

**CITY OF PARCHMENT**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
For the Fiscal Year Ended June 30, 2012

GABRIDGE & CO.

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# GABRIDGE & CO

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## 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 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, 2012, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan, as of June 30, 2012, 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 December 10, 2012, 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, Schedules 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

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  
December 10, 2012

## 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, 2012. 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 \$3,611,291 (shown as *Net Assets*), representing a decrease of \$108,422 over the previous fiscal year. Of this amount, \$65,125 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the City received \$1,960,239 in revenues and \$2,068,661 in expenses, resulting in a decrease in net assets of approximately \$108,422. Of the City's \$2,068,661 expense total, \$571,332 related to business-type expenses and the balance of \$1,497,329 related to governmental activities.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$80,599 or 6 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 funds.

**Proprietary Funds** The City's proprietary funds account for services charged to its customers or other agencies for the services they are provided. The City uses one type of proprietary fund, enterprise 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.

**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 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 by \$3,611,291 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, 2012 and June 30, 2011

	Governmental Activities		Business-type Activities		Total Government	
	2012	2011	2012	2011	2012	2011
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 103,600	\$ 255,804	\$ 15,591	\$ 26,905	\$ 119,191	\$ 282,709
Investments	181,998	301,951	77,701	46,585	259,699	348,536
Taxes Receivable	14,349	6,233	-	-	14,349	6,233
Special Assessment Receivable	-	-	1,148	1,089	1,148	1,089
Accounts Receivable	41,756	41,638	191,650	187,923	233,406	229,561
Grants Receivable	-	7,500	-	-	-	7,500
Due From State	43,935	48,775	-	-	43,935	48,775
Due From School District	317,100	317,100	-	-	317,100	317,100
Due From Agency Fund	5,912	8,238	-	677	5,912	8,915
Inventories	13,010	7,774	18,522	21,617	31,532	29,391
Prepaid Expenses	-	6,320	-	-	-	6,320
<b>Total Current Assets</b>	<b>721,660</b>	<b>1,001,333</b>	<b>304,612</b>	<b>284,796</b>	<b>1,026,272</b>	<b>1,286,129</b>
<i>Noncurrent Assets</i>						
Restricted Cash	102,367	-	-	-	102,367	-
Special Assessment Receivable	-	-	5,250	6,398	5,250	6,398
Capital Assets (Net)	3,068,254	2,924,645	1,312,312	1,350,760	4,380,566	4,275,405
<b>Total Assets</b>	<b>3,892,281</b>	<b>3,925,978</b>	<b>1,622,174</b>	<b>1,641,954</b>	<b>5,514,455</b>	<b>5,567,932</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts Payable	120,127	67,113	28,228	13,280	148,355	80,393
Accrued Liabilities	450	119,777	-	-	450	119,777
Accrued Payroll & Related Liabilities	17,798	18,676	4,351	3,521	22,149	22,197
Deposits Held for Others	200	-	-	-	200	-
Deferred Revenue	101,545	22,368	-	-	101,545	22,368
Due to State	317,100	317,100	-	-	317,100	317,100
Due to Other agencies	12,442	-	-	-	12,442	-
Current Portion of Compensated Absences	-	55,236	-	-	-	55,236
<b>Total Current Liabilities</b>	<b>569,662</b>	<b>600,270</b>	<b>32,579</b>	<b>16,801</b>	<b>602,241</b>	<b>617,071</b>
<i>Noncurrent Liabilities</i>						
Long-term Debt	984,138	975,921	-	-	984,138	975,921
Compensated Absences	103,762	86,260	-	-	103,762	86,260
Unfunded OPEB Liability	213,023	168,967	-	-	213,023	168,967
<b>Total Liabilities</b>	<b>1,870,585</b>	<b>1,831,418</b>	<b>32,579</b>	<b>16,801</b>	<b>1,903,164</b>	<b>1,848,219</b>
<b>NET ASSETS</b>						
Invested in Capital Assets, Net of Related Debt	2,084,116	1,948,724	1,312,312	1,372,377	3,396,428	3,321,101
<i>Restricted for:</i>						
Major & Local Streets	149,738	360,659	-	-	149,738	360,659
<i>Unrestricted</i>	(212,158)	(214,823)	277,283	252,776	65,125	37,953
<b>Total Net Assets</b>	<b>\$ 2,021,696</b>	<b>\$ 2,094,560</b>	<b>\$ 1,589,595</b>	<b>\$ 1,625,153</b>	<b>\$ 3,611,291</b>	<b>\$ 3,719,713</b>

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 \$65,125 in unrestricted net assets. These assets represent resources that are available for appropriation, but are limited by the City policies regarding their use.

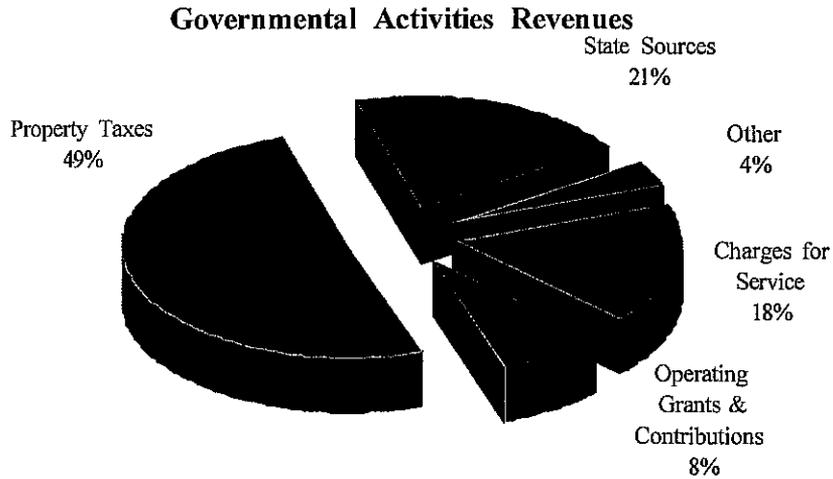
The total net assets of the City decreased \$108,422 in this fiscal year. The following table illustrates and summarizes the results of the changes in the net assets for the City. The condensed information was derived from the Government-wide Statement of Activities.

City of Parchment  
Change in Net Assets for Fiscal Year Ended June 30, 2012 and June 30, 2011

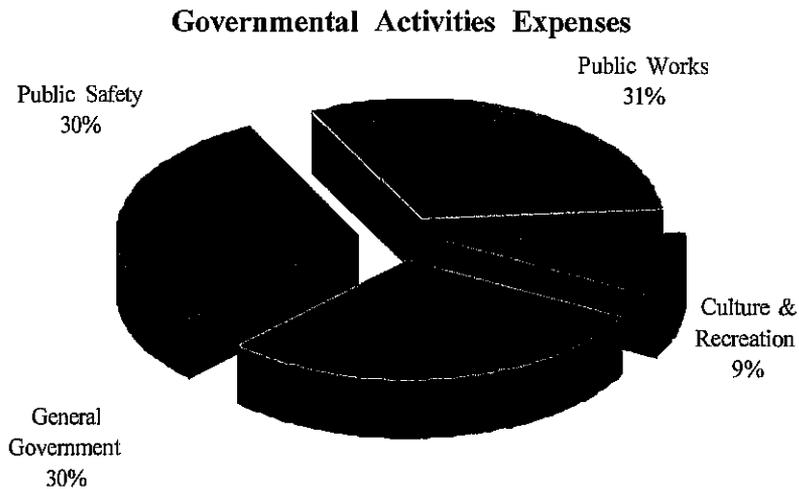
	Governmental Activities		Business-type Activities		Total Government	
	2012	2011	2012	2011	2012	2011
<b>Revenue</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 250,673	\$ 237,123	\$ 533,542	\$ 509,453	\$ 784,215	\$ 746,576
Grants & Contributions	110,285	220,269	-	-	110,285	220,269
Total Program Revenues	360,958	457,392	533,542	509,453	894,500	966,845
<b>General Revenues</b>						
Property Taxes & Assessments	718,010	777,417	-	-	718,010	777,417
State Revenue Sharing	293,024	258,298	-	-	293,024	258,298
Unrestricted Investment Earnings	7,131	4,290	2,232	(135)	9,363	4,155
Other	45,342	32,383	-	-	45,342	32,383
Total Revenues	1,424,465	1,529,780	535,774	509,318	1,960,239	2,039,098
<b>Expenses</b>						
General Government	445,587	1,836,216	-	-	445,587	1,836,216
Public Safety	449,784	455,874	-	-	449,784	455,874
Public Works	464,735	430,650	-	-	464,735	430,650
Recreation & Culture	137,223	136,332	-	-	137,223	136,332
Water & Sewer	-	-	571,332	557,328	571,332	557,328
Total Expenses	1,497,329	2,859,072	571,332	557,328	2,068,661	3,416,400
Increase / Decrease in Net Assets	(72,864)	(1,329,292)	(35,558)	(48,010)	(108,422)	(1,377,302)
Beginning Net Assets	2,094,560	3,423,852	1,625,153	1,673,163	3,719,713	5,097,015
Ending Net Assets	<u>\$ 2,021,696</u>	<u>\$ 2,094,560</u>	<u>\$ 1,589,595</u>	<u>\$ 1,625,153</u>	<u>\$ 3,611,291</u>	<u>\$ 3,719,713</u>

### Governmental Activities

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



The following chart summarizes the major expenses for the governmental activities of the City for the most recent fiscal year end:



## **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 \$230,337. Of this amount, \$80,599 is unassigned.

**General Fund** The General Fund is the main operating fund of the City. The General Fund decreased its balance in this fiscal year by \$4,388, bringing the balance to \$80,599.

**Major Street Fund** The fund balance of the Major Street Fund at the most recent fiscal year end was \$107,322. This was a decrease of \$203,786 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 \$42,416. This was a decrease of \$7,135 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 Fund and Sewer Fund at the end of the year amounted to \$90,950 and \$186,333, respectively. The Water Fund had a decrease in net assets for the year of \$20,538, whereas the Sewer Fund had a decrease of \$15,020.

### **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**

The City of Parchment is working with River Reach Partners LLC to redevelop the Brownfield site that is the former Crown Vantage property. The City has received grant funds in the amount of \$716,667 and a low interest loan in the amount of \$998,289 from the State of Michigan to assist in that redevelopment. The City has spent \$984,289 of the loan and has booked a long-term liability in that amount to reflect the loan payable. There is also a deferred revenue of \$14,151, representing debt proceeds received that were not spent as of 6/30/2012.

**Capital Assets** The City's investment in capital assets for the governmental and business-type activities at year end amounted to \$4,380,566 (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 \$984,289. The entire amount 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 \$984,289.

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

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

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state shared revenues. State shared revenues are expected to decrease again in the 2012-2013 fiscal year. The City budgeted for a decrease in state shared revenue, but additional cuts have already been made and more cuts are expected before the end of the fiscal year. The City's millage rate was impacted again by the Headlee Amendment rollback for general operating purposes. These factors were considered in preparing the City's budget for the 2012-2013 fiscal year.

#### **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**  
**Statement of Net Assets**  
**June 30, 2012**

	<b>Primary Government</b>			<b>Component Unit - DDA</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 103,600	\$ 15,591	\$ 119,191	\$ 27,513
Investments	181,998	77,701	259,699	136,390
Taxes Receivable	14,349	--	14,349	--
Special Assessment Receivable	--	1,148	1,148	--
Accounts Receivable	41,756	191,650	233,406	--
Due from State	43,935	--	43,935	--
Due from School District	317,100	--	317,100	--
Due from Agency Funds	5,912	--	5,912	--
Inventories	13,010	18,522	31,532	--
<b>Total Current Assets</b>	<b>721,660</b>	<b>304,612</b>	<b>1,026,272</b>	<b>163,903</b>
<i>Noncurrent Assets</i>				
Restricted Cash	102,367	--	102,367	--
Special Assessment Receivable	--	5,250	5,250	--
Capital Assets (Net)	3,068,254	1,312,312	4,380,566	82,683
<b>Total Assets</b>	<b>3,892,281</b>	<b>1,622,174</b>	<b>5,514,455</b>	<b>246,586</b>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Accounts Payable	120,327	28,228	148,555	--
Accrued Liabilities	450	--	450	--
Accrued Payroll & Related Liabilities	17,798	4,351	22,149	--
Deferred Revenue	101,545	--	101,545	--
Due to State	317,100	--	317,100	--
Due to Other Agencies	12,442	--	12,442	--
<b>Total Current Liabilities</b>	<b>569,662</b>	<b>32,579</b>	<b>602,241</b>	<b>--</b>
<i>Noncurrent Liabilities</i>				
Long-term Debt	984,138	--	984,138	--
Compensated Absences	103,762	--	103,762	--
Unfunded OPEB Liability	213,023	--	213,023	--
<b>Total Liabilities</b>	<b>1,870,585</b>	<b>32,579</b>	<b>1,903,164</b>	<b>--</b>
<b>NET ASSETS</b>				
Invested in Fixed Assets Net of Related Debt	2,084,116	1,312,312	3,396,428	--
<i>Restricted for:</i>				
Major & Local Streets	149,738	--	149,738	--
<i>Unrestricted</i>	(212,158)	277,283	65,125	246,586
<b>Total Net Assets</b>	<b>\$ 2,021,696</b>	<b>\$ 1,589,595</b>	<b>\$ 3,611,291</b>	<b>\$ 246,586</b>

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

**City of Parchment  
Statement of Activities  
For the Year Ended June 30, 2012**

Functions/Programs	Program Revenues			Net (Expense) Revenue		Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		Business-type Activities
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General Government	\$ 445,587	\$ 142,138	\$ 101,837	\$ --	\$ (201,612)	\$ --	\$ (201,612)
Public Safety	449,784	14,341	--	--	(435,443)	--	(435,443)
Public Works	464,735	90,952	120,959	--	(252,824)	--	(252,824)
Recreation & Culture	137,223	3,617	12,347	--	(121,259)	--	(121,259)
<b>Total Governmental Activities</b>	<b>1,497,329</b>	<b>251,048</b>	<b>235,143</b>	<b>--</b>	<b>(1,011,138)</b>	<b>--</b>	<b>(1,011,138)</b>
<b>Business-type Activities:</b>							
Sewer Fund	245,488	228,138	--	--	(17,350)	--	(17,350)
Water Fund	325,844	305,404	--	--	(20,440)	--	(20,440)
<b>Total Business-type Activities</b>	<b>571,332</b>	<b>533,542</b>	<b>--</b>	<b>--</b>	<b>(37,790)</b>	<b>--</b>	<b>(37,790)</b>
<b>Total Primary Government</b>	<b>\$ 2,068,661</b>	<b>\$ 784,590</b>	<b>\$ 235,143</b>	<b>\$ --</b>	<b>\$ (1,011,138)</b>	<b>\$ (37,790)</b>	<b>\$ (1,048,928)</b>
<b>Component Units</b>							
DDA	\$ 46,488	--	\$ 14,600	\$ --	--	--	(31,888)
<b>Total Component Units</b>	<b>\$ 46,488</b>	<b>\$ --</b>	<b>\$ 14,600</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ (31,888)</b>
<b>General Purpose Revenues and Transfers:</b>							
Revenues							
Property Taxes					718,010		718,010
Other					41,068		41,068
Investment Income (Loss)					7,131	2,232	9,363
State Sources					172,065		172,065
Transfers					--		--
<b>Total General Revenues and Transfers</b>					<b>938,274</b>	<b>2,232</b>	<b>940,506</b>
<b>Change in Net Assets</b>					<b>(72,864)</b>	<b>(35,558)</b>	<b>(108,422)</b>
<b>Net Assets at Beginning of Period</b>					<b>2,094,560</b>	<b>1,625,153</b>	<b>3,719,713</b>
<b>Net Assets at End of Period</b>					<b>\$ 2,021,696</b>	<b>\$ 1,589,595</b>	<b>\$ 3,611,291</b>

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

**City of Parchment  
Balance Sheet  
Governmental Funds  
June 30, 2012**

	<u>Special Revenue</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Local Street</u>	<u>Major Street</u>	
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 68,751	\$ 3,668	\$ 31,181	\$ 103,600
Investments	28,115	27,134	126,749	181,998
Taxes Receivable	14,349	--	--	14,349
Accounts Receivable	41,756	--	--	41,756
Due from State	24,028	5,677	14,230	43,935
Due from School District	317,100	--	--	317,100
Due from Agency Funds	5,912	--	--	5,912
Inventories	--	6,505	6,505	13,010
Restricted Cash	102,367	--	--	102,367
<b>Total Assets</b>	<b>\$ 602,378</b>	<b>\$ 42,984</b>	<b>\$ 178,665</b>	<b>\$ 824,027</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 48,836	\$ 358	\$ 71,133	\$ 120,327
Accrued Liabilities	450	--	--	450
Accrued Payroll & Related Liabilities	17,378	210	210	17,798
Deferred Revenue	125,573	--	--	125,573
Due to State	317,100	--	--	317,100
Due to Other Agencies	12,442	--	--	12,442
<b>Total Liabilities</b>	<b>521,779</b>	<b>568</b>	<b>71,343</b>	<b>593,690</b>
<b>FUND BALANCE</b>				
Nonspendable	--	6,505	6,505	13,010
Restricted	--	35,911	100,817	136,728
Unassigned	80,599	--	--	80,599
<b>Total Fund Balance</b>	<b>80,599</b>	<b>42,416</b>	<b>107,322</b>	<b>230,337</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 602,378</b>	<b>\$ 42,984</b>	<b>\$ 178,665</b>	<b>\$ 824,027</b>

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

**City of Parchment**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2012**

Total Fund Balance - Governmental Funds	\$	230,337
General government capital assets of \$4,756,662 net of accumulated depreciation of \$1,688,408 are not financial resources and accordingly are not reported in the funds		3,068,254
Long-term liabilities, including long-term debt, are not due and payable in the current period and therefore are not reported in the funds		(984,138)
Compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds		(103,762)
Other post employment benefits are not due and payable in the current period, and therefore, are not reported in the funds		(213,023)
Decrease in state revenue receivable		24,028
<b>Total Net Assets - Governmental Funds</b>	<b>\$</b>	<b><u>2,021,696</u></b>

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

**City of Parchment**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2012**

	Special Revenue			Total Governmental Funds
	General	Local Street	Major Street	
<b>Revenues</b>				
Property Taxes	\$ 718,010	\$ --	\$ --	\$ 718,010
State Sources	260,527	34,509	86,450	381,486
Licenses & Permits	12,863	--	--	12,863
Charges for Services	107,344	--	--	107,344
Fines & Forfeitures	12,966	--	--	12,966
Refunds & Reimbursements	109,800	--	--	109,800
Other	61,490	--	--	61,490
Investment Income (Loss)	3,675	283	3,173	7,131
<b>Total Revenues</b>	1,286,675	34,792	89,623	1,411,090
<b>Expenditures</b>				
General Government	434,319	--	--	434,319
Public Safety	388,851	--	--	388,851
Public Works	298,608	40,807	52,440	391,855
Recreation & Culture	117,825	--	--	117,825
Capital Outlay	59,677	31,120	210,969	301,766
<b>Total Expenditures</b>	1,299,280	71,927	263,409	1,634,616
<b>Excess of Revenues Over (Under) Expenditures</b>	(12,605)	(37,135)	(173,786)	(223,526)
<b>Other Financing Sources (Uses)</b>				
Proceeds from Loan Payable	8,217	--	--	8,217
Transfers from Other Funds	--	30,000	--	30,000
Transfers to Other Funds	--	--	(30,000)	(30,000)
<b>Net Other Financing Sources (Uses)</b>	8,217	30,000	(30,000)	8,217
<b>Net Change in Fund Balance</b>	(4,388)	(7,135)	(203,786)	(215,309)
<b>Fund Balance at Beginning of Period</b>	84,987	49,551	311,108	445,646
<b>Fund Balance at End of Period</b>	\$ 80,599	\$ 42,416	\$ 107,322	\$ 230,337

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

**City of Parchment**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance with Statement of Activities**  
**For the Year Ended June 30, 2012**

Total Net Change in Fund Balances - Governmental Funds	\$	(215,309)
<p>Governmental funds report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which the capital outlay expenditures of \$301,766 are in excess of depreciation expense of \$135,907, and loss on disposal of assets of \$22,250</p>		
		143,609
Debt issuance is recorded as revenue in the governmental funds but increases long-term liabilities in the Statement of Net Assets		(8,217)
Increase in other post employment benefits liability		(44,056)
Decrease in compensated absences liability		37,734
State shared revenue receivable was earned in June 2012 but is not available to pay for current expenditures. Therefore, they are deferred and not reported in the funds.		13,375
<b>Changes in Net Assets - Governmental Funds</b>	<b>\$</b>	<b><u>(72,864)</u></b>

The Notes to the Financial Statements 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, 2012**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>
<b>Operating Revenues</b>			
Charges for Services	\$ 223,707	\$ 292,075	\$ 515,782
Penalties	4,431	7,489	11,920
Hydrant Rental	--	5,840	5,840
<b><i>Total Operating Revenues</i></b>	<u>228,138</u>	<u>305,404</u>	<u>533,542</u>
<b>Operating Expenses</b>			
Personnel Services	113,961	144,773	258,734
Supplies	1,055	30,703	31,758
Contractual Services	97,292	35,028	132,320
Utilities	1,814	50,612	52,426
Repairs & Maintenance	1,798	754	2,552
Depreciation	29,568	61,145	90,713
Other	--	2,829	2,829
<b><i>Total Operating Expenses</i></b>	<u>245,488</u>	<u>325,844</u>	<u>571,332</u>
<b><i>Operating Income (Loss)</i></b>	<u>(17,350)</u>	<u>(20,440)</u>	<u>(37,790)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Investment Income (Loss)	2,330	(98)	2,232
<b><i>Net Non-Operating Revenues (Expenses)</i></b>	<u>2,330</u>	<u>(98)</u>	<u>2,232</u>
<b><i>Income Before Contributions and Transfers</i></b>	<u>(15,020)</u>	<u>(20,538)</u>	<u>(35,558)</u>
<b><i>Change In Net Assets</i></b>	<u>(15,020)</u>	<u>(20,538)</u>	<u>(35,558)</u>
<i>Net Assets at Beginning of Period</i>	758,774	866,379	1,625,153
<b><i>Net Assets at End of Period</i></b>	<u>\$ 743,754</u>	<u>\$ 845,841</u>	<u>\$ 1,589,595</u>

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

**City of Parchment**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2012**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>
<b>Cash Flows From Operating Activities</b>			
Cash Received from Customers	\$ 232,736	\$ 298,845	\$ 531,581
Cash Payments to Employees for Services and Fringe Benefits	( 114,079 )	( 143,825 )	( 257,904 )
Cash Payments to Suppliers for Goods and Services	( 95,276 )	( 108,566 )	( 203,842 )
<b>Total Cash Flows from Operating Activities</b>	<u>23,381</u>	<u>46,454</u>	<u>69,835</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchase of Equipment	( 11,400 )	( 40,865 )	( 52,265 )
<b>Total Cash Flows From Capital and Related Financing Activities</b>	<u>( 11,400 )</u>	<u>( 40,865 )</u>	<u>( 52,265 )</u>
<b>Cash Flows From Investing Activities</b>			
Interest on Investments	2,330	( 98 )	2,232
<b>Total Cash Flows from Investing Activities</b>	<u>2,330</u>	<u>( 98 )</u>	<u>2,232</u>
Net Increase (Decrease) in Cash and Equivalents	14,311	5,491	19,802
<i>Cash and Equivalents - Beginning of Year</i>	78,981	( 5,491 )	73,490
<b>Cash and Equivalents - End of Year</b>	<u>\$ 93,292</u>	<u>\$ -</u>	<u>\$ 93,292</u>

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

**City of Parchment**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2012**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>
<b>Reconciliation of Operating Income (Loss) to</b>			
<b>Net Cash Provided (Used) by Operating Activities</b>			
<b>Operating Income</b>	\$ ( 17,350 )	\$ ( 20,440 )	\$ ( 37,790 )
<b>Adjustments to Reconcile Operating Income to Net Cash</b>			
<b>Provided (Used) by Operating Activities</b>			
Depreciation and Amortization Expense	29,568	61,145	90,713
<b>Changes in Assets &amp; Liabilities</b>			
Special Receivables (Short-term)	( 59 )	-	( 59 )
Accounts Receivable	3,509	( 7,236 )	( 3,727 )
Due from Agency Funds	-	677	677
Inventory	-	3,095	3,095
Special Receivables (Long-term)	1,148	-	1,148
Accounts Payable	6,683	8,265	14,948
Accrued Payroll & Related Liabilities	( 118 )	948	830
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 23,381</u>	<u>\$ 46,454</u>	<u>\$ 69,835</u>

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

**City of Parchment**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2012**

	Agency	
	Payroll	Tax Collection
<b>ASSETS</b>		
Cash & Cash Equivalents	\$ --	\$ 11,921
Investments	1,993	35,960
Due from State	12,442	--
<i><b>Total Assets</b></i>	14,435	47,881
<b>LIABILITIES</b>		
Accrued Payroll & Related Liabilities	14,435	--
Due to Other Agencies	--	41,969
Due to General Fund	--	5,912
<i><b>Total Liabilities</b></i>	14,435	47,881
<b>NET ASSETS</b>		
Held in Trust	\$ --	\$ --

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

## City of Parchment

### Notes to the Financial Statements

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#### **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 Unit** – The following component unit is reported within the component units column in the Statement of Net Assets. It is reported in a separate column to emphasize that it is 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 (e.g., the Statement of Net Assets and the Statement of Activities) 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

## City of Parchment

### Notes to the Financial Statements

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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

## City of Parchment

### Notes to the Financial Statements

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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. This fund has been included as a department within the General Fund to satisfy GASB 54 reporting requirements.

## City of Parchment

### Notes to the Financial Statements

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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 type:

#### 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 same 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 and Sewer Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services,

## City of Parchment

### Notes to the Financial Statements

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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 15<sup>th</sup>, at which time penalties and interest are assessed. Real property taxes not collected are turned over to Kalamazoo County for collection as of March 1<sup>st</sup> 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.

## City of Parchment

### Notes to the Financial Statements

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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.

## City of Parchment

### Notes to the Financial Statements

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

<u>Asset</u>	<u>Useful Life</u>
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 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 fund balance is presented in five possible categories, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which the amounts can be spent:

*Nonspendable* – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained directly.

*Restricted* – amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants, contributions, specific fee mandates).

## City of Parchment

### Notes to the Financial Statements

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*Committed* – amounts that are committed for specific purposes by the Commission, as the City's highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Commission removes or changes the specific use through the same type of formal action taken to establish the commitment.

*Assigned* – amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.

*Unassigned* – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Designations of fund balance represent tentative management plans that are subject to change. It is the City's policy to first use restricted resources when both restricted and unrestricted net assets or fund balances are available. For purposes of fund balance classification, expenditures are to be spent from Restricted Fund balance first (when appropriate), followed in order by Committed Fund Balance, Assigned Fund Balance, and lastly, Unassigned Fund Balance.

#### 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.

## City of Parchment

### Notes to the Financial Statements

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#### 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 1<sup>st</sup>. 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 1<sup>st</sup>, 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.

## City of Parchment

### Notes to the Financial Statements

The City had one budget variance, which was caused due to an expense that was anticipated in the following fiscal year, it is presented as follows:

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Major Street</b>			
Capital Outlay	\$ 163,000	\$ 210,969	\$ (47,969)

#### **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.

**Cash & Cash Equivalents** - The City has designated two banks for the deposits of its funds. The City's cash and cash equivalents were reported in the Financial Statements as Follows:

	Governmental Activities	Business-type Activities	Total Primary Government	Agency Funds	Total Cash
Cash & Cash Equivalents	\$ 103,600	\$ 15,591	\$ 119,191	\$ 11,921	\$ 131,112
Restricted Cash	102,367	-	102,367	-	-
	\$ 205,967	\$ 15,591	\$ 221,558	\$ 11,921	\$ 233,479

**Custodial Credit Risk** – 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 \$221,558 and the bank balance was \$230,782. The bank balance is categorized as follows:

	Bank Balance	Carrying Amount
Amount Insured by the FDIC	\$ 230,782	\$ 233,479
Amount Uncollateralized and Uninsured	-	-
	\$ 230,782	\$ 233,479

## City of Parchment

### Notes to the Financial Statements

As of the year end the City had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Fixed Income			
Certificate of Deposit	\$ 311,680		
FHLB Bond	100,069	AA+	Standard & Poors
Cash & Money Market	18,628		
<b>Total</b>	<b>\$ 430,377</b>		

#### 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:

	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Water &amp; Sewer</u>	<u>Total</u>
Receivables					
Due From State	\$ 24,028	\$ 14,230	\$ 5,677	\$ -	\$ 43,935
Property Taxes	14,349	-	-	-	14,349
Special Assessment	-	-	-	6,398	6,398
Due From School District	317,100	-	-	-	317,100
Accounts	41,756	-	-	191,650	233,406
<b>Total Receivables</b>	<b>\$ 397,233</b>	<b>\$ 14,230</b>	<b>\$ 5,677</b>	<b>\$ 198,048</b>	<b>\$ 615,188</b>

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

## City of Parchment

### Notes to the Financial Statements

#### Note 5 – Capital Assets

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

<b>Governmental Activities</b>	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
Capital assets not being depreciated:				
Land	\$ 1,303,688	\$ -	\$ -	\$ 1,303,688
Capital assets being depreciated:				
Buildings & Improvements	671,226	-	-	671,226
Machinery & Equipment	1,719,304	5,772	69,017	1,656,059
Infrastructure	829,695	295,994	-	1,125,689
Total capital assets, being depreciated	<u>3,220,225</u>	<u>301,766</u>	<u>69,017</u>	<u>3,452,974</u>
Less accumulated depreciation:				
Buildings & Improvements	236,818	11,896	-	248,714
Machinery & Equipment	1,184,630	82,424	46,767	1,220,287
Infrastructure	177,820	41,587	-	219,407
Total accumulated depreciation	<u>1,599,268</u>	<u>135,907</u>	<u>46,767</u>	<u>1,688,408</u>
Net capital assets	<u>\$ 2,924,645</u>	<u>\$ 165,859</u>	<u>\$ 22,250</u>	<u>\$ 3,068,254</u>

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

<b>Business-Type Activities</b>	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
Capital assets not being depreciated:				
Land	\$ 7,000	\$ -	\$ -	\$ 7,000
Capital assets being depreciated:				
Building & Improvements	272,634	-	-	272,634
Other Improvements	139,928	-	-	139,928
Machinery & Equipment	1,311,019	52,265	-	1,363,284
Distribution & Collection	1,629,569	-	-	1,629,569
Total capital assets, being depreciated	<u>3,353,150</u>	<u>52,265</u>	<u>-</u>	<u>3,405,415</u>
Less accumulated depreciation:				
Building & Improvements	148,950	5,867	-	154,817
Other Improvements	6,558	2,504	-	9,062
Machinery & Equipment	1,011,819	50,772	-	1,062,591
Distribution & Collection	842,063	31,570	-	873,633
Total accumulated depreciation	<u>2,009,390</u>	<u>90,713</u>	<u>-</u>	<u>2,100,103</u>
Net capital assets	<u>\$ 1,350,760</u>	<u>\$ (38,448)</u>	<u>\$ -</u>	<u>\$ 1,312,312</u>

## City of Parchment

### Notes to the Financial Statements

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

**Component Unit - DDA**

	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
Capital assets being depreciated:				
Land Improvements	21,300	\$ -	\$ -	21,300
Machinery & Equipment	44,977	35,200	-	80,177
Total capital assets, being depreciated	<u>66,277</u>	<u>35,200</u>	<u>-</u>	<u>101,477</u>
Less accumulated depreciation:				
Land Improvements	1,065	1,065	-	2,130
Machinery & Equipment	9,820	6,844	-	16,664
Total accumulated depreciation	<u>10,885</u>	<u>7,909</u>	<u>-</u>	<u>18,794</u>
Net capital assets	<u>\$ 55,392</u>	<u>\$ 27,291</u>	<u>\$ -</u>	<u>\$ 82,683</u>

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

Governmental Activities:		
General Government		\$ 4,946
Public Works		72,880
Recreation & Culture		19,398
Public Safety		38,683
Total Governmental Activities		<u>\$ 135,907</u>
Business-type Activities:		
Water Fund		\$ 61,145
Sewer Fund		29,568
Total Business-type Activities		<u>\$ 90,713</u>
Component Unit:		
DDA		<u>\$ 7,909</u>

**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.

## City of Parchment

### Notes to the Financial Statements

Long-term obligation activity can be summarized as follows:

	6/30/2011	Additions	Reductions	6/30/2012	Due Within One Year
<b>Governmental Activities:</b>					
Compensated Absences	\$ 141,496	\$ -	\$ 37,734	\$ 103,762	\$ -
Total Governmental Activities	\$ 141,496	\$ -	\$ 37,734	\$ 103,762	\$ -

The City of Parchment is working with River Reach Partners LLC to redevelop the Brownfield site that is the former Crown Vantage property. The City has received a low interest loan in the amount of \$998,289 from the State of Michigan to assist in that redevelopment. The City has spent \$984,138 of the loan and has booked a long-term liability in that amount to reflect the loan payable. The redevelopment is in progress as of June 30, 2012 and the final payment terms of the loan have yet to be established.

#### Accrued Vacation and Sick Leave Payable

The City has accrued liabilities for accumulated vested sick leave benefits. See Note 1 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

## City of Parchment

### Notes to the Financial Statements

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, 2012, the City's annual pension cost of \$53,376 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, 2011, 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.

#### Three Year Trend Information – (Unaudited)

Three year trend information as of December 31, 2011 follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2011	2,495,393	3,060,876	565,483	82%	529,657	107%
12/31/2010	2,457,399	2,771,865	314,466	89%	509,365	62%
12/31/2009	2,383,399	2,665,344	281,945	89%	502,376	56%

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 an 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.

## City of Parchment

### Notes to the Financial Statements

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#### **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, 2012 were \$11,740.

#### **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 2012, the City contributed \$21,127 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.

## City of Parchment

### Notes to the Financial Statements

Annual Required Contribution	\$ 55,634
Interest on Net OPEB Obligation	9,549
Annual OPEB Cost (Expense)	65,183
Less: Contributions Made	21,127
Increase in OPEB Obligation	44,056
 Net OPEB Obligation - Beginning	 168,967
 Net OPEB Obligation - Ending	 \$ 213,023

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 are as follows:

#### Trend Information - OPEB

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	59,363	-	0%	119,363
6/30/2011	57,091	7,487	13%	168,967
6/30/2012	65,183	21,127	32%	213,023

#### Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$514,128, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$514,128. The covered payroll (annual payroll of active employees covered by the plan) was \$534,188 and the ratio of the UAAL to the covered payroll was 96 percent.

	Fiscal Year Ended June 30,		
	2010	2011	2012
Actuarial Value of Assets	\$ -	\$ -	\$ -
Actuarial Accrued Liability (AAL)	499,469	493,525	514,128
Unfunded AAL (UAAL)	499,469	493,525	514,128
Funded Ratio	0%	0%	0%
Covered Payroll	\$ 607,591	\$ 567,761	\$ 534,188
UAAL as a % of Covered Payroll	82%	87%	96%

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

## City of Parchment

### Notes to the Financial Statements

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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, 2012, 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 \$317,100 from the City. In 1994 when Proposal A was enacted, the funding for school districts changed. Industrial Facilities 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 \$317,100 and amount due to State of \$317,100.

## City of Parchment

### Notes to the Financial Statements

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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**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable) Final to Actual
<b>Revenues</b>				
Property Taxes	\$ 756,270	\$ 756,270	\$ 718,010	\$ (38,260)
State Sources	146,000	146,000	263,425	117,425
Licenses & Permits	7,000	7,000	12,863	5,863
Charges for Services	98,120	98,120	104,102	5,982
Fines & Forfeitures	115,400	115,400	122,766	7,366
Interest & Rents	13,400	13,400	--	(13,400)
Other	--	--	48,768	48,768
Investment Income	8,000	8,000	3,675	(4,325)
Proceeds from Loan Payable	--	--	8,217	8,217
<b>Total Revenues</b>	<u>1,144,190</u>	<u>1,144,190</u>	<u>1,281,826</u>	<u>137,636</u>
<b>Other Financing Sources</b>				
<b>Total Revenues and Other Financing Sources</b>	<u>1,144,190</u>	<u>1,144,190</u>	<u>1,281,826</u>	<u>137,636</u>
<b>Expenditures</b>				
Legislative	81,593	311,324	187,018	124,306
Administration	331,541	331,541	301,206	30,335
Police	324,478	324,478	315,012	9,466
Fire	96,065	100,565	73,839	26,726
Public Services	303,731	303,731	298,608	5,123
Parks, Recreation & Culture	90,591	90,591	80,604	9,987
Capital Outlay	5,772	5,772	5,772	--
<b>Total Expenditures</b>	<u>1,233,771</u>	<u>1,468,002</u>	<u>1,262,059</u>	<u>205,943</u>
<b>Other Financing Uses</b>				
<b>Total Expenditures and Other Financing Uses</b>	<u>1,233,771</u>	<u>1,468,002</u>	<u>1,262,059</u>	<u>205,943</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>(89,581)</u>	<u>(323,812)</u>	<u>19,767</u>	<u>343,579</u>
<b>Net Change in Fund Balance</b>	<u>(89,581)</u>	<u>(323,812)</u>	<u>19,767</u>	<u>343,579</u>
<b>Fund Balance at Beginning of Period</b>	104,216	104,216	104,216	--
<b>Fund Balance at End of Period</b>	<u>\$ 14,635</u>	<u>\$ (219,596)</u>	<u>\$ 123,983</u>	<u>\$ 343,579</u>

**City of Parchment**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Major Street**  
**For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable) Final to Actual</u>
<b>Revenues</b>				
State Sources	\$ 82,653	\$ 82,653	\$ 86,450	\$ 3,797
Investment Income	3,000	3,000	3,173	173
<b>Total Revenues</b>	<u>85,653</u>	<u>85,653</u>	<u>89,623</u>	<u>3,970</u>
<b>Other Financing Sources</b>				
<b>Total Revenues and Other Financing Sources</b>	<u>85,653</u>	<u>85,653</u>	<u>89,623</u>	<u>3,970</u>
<b>Expenditures</b>				
Public Works	57,313	57,313	52,440	4,873
Capital Outlay	163,000	163,000	210,969	(47,969)
<b>Total Expenditures</b>	<u>220,313</u>	<u>220,313</u>	<u>263,409</u>	<u>(43,096)</u>
<b>Other Financing Uses</b>				
Transfers to Other Funds	30,000	30,000	30,000	--
<b>Total Expenditures and Other Financing Uses</b>	<u>250,313</u>	<u>250,313</u>	<u>293,409</u>	<u>(43,096)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>(164,660)</u>	<u>(164,660)</u>	<u>(203,786)</u>	<u>(39,126)</u>
<b>Net Change in Fund Balance</b>	<u>(164,660)</u>	<u>(164,660)</u>	<u>(203,786)</u>	<u>(39,126)</u>
<b>Fund Balance at Beginning of Period</b>	311,108	311,108	311,108	--
<b>Fund Balance at End of Period</b>	<u>\$ 146,448</u>	<u>\$ 146,448</u>	<u>\$ 107,322</u>	<u>\$ (39,126)</u>

**City of Parchment**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Local Street**  
**For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable (Unfavorable) Final to Actual</b>
<b>Revenues</b>				
State Sources	\$ 33,095	\$ 33,095	\$ 34,509	\$ 1,414
Investment Income	150	150	283	133
<b>Total Revenues</b>	<u>33,245</u>	<u>33,245</u>	<u>34,792</u>	<u>1,547</u>
<b>Other Financing Sources</b>				
Transfers from Other funds	30,000	30,000	30,000	--
<b>Total Revenues and Other Financing Sources</b>	<u>63,245</u>	<u>63,245</u>	<u>64,792</u>	<u>1,547</u>
<b>Expenditures</b>				
Public Works	59,676	59,676	40,807	18,869
Capital Outlay	31,120	31,120	31,120	--
<b>Total Expenditures</b>	<u>90,796</u>	<u>90,796</u>	<u>71,927</u>	<u>18,869</u>
<b>Other Financing Uses</b>				
<b>Total Expenditures and Other Financing Uses</b>	<u>90,796</u>	<u>90,796</u>	<u>71,927</u>	<u>18,869</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>(27,551)</u>	<u>(27,551)</u>	<u>(7,135)</u>	<u>20,416</u>
<b>Net Change in Fund Balance</b>	<u>(27,551)</u>	<u>(27,551)</u>	<u>(7,135)</u>	<u>20,416</u>
<b>Fund Balance at Beginning of Period</b>	49,551	49,551	49,551	--
<b>Fund Balance at End of Period</b>	<u>\$ 22,000</u>	<u>\$ 22,000</u>	<u>\$ 42,416</u>	<u>\$ 20,416</u>

December 10, 2012

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan, for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 9, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Parchment, Michigan, 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 fiscal year ended June 30, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's selection of actuarial methods and assumptions are based on current personnel policies and estimates of future market performance and annual increases to the cost of healthcare benefits.

*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 each opinion unit's 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 December 10, 2012.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

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

*Gabridge & Company*

Gabridge & Company, PLC  
Grand Rapids, MI

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*

December 10, 2012

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan as of and for the year ended June 30, 2012, which collectively comprise the City of Parchment, Michigan's basic financial statements and have issued our report thereon dated December 10, 2012. 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 of Parchment's internal control over financial reporting 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 of the effectiveness of the City of Parchment's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

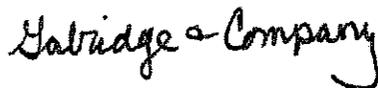
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Parchment'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 management, the City Commission, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in black ink and is positioned above the printed name of the company.

Gabridge & Company, PLC