u>394,349</u>	<u>1,031,452</u>
Total liabilities and fund balance	<u>\$ 668,559</u>	<u>\$ 399,053</u>	<u>\$ 1,067,612</u>

See accompanying notes to financial statements

CITY OF BRONSON
GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances \$ 1,031,452

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

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

Governmental capital assets	\$ 2,032,577	
Less accumulated depreciation	<u>(947,778)</u>	1,084,799

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

Bonds payable	(90,000)
Compensated absences	(30,000)

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

Net assets of the internal service funds	<u>265,837</u>
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Net assets of governmental activities	<u><u>\$ 2,262,118</u></u>
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See accompanying notes to financial statements

**CITY OF BRONSON
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007**

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes	\$ 651,568	\$ -	\$ 651,568
Licenses and permits	323	-	323
Intergovernmental	322,538	171,004	493,542
Charges for services	19,803	7,729	27,532
Fines and forfeits	24,676	-	24,676
Miscellaneous	<u>51,815</u>	<u>19,353</u>	<u>71,168</u>
Total revenues	1,070,723	198,086	1,268,809
EXPENDITURES			
General government	206,865	-	206,865
Public safety	541,252	-	541,252
Public works	160,136	-	160,136
Parks and recreation	56,604	-	56,604
Highways and streets	-	220,153	220,153
Community enrichment, development and services	-	16,879	16,879
Debt service	<u>-</u>	<u>20,759</u>	<u>20,759</u>
Total expenditures	<u>964,857</u>	<u>257,791</u>	<u>1,222,648</u>
Excess (deficiency) of revenues over expenditures	105,866	(59,705)	46,161
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	65,000	65,000
Operating transfers out	<u>(40,000)</u>	<u>(25,000)</u>	<u>(65,000)</u>
Total other financing sources (uses)	<u>(40,000)</u>	<u>40,000</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	65,866	(19,705)	46,161
FUND BALANCE - Beginning of year	<u>571,237</u>	<u>414,054</u>	<u>985,291</u>
FUND BALANCE - End of year	<u>\$ 637,103</u>	<u>\$ 394,349</u>	<u>\$ 1,031,452</u>

See accompanying notes to financial statements

**CITY OF BRONSON
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2007**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
ASSETS	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Fund</u>
CURRENT ASSETS				
Cash	\$ 18,068	\$ 90,370	\$ 108,438	\$ 24,852
Investments	495,207	897,700	1,392,907	-
Accounts receivable	54,083	38,782	92,865	87
Due from other funds	-	-	-	-
Prepaid and other assets	<u>15,740</u>	<u>6,324</u>	<u>22,064</u>	<u>13,199</u>
Total current assets	583,098	1,033,176	1,616,274	38,138
NONCURRENT ASSETS				
Restricted assets	22,597	54,933	77,530	-
Capital assets, net of depreciation	<u>3,180,651</u>	<u>360,196</u>	<u>3,540,847</u>	<u>233,019</u>
Total noncurrent assets	<u>3,203,248</u>	<u>415,129</u>	<u>3,618,377</u>	<u>233,019</u>
Total assets	3,786,346	1,448,305	5,234,651	271,157
LIABILITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	20,000	32,000	52,000	-
Accrued and other liabilities	14,648	7,313	21,961	5,290
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	34,648	39,313	73,961	5,290
NONCURRENT LIABILITIES				
Long-term debt, net of current portion	<u>504,000</u>	<u>144,000</u>	<u>648,000</u>	<u>-</u>
Total liabilities	<u>538,648</u>	<u>183,313</u>	<u>721,961</u>	<u>5,290</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,656,651	184,196	2,840,847	233,019
Restricted for debt service	22,597	54,933	77,530	-
Unrestricted	<u>568,450</u>	<u>1,025,863</u>	<u>1,594,313</u>	<u>32,848</u>
Total net assets	<u>\$ 3,247,698</u>	<u>\$1,264,992</u>	<u>\$4,512,690</u>	<u>\$ 265,867</u>

See accompanying notes to financial statements

**CITY OF BRONSON
 PROPRIETARY FUNDS
 STATEMENT OF REVENUE, EXPENSES,
 AND CHANGES IN NET ASSETS
 YEAR ENDED JUNE 30, 2007**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Fund</u>
OPERATING REVENUE				
Charges for services	\$ 325,293	\$ 224,482	\$ 549,775	\$ 139,632
OPERATING EXPENSES				
Operating and administrative	250,503	132,792	383,295	97,905
Depreciation	<u>133,770</u>	<u>29,726</u>	<u>163,496</u>	<u>68,495</u>
Total operating expenses	<u>384,273</u>	<u>162,518</u>	<u>546,791</u>	<u>166,400</u>
OPERATING INCOME (LOSS)	(58,980)	61,964	2,984	(26,768)
NONOPERATING REVENUE (EXPENSES)				
Property taxes	36,267	-	36,267	-
Investment income	27,320	50,194	77,514	1,477
Gain (Loss) on disposal of assets	-	-	-	-
Other revenue	12,008	8,292	20,300	1,014
Interest expense	<u>(27,354)</u>	<u>(11,215)</u>	<u>(38,569)</u>	<u>-</u>
Total nonoperating revenue (expense)	48,241	47,271	95,512	2,491
OTHER FINANCING SOURCES				
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(10,739)	109,235	98,496	(24,277)
NET ASSETS - BEGINNING OF YEAR	<u>3,258,437</u>	<u>1,155,757</u>	<u>4,414,194</u>	<u>290,144</u>
NET ASSETS - ENDING OF YEAR	<u>\$3,247,698</u>	<u>\$1,264,992</u>	<u>\$4,512,690</u>	<u>\$ 265,867</u>

See accompanying notes to financial statements

**CITY OF BRONSON
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2007**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Fund</u>
Cash flows from operating activities				
Receipts from customers	\$ 314,098	\$ 221,864	\$ 535,962	\$ -
Receipts for internal services	-	-	-	139,632
Payments to employees and suppliers	<u>(255,393)</u>	<u>(135,043)</u>	<u>(390,436)</u>	<u>(111,637)</u>
Net cash provided (used) by operating activities	58,705	86,821	145,526	27,995
Cash flows from non-capital financing activities				
Other receipts	20,480	8,292	28,772	1,914
Cash flows from capital and related financing activities				
Property taxes	37,878	-	37,878	-
Principal paid on debt	(18,000)	(28,000)	(46,000)	-
Interest paid on debt	(27,453)	(11,610)	(39,063)	-
Acquisition of capital assets	(20,492)	-	(20,492)	(47,267)
Proceeds from sale of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	(28,067)	(39,610)	(67,677)	(47,267)
Cash flows from investing activities				
Interest received on investments	<u>26,789</u>	<u>49,228</u>	<u>76,017</u>	<u>1,556</u>
Net increase (decrease) in cash	77,907	104,731	182,638	(15,802)
Cash and Cash Equivalents - Beginning of Year	<u>457,965</u>	<u>938,272</u>	<u>1,396,237</u>	<u>40,654</u>
Cash and Cash Equivalents - End of Year	<u>\$ 535,872</u>	<u>\$1,043,003</u>	<u>\$1,578,875</u>	<u>\$ 24,852</u>

See accompanying notes to financial statements

**CITY OF BRONSON
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS - Continued
 YEAR ENDED JUNE 30, 2007**

	Sewage Disposal System Fund	Water Supply System Fund	Total	Motor Pool Internal Service Fund
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Fund</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (58,980)	\$ 61,964	\$ 2,984	\$ (26,768)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	133,770	29,726	163,496	68,495
(Increase) decrease in:				
Accounts receivable	(11,194)	(2,618)	(13,812)	-
Other current assets	(10,574)	(3,180)	(13,754)	(12,208)
Increase (decrease) in:				
Accrued liabilities	5,683	929	6,612	(1,024)
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>(500)</u>
Net cash provided by (used for) operating activities	<u>\$ 58,705</u>	<u>\$ 86,821</u>	<u>\$ 145,426</u>	<u>\$ 27,995</u>

See accompanying notes to financial statements

CITY OF BRONSON
FIDUCIARY FUNDS
BALANCE SHEET
JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 5,341</u>
LIABILITIES	
Due to other governmental units	\$ -
Due to community project	5,156
Other liabilities	<u>185</u>
Total liabilities	<u>\$ 5,341</u>

See accompanying notes to financial statements

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

The City reports the following major funds:

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

Enterprise Funds

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

	<u>Primary Government</u>
Statement of Net Assets:	
Cash and investments	\$ 2,469,474
Restricted assets	77,530
Statement of Fiduciary Net Assets:	
Cash	<u>5,341</u>
Total	<u>\$ 2,552,345</u>
Deposits and Investments:	
Bank deposits (checking accounts and savings accounts)	\$ 340,207
Certificates of deposit	2,179,770
United States Federal Agency obligation repurchase agreement	31,856
Cash on hand	<u>512</u>
Total	<u>\$ 2,552,345</u>

Deposits - The deposits of the City were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$2,575,328. Of that amount, approximately \$694,000 was covered by federal depository insurance and \$1,881,328 was uninsured and uncollateralized.

CITY OF BRONSON

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

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

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 92 percent due from other governments, 4 percent accounts receivable, and 4 percent accrued interest receivable. Business-type activities receivables are 94 percent due from customers and 6 percent accrued interest receivable.

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

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at June 30, 2007:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
General Fund	<u>\$ -</u>	Other Fund	<u>\$ -</u>

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

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Transfers consisted of the following for the year ended June 30, 2007:

Fund	Transfers Out	Fund	Transfers In
General	\$ 40,000	Local Street	\$ 40,000
Major Street	<u>25,000</u>	Local Street	<u>25,000</u>
Total Primary Government	<u>\$ 65,000</u>		<u>\$ 65,000</u>

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

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007, was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2007</u>
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 400,499	\$ -	\$ -	\$ 400,499
Capital assets, being depreciated:				
Land improvements	96,344	-	-	96,344
Buildings and improvements	592,830	24,000	-	616,830
Machinery and equipment	690,712	47,267	-	737,979
Vehicles	333,493	-	-	333,493
Streets	<u>482,796</u>	<u>-</u>	<u>-</u>	<u>482,796</u>
Subtotal	2,196,175	71,267	-	2,267,442
Accumulated depreciation				
Land improvements	21,196	3,853	-	25,049
Buildings and improvements	320,652	11,508	-	332,160
Machinery and equipment	564,845	24,017	-	588,862
Vehicles	203,718	45,409	-	249,127
Streets	<u>135,613</u>	<u>19,312</u>	<u>-</u>	<u>154,925</u>
Subtotal	<u>1,246,024</u>	<u>104,099</u>	<u>-</u>	<u>1,350,123</u>
Net capital assets being depreciated	<u>950,151</u>			<u>917,319</u>
Net capital assets	<u>\$ 1,350,650</u>			<u>\$ 1,317,818</u>

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5 - CAPITAL ASSETS - Continued

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2007</u>
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 14,655	\$ -	\$ -	\$ 14,655
Capital assets, being depreciated:				
Sewage disposal system	5,756,782	20,492	-	5,777,274
Water supply System	<u>1,000,530</u>	<u>-</u>	<u>-</u>	<u>1,000,530</u>
Subtotal	6,757,312	20,492	-	6,777,804
Accumulated depreciation				
Sewage disposal system	2,465,853	133,770	-	2,599,623
Water supply System	<u>622,263</u>	<u>29,726</u>	<u>-</u>	<u>651,989</u>
Subtotal	<u>3,088,116</u>	<u>163,496</u>	<u>-</u>	<u>3,251,612</u>
Net capital assets being depreciated	<u>3,669,196</u>			<u>3,526,192</u>
Net capital assets	<u>\$ 3,683,851</u>			<u>\$ 3,540,847</u>

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

Governmental activities:		Business-type activities:	
General government	\$ 73,941	Sanitary Sewer	\$ 133,770
Public safety	4,839	Water	<u>29,726</u>
Public works	19,312		
Parks and recreation	<u>6,007</u>		
Total	<u>\$ 104,099</u>	Total	<u>\$ 163,496</u>

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Current Portion</u>
Governmental Activities					
General obligation bonds	\$ 105,000	\$ -	\$ 15,000	\$ 90,000	\$ 15,000
Compensated absences	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>-</u>
	135,000	-	15,000	120,000	15,000
Business-Type Activities					
General obligation bonds	491,000	-	11,000	480,000	12,000
Revenue bonds	<u>255,000</u>	<u>-</u>	<u>35,000</u>	<u>220,000</u>	<u>40,000</u>
	<u>746,000</u>	<u>-</u>	<u>46,000</u>	<u>700,000</u>	<u>52,000</u>
Total Primary Government Long-Term Debt	<u>\$ 881,000</u>	<u>\$ -</u>	<u>\$ 61,000</u>	<u>\$ 820,000</u>	<u>\$ 67,000</u>

Long-term debt payable at June 30, 2007, consisted of the following individual issues:

Governmental Activities

\$190,000 - 1997 Michigan Transportation Fund Bonds, due in annual installments of \$5,000 to \$20,000 through October 1, 2011; interest at rates ranging from 4.1% to 5.6%	\$ 90,000
Long-term compensated absences	30,000
Total Governmental Activities Long-Term Liabilities	\$ 120,000

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 6 - LONG-TERM DEBT - Continued

Business-Type Activities

\$590,000 - 1993 Sewage Disposal System Improvement Bonds, due in annual installments of \$5,000 to \$23,000 through April 1, 2033; interest at 5.0%	\$ 480,000
\$500,000 - 1997 Water Supply and Sewage Disposal System Bonds, due in annual installments of \$20,000 to \$50,000 through April 1, 2012; interest at rates ranging from 4.35% to 5.65%	<u>220,000</u>
Total Business-Type Activities Long-Term Liabilities	<u>700,000</u>
Total Primary Government Long-Term Debt	<u><u>\$ 820,000</u></u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2007 (excluding compensated absences), including both principal and interest, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 15,000	\$ 4,552	\$ 19,552
2009	15,000	3,739	18,739
2010	20,000	2,780	22,780
2011	20,000	1,675	21,675
2012	<u>20,000</u>	<u>560</u>	<u>20,560</u>
Total	<u><u>\$ 90,000</u></u>	<u><u>\$ 13,306</u></u>	<u><u>\$ 103,306</u></u>

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 7 - LONG-TERM DEBT - Continued

	Business-Type Activities		
	Principal	Interest	Total
2008	\$ 52,000	\$ 36,223	\$ 88,223
2009	52,000	33,443	85,443
2010	58,000	30,642	88,642
2011	58,000	27,495	85,495
2012-2016	127,000	103,025	230,025
2017-2021	91,000	79,400	170,400
2022-2026	104,000	55,350	159,350
2027-2031	112,000	28,450	140,450
2032-2033	46,000	3,450	49,450
Total	\$ 700,000	\$ 397,478	\$ 1,097,478

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - RETIREMENT PLAN

Effective July 1, 1996, the City established a defined contribution retirement plan which covers substantially all City employees except police officers. The City contributes 5% of compensation. For the year ended June 30, 2007, pension expense was \$26,328.

Effective July 1, 1997, the City's police officers began participating in an agent multi employer-defined pension plan with the Municipal Employee's Retirement System (MERS), administered by the State of Michigan. For the year ended June 30, 2007, pension expense was \$14,960.

CITY OF BRONSON

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 10- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

During the year ended June 30, 2007, the City incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF BRONSON
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
REVENUES				
Taxes	\$ 640,431	\$ 651,572	\$ 651,568	\$ (4)
Licenses and permits	200	270	323	53
Intergovernmental	319,595	308,084	322,538	14,454
Charges for services	19,390	19,790	19,803	13
Fines and forfeits	11,200	24,505	24,676	171
Miscellaneous	<u>37,665</u>	<u>49,257</u>	<u>51,815</u>	<u>2,558</u>
Total revenues	1,028,481	1,053,478	1,070,723	17,245
EXPENDITURES				
General government	244,906	210,283	206,865	3,418
Public safety	548,049	560,417	541,252	19,165
Public works	157,169	171,826	160,136	11,690
Parks and recreation	<u>58,875</u>	<u>54,940</u>	<u>56,604</u>	<u>(1,664)</u>
Total expenditures	<u>1,008,999</u>	<u>997,466</u>	<u>964,857</u>	<u>32,609</u>
Excess (deficiency) of revenues over expenditures	19,482	56,012	105,866	49,854
OTHER FINANCING SOURCES (USES)				
Operating transfers out	<u>(54,942)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other uses	(35,460)	16,012	65,866	49,854
FUND BALANCE - Beginning of year	<u>571,237</u>	<u>571,237</u>	<u>571,237</u>	<u>-</u>
FUND BALANCE - End of year	<u>\$ 535,777</u>	<u>\$ 587,249</u>	<u>\$ 637,103</u>	<u>\$ 49,854</u>

See accompanying notes to financial statements

OTHER SUPPLEMENTAL INFORMATION

CITY OF BRONSON

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2007**

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Sinking</u>	<u>Cemetery</u>
ASSETS				
Cash	\$ 38,982	\$ 51,420	\$101,837	\$ 18,556
Investments	-	-	18,824	-
Accounts receivable	154	216	457	78
Due from other funds	-	-	-	-
Due from other governments	20,771	7,306	-	-
Prepaid and other assets	<u>4,456</u>	<u>4,080</u>	<u>-</u>	<u>826</u>
Total assets	<u>\$ 64,363</u>	<u>\$ 63,022</u>	<u>\$121,118</u>	<u>\$ 19,460</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accrued and other liabilities	\$ 2,019	\$ 2,085	\$ -	\$ 600
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	2,019	2,085	-	600
FUND BALANCE				
Unreserved - undesignated	<u>62,344</u>	<u>60,937</u>	<u>121,118</u>	<u>18,860</u>
Total liabilities and fund balance	<u>\$ 64,363</u>	<u>\$ 63,022</u>	<u>\$121,118</u>	<u>\$ 19,460</u>

<u>Cemetery Redevelopment Fund</u>	<u>Cemetery Perpetual Care</u>	<u>Economic Development Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 27,038	\$ 20,892	\$ 57,357	\$ 316,082
12,300	13,032	-	44,156
121	93	257	1,376
-	-	-	-
-	-	-	28,077
-	-	-	<u>9,362</u>
<u>\$ 39,459</u>	<u>\$ 34,017</u>	<u>\$ 57,614</u>	<u>\$ 399,053</u>

\$ -	\$ -	\$ -	\$ 4,704
-	-	-	-
-	-	-	4,704
<u>39,459</u>	<u>34,017</u>	<u>57,614</u>	<u>394,349</u>
<u>\$ 39,459</u>	<u>\$ 34,017</u>	<u>\$ 57,614</u>	<u>\$ 399,053</u>

**CITY OF BRONSON
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2007**

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Sinking</u>	<u>Cemetery</u>
REVENUES				
Intergovernmental	\$ 126,512	\$ 44,492	\$ -	\$ -
Charges for services	-	-	-	7,729
Miscellaneous	<u>2,555</u>	<u>1,522</u>	<u>4,977</u>	<u>1,118</u>
Total revenues	129,067	46,014	4,977	8,847
EXPENDITURES				
Highways and streets	102,022	118,131	-	-
Community enrichment, development and services	-	-	-	14,765
Debt service	<u>8,196</u>	<u>12,563</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>110,218</u>	<u>130,694</u>	<u>-</u>	<u>14,765</u>
Excess (deficiency) of revenues over expenditures	18,849	(84,680)	4,977	(5,918)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	65,000	-	-
Operating transfers out	<u>(25,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(25,000)</u>	<u>65,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	(6,151)	(19,680)	4,977	(5,918)
FUND BALANCE - Beginning of year	<u>68,495</u>	<u>80,617</u>	<u>116,141</u>	<u>24,778</u>
FUND BALANCE - End of year	<u>\$ 62,344</u>	<u>\$ 60,937</u>	<u>\$121,118</u>	<u>\$ 18,860</u>

Cemetery Redevelopment Fund	Cemetery Perpetual Care	Economic Development Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 171,004
-	-	-	7,729
<u>2,983</u>	<u>1,503</u>	<u>4,695</u>	<u>19,353</u>
2,983	1,503	4,695	198,086
-	-	-	220,153
-	-	2,114	16,879
<u>-</u>	<u>-</u>	<u>-</u>	<u>20,759</u>
<u>-</u>	<u>-</u>	<u>2,114</u>	<u>257,791</u>
2,983	1,503	2,581	(59,705)
-	-	-	65,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
2,983	1,503	2,581	(19,705)
<u>36,476</u>	<u>32,514</u>	<u>55,033</u>	<u>414,054</u>
<u>\$ 39,459</u>	<u>\$ 34,017</u>	<u>\$ 57,614</u>	<u>\$ 394,349</u>



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

To the Members of the City Council
City of Bronson

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bronson (the "City"), as of and for the year ended ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United states of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

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

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

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

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

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-1 and Finding 2007-2 to be a material weakness.

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

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

September 10, 2007

Norman S. Paulson, P.C.

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