



CITY OF PARCHMENT
KALAMAZOO COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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



Gabridge & Company, PLC
Grand Rapids, Michigan
December 31, 2015

Management's Discussion and Analysis

As management of the City of Parchment, Michigan (The "City" or "government") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities at the close of the most recent fiscal year by \$2,807,843 (net position). Of this amount, (\$634,561) represents unrestricted net position, which is unavailable to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$36,387, a decrease of \$163,992 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$296,339 or approximately 22% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., accrued but unpaid other postemployment benefits and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from

other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, police and fire protection, streets, health and welfare, community and economic development, and recreation and culture. The business-type activities of the City include water and sewer services.

The government-wide financial statements can be found on pages 12 – 13 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major streets, and local streets funds, which are all considered to be major funds.

The City adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 14 – 17 of this report.

Proprietary Funds. The City maintains one type of proprietary fund, an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprises funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 18 – 20 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City reports one type of fiduciary fund, an agency fund.

The *agency fund* reports resources held by the City in a custodial capacity for individuals, private organizations, and other governments.

The fiduciary fund financial statement can be found on page 21 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 22 – 42 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's budgetary comparison schedules and the City's schedules of funding progress for the pension and retiree healthcare plans.

Required supplementary information can be found on pages 43 – 49 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$2,807,843 at the close of the most recent fiscal year.

City of Parchment Statement of Net Position as of June 30, 2015 and June 30, 2014

	Governmental Activities		Business-type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 7,575	\$ 75,183	\$ 467,856	\$ 366,147	\$ 475,431	\$ 441,330
Investments	78,569	98,569	-	-	78,569	98,569
Taxes Receivable	405	3,398	-	-	405	3,398
Accounts Receivable	34,782	42,701	184,597	201,340	219,379	244,041
Due from State	79,669	48,261	-	-	79,669	48,261
Due from School District	317,100	317,100	-	-	317,100	317,100
Due from Agency Funds	15,514	7,489	-	-	15,514	7,489
Inventory	10,544	3,764	23,393	21,054	33,937	24,818
Total Current Assets	544,158	596,465	675,846	588,541	1,220,004	1,185,006
<i>Noncurrent Assets</i>						
Restricted Cash	-	54,410	-	-	-	54,410
Capital Assets not being Depreciated	1,303,688	1,303,688	7,000	7,000	1,310,688	1,310,688
Capital Assets being Depreciated	2,165,138	2,176,899	1,057,961	1,131,247	3,223,099	3,308,146
Total Assets	4,012,984	4,131,462	1,740,807	1,726,788	5,753,791	5,858,250
DEFERRED OUTFLOWS OF RESOURCES						
Pension	47,700	20,289	17,535	7,459	65,235	27,748
Total Deferred Outflows of Resources	47,700	20,289	17,535	7,459	65,235	27,748
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	183,053	72,599	14,694	16,177	197,747	88,776
Payroll Liabilities	2,443	1,212	626	308	3,069	1,520
Unearned Revenue	-	54,410	-	-	-	54,410
Due to State	317,100	317,100	-	-	317,100	317,100
Current Portion of Long-term Debt	113,495	112,930	-	-	113,495	112,930
Due to Other Agencies	5,175	5,175	-	-	5,175	5,175
Total Current Liabilities	621,266	563,426	15,320	16,485	636,586	579,911
<i>Noncurrent Liabilities</i>						
Compensated Absences	107,705	118,556	-	-	107,705	118,556
Unfunded OPEB Liability	385,610	350,865	-	-	385,610	350,865
Long-term Debt	977,888	993,724	-	-	977,888	993,724
Net Pension Liability	660,559	610,612	242,835	224,474	903,394	835,086
Total Liabilities	2,753,028	2,637,183	258,155	240,959	3,011,183	2,878,142
NET POSITION						
Net Investment in Capital Assets	2,377,443	2,373,933	1,064,961	1,138,247	3,442,404	3,512,180
Restricted	-	15,802	-	-	-	15,802
Unrestricted	(1,069,787)	(875,167)	435,226	355,041	(634,561)	(520,126)
Total Net Position	\$ 1,307,656	\$ 1,514,568	\$ 1,500,187	\$ 1,493,288	\$ 2,807,843	\$ 3,007,856

By far, the largest portion of the City's net position \$3,442,404 reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of (\$634,561) is unrestricted and unavailable be used to meet the government's ongoing obligations to its citizens and creditors.

The City's overall net position decreased \$200,014 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. Governmental activities decreased the City's net position by \$206,913 for the year ended June 30, 2015 compared to a decrease of \$225,370 for the year ended June 30, 2014. The total decrease was consistent with the previous year.

Business-type Activities. Business-type activities increased the City's net position by \$6,889. The total increase is smaller than the previous year when the total increase was \$72,258. This is a result of increasing expenses in the water and sewer funds and a decrease in charges for services in the current year.

City of Parchment
Change in Net Position for Fiscal Years Ended June 30, 2015 and June 30, 2014

	Governmental Activities		Business-type Activities		Total Government	
	2015	2014	2015	2014	2015	2014
Revenue						
Program Revenues						
Charges for Services	\$ 284,959	\$ 294,870	\$ 665,274	\$ 674,273	\$ 950,233	\$ 969,143
Operating Grants & Contributions	203,286	223,374	-	-	203,286	223,374
Capital Grants & Contributions	-	-	-	-	-	-
Total Program Revenues	<u>488,245</u>	<u>518,244</u>	<u>665,274</u>	<u>674,273</u>	<u>1,153,519</u>	<u>1,192,517</u>
General Revenues						
Property Taxes	772,170	748,937	-	-	772,170	748,937
State Revenue Sharing	169,707	146,823	-	-	169,707	146,823
Other Revenue	6,489	24,731	-	8,723	6,489	33,454
Interest Income	5,020	4,188	4,953	6,797	9,973	10,985
Total General Revenues & Transfers	<u>953,386</u>	<u>924,679</u>	<u>4,953</u>	<u>15,520</u>	<u>958,339</u>	<u>940,199</u>
Total Revenues	<u>1,441,631</u>	<u>1,442,923</u>	<u>670,227</u>	<u>689,793</u>	<u>2,111,858</u>	<u>2,132,716</u>
Expenses						
General Government	522,326	532,856	-	-	522,326	532,856
Public Safety	442,768	424,476	-	-	442,768	424,476
Public Works	535,806	521,365	-	-	535,806	521,365
Recreation & Culture	143,953	173,040	-	-	143,953	173,040
Interest on Long-term Debt	3,691	16,556	-	-	3,691	16,556
Water & Sewer Operations	-	-	663,328	617,535	663,328	617,535
Total Expenses	<u>1,648,544</u>	<u>1,668,293</u>	<u>663,328</u>	<u>617,535</u>	<u>2,311,872</u>	<u>2,285,828</u>
Change in Net Position	<u>(206,913)</u>	<u>(225,370)</u>	<u>6,899</u>	<u>72,258</u>	<u>(200,014)</u>	<u>(153,112)</u>
<i>Net Position at the Beginning of Period (Restated - Note 11)</i>	<u>1,514,569</u>	<u>1,739,938</u>	<u>1,493,288</u>	<u>1,421,030</u>	<u>3,007,857</u>	<u>3,160,968</u>
Net Position at the End of Period	<u>\$ 1,307,656</u>	<u>\$ 1,514,569</u>	<u>\$ 1,500,187</u>	<u>\$ 1,493,288</u>	<u>\$ 2,807,843</u>	<u>\$ 3,007,857</u>

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Commission.

At June 30, 2015, the City's governmental funds reported combined fund balances of \$36,387, a decrease of \$163,992 in comparison with the prior year. Approximately \$36,387 of this amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, assigned, or restricted* to indicate that it is not in spendable form (\$10,544 for inventory).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$296,339. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 22 percent of total general fund expenditures.

The fund balance of the City's general fund decreased by \$37,237 during the current fiscal year. The City Council monitors the expenditures of the general fund closely to ensure that spending does not exceed the City's available resources.

The major streets fund, a major fund, had a \$58,245 decrease in fund balance during the current fiscal year which put the overall fund balance at a deficit of \$(232,382). This decrease in fund balance is due to decreased state source revenue.

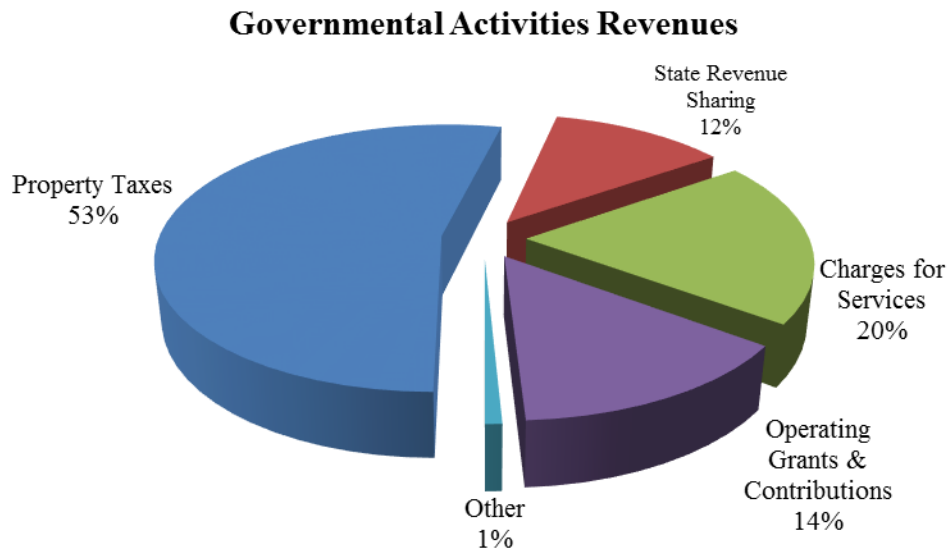
The local streets fund, a major fund, had a \$43,372 decrease in fund balance during the current fiscal year which put the overall fund balance at a deficit of \$(27,570). This decrease resulted as no transfer was given from the general fund as was given in the prior year to cover expenses.

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

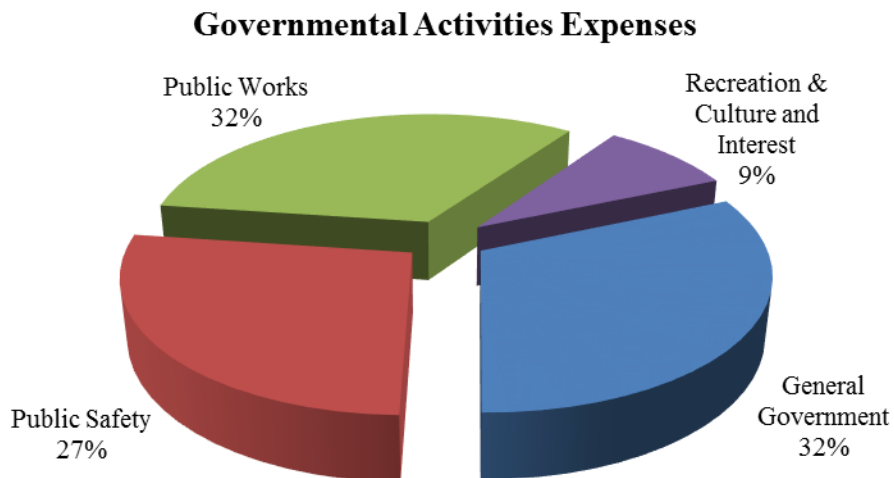
Unrestricted net position at the end of the year was \$162,923 for the water fund and \$272,303 for the sewer fund. The decrease in net position was \$9,983 for the water fund and an increase in net position of \$16,882 for the sewer fund. The change in net position is a result of decreased operating revenues and increased expenditures.

Governmental Activities

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



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



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was a no need for any significant amendments to expenditures or revenues from original budgeted amounts.

Final budget compared to actual results. During the current fiscal year the City had the following expenditures in excess of the appropriated amounts in the general fund:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Administration	\$ 306,220	\$ 370,895	\$ (64,675)
Police	325,960	329,224	(3,264)
Public Services	254,457	283,037	(28,580)

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$4,533,787 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, and water and sewer infrastructure. The following summarizes the City's capital assets:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 1,303,688	\$ 7,000	\$ 1,310,688
Buildings & Improvements	386,264	100,281	486,545
Machinery & Equipment	506,389	183,990	690,379
Infrastructure	1,272,485	-	1,272,485
Water & Sewer System	-	773,690	773,690
Total Capital Assets, Net	<u>\$ 3,468,826</u>	<u>\$ 1,064,961</u>	<u>\$ 4,533,787</u>

The most significant fixed asset additions during the current year include:

- 2014 Ford F-150 \$19,663
- 1995 John Deere Utility Tractor \$13,385

More detailed information about the City's capital assets can be found in note 4.

Long-term Debt

As described in note 6 to the financial statements, the City had \$1,091,383 of debt outstanding as of June 30, 2015, which is a decrease of \$15,271 from the prior year.

Economic Condition and Outlook

Management estimates that \$1,300,000 of revenues will be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to change by small amounts compared to 2015. The City continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2016, the City plans again to use current revenues to provide essential services and to maintain the City's financial reserves at similar levels. The ongoing costs of providing essential services for the citizens of the City will again need to be monitored in order to maintain the financial condition of the City.

Contacting the City

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors, and creditors and to demonstrate the City's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

The City of Parchment
650 South Riverview Drive
Parchment, MI 49004

City of Parchment
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 7,575	\$ 467,856	\$ 475,431
Investments	78,569	--	78,569
Taxes Receivable	405	--	405
Accounts Receivable	34,782	184,597	219,379
Due from State	79,669	--	79,669
Due from School District	317,100	--	317,100
Due from Agency Funds	15,514	--	15,514
Inventories	10,544	23,393	33,937
Total Current Assets	544,158	675,846	1,220,004
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	1,303,688	7,000	1,310,688
Capital Assets being Depreciated	2,165,138	1,057,961	3,223,099
Total Assets	4,012,984	1,740,807	5,753,791
DEFERRED OUTFLOWS OF RESOURCES			
Pension	47,700	17,535	65,235
Total Deferred Outflows of Resources	47,700	17,535	65,235
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	183,053	14,694	197,747
Accrued Payroll & Related Liabilities	2,443	626	3,069
Due to State	317,100	--	317,100
Current Portion of Long-term Debt	113,495	--	113,495
Due to Other Agencies	5,175	--	5,175
Total Current Liabilities	621,266	15,320	636,586
<i>Noncurrent Liabilities</i>			
Long-term Debt	977,888	--	977,888
Compensated Absences	107,705	--	107,705
Unfunded OPEB Liability	385,610	--	385,610
Net Pension Liability	660,559	242,835	903,394
Total Liabilities	2,753,028	258,155	3,011,183
NET POSITION			
Net Investment in Capital Assets	2,377,443	1,064,961	3,442,404
<i>Unrestricted</i>	(1,069,787)	435,226	(634,561)
Total Net Position	\$ 1,307,656	\$ 1,500,187	\$ 2,807,843

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, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 522,326	\$ 146,380	\$ 54,410	\$ --	\$ (321,536)	\$ --	\$ (321,536)
Public Safety	442,768	7,806	--	--	(434,962)	--	(434,962)
Public Works	535,806	101,406	141,468	--	(292,932)	--	(292,932)
Recreation & Culture	143,953	29,367	7,408	--	(107,178)	--	(107,178)
Interest on Long-term Debt	3,691	--	--	--	(3,691)	--	(3,691)
Total Governmental Activities	<u>1,648,544</u>	<u>284,959</u>	<u>203,286</u>	<u>--</u>	<u>(1,160,299)</u>	<u>--</u>	<u>(1,160,299)</u>
Business-type Activities:							
Sewer Fund	304,177	318,032	--	--	--	13,855	13,855
Water Fund	359,151	347,242	--	--	--	(11,909)	(11,909)
Total Business-type Activities	<u>663,328</u>	<u>665,274</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,946</u>	<u>1,946</u>
Total Primary Government	<u>\$ 2,311,872</u>	<u>\$ 950,233</u>	<u>\$ 203,286</u>	<u>\$ --</u>	<u>\$ (1,160,299)</u>	<u>\$ 1,946</u>	<u>\$ (1,158,353)</u>
General Purpose Revenues and Transfers:							
Revenues							
Property Taxes					772,170	--	772,170
State Sources					169,707	--	169,707
Other					6,489	--	6,489
Investment Income					5,020	4,953	9,973
Transfers					--	--	--
Total General Revenues and Transfers					<u>953,386</u>	<u>4,953</u>	<u>958,339</u>
Change in Net Position					(206,913)	6,899	(200,014)
<i>Net Position at Beginning of Period (Restated - Note 11)</i>					1,514,569	1,493,288	3,007,857
Net Position at End of Period					<u>\$ 1,307,656</u>	<u>\$ 1,500,187</u>	<u>\$ 2,807,843</u>

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

**City of Parchment
Balance Sheet
Governmental Funds
June 30, 2015**

	<u>Special Revenue</u>			Total Governmental Funds
	<u>General</u>	<u>Local Street</u>	<u>Major Street</u>	
ASSETS				
Cash & Cash Equivalents	\$ 7,575	\$ --	\$ --	\$ 7,575
Investments	78,569	--	--	78,569
Taxes Receivable	405	--	--	405
Accounts Receivable	34,782	--	--	34,782
Due from State	56,342	8,664	14,663	79,669
Due from School District	317,100	--	--	317,100
Due from Agency Funds	15,514	--	--	15,514
Inventories	--	5,272	5,272	10,544
Due From Other Funds	268,681	--	--	268,681
<i>Total Assets</i>	<u>\$ 778,968</u>	<u>\$ 13,936</u>	<u>\$ 19,935</u>	<u>\$ 812,839</u>
LIABILITIES				
Accounts Payable	\$ 159,294	\$ 7,198	\$ 16,561	\$ 183,053
Accrued Payroll & Related Liabilities	1,060	650	733	2,443
Due to State	317,100	--	--	317,100
Due to Other Agencies	5,175	--	--	5,175
Due to Other Funds	--	33,658	235,023	268,681
<i>Total Liabilities</i>	<u>482,629</u>	<u>41,506</u>	<u>252,317</u>	<u>776,452</u>
FUND BALANCE				
Nonspendable	--	5,272	5,272	10,544
Unassigned	296,339	(32,842)	(237,654)	25,843
<i>Total Fund Balance</i>	<u>296,339</u>	<u>(27,570)</u>	<u>(232,382)</u>	<u>36,387</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 778,968</u>	<u>\$ 13,936</u>	<u>\$ 19,935</u>	<u>\$ 812,839</u>

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 Position
June 30, 2015

Total Fund Balance - Governmental Funds	\$ 36,387
General government capital assets of \$5,640,365 net of accumulated depreciation of \$2,171,539 are not financial resources and accordingly are not reported in the funds.	3,468,826
Long-term liabilities, including the current portion of long-term debt, are not due and payable in the current period and therefore are not reported in the funds.	(1,091,383)
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.	(107,705)
Other post employment benefits are not due and payable in the current period, and therefore, are not reported in the funds.	(385,610)
Net pension liabilities are not reported in the funds.	(660,559)
Deferred outflows from the difference between projected and actual investment earnings of the pension plan as well as City contributions made after the measurement date of the net pension liability are not reported in the funds.	47,700
Total Net Position - Governmental Funds	\$ <u>1,307,656</u>

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, 2015

	<u>Special Revenue</u>			Total Governmental Funds
	<u>General</u>	<u>Local Street</u>	<u>Major Street</u>	
Revenues				
Property Taxes	\$ 772,170	\$ --	\$ --	\$ 772,170
State Sources	224,117	48,662	92,806	365,585
Licenses & Permits	10,767	--	--	10,767
Charges for Services	119,067	--	--	119,067
Fines & Forfeitures	6,625	--	--	6,625
Refunds & Reimbursements	120,000	--	--	120,000
Other	41,799	299	299	42,397
Investment Income	4,995	25	--	5,020
<i>Total Revenues</i>	<u>1,299,540</u>	<u>48,986</u>	<u>93,105</u>	<u>1,441,631</u>
Expenditures				
General Government	471,464	--	--	471,464
Public Safety	414,511	--	--	414,511
Public Works	283,037	57,046	66,890	406,973
Recreation & Culture	121,751	--	--	121,751
Capital Outlay	52,190	35,312	84,460	171,962
Debt Service - Principal	15,271	--	--	15,271
Debt Service - Interest	3,691	--	--	3,691
<i>Total Expenditures</i>	<u>1,361,915</u>	<u>92,358</u>	<u>151,350</u>	<u>1,605,623</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(62,375)</u>	<u>(43,372)</u>	<u>(58,245)</u>	<u>(163,992)</u>
<i>Net Change in Fund Balance</i>	<u>(62,375)</u>	<u>(43,372)</u>	<u>(58,245)</u>	<u>(163,992)</u>
<i>Fund Balance at Beginning of Period</i>	358,714	15,802	(174,137)	200,379
<i>Fund Balance at End of Period</i>	<u>\$ 296,339</u>	<u>\$ (27,570)</u>	<u>\$ (232,382)</u>	<u>\$ 36,387</u>

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, 2015

Total Net Change in Fund Balances - Governmental Funds	\$	(163,992)
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 \$171,962 are in excess of depreciation expense of \$183,723.		(11,761)
Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position.		15,271
Increase in other post employment benefits liability.		(34,745)
Decrease in compensated absences liability.		10,851
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds.		(22,536)
Changes in Net Position - Governmental Funds	\$	<u>(206,913)</u>

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

**City of Parchment
Statement of Net Position
Proprietary Funds
June 30, 2015**

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 297,509	\$ 170,347	\$ 467,856
Accounts Receivable	93,192	91,405	184,597
Inventories	--	23,393	23,393
Total Current Assets	390,701	285,145	675,846
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	--	7,000	7,000
Capital Assets being Depreciated	468,006	589,955	1,057,961
Total Assets	858,707	882,100	1,740,807
DEFERRED OUTFLOWS OF RESOURCES			
Pension	8,674	8,861	17,535
Total Deferred Outflows of Resources	8,674	8,861	17,535
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	6,638	8,056	14,694
Accrued Payroll & Related Liabilities	313	313	626
Total Current Liabilities	6,951	8,369	15,320
<i>Noncurrent Liabilities</i>			
Net Pension Liability	120,121	122,714	242,835
Total Liabilities	127,072	131,083	258,155
NET POSITION			
Net Investment in Capital Assets	468,006	596,955	1,064,961
<i>Unrestricted</i>	272,303	162,923	435,226
Total Net Position	\$ 740,309	\$ 759,878	\$ 1,500,187

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 Position
Proprietary Funds
For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$ 312,721	\$ 331,064	\$ 643,785
Penalties	5,311	10,338	15,649
Hydrant Rental	--	5,840	5,840
Total Operating Revenues	318,032	347,242	665,274
Operating Expenses			
Depreciation	26,686	57,600	84,286
Personnel Services	84,754	147,575	232,329
Supplies	1,232	19,698	20,930
Contractual Services	111,263	54,894	166,157
Utilities	2,133	64,328	66,461
Repairs & Maintenance	2,627	884	3,511
Other	75,482	14,172	89,654
Total Operating Expenses	304,177	359,151	663,328
Operating Income (Loss)	13,855	(11,909)	1,946
Non-Operating Revenues (Expenses)			
Investment Income (Loss)	3,027	1,926	4,953
Net Non-Operating Revenues (Expenses)	3,027	1,926	4,953
Change In Net Position	16,882	(9,983)	6,899
<i>Net Position at Beginning of Period</i>	723,427	769,861	1,493,288
Net Position at End of Period	\$ 740,309	\$ 759,878	\$ 1,500,187

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, 2015**

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 323,608	\$ 358,300	\$ 681,908
Cash Payments to Employees for Services and Fringe Benefits	(80,497)	(143,229)	(223,726)
Cash Payments to Suppliers for Goods and Services	(192,695)	(157,840)	(350,535)
Total Cash Flows from Operating Activities	<u>50,416</u>	<u>57,231</u>	<u>107,647</u>
Cash Flows from Capital and Related Financing Activities			
Purchase of Capital Assets	-	(11,000)	(11,000)
Total Cash Flows from Capital and Related Financing Activities	<u>-</u>	<u>(11,000)</u>	<u>(11,000)</u>
Cash Flows from Investing Activities			
Interest on Investments	3,136	1,926	5,062
Total Cash Flows from Investing Activities	<u>3,136</u>	<u>1,926</u>	<u>5,062</u>
Net Increase (Decrease) in Cash and Equivalents	53,552	48,157	101,709
<i>Cash and Equivalents - Beginning of Year</i>	243,957	122,190	366,147
Cash and Equivalents - End of Year	<u>\$ 297,509</u>	<u>\$ 170,347</u>	<u>\$ 467,856</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income	\$ 13,855	\$ (11,909)	\$ 1,946
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	26,686	57,600	84,286
Changes in Assets & Liabilities			
Accounts Receivable	5,576	11,058	16,634
Inventory	-	(2,339)	(2,339)
Accounts Payable	42	(1,525)	(1,483)
Accrued Payroll & Related Liabilities	159	159	318
Net Pension Liability	4,098	4,187	8,285
Net Cash Provided by Operating Activities	<u>\$ 50,416</u>	<u>\$ 57,231</u>	<u>\$ 107,647</u>

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

City of Parchment
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Agency	
	Payroll	Tax Collection
ASSETS		
Cash & Cash Equivalents	\$ --	\$ 35,308
Investments	--	23,619
Prepaid Expenses	14,756	--
<i>Total Assets</i>	14,756	58,927
LIABILITIES		
Accrued Payroll & Related Liabilities	14,391	--
Due to Other Agencies	--	43,413
Due to General Fund	365	15,514
<i>Total Liabilities</i>	14,756	58,927
NET POSITION		
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

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to governmental 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 City's accounting policies are described below.

Reporting Entity

The City is located in Kalamazoo County, Michigan, and provides services to its residents in many areas including general government, public safety, community & economic development, streets, water, and sewer services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity," these financial statements present the City. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, there are no other units that should be included in the financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. 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.

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 revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Parchment

Notes to the 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, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest 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 assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City of Parchment reports the following major governmental funds:

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.

The ***major streets fund*** accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primary through state sources.

The ***local streets fund*** accounts for the maintenance and improvement activities for streets designated as "local" within the City. Funding is primary through state sources.

The City reports the following major proprietary funds:

The ***sewer fund*** accounts for the activities of the City's sewage collection system and wastewater treatment facilities.

City of Parchment

Notes to the Financial Statements

The *water fund* accounts for the activities of the City's water distribution system.

Additionally, the government reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for asset that the government holds for others in an agency capacity (such as taxes collected for other governments).

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary and Budgetary Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 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.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally enacted through passage of ordinance.
- 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.
- 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.

City of Parchment

Notes to the Financial Statements

- 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 in accordance with state statute.
- 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.

Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and City policy authorize the City to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.
- Obligations of this State or any of its political subdivisions that at the time of purchase are rated at least investment grade by no less than one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by the City.
- Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, as amended.
- Investment pools organized under the Surplus Fund Investment Pool Act, 1982, as amended or under the Local Government Investment Pool Act, 1985, as amended.

City of Parchment

Notes to the Financial Statements

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets and sidewalks and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an estimated useful life in excess of one year and an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the 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.

Capital assets are depreciated using the straight-line method over the following useful lives:

Description	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 Equipment	5 - 25 Years

City of Parchment

Notes to the Financial Statements

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government-wide and proprietary fund financial statements report deferred outflows from the difference between projected and actual investment earnings of the pension plan as well as City contributions made after the measurement date of the net pension liability.

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

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.

Compensated Absences

Employees are allowed receive payments for unused vacation and other compensation depending on employment agreements. Accumulated compensated absences of governmental funds are recorded on the statement of net position and not on the governmental fund balance sheets because the balance is not expected to be liquidated with expendable available financial resources. Compensated absences reported for governmental activities are primarily liquidated from general fund resources.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

City of Parchment

Notes to the Financial Statements

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The *committed fund balance* classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Commission is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the *assigned fund balance* classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Commission, or its designee, is authorized to assign fund balance. The City Commission may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

City of Parchment

Notes to the Financial Statements

Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the City Commission.

Property Tax Revenue Recognition

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.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Subsequent Events

Subsequent events have been evaluated through December 31, 2015, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would have a significant impact on the financial condition of the City.

City of Parchment

Notes to the Financial Statements

Note 2 – Excess of Expenditures Over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2015, the City the following expenditures in excess of the amounts appropriated at the functional level (the legal level of budgetary control adopted by the City Commission):

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Administration	\$ 306,220	\$ 370,895	\$ (64,675)
Police	325,960	329,224	(3,264)
Public Services	254,457	283,037	(28,580)
Major Streets			
Routine Maintenance	75,741	97,930	(22,189)
Local Streets			
Routine Maintenance	25,908	48,492	(22,584)

Deficit Fund Equity

The City has a deficit fund balance in the major streets and local streets funds which will be eliminated with future revenues.

City of Parchment

Notes to the Financial Statements

Note 3 – Cash and Investments

Following is a reconciliation of deposit balances as of June 30, 2015:

	Primary Government
Statement of Net Position	
Cash & Investments	\$ 554,000
Statement of Fiduciary Net Position	
Cash & Investments	58,927
Total Deposits and Investments	612,927
Deposits and Investments	
Cash & Cash Equivalents	\$ 312,509
Certificates of Deposit	256,438
Investments	43,780
Cash on Hand	200
Total	\$ 612,927

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City’s deposits might not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$29,750 of the City’s bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City’s investment policy does not have specific limits in excess of state law on investment credit risk.

Credit risk ratings, where applicable, are summarized as follows:

	Market Value	Credit Rating (SP)
Federal Home Loan Bank Bonds	\$ 43,780	AA+

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City’s investment policy does not have specific limits in excess of state

City of Parchment

Notes to the Financial Statements

law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates are as follows:

Maturity	Certificates of Deposit	Investments
1 Year	\$ 113,702	\$ -
1 - 5 Years	97,874	-
Over 5 Years	44,862	43,780
	\$ 256,438	\$ 43,780

Note 4 – Capital Assets

Capital asset activity for governmental activities during the year was as follows:

Governmental Activities	Balance at June 30, 2014	Additions	Disposals	Balance at June 30, 2015
Capital assets not being depreciated				
Land	\$ 1,303,688	\$ -	\$ -	\$ 1,303,688
Capital assets being depreciated				
Buildings & Improvements	671,226	-	-	671,226
Machinery & Equipment	1,950,130	52,190	18,390	1,983,930
Infrastructure	1,561,750	119,772	-	1,681,522
Total capital assets, being depreciated	4,183,106	171,962	18,390	4,336,678
Less accumulated depreciation				
Buildings & Improvements	273,066	11,896	-	284,962
Machinery & Equipment	1,392,167	103,764	18,390	1,477,541
Infrastructure	340,974	68,063	-	409,037
Total accumulated depreciation	2,006,207	183,723	18,390	2,171,540
Net capital assets	\$ 3,480,587	\$ (11,761)	\$ -	\$ 3,468,826

City of Parchment

Notes to the Financial Statements

Capital asset activity for business-type activities during the year was as follows:

Business-type Activities	Balance at June 30, 2014	Additions	Disposals	Balance at June 30, 2015
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	1,353,884	11,000	-	1,364,884
Distribution & Collection	1,629,569	-	-	1,629,569
Total capital assets, being depreciated	3,416,415	11,000	-	3,407,015
Less accumulated depreciation				
Building & Improvements	166,508	5,845	-	172,353
Other Improvements	11,208	250	-	11,458
Machinery & Equipment	1,140,535	40,359	-	1,180,894
Distribution & Collection	946,517	37,832	-	984,349
Total accumulated depreciation	2,264,768	84,286	-	2,349,054
Net capital assets	\$ 1,138,247	\$ (73,286)	\$ -	\$ 1,064,961

Depreciation expense was charged to governmental functions of the City as follows:

Governmental Activities	
General Government	\$ 4,431
Public Works	128,833
Recreation & Culture	22,202
Public Safety	28,257
Total Governmental Activities	\$ 183,723
Business-type Activities	
Water Fund	\$ 57,600
Sewer Fund	26,686
Total Business-type Activities	\$ 84,286
Component Unit	
DDA	\$ 11,751

City of Parchment

Notes to the Financial Statements

Note 5 – Interfund Balances & Interfund Transfers

As of June 30, 2015, the interfund balances for negative cash were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Major Street	\$ 235,023
General	Local Street	33,658

Interfund balances resulted primarily from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Interfund transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 6 – Long-term Debt

The following is a summary of long-term debt activity of the City for the year ended June 30, 2015:

	<u>Maturity</u>	<u>Interest Rate</u>	<u>6/30/2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2015</u>	<u>Due Within One Year</u>
Governmental Activities							
MDEQ Brownfield Loan	2024	1.50%	\$ 998,289	\$ -	\$ -	\$ 998,289	\$ 97,659
2014 Note Payable	2021	3.64%	108,366	-	15,271	93,095	15,836
Total Long-term Debt			<u>1,106,655</u>	<u>-</u>	<u>15,271</u>	<u>1,091,384</u>	<u>113,495</u>
Compensated Absences			118,556	-	-	118,556	-
Total Governmental Activities			<u>\$1,225,211</u>	<u>\$ -</u>	<u>\$ 15,271</u>	<u>\$1,209,940</u>	<u>\$ 113,495</u>

Annual debt service requirements, exclusive of compensated absences, to maturity are as follows:

<u>June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	197,645	16,636	214,281
2017	101,834	14,787	116,621
2018	103,724	12,898	116,622
2019	105,654	10,967	116,621
2020	107,628	8,994	116,622
2021-2025	474,899	21,298	496,197
Totals	<u>\$ 1,091,384</u>	<u>\$ 85,580</u>	<u>\$ 1,176,964</u>

City of Parchment

Notes to the Financial Statements

Note 7 – Defined Benefit Pension Plan

Plan Description

The City's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The City's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the City. MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Benefits Provided

The Plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The MERS plan covers full-time employees at the. Retirement benefits for employees are calculated as 2.00% of the employee's five year final average compensation times the employee's years of service with no maximum percent of final average compensation. Normal retirement age is 60 with early retirement at an unreduced benefit at age 50 with 25 years of service or a reduced benefit at age 55 with 15 years of service. Deferred retirement benefits vest after 10 years of credited service, but are not paid until the date retirement would have occurred had the member remained an employee.

Employees Covered by Benefit Terms

At the December 31, 2014 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	14
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>7</u>
Total employees covered by MERS	<u>22</u>

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by

City of Parchment

Notes to the Financial Statements

the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2015, the average active employee contribution rate was 4.7 percent of annual pay and the City's average contribution rate was 17.7 percent of annual payroll.

Net Pension Liability

The net pension liability reported at June 30, 2015 was determined using a measure of the total pension liability and the pension net position as of December 31, 2014. The December 31, 2014 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2013	\$ 3,068,880	\$ 2,233,795	\$ 835,085
Service cost	27,687	-	27,687
Interest	245,204	-	245,204
Contributions - Employer	-	56,620	(56,620)
Contributions - Employee	-	15,009	(15,009)
Net investment income	-	137,991	(137,991)
Benefit payments, including refunds	(221,101)	(221,101)	-
Administrative expenses	-	(5,039)	5,039
Net changes	51,790	(16,520)	68,310
Balance at December 31, 2014	\$ 3,120,670	\$ 2,217,275	\$ 903,395

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

For the year ended June 30, 2015, the City recognized pension expense of \$30,821. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

City of Parchment

Notes to the Financial Statements

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 31,940	\$ -
Employer contributions to the plan subsequent to the measurement date	33,295	-
Total	\$ 65,235	\$ -

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2016	\$ 7,985
2017	7,985
2018	7,985
2019	7,985

Actuarial Assumptions

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 - 4%	
Salary increases	4.5%	In the long-term, 2 percent, and 3 percent for calendar years 2015, and 2016, respectively, including inflation
Investment rate of return	8.00%	Gross of pension plan investment expense, including inflation

Mortality rates were based on the 1994 Group Annuity Mortality Table of a 50 percent male and 50 percent female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study in 2008.

City of Parchment

Notes to the Financial Statements

Discount Rate

The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2014, the measurement date, for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	58%	5.0%
Global fixed income	20%	2.2%
Real assets	12%	4.2%
Diversifying strategies	10%	6.6%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 8.25 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent) or one percentage point higher (9.25 percent) than the current rate:

	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
Net pension liability of the City	\$ 1,201,262	\$ 903,395	\$ 644,978

City of Parchment

Notes to the Financial Statements

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report found at www.mersofmichigan.com. The plan's fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 8 – Other Post-employment Benefits

Plan Description

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.

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 2015, the City contributed \$30,921 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 and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

City of Parchment

Notes to the Financial Statements

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual Required Contribution	\$ 64,378
Interest on Net OPEB Obligation	1,288
Annual OPEB Cost (Expense)	<u>65,666</u>
Less: Contributions Made	<u>30,921</u>
Increase in OPEB Obligation	34,745
Net OPEB Obligation - Beginning	<u>350,865</u>
Net OPEB Obligation - Ending	<u>\$ 385,610</u>

Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$548,684, all of which was unfunded. The covered payroll (annual payroll of the active employees covered by the Plan) was not available and the ratio of the UAAL to the covered payroll was unknown as well.

The projection of future benefit payments for an ongoing plan involves 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the personnel policy currently in place. In the June 30, 2015, 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 9 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The risks of loss arising from general liability,

City of Parchment

Notes to the Financial Statements

property and casualty, and workers' compensation are managed through purchased commercial insurance.

Note 10 – 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 Position includes an account receivable from the School District for \$317,100 and amount due to State of \$317,100.

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.

City of Parchment

Notes to the Financial Statements

Note 11 – Prior Period Adjustments

During the current year, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the government-wide statements and the proprietary funds now include a liability for the City's unfunded legacy costs. Some of the changes in this net pension liability will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. Refer to the pension note for further details. This change does not impact the general fund or any other governmental fund.

The financial statements for the year ended June 30, 2014 have been restated in order to adopt GASB Statement No. 68. The effect of this new accounting standard was a decrease in net position to record the net pension liability at June 30, 2014.

The following summarizes the net effect of the prior period adjustment:

	Governmental Activities	Business-type Activities
Net Position - June 30, 2014 - As previously reported	\$ 2,104,891	\$ 1,710,303
Adjustment for implementation of GASB Sttement No. 68	<u>(590,322)</u>	<u>(217,015)</u>
Net position - June 30, 2014 - As restated	<u>\$ 1,514,569</u>	<u>\$ 1,493,288</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Parchment
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Property Taxes	\$ 769,583	\$ 769,583	\$ 772,170	\$ 2,587
State Sources	180,072	180,072	224,117	44,045
Licenses & Permits	8,000	8,000	10,767	2,767
Charges for Services	140,250	140,250	119,067	(21,183)
Fines & Forfeitures	5,300	5,300	6,625	1,325
Refunds & Reimbursements	128,000	128,000	120,000	(8,000)
Other	57,000	57,000	41,799	(15,201)
Investment Income	4,000	4,000	4,995	995
Total Revenues	<u>1,292,205</u>	<u>1,292,205</u>	<u>1,299,540</u>	<u>7,335</u>
Expenditures				
General Government				
Legislative	225,250	225,250	100,569	124,681
Administration	306,220	306,220	370,895	(64,675)
Total General Government	<u>531,470</u>	<u>531,470</u>	<u>471,464</u>	<u>60,006</u>
Public Safety				
Police	325,960	325,960	329,224	(3,264)
Fire	94,403	94,403	85,287	9,116
Total Public Safety	<u>420,363</u>	<u>420,363</u>	<u>414,511</u>	<u>5,852</u>
Public Works	254,402	254,457	283,037	(28,580)
Recreation & Culture	185,299	185,299	121,751	63,548
Capital Outlay	53,000	53,000	52,190	810
Debt Service	18,963	18,963	18,962	1
Total Expenditures	<u>1,463,497</u>	<u>1,463,552</u>	<u>1,361,915</u>	<u>101,637</u>
Excess (Deficiency) of Revenues				
Over Expenditures	(171,292)	(171,347)	(62,375)	108,972
Net Change in Fund Balance	<u>(171,292)</u>	<u>(171,347)</u>	<u>(62,375)</u>	<u>108,972</u>
<i>Fund Balance at Beginning of Period</i>	358,714	358,714	358,714	--
Fund Balance at End of Period	<u>\$ 187,422</u>	<u>\$ 187,367</u>	<u>\$ 296,339</u>	<u>\$ 108,972</u>

City of Parchment
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Street
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
State Sources	\$ 35,398	\$ 35,398	\$ 48,662	\$ 13,264
Other	--	--	299	299
Investment Income	75	75	25	(50)
Total Revenues	<u>35,473</u>	<u>35,473</u>	<u>48,986</u>	<u>13,513</u>
Other Financing Sources				
Transfers In	22,000	22,000	--	(22,000)
Total Revenues and Other Financing Sources	<u>57,473</u>	<u>57,473</u>	<u>48,986</u>	<u>(8,487)</u>
Expenditures				
Routine Maintenance	25,908	25,908	48,491	(22,583)
Traffic Services	16,074	16,074	12,665	3,409
Winter Maintenance	33,055	33,055	29,360	3,695
Administration	3,678	3,678	1,842	1,836
Total Expenditures	<u>78,715</u>	<u>78,715</u>	<u>92,358</u>	<u>(13,643)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	<u>(21,242)</u>	<u>(21,242)</u>	<u>(43,372)</u>	<u>(22,130)</u>
Net Change in Fund Balance	<u>(21,242)</u>	<u>(21,242)</u>	<u>(43,372)</u>	<u>(22,130)</u>
Fund Balance at Beginning of Period	15,802	15,802	15,802	--
Fund Balance at End of Period	<u>\$ (5,440)</u>	<u>\$ (5,440)</u>	<u>\$ (27,570)</u>	<u>\$ (22,130)</u>

City of Parchment
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Street
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
State Sources	\$ 35,398	\$ 35,398	\$ 48,662	\$ 13,264
Other	--	--	299	299
Investment Income	75	75	25	(50)
Total Revenues	<u>35,473</u>	<u>35,473</u>	<u>48,986</u>	<u>13,513</u>
Other Financing Sources				
Transfers In	22,000	22,000	--	(22,000)
Total Revenues and Other Financing Sources	<u>57,473</u>	<u>57,473</u>	<u>48,986</u>	<u>(8,487)</u>
Expenditures				
Routine Maintenance	25,908	25,908	48,491	(22,583)
Traffic Services	16,074	16,074	12,665	3,409
Winter Maintenance	33,055	33,055	29,360	3,695
Administration	3,678	3,678	1,842	1,836
Total Expenditures	<u>78,715</u>	<u>78,715</u>	<u>92,358</u>	<u>(13,643)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	<u>(21,242)</u>	<u>(21,242)</u>	<u>(43,372)</u>	<u>(22,130)</u>
Net Change in Fund Balance	<u>(21,242)</u>	<u>(21,242)</u>	<u>(43,372)</u>	<u>(22,130)</u>
<i>Fund Balance at Beginning of Period</i>	15,802	15,802	15,802	--
Fund Balance at End of Period	<u>\$ (5,440)</u>	<u>\$ (5,440)</u>	<u>\$ (27,570)</u>	<u>\$ (22,130)</u>

City of Parchment
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Fiscal Year (Schedule is built prospectively upon implementation of GASB 68)

	2015
Total Pension Liability	
Service Cost	\$ 27,687
Interest	245,204
Benefit Payments, Including Refunds	(221,101)
<i>Net Change in Pension Liability</i>	51,790
<i>Total Pension Liability - Beginning</i>	3,068,880
<i>Total Pension Liability - Ending (a)</i>	\$ 3,120,670
 Plan Fiduciary Net Position	
Contributions - Employer	\$ 56,620
Contributions - Member	15,009
Net Investment Income	137,991
Benefit Payments, Including Refunds	(221,101)
Administrative Expenses	(5,039)
<i>Net Change in Plan Fiduciary Net Position</i>	(16,520)
<i>Plan Fiduciary Net Position - Beginning</i>	2,233,795
<i>Plan Fiduciary Net Position - Ending (b)</i>	\$ 2,217,275
 <i>Net Pension Liability - Ending (a) - (b)</i>	\$ 903,395
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	71.05%
 Covered Employee Payroll	\$ 319,346
 Net Pension Liability as a Percentage of Covered Employee Payroll	282.89%

City of Parchment
Required Supplementary Information
Schedule of Contributions
Last 10 Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially Determined Contribution	\$ 56,620	\$ 45,910	\$ 24,330	\$ 32,526	\$ 40,698	\$ 27,113	\$ 29,638	\$ 30,813	\$ 28,024	\$ 22,041
Contributions in Relation to the Actuarially Determined Contribution	<u>56,620</u>	<u>45,910</u>	<u>24,330</u>	<u>32,526</u>	<u>40,698</u>	<u>27,113</u>	<u>29,638</u>	<u>30,813</u>	<u>28,024</u>	<u>22,041</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	319,346	309,877	316,188	303,188	509,365	502,376	522,068	501,840	491,139	N/A
Contributions as a Percentage of Covered Employee Payroll	18%	15%	8%	11%	8%	5%	6%	6%	6%	N/A

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry-age Normal
Amortization method	Level percentage of pay, open
Remaining amortization period	18 - 24 Years Division Specific
Asset valuation method	10-year smoothed
Inflation	3 - 4%
Salary increases	4.5%, including inflation
Investment rate of return	8.25%
Retirement Age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Male - 50% Female blend of the 1994 Group Annuity Mortality Table

**City of Parchment
 Required Supplementary Information
 Schedule of Investment Returns
 Last 10 Fiscal Years**

	Information Unavailable									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Annual money-weighted rate of return, net of investment expenses	6.49%	0%	0%	0%	0%	0%	0%	0%	0%	0%

City of Parchment
Retiree Healthcare Single-Employer Defined Benefit Healthcare Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2013	\$ -	\$ 534,421	\$ 534,421	0%	\$ 316,188	169%
6/30/2014	-	541,553	541,553	0%	309,877	175%
6/30/2015	-	548,684	548,684	0%	319,346	172%

December 31, 2015

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, each major fund, and the aggregate remaining fund information of the City of Parchment, Michigan (the "City") for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, 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 21, 2015. 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 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 2015. We noted no transactions entered into by the City 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 estimate(s) affecting the City's financial statements was:

- Management's estimate of the current year capital asset depreciation expense is based on the estimated useful lives of the City's capital assets. We evaluated the key factors and assumptions used to develop the current year capital asset depreciation expense in determining that the depreciation expense, and ending net book value of the underlying assets, are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences and the related pay rates as of June 30, 2015.

- Management’s assumptions used to calculate the actuarial report and the net present value of post employment benefits for its defined benefit pension and healthcare plans.

The financial statement disclosures are neutral, consistent, and clear.

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 clearly 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, a disagreement with management is 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 31, 2015.

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 City’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 City’s auditors.

However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, the pension schedules, and the budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified a deficiency in internal control that we consider to be a material weakness.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies to be material weaknesses:

Material audit adjustments and financial statement preparation:

Criteria: All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the management. The preparation of financial statements in accordance with GAAP requires internal controls over both; (1) recording, processing, and

summarizing accounting data (i.e. maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).

Condition: We identified and proposed several material audit adjustments that management reviewed and approved.

As is the case with many small and medium-sized governmental units, the City has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the City's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the City's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

Cause: This condition was caused by the City's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the City to perform this task internally because outsourcing the task is considered more cost effective.

Effect: The City's accounting records were initially misstated by amounts material to the financial statements. In addition, the City lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

Auditor's Recommendation: We recommend that management continue to monitor the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the City's annual financial statements versus contracting with its auditor for these services.

Management Response: Management has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. Management will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Reconciliation of key balance sheet accounts:

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the City. A key element of internal control is the monitoring and reconciling of financial data within the accounting function.

Condition: The City has balance sheet accounts that are only reconciled at year end as part of the audit (by the auditors). These areas include cash, accounts receivable, accounts payable, fund balance and fixed assets. Accordingly, the City's ability to prepare financial statements with reconciled balance sheet accounts is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Cause: This condition is a result of the lack of documented control policies and procedures at the City.

Effect: As a result of this condition, the City is susceptible to misstatements (whether caused by error or fraud) that may occur and not be prevented or detected and corrected by management on a timely basis.

Auditor's Recommendation: We recommend developing policies and procedures for reconciling cash, accounts payable, accounts receivable, fund balance and fixed assets (at least quarterly) to the general ledger. These policies and procedures should require involvement of a second responsible person as part of the review/monitoring process.

Management Response: The City concurs with this finding. The City will be working with the auditor to put reconciliation procedures in place.

We did not audit the City's responses to the internal control findings described above and, accordingly, we express no opinions on them.

Restriction on Use

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

Very truly yours,



Gabridge & Company, PLC
Grand Rapids, MI