CITY OF PARCHMENT, MICHIGAN

FINANCIAL STATEMENTS AND INDEPENDANT AUDITOR'S REPORT

For the Fiscal Year Ended June 30, 2010

TABLE OF CONTENTS

	Page
REPORT LETTER	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 9
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Governmental Funds	
Balance Sheet	12
Reconciliation of Statement of Net Assets of Governmental Funds to the Balance Sheet	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	13
Reconciliation of Statement of Revenues, Expenditures and Changes in Funds Balances to The Statement of Activities	13
Proprietary Funds	
Statement of Net Assets	14
Statement of Revenues, Expenses and Changes in Net Assets	15
Statement of Cash Flows	16
Fiduciary Funds – Statement of Net Assets and Liabilities	17
Notes to Financial Statements	18 – 36
REQUIRED SUPPLEMENTARY INFORMATION	37
Budgetary Comparison Schedule – General Fund	38
Budgetary Comparison Schedule – Major Street Fund	39
Budgetary Comparison Schedule – Local Street Fund	40
Schedule of Funding Progress – MERS	41
Schedule of Funding Progress – Retiree Healthcare Plan	42

GABRIDGE & CO

5005 CASCADE RD SE, SUITE A / GRAND RAPIDS, MI / 49546 / P 616 538 7100 / F 616 538 2441 / WWW.GABRIDGECPAS.COM

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Commission
City of Parchment, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan, as of and for the year ended June 30, 2010, 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 Parchment's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 29, 2010, on our consideration of the City of Parchment, Michigan's 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 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 an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, schedule of funding progress, and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements

but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
November 29, 2010

Management's Discussion and Analysis

As management of the City of Parchment, we offer readers of the City of Parchment's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

The assets of the City exceeded its liabilities at the close of this fiscal year by $5,097,015 (shown as *Net Assets*), representing a decrease of $276,136 over the previous fiscal year. Of this amount, $538,795 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the City received $2,478,194 in revenues and $2,754,330 in expenses, resulting in a decrease in net assets of approximately $276,136. Of the City's $2,754,330 expense total, $566,310 related to business-type expenses and the balance of $2,188,020 related to governmental activities.

At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was $339,097 or 18 percent of the General Fund's total expenditures.

Overview of the Financial Statements

The City of Parchment's financial statements consist of three components:
1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The *government-wide financial statements* are designed to provide a broad overview of the City's financial position. They are presented using a method of accounting that is similar to a private sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, the difference between the two being reported as the Net Assets of the City. Over time, increases or decreases in net assets can 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 government's net assets changed during the most recent fiscal year. All changes in net assets 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave, prepaid expenses, etc.).

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

Focus on Funds

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. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Parchment uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the City's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions 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. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the government fund Balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the City include the General Fund as well as the special revenue, and debt service funds.

Proprietary Funds The Cities proprietary funds account for services charged to its customers or other agencies for the services they are provided. There are two types of proprietary funds:

Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and Sewer Fund.

Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. These funds allow the City to allocate costs of centralized services such as the City's vehicle fleet. The City has discontinued the use of it's only internal service fund, the Equipment Pool Fund, as of July 1, 2009.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs. These funds are accounted for using the full accrual method of accounting much like the Proprietary funds.

Component Units The City's financial statements include reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component unit is the Downtown Development Authority.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the Government-wide and the Fund Financial Statements.

Other information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains the information presented in the financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Parchment, assets exceeded liabilities b $5,097,015 at the close of the most recent fiscal year. The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net assets.

CITY OF PARCHMENT
Net Assets as of June 30, 2010 and 2009

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current & long term assets	$ 4,019,605	$ 4,244,193	$ 1,702,116	$ 1,748,431	$ 5,721,721	$ 5,992,624
Current & long term liabilities	595,753	573,552	28,953	29,182	624,706	602,734
Total Net Assets	$ 3,423,852	$ 3,670,641	$ 1,673,163	$ 1,719,249	$ 5,097,015	$ 5,389,890

The most significant portion of the City's Net Assets is the investments in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt which is outstanding that the City used to acquire or construct the asset. The City has $538,795 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by the City policies regarding their use.

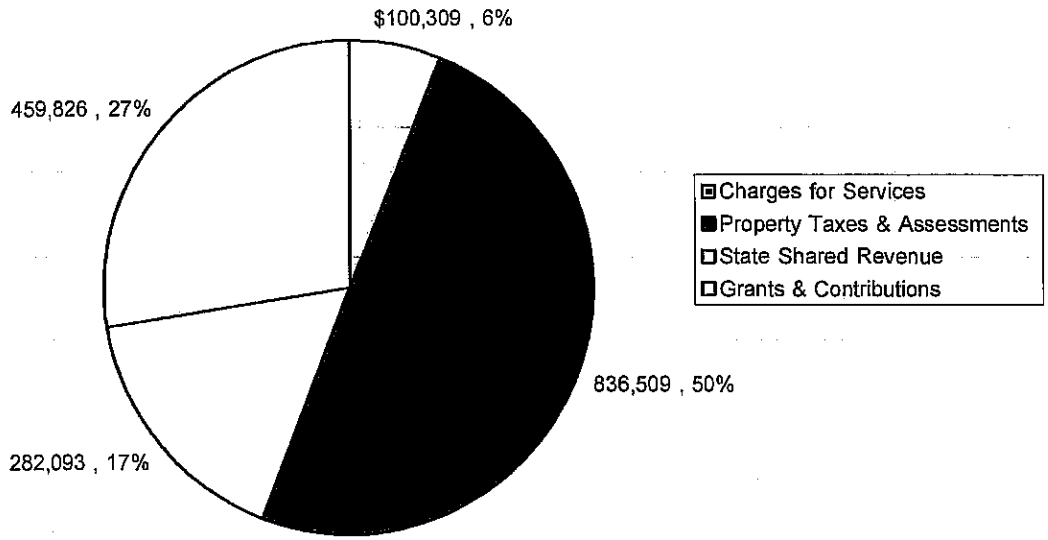
The total net assets of the City decreased $276,136 in this fiscal year. The following table illustrates and summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the Government-wide Statement of Activities.

CITY OF PARCHMENT
Change in Net Assets for Fiscal Year Ended June 30, 2010

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenue						
Program Revenues						
Charges for Services	$ 100,309	$ 110,022	$ 527,676	$ 491,353	$ 627,985	$ 601,375
Operating Grants & Contributions	459,826	72,846	-	-	459,826	72,846
Total Program Revenues	560,135	182,868	527,676	491,353	1,087,811	674,221
General Revenues						
Property Taxes & Assessments	836,509	817,015	-	-	836,509	817,015
State Shared Revenue	282,093	397,013	-	-	282,093	397,013
Interest & Rents	29,229	73,448	9,287	16,614	38,516	90,062
Other	233,265	175,162	-	2,887	233,265	178,049
Total Revenues	1,941,231	1,645,506	536,963	510,854	2,478,194	2,156,360
Expenses						
General Government	1,083,610	990,068	-	-	1,083,610	990,068
Public Safety	420,695	439,676	-	-	420,695	439,676
Public Works	399,510	413,606	-	-	399,510	413,606
Recreation & Culture	165,878	181,336	-	-	165,878	181,336
Depreciation	118,327	106,461	-	-	118,327	106,461
Interest on Long-Term Debt	-	1,154	-	-	-	1,154
Water & Sewer	-	-	566,310	620,312	566,310	620,312
Total Expenses	2,188,020	2,132,301	566,310	620,312	2,754,330	2,752,613
Increase / Decrease in Net Assets	$ (246,789)	$ (486,795)	$ (29,347)	$ (109,458)	$ (276,136)	$ (596,253)

Governmental Activities

The following chart details the revenue sources for the governmental activities of the City for the most recent fiscal year end:



General government expenses were the largest expenses for the City. The City spent $1,083,610 on general government, or 49 percent of the City's expenses. Public safety expenses of $420,695 represented 19 percent of the total expenses within the governmental activities. Public works expenses of $399,510 represented 18 percent of the total expenses within the governmental activities

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Activities At the completion of the City's fiscal year, its governmental funds reported fund balances of $739,893. Of this amount, $329,543 or 45 percent is unreserved. Of this amount, $(9,554) of unreserved and undesignated fund balances exists in the City's Special Revenue funds.

General Fund The General Fund is the main operating fund of the City. The general Fund decreased its balance in this fiscal year by $31,098, bringing the balance to $339,097.

Major Street Fund The fund balance of the Major Street Fund at the most recent fiscal year end was $304,416. This was a decrease of $27,180 from the previous fiscal year end.

Local Street Fund The fund balance of the Local Street Fund at the most recent fiscal year end was $105,934. This was an increase of $76,133 from the previous fiscal year end.

Business-Type Activities

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

Unrestricted net assets of the water and sewer funds at the end of the year amounted to $199,766 and $172,740, respectively. The water fund had a decrease in net assets for the year of $53,663, whereas the sewer fund had an increase of $24,316.

General Fund Budgetary Highlights

Differences between the original and final amended budgets and between final amended budgets and actual expenditures were relatively minor for the year.

Capital Asset and Debt Administration

Capital Assets The City's investment in capital assets for the governmental and business-type activities at year end amounted to $4,147,870 (net of accumulated depreciation). This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for implementation of GASB statement 34. Capital assets as stated in the annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in the past year has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather all of the required information, GASB has allowed cities to comply with this portion of statement 34 over a number of years. Additional information can be found in the Notes to the Financial Statement section of this document.

Long Term Debt At the end of the current fiscal year, the City had total debt outstanding, exclusive of compensated absences, of $225,000. Of this amount, $225,000 comprises debt backed by the full faith and credit of the City.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The current debt limitation based on the City's assessed valuation is significantly in excess of the City's outstanding general obligation debt of $225,000.

More information on the City's long-term debt is available in the Notes to Financial Statements section of this document.

Contacting the City's Finance Department

This Financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial

information, please direct your requests to the City of Parchment, City Clerk, 650 S. Riverview Drive, Parchment, MI 49004 or call (269) 349-3785.

CITY OF PARCHMENT
Government Wide Statement of Net Assets
June 30, 2010

	Primary Government			
	Governmental Type Activities	Business Type Activities	Total	Component Unit
Assets				
Current Assets				
Cash and Equivalents	$ 118,305	$ 50,639	$ 168,944	$ 30,135
Receivables, net	76,466	131,852	208,318	149,281
Special Assessment Receivable - Current	-	1,033	1,033	-
Investments	585,238	197,050	782,288	-
Inventory	9,120	18,956	28,076	-
Prepaid Expenses	15,132	1,929	17,061	-
Due from State	43,544	-	43,544	-
Due from School District	317,100	-	317,100	-
Total Current Assets	1,164,905	401,459	1,566,364	179,416
Noncurrent Assets				
Special Assessment Receivable	-	7,487	7,487	-
Capital Assets - Net	2,854,700	1,293,170	4,147,870	1,730
Total Assets	$ 4,019,605	$ 1,702,116	$ 5,721,721	$ 181,146
Liabilities				
Current Liabilities				
Accounts Payable	$ 57,293	$ 26,023	$ 83,316	$ 1,380
Accrued Payroll Expense	19,889	2,930	22,819	-
Accrued Liabilities	1,197	-	1,197	5,726
Due to State	317,100	-	317,100	-
Current Portion of Long Term Debt	-	-	-	225,000
Total Current Liabilities	395,479	28,953	424,432	232,106
Noncurrent Liabilities				
Compensated Absences	200,274	-	200,274	-
Total Liabilities	595,753	28,953	624,706	232,106
Net Assets				
Invested in Capital Assets - Net of Related Debt	2,854,700	1,293,170	4,147,870	1,730
Restricted for				
Streets	410,350	-	410,350	-
Unrestricted	158,802	379,993	538,795	(52,690)
Total Net Assets	3,423,852	1,673,163	5,097,015	(50,960)
Total Liabilities & Net Assets	$ 4,019,605	$ 1,702,116	$ 5,721,721	$ 181,146

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Government Wide Statement of Activities
For the Year Ended June 30, 2010

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary Government							
General Government	$ 1,083,610	$ 95,059	$ 441,668	$ (546,883)	$ -	$ (546,883)	$ -
Public Safety	420,695	-	-	(420,695)	-	(420,695)	-
Public Works	399,510	-	-	(399,510)	-	(399,510)	-
Recreation and Culture	165,878	5,250	18,158	(142,470)	-	(142,470)	-
Depreciation (unallocated)	118,327	-	-	(118,327)	-	(118,327)	-
Total Governmental Activities	2,188,020	100,309	459,826	(1,627,885)	-	(1,627,885)	-
Business-Type Activities							
Water & Sewer	566,310	527,676	-	-	(38,634)	(38,634)	-
Total Business-Type Activities	566,310	527,676	-	-	(38,634)	(38,634)	-
Total Primary Government	2,754,330	627,985	459,826	(1,627,885)	(38,634)	(1,666,519)	-
Component Unit							
Downtown Development Authority	29,222	-	-	-	-	-	(29,222)
General Revenues							
Property Taxes				836,509	-	836,509	223,036
State Shared Revenues and Grants				282,093	-	282,093	-
Unrestricted Investement Earnings				29,229	9,287	38,516	4,574
Licenses and Permits				25,583	-	25,583	-
Fines and Forfeitures				5,663	-	5,663	-
Reimbursements				93,600	-	93,600	-
Transfers In / Out				102,739	-	102,739	-
Other				5,680	-	5,680	-
Total General Revenues - Special Items & Transfers				1,381,096	9,287	1,390,383	227,610
Change in Net Assets				(246,789)	(29,347)	(276,136)	198,388
Net Assets - Beginning				3,670,641	1,702,510	5,373,151	(249,348)
Net Assets - Ending				$ 3,423,852	$ 1,673,163	$ 5,097,015	$ (50,960)

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Balance Sheets
All Governmental Fund Types
June 30, 2010

	Governmental Fund Types				Total
	General	Major Street	Local Street	Special Revenue	Governmental Funds
Assets					
Assets					
Cash and Equivalents	$ 47,045	$ 54,244	$ 16,072	$ 944	$ 118,305
Investments	249,818	243,205	92,215	-	585,238
Receivables, net	46,933	-	-	-	46,933
Prepaid Expenses	14,632	-	-	-	14,632
Inventory	-	4,560	4,560	-	9,120
Due From State	24,794	13,746	5,504	-	44,044
Due From School District	317,100	-	-	-	317,100
Total Assets	$ 700,322	$ 315,755	$ 118,351	$ 944	$ 1,135,372
Liabilities					
Liabilities					
Accounts Payable	$ 26,100	$ 9,651	$ 11,044	$ 10,498	$ 57,293
Accrued Payroll Expense	16,828	1,688	1,373	-	19,889
Accrued Liabilities	1,197	-	-	-	1,197
Due to State	317,100	-	-	-	317,100
Total Liabilties	361,225	11,339	12,417	10,498	395,479
Fund Balance					
Reserved for					
Streets	-	304,416	105,934	-	410,350
Unreserved, Undesignated	339,097	-	-	(9,554)	329,543
Total Fund Balance	339,097	304,416	105,934	(9,554)	739,893
Total Liabilities & Fund Balance	$ 700,322	$ 315,755	$ 118,351	$ 944	$ 1,135,372

Total Fund Balances	$ 739,893
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial and, therefore, are not reported in the funds.	2,854,700
Accumulated compensated absences and other post employment benefits are not due and payable in the current period and are not reported in the funds.	(200,274)
State shared revenue receivable was earned in June 2010 but is not available to pay for current year expenditures. Therefore, they are deferred and not reported in the funds.	29,533
Net assets of governmental activities	$ 3,423,852

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	Governmental Fund Types				Total Governmental Funds
	General	Major Street	Local Street	Special Revenue	
Revenues					
Taxes	$ 836,509	$ -	$ -	$ -	$ 836,509
Licenses and Permits	25,583	-	-	-	25,583
Operating Grants & Contributions	441,668	-	-	18,158	459,826
State Revenue Sharing	164,484	83,932	33,604	-	282,020
Reimbursements	93,600	-	-	-	93,600
Charges for Services	95,059	-	-	5,250	100,309
Fines and Forfeitures	5,663	-	-	-	5,663
Investment Income	18,439	8,874	1,916	-	29,229
Other	5,680	-	-	-	5,680
Total Revenues	1,686,685	92,806	35,520	23,408	1,838,419
Expenditures					
Current					
General Government	1,001,782	-	-	-	1,001,782
Public Safety	420,695	-	-	-	420,695
Public Works	302,342	54,055	43,113	-	399,510
Recreation and Culture	92,336	-	-	74,078	166,414
Capital Outlay	16,916	86,769	29,512	-	133,197
Total Expenditures	1,834,071	140,824	72,625	74,078	2,121,598
Excess Revenues Over (Under) Expenditures	(147,386)	(48,018)	(37,105)	(50,670)	(283,179)
Other Financing Sources (Uses)					
Transfers In	116,288	67,038	113,238	-	296,564
Transfers (Out)	-	(46,200)	-	-	(46,200)
Total Other Financing Sources (Uses)	116,288	20,838	113,238	-	250,364
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(31,098)	(27,180)	76,133	(50,670)	(32,815)
Changes in Fund Balances					
Net Change in Fund Balances	(31,098)	(27,180)	76,133	(50,670)	(32,815)
Fund Balance - Beginning of Year	370,195	331,596	29,801	41,116	772,708
Fund Balance - End of Year	$ 339,097	$ 304,416	$ 105,934	$ (9,554)	$ 739,893

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

Net Change in Fund Balances - Total Governmental Funds	$ (32,815)
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation in the current period.	14,870
Increases to compensated absences and other post employment benefits do not require the use of current financial resources and are not reported as expenditures in the governmental funds.	(80,018)
Increases to state revenue sharing receivable are not avaialable to pay current period expenditures and are not included in the governmental funds.	73
The internal service fund was closed and assets were transferred to the funds. This represents the net decrease in net assets from the closing of the internal service fund.	(148,899)
Change in Net Assets of Governmental Activities	$ (246,789)

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Business-type Activities Enterprise Funds		
	Water Utility	Sewer Utility	Total
Assets			
Current			
Cash and Equivalents	$ 26,117	$ 24,108	$ 50,225
Investments	99,332	97,718	197,050
Inventory	18,956	-	18,956
Receivables, net	69,522	62,330	131,852
Special Assessment Receivable, Current	-	1,033	1,033
Prepaid Expenses	1,258	671	1,929
Interest Receivable	-	414	414
Total Current Assets	215,185	186,274	401,459
Noncurrent			
Special Assessment Receivable, Long Term	-	7,487	7,487
Property, Plant and Equipment	708,395	584,775	1,293,170
Total Noncurrent Assets	708,395	592,262	1,300,657
Total Assets	$ 923,580	$ 778,536	$ 1,702,116
Liabilities			
Current Liabilities			
Accounts Payable	$ 13,535	$ 12,488	$ 26,023
Accrued Payroll Expenses	1,884	1,046	2,930
Total Current Liabilties	15,419	13,534	28,953
Net Assets			
Investment in Capital Assets, net of Related Debt	708,395	592,262	1,300,657
Unrestricted	199,766	172,740	372,506
Total Net Assets	908,161	765,002	1,673,163
Total Liabilities & Net Assets	$ 923,580	$ 778,536	$ 1,702,116

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

	Business-type Activities Enterprise Funds		
	Water Utility	Sewer Utility	Total
Revenues			
Charges for Services	$ -	$ 254,380	$ 254,380
Water Sales and Installation	256,557	-	256,557
Penalties	5,999	4,900	10,899
Hydrant Rental	5,840	-	5,840
Total Revenues	268,396	259,280	527,676
Expenditures			
Operating Expenditures			
Personnel Services	150,532	112,271	262,803
Contractual Services	34,188	98,685	132,873
Utilities	54,073	1,999	56,072
Supplies	24,365	2,045	26,410
Other Services and Charges	1,160	-	1,160
Depreciation and Amortization	62,024	24,968	86,992
Total Operating Expenditures	326,342	239,968	566,310
Non-Operating Income (Expense)			
Investment Income	4,283	5,004	9,287
Total Non-Operating Income (Expense)	4,283	5,004	9,287
Change in Net Assets	(53,663)	24,316	(29,347)
Total Net Assets - Beginning	961,824	740,686	1,702,510
Total Net Assets - Ending	$ 908,161	$ 765,002	$ 1,673,163

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

	Water Utility	Sewer Utility
Cash Flows From Operating Activities		
Receipts From Customers	$ 268,673	$ 241,898
Payments to Suppliers	(105,964)	(106,442)
Payments to or on Behalf of Employees	(151,573)	(113,751)
Total Cash Flows from Operating Activities	11,136	21,705
Cash Flows From Capital and Related Financings Activities		
Purchase of Equipment	(2,000)	-
Principle and Interest Paid on Capital Debt	-	980
Total Cash Flows from Capital and Related Financing Activities	(2,000)	980
Cash Flows From Investing Activities		
Interest on Investments	4,283	5,004
Net Cash Provided by Investing Activities	4,283	5,004
Net Increase (Decrease) in Cash and Equivalents	13,419	27,689
Cash and Equivalents - Beginning of Year	112,030	94,137
Cash and Equivalents - End of Year	125,449	121,826
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	(57,946)	19,312
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	62,024	24,968
Changes in Assets & Liabilities		
Receivables - net	1,970	(17,786)
Prepaid Expenses	1,817	404
Inventory	(1,693)	-
Accounts Payable	6,005	(3,713)
Accrued Payroll Expense	(1,041)	(1,480)
Net Cash Provided by Operating Activities	$ 11,136	$ 21,705

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Statement of Fiduciary Assets and Liabilities
June 30, 2010

	Agency Fund Type	
	Tax Collection	Payroll
Assets		
Cash and Equivalents	$ 4,018	$ 4,899
Investments	11,563	
Due From Others	-	93
Total Assets	15,581	4,992
Liabilities		
Liabilities		
Due to Others	15,581	4,992
Total Liabilties	$ 15,581	$ 4,992

The footnotes are an integral part of these Financial Statements.

Note 1 – Summary of Significant Accounting Policies

The City of Parchment, Michigan, was incorporated in 1939 and is located in Kalamazoo County, Michigan. The City is governed by a seven member City Commission, elected by the community at large. The legislative body selects, from among its members, the Mayor, and appoints a City Manager to administer the affairs of the City. The City provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture - recreation, public improvements, planning and zoning, and general administrative services. In addition, the City operates two major enterprise activities; a water supply system and a sewage collection and treatment system. The City's financial statements include the accountings of all City operations.

The financial statements of the City of Parchment, Michigan (government) have been prepared in conformity with the U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting principles are described below.

Reporting Entity

As required by U.S. generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City.

Discretely Presented Component Units – The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City.

Downtown Development Authority

The members of the governing board are appointed by the City Commission. The Authority's budget is subject to approval by the City's Commission. The DDA does not issue any other form of financial statements except as contained in the City of Parchment annual financial statements.

Government-Wide Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary

activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, 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 responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (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 revenues are reported instead as general revenue.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and 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 fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the City are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

The City of Parchment reports the following major governmental funds:

General Fund

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

Major Street Fund

The Major Street Fund is used to account for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Street Fund

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Kindleberger Summer Festival Special Revenue Fund

The Kindleberger Summer Festival Special Revenue Fund accounts for the activities of the summer festival and stage activities.

The City of Parchment reports the following major proprietary funds:

Water Fund

The Water Fund records financial activity of the water system which provides water to customers.

Sewer Fund

The Sewer Fund records financial activity of the sewage disposal services to its customers.

Additionally, the City of Parchment reports the following fund types:

Internal Service Funds

The Internal Service Funds account for operations that proved services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The Internal Service Fund was closed during the year, and all assets were transferred out to the General Fund, Major Street Fund, and Local Street Fund.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement. Fiduciary funds are not included in the governmental-wide statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of

the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this game limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved.

Amounts reported as program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 water fund, sewer fund, and the City's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities, and Net Assets 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 date of acquisition.

Investments

The City's investment policy is in compliance with state law and authorizes the City to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency

obligations, United States Treasury bills and bonds, banker acceptances, federal agency instruments, money market funds and commercial paper. Investments in commercial paper must be rated in one of the two highest rating categories by Standard and Poor's or Moody's and are limited to fifty percent of a funds portfolio in accordance with state statutes. Investments are stated at fair value which is determined using selected bases. Securities traded on a national exchange are valued at the last reported sales price. Managed funds not listed on an established market are reported at fair value as determined by the respective fund managers based on quoted prices of underlying securities.

Receivables and Payables

In general, outstanding balances between funds are reported as "due 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 net of an allowance for uncollectible amounts.

Real property taxes are considered delinquent on August 15th, at which time penalties and interest are assessed. Real property taxes no collected are turned over to Kalamazoo County for collection as of March 1st of the following year. Kalamazoo County advances the City 100% for the delinquent taxes as the County maintains a revolving tax fund to finance delinquent real property taxes for local units.

Property Taxes

City property taxes are assessed as of December 31 and attached as an enforceable lien on the property as of July 1 of the following year and are due without penalty on or before August 14. These summer tax bills include the City's own property taxes and taxes billed on behalf of the Parchment school district, the intermediate school district, and Kalamazoo Valley Community College. Real property taxes not collected, but deemed collectable, as of March 1, are turned over to Kalamazoo county for collection, which advances the City 100% for delinquent taxes. Collection of the delinquent personal property taxes remains the responsibility of the City Treasurer. The City acts as a collection agent for Kalamazoo County and the Parchment Community Library for winter property taxes.

The City collects a 1% property tax administration fee.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

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

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 government as assets with an estimated useful life in excess of one year and an initial, individual cost of more than $5,000 (amount not rounded) and an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The City began recording governmental infrastructure constructed on or after July 1, 2003 as allowed by GASB 34.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary funds of the government using the straight-line method over the following estimated useful lives:

Asset	Useful Life
Buildings and Building Improvements	50 - 60 Years
Utility Systems	25 - 100 Years
Roads	20 Years
Other Infrastructure	15 - 25 Years
Vehicles	5 - 20 Years
Heavy Duty Equipment	20 - 40 Years
Machinery and Equipment	5 - 25 Years

Long-Term Obligations

In the government-wide financial statements, and 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 amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The City has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortizations of premiums, discounts, and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2003. 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.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The presentation of financial statements in conformity with U.S. 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.

Comparative Data / Reclassifications

Comparative data is not included in the City's financial statements.

Note 2 – Stewardship, Compliance and Accountability

Fund Deficit

The City has accumulated a net assets deficit in the Downtown Development Authority (DDA) Fund. The deficit is a result of bonds that were issued in 1997. The proceeds of these bonds were used to purchase infrastructure assets. As allowed by GASB 34, the City has chosen to capitalize infrastructure assets prospectively, and to not go back and capitalize infrastructure assets from prior periods.

Budgetary Information

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue. All annual appropriations lapse at fiscal year-end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The first commission meeting in April, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to June 1st, the budget is legally enacted through passage of ordinance.

4. The City Manager is authorized to transfer up to $5,000 from any function of the budget to any other function of the budget within the same fund without further approval.

5. At the beginning of each quarter during the fiscal year, and more often if required by the City Commission, the City Manager shall submit to the Commission data showing the relationship between the estimated and actual income and expenses to date; and if it shall appear that the income is less than anticipated, the Commission may reduce appropriations, except any amounts required for debt and interest charges, to such degree as may be necessary to keep expenditures within income and designated reserves. If the revenues exceed the amounts estimated in the budget, the Commission may make supplemental appropriations.

6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Commission from time to time throughout the year. The City amended its budget three times during the current fiscal year.

7. Budget appropriations lapse at the end of the fiscal year for all funds, except for certain capital projects which are adopted on a per project basis.

   Excess of Expenditures Over Appropriations in Budgeted Funds – The City had no budget variances.

Note 3 – Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loans associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; commercial paper rated within the two highest classifications, which matures not more than 270 days after date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposits of its funds. Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned. The city does not have a deposit policy for credit risk. The City's deposits are owned by several of the City's funds. At year end, the carrying amount of the primary government's deposits and cash on hand was $981,367 and the bank balance was $1,138,034. Of the bank balance, $1,138,034 was covered by federal depository insurance, and $0 was uninsured and uncollateralized.

Note 4 - Receivables

Receivables as of year end for the government's individual major funds and nonmajor, internal service, and fiduciary funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Major Streets	Local Streets	Water & Sewer	Total
Receivables					
Intergovernmental	$ 24,794	$ 13,746	$ 5,504	$ -	$ 44,044
Property Taxes	24,119	-	-	-	24,119
Special Assessment	-	-	-	8,520	8,520
Due from School District	317,100	-	-	-	317,100
Accounts	22,814	-	-	131,852	154,666
Total Receivables	$ 388,827	$ 13,746	$ 5,504	$ 140,372	$ 548,449

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property.

Note 5 – Capital Assets

Capital asset activity of the City's governmental activities was as follows:

Governmental Activities	6/30/2009	Increases	Decreases	6/30/2010
Capital assets not being depreciated:				
Land	$ 1,303,688	$ -	$ -	$ 1,303,688
Capital assets being depreciated:				
Building and Improvements	671,226	-	-	671,226
Machinery & Equipment	1,505,957	118,382	-	1,624,339
Infrastructure	605,367	116,281	-	721,648
Total:	2,782,550	234,663	-	3,017,213
Accumulated depreciation:				
Building and Improvements	213,589	11,333	-	224,922
Other Improvements	1,019,370	82,172	-	1,101,542
Distribution and Collection	114,915	24,822	-	139,737
Total:	1,347,874	118,327	-	1,466,201
Net capital assets being depreciated:	1,434,676	116,336	-	1,551,012
Net capital assets - Governmental	$ 2,738,364	$ 116,336	$ -	$ 2,854,700

Capital asset activity of the City's business-type activities was as follows:

Business-type Activities

	6/30/2009	Increases	Decreases	6/30/2010
Capital assets not being depreciated:				
Land	$ 7,000	$ -	$ -	$ 7,000
Capital assets being depreciated:				
Building and Improvements	272,634	-	-	272,634
Other Improvements	13,647	-	-	13,647
Machinery & Equipment	1,292,969	2,000	-	1,294,969
Distribution and Collection	1,629,569	-		1,629,569
Total:	3,208,819	2,000	-	3,210,819
Accumulated depreciation:				
Building and Improvements	138,625	5,825	-	144,450
Other Improvements	4,720	337	-	5,057
Machinery & Equipment	916,172	54,558	-	970,730
Distribution and Collection	778,140	26,272	-	804,412
Total:	1,837,657	86,992	-	1,924,649
Net capital assets being depreciated:	1,371,162	(84,992)	-	1,286,170
Net capital assets - Business-type	$ 1,378,162	$ (84,992)	$ -	$ 1,293,170

Capital asset activity of the City's component unit was as follows:

	6/30/2009	Increases	Decreases	6/30/2010
Capital assets being depreciated:				
Machinery & Equipment	7,977	-	-	7,977
Total:	7,977	-	-	7,977
Accumulated depreciation:				
Machinery & Equipment	5,450	797	-	6,247
Total:	5,450	797	-	6,247
Net capital assets being depreciated:	2,527	(797)	-	1,730
Net capital assets - Component Unit	$ 2,527	$ (797)	$ -	$ 1,730

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

Governmental Activities	$ 118,327
Business-type Activities	
Sewer	24,969
Water	62,024
Total:	$ 86,993

Note 6 – Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	6/30/2009 Balance	Additions	Reductions	6/30/2010 Balance	Due Within One Year
Governmental Activities					
Other post employment benefits	$ 60,000	$ 59,363	$ -	$ 119,363	$ -
Compensated Absences	60,256	20,655	-	80,911	-
Total Governmental Activities	120,256	80,018	-	200,274	-
Component Unit					
1991 general obligation bonds in the amount of $1,660,000, including interest ranging from 4.8% to 5.7%	405,000	-	(180,000)	225,000	225,000
Total Long Term Debt	525,256	80,018	(180,000)	425,274	225,000

Annual debt service requirements to maturity for the above bonds and note obligations, other than vested sick pay, are as follows:

	Governmental Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2010	$ -	$ -	$ -	$ 225,000	$ 12,825	$ 237,825
Totals:	$ -	$ -	$ -	$ 225,000	$ 12,825	$ 237,825

Accrued Vacation and Sick Leave Payable

The City has accrued liabilities for accumulated vested sick leave benefits. See Note A for a description of the City's accounting policies related to these items.

Note 7 – Employee Retirement Systems

Defined Benefit Plan

The City participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS that covers substantially all full time employees. The plan provides retirement and disability benefits to Plan members and beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at: 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation between the employer and employees and requires City employees to contribute 4.7% of their annual compensation. The City is required to contribute the remaining amounts necessary to fund MERS, using the actuarial basis specified by statute.

Method Used to Value Investments

The actuarial value of assets is determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income and actual investment income earned on a market value basis. The difference in investment income between expected return and market return is recognized over a 10 year period at the rate of 10% per year.

Annual Pension Costs

For the year ended June 30, 2010, the City's annual pension cost of $33,309 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2009, using the entry age normal funding cost method. Significant actuarial assumptions used included a rate of return on the investment of present and future assets of 8% per year compounded annually; projected salary increases of 4.5% per year compounded annually, attributable to inflation.

During the year ended December 31, 2008, the plan experienced an increase of $244,890 in the net pension obligation. The combined change in net pension obligation resulting from benefit changes, if any, and revisions in actuarial assumptions is $0.

Three Year Trend Information – (Unaudited)

Three year trend information as of December 31, 2008 follows:

	2008	2007	2006
Annual Pension Cost	$ 28,361	$ 25,848	$ 27,612
Percentage of APC Contributed	100	100	100
Net Pension Obligation	331,285	86,395	131,993
Actuarial Value of Assets	2,366,392	2,316,195	2,177,414
Actuarial Accrued Liability	2,697,677	2,402,590	2,309,407
Unfunded AAL	331,285	86,395	131,993
Funded Ratio	88	96	94
Covered Payroll	522,068	501,840	491,139
UAL as a Percentage of Covered Payroll	63	- 17	- 27

Analysis of dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides on indication of a plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation.

Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due.

Note 8 – Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 45, that is administered by ICMA Retirement Corporation. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document. Voluntary employee contributions for the year ended June 30, 2010 were $14,584.

Note 9 – Other Post- Employment Benefits

In the fiscal year ending June 30, 2009, the City adopted the provision of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pension Plans* on a prospective basis. The City provides post employment health insurance benefits according to the terms set forth in various employment contracts or personnel policies.

Plan Description

The City of Parchment's Other Post Employment Benefit is a single-employer defined other post employment benefit plan administered by the City of Parchment. The authority to establish and amend the benefit provisions rest with the City Commission under City Charter. The City provides one year of health insurance for every five years worked after 10 years of employment for eligible retirees. The Plan does not issue separate financial statements.

Funding Policy

There are no required contributions by Plan participants. The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2010, the City contributed $7,643 to the plan, as a specialty agreement with one of the current retirees. The Plan has two retiree participants who meet the eligibility requirements.

Annual OPEB Cost

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the *actual required contribution of the employer.* The City is not pre-funding their obligation, choosing to meet the requirements on a pay-as-you-go basis.

Actual Accrued Liability	$ 499,469
Annual OPEB cost (expense)	59,363
Contributions made	-
Net OPEB obligation-end of year	558,831

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 are as follows:

Trend Information - OPEB

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	60,000	0.0%	$ 60,000
6/30/2010	59,363	0.0%	$ 119,363

Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was $558,831, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $558,831. The covered payroll (annual payroll of active employees covered by the plan) was $607,591 and the ration of the UAAL to the covered payroll was 92 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the personnel policy currently in place. In the June 30, 2010, actuarial valuation, the alternative valuation method was used. The actuarial assumptions include: (a) a rate of return on investments of 2.0%; (b) projected healthcare benefit increases of 6.2%. The City's unfunded actuarial accrued liability will be amortized over 30 years in level dollar amounts. There are no assets as the City is funding OPEB on a pay as you go basis.

Note 10 – Risk Management

The City participates in the Michigan Municipal Workers' Compensation Fund risk pools for the purpose of its workers' compensation coverage.

The Michigan Municipal League 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 11 – Contingent Liabilities

The Michigan Department of Treasury completed an audit of the City Treasurer's disbursement of the State's share of the Industrial Facilities Tax (IFT) for 1995 through 2006. The Department of Treasury has requested payment of $317,000 from the City. In 1994 when Proposal A was enacted, the funding for school districts changed. Industrial Facililities Taxes that were previously paid directly to the school district were now to be paid to the State of Michigan on behalf of the school districts. This procedural change was missed by the City of Parchment. The City continued to make payments directly to the school district until 2003. During that time the City represented that no communication was received from the State of Michigan notifying the City that such disbursements were being made in error. Upon receipt of the State's audit findings, the City took immediate action to make the disbursements to the appropriate party. The accompanying Government-Wide Statement of Net Assets includes an account receivable from the School District for $317,000 and amount due to State of $317,000.

The City has not yet responded to the State's repayment request and has surpassed the State's deadline for repayment. It is the City Administration's intention to first determine both the legality and accuracy of this request for repayment before recommending a course of action to the City Commission. If this request for repayment is further determined to be required to be compiled with, the City administration intends to seek indemnification from the Parchment School District for that amount, which constitutes virtually all of the amount claimed which amounts were paid directly to the School

System rather than paid to the State of Michigan for the benefit of the School System. At this time, it is difficult to make an evaluation of the likely outcome and the effect, if any, on the City's finances as the City Administration is currently working with the State and Parchment Schools to determine an acceptable course of action.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PARCHMENT
Budgetary Comparision Schedule
General Fund
For the Year Ended June 30, 2010

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Beginning Fund Balance	$ 370,195	$ 370,195	$ 370,195	$ -
Resources (Inflows)				
Taxes	797,904	797,904	836,509	38,605
Licenses and Permits	94,000	94,000	25,583	(68,417)
Operating Grants & Contributions	-	-	441,668	441,668
Federal Grants	19,000	19,000	-	(19,000)
State Revenue Sharing	193,100	1,110,190	164,484	(945,706)
Reimbursements	93,600	93,600	93,600	-
Charges for Services	11,350	11,350	95,059	83,709
Fines and Forfeitures	14,000	14,000	5,663	(8,337)
Investment Income	15,000	15,000	18,439	3,439
Transfers In	-	-	116,288	116,288
Other	-	-	5,680	5,680
Amounts Available for Appropriation	1,608,149	2,525,239	2,173,168	(352,071)
Charges to Appropriations (Outflows)				
General Government	398,098	1,533,471	1,001,782	531,689
Public Safety	561,811	557,311	420,695	136,616
Public Works	303,126	303,126	302,342	784
Recreation and Culture	113,135	113,135	92,336	20,799
Capital Outlay	-	25,000	16,916	8,084
Total Charges to Approprations	1,376,170	2,532,043	1,834,071	697,972
Budgetary Fund Balance - Ending	$ 231,979	$ (6,804)	$ 339,097	$ 345,901

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Budgetary Comparision Schedule
Major Street Fund
For the Year Ended June 30, 2010

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable)
Beginning Fund Balance	$ 331,596	$ 331,596	$ 331,596	$ -
Resources (Inflows)				
State Grants	85,238	85,238	83,932	(1,306)
Investment Income	3,000	3,000	8,874	5,874
Transfers From Other Funds	-	-	67,038	(67,038)
Amounts Available for Appropriation	419,834	419,834	491,440	(62,470)
Charges to Appropriations (Outflows)				
Public Works	85,556	85,556	54,055	31,501
Capital Outlay	90,000	90,000	86,769	3,231
Transfers To Other Funds	48,000	48,000	46,200	1,800
Total Charges to Approprations	223,556	223,556	187,024	36,532
Budgetary Fund Balance - Ending	$ 196,278	$ 196,278	$ 304,416	$ (99,002)

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Budgetary Comparision Schedule
Local Street Fund
For the Year Ended June 30, 2010

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable)
Beginning Fund Balance	$ 29,801	$ 29,801	$ 29,801	$ -
Resources (Inflows)				
State Grants	34,081	34,081	33,604	477
Investment Income	400	400	1,916	(1,516)
Transfer From Other Funds	46,200	46,200	113,238	(67,038)
Amounts Available for Appropriation	110,482	110,482	178,559	(68,077)
Charges to Appropriations (Outflows)				
Public Works	57,006	56,997	43,113	13,884
Capital Outlay	30,000	30,000	29,512	488
Transfers To Other Funds	-	-	-	-
Total Charges to Approprations	87,006	86,997	72,625	14,372
Budgetary Fund Balance - Ending	$ 23,476	$ 23,485	$ 105,934	$ (82,449)

The footnotes are an integral part of these Financial Statements.

CITY OF PARCHMENT
Required Supplementary Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilitiy (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2006	2,177,414	2,309,407	(131,993)	94%	491,139	27%
12/31/2007	2,316,195	2,402,590	(86,395)	96%	501,840	17%
12/31/2008	2,366,392	2,697,677	(331,285)	88%	522,068	63%

CITY OF PARCHMENT
Required Supplementary Information
Retiree Healthcare Plan
Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilitiy (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2008 *	-	550,000	(550,000)	0%	607,591	91%
12/31/2009	-	558,831	(558,831)	0%	607,591	92%

* First year

November 29, 2010

To the Honorable Mayor, Management and Members of the City Commission
City of Parchment, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Parchment (the "City") for the year ended June 30, 2010, and have issued our report thereon dated November 8, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 13, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 8, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Principles

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

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 29, 2010.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as a governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City of Parchment and is not intended to be and should not be used by anyone other than those specified parties.

Best regards,

Gabridge & Company

Gabridge & Company, PLC

GABRIDGE & CO

5005 CASCADE RD SE / GRAND RAPIDS, MI / 49546 / P 616 538 7100 / F 616 538 2441 / WWW.GABRIDGECO.COM

November 29, 2010

To the Honorable Mayor, Management and Members of the City Commission
City of Parchment, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Parchment (the "City") for the year ended June 30, 2010, and have issued our report thereon dated November 8, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 13, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 8, 2010.

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 entity's internal control. We noted no material weaknesses in internal control.

We are grateful to be of service to the City. Should you wish to discuss any of the items included in this report, we would be happy to do so.

Best regards,

Gabridge & Company

Gabridge & Company, PLC