

**CITY OF PARCHMENT
KALAMAZOO COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013**



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INDEPENDENT AUDITORS' REPORT

To the 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 remaining fund information of City of Parchment, Michigan, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Parchment, Michigan, as of June 30, 2013, 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, schedule of funding progress, and budgetary comparison schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of the City of Parchment, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Parchment, Michigan's internal control over financial reporting and compliance.



Gabridge & Company, PLC
Grand Rapids, MI
December 12, 2013

Management's Discussion and Analysis

As management of the City of Parchment, we offer readers of the City of Parchment's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

The assets of the City exceeded its liabilities at the close of this fiscal year by \$3,968,306 (shown as *Net Position*), representing an increase of \$56,049 over the previous fiscal year. Of this amount, \$217,412 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the City received \$2,039,701 in revenues and \$1,983,652 in expenses, resulting in an increase in net position of approximately \$357,015. Of the City's \$1,983,652 expense total, \$597,158 related to business-type expenses and the balance of \$1,386,494 related to governmental activities.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$383,151 or 31 percent of the General Fund's total expenditures.

Overview of the Financial Statements

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

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

The *Statement of Net Position* presents information on all of the City's assets and liabilities, the difference between the two being reported as the net position of the City. Over time, increases or decreases in net position can serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave, prepaid expenses, etc.).

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

Focus on Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Parchment uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the City's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the government fund balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the City include the General Fund as well as the special revenue funds.

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

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

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

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other Information

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Parchment, assets exceeded liabilities by \$3,667,340 at the close of the most recent fiscal year. The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net position.

City of Parchment
Net Position as of June 30, 2013 and June 30, 2012

	Governmental Activities		Business-type Activities		Total Government	
	2013	2012	2013	2012	2013	2012
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 112,392	\$ 103,600	\$ 63,214	\$ 15,591	\$ 175,606	\$ 119,191
Investments	273,364	181,998	160,925	77,701	434,289	259,699
Taxes Receivable	21,794	14,349	-	-	21,794	14,349
Special Assessment Receivable	-	-	1,276	1,148	1,276	1,148
Accounts Receivable	83,656	41,756	185,999	191,650	269,655	233,406
Grants Receivable	-	-	-	-	-	-
Due From State	47,421	43,935	-	-	47,421	43,935
Due From School District	317,100	317,100	-	-	317,100	317,100
Due From Agency Fund	5,873	5,912	-	-	5,873	5,912
Inventories	10,982	13,010	22,144	18,522	33,126	31,532
Total Current Assets	872,582	721,660	433,558	304,612	1,306,140	1,026,272
<i>Noncurrent Assets</i>						
Restricted Cash	102,397	102,367	-	-	102,397	102,367
Special Assessment Receivable	-	-	2,763	5,250	2,763	5,250
Capital Assets (Net)	3,337,664	3,068,254	1,222,907	1,312,312	4,560,571	4,380,566
Total Assets	4,312,643	3,892,281	1,659,228	1,622,174	5,971,871	5,514,455
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	169,925	120,327	16,409	28,228	186,334	148,555
Accrued Liabilities	1,683	450	-	-	1,683	450
Accrued Payroll & Related Liabilities	25,051	17,798	4,774	4,351	29,825	22,149
Unearned Revenue	102,397	101,545	-	-	102,397	101,545
Due to State	317,100	317,100	-	-	317,100	317,100
Due to Other Agencies	17,957	12,442	-	-	17,957	12,442
Current Portion of Long-term Debt	97,659	-	-	-	97,659	-
Total Current Liabilities	731,772	569,662	21,183	32,579	752,955	602,241
<i>Noncurrent Liabilities</i>						
Long-term Debt	886,479	984,138	-	-	886,479	984,138
Compensated Absences	101,890	103,762	-	-	101,890	103,762
Unfunded OPEB Liability	262,241	213,023	-	-	262,241	213,023
Total Liabilities	1,982,382	1,870,585	21,183	32,579	2,003,565	1,903,164
NET POSITION						
Net Investment in Capital Assets	2,353,526	2,084,116	1,222,907	1,312,312	3,576,433	3,396,428
<i>Restricted for:</i>						
Major & Local Streets	9,247	149,738	-	-	9,247	149,738
<i>Unrestricted</i>	(32,512)	(212,158)	415,138	277,283	382,626	65,125
Total Net Position	\$ 2,330,261	\$ 2,021,696	\$ 1,638,045	\$ 1,589,595	\$ 3,968,306	\$ 3,611,291

The most significant portion of the City's net position is invested in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt which is outstanding that the City used to acquire or construct the asset. The City has \$382,626 in unrestricted net position. These assets represent resources that are available for appropriation, but are limited by the City policies regarding their use.

The total net position of the City increased \$357,015 in this fiscal year. The following table illustrates and summarizes the results of the changes in the net position for the City. The condensed information was derived from the Government-wide Statement of Activities.

City of Parchment
Change in Net Position for Fiscal Year Ended June 30, 2013 and June 30, 2012

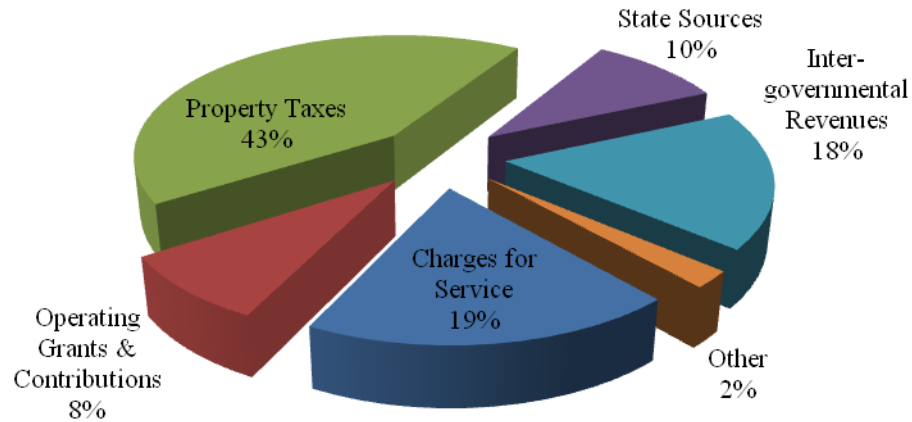
	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenue						
Program Revenues						
Charges for Services	\$ 321,604	\$ 250,673	\$ 643,884	\$ 533,542	\$ 965,488	\$ 784,215
Grants & Contributions	145,692	235,143	-	-	145,692	235,143
Total Program Revenues	467,296	485,816	643,884	533,542	1,111,180	1,019,358
General Revenues						
Property Taxes & Assessments	726,396	718,010	-	-	726,396	718,010
State Revenue Sharing	163,725	172,065	-	-	163,725	172,065
Unrestricted Investment Earnings	3,507	7,131	1,724	2,232	5,231	9,363
Other	33,169	41,068	-	-	33,169	41,068
Intergovernmental Revenue	300,966	-	-	-	300,966	-
Total Revenues	1,695,059	1,424,090	645,608	535,774	2,340,667	1,959,864
Expenses						
General Government	339,363	445,587	-	-	339,363	445,587
Public Safety	441,341	449,784	-	-	441,341	449,784
Public Works	479,690	464,735	-	-	479,690	464,735
Recreation & Culture	126,100	137,223	-	-	126,100	137,223
Water & Sewer	-	-	597,158	571,332	597,158	571,332
Total Expenses	1,386,494	1,497,329	597,158	571,332	1,983,652	2,068,661
Change in Net Position	308,565	(72,864)	48,450	(35,558)	357,015	(108,422)
<i>Net Position at Beginning of Period</i>	2,021,696	2,094,560	1,589,595	1,625,153	3,611,291	3,719,713
Net Position at End of Period	\$ 2,330,261	\$ 2,021,696	\$ 1,638,045	\$ 1,589,595	\$ 3,968,306	\$ 3,611,291

The City dissolved its Downtown Development Authority on June 30, 2013. This led to a one-time intergovernmental revenue of \$300,966 into the governmental activities, as the Downtown Development Authority's resources belonged to the General Fund up dissolution.

Governmental Activities

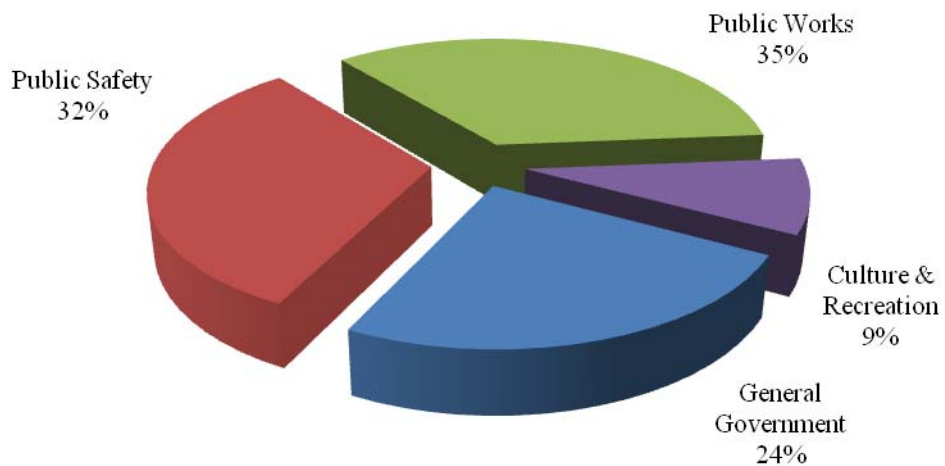
The following chart details the revenue sources for the governmental activities of the City for the most recent fiscal year end:

Governmental Activities Revenues



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

Governmental Activities Expenses



Financial Analysis of the Government's Funds

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

Governmental Activities At the completion of the City's fiscal year, its governmental funds reported fund balances of \$313,589. Of this amount, \$383,151 is unassigned.

General Fund The General Fund is the main operating fund of the City. The General Fund increased its fund balance in this fiscal year by \$302,552, bringing the balance to \$383,151.

Major Street Fund The fund balance of the Major Street Fund at the most recent fiscal year end was (\$78,809). This was a decrease of \$186,131 from the previous fiscal year end.

Local Street Fund The fund balance of the Local Street Fund at the most recent fiscal year end was \$9,247. This was a decrease of \$33,169 from the previous fiscal year end.

Business-type Activities

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

Unrestricted net position of the Water Fund and Sewer Fund at the end of the year amounted to \$178,709 and \$236,429, respectively. The Water and Sewer Fund had an increase in net position for the year of \$27,367 and \$21,083, respectively.

General Fund Budgetary Highlights

Over the course of the year, the City Council monitors and amends the budget to account for unanticipated events during the year. There were no significant changes between the original and final amended budget. During the current fiscal year, the City had the following General Fund budget exceptions:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Legislative	\$ 48,351	\$ 54,175	\$ (5,824)
Police	293,439	305,309	(11,870)

Capital Asset and Debt Administration

The City of Parchment is working with River Reach Partners LLC to redevelop the Brownfield site that is the former Crown Vantage property. The City has received grant funds in the amount of \$905,897, and a low interest loan in the amount of \$998,289 from the State of Michigan to assist in that redevelopment. The City has spent \$984,138 of the loan and has booked a long-term liability in that amount to reflect the loan payable. The City has spent \$817,651 of the grant

funds. There is also an unearned revenue of \$102,397, representing grant and debt proceeds received that were not spent as of June 30, 2013.

Capital Assets The City's investment in capital assets for the governmental and business-type activities at year end amounted to \$4,560,571 (net of accumulated depreciation). This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for implementation of GASB statement 34. Capital assets as stated in the annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in the past year has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather all of the required information, GASB has allowed cities to comply with this portion of statement 34 over a number of years.

Additional information can be found in the Notes to the Financial Statement section of this document.

Long-term Debt At the end of the current fiscal year, the City had total debt outstanding, exclusive of compensated absences, of \$984,138. The entire amount comprises debt backed by the full faith and credit of the City.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The current debt limitation based on the City's assessed valuation is significantly in excess of the City's outstanding general obligation debt of \$984,138.

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

Economic Factors and Next Year's Budgets and Rates

While state shared revenues have been lower in recent years and negatively impacted provision of general government services, including street maintenance, these revenues have at least leveled off. Hopefully real property values will also stabilize and even improve, which affect local property tax collections used for provision of basic services. Looking ahead, we will continue to balance the budgets with tight controls over spending, while striving to provide the City's residents with the same level of service to which they have been accustomed.

Contacting the City's Finance Department

This Financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the City of Parchment, City Clerk, 650 S. Riverview Drive, Parchment, MI 49004 or call (269) 349-3785.

BASIC FINANCIAL STATEMENTS

City of Parchment
Statement of Net Position
June 30, 2013

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 112,392	\$ 63,214	\$ 175,606
Investments	273,364	160,925	434,289
Taxes Receivable	21,794	--	21,794
Special Assessment Receivable	--	1,276	1,276
Accounts Receivable	83,656	185,999	269,655
Due from State	47,421	--	47,421
Due from School District	317,100	--	317,100
Due from Agency Funds	5,873	--	5,873
Inventories	10,982	22,144	33,126
Total Current Assets	872,582	433,558	1,306,140
<i>Noncurrent Assets</i>			
Restricted Cash	102,397	--	102,397
Special Assessment Receivable	--	2,763	2,763
Land	1,303,688	7,000	1,310,688
Depreciable Capital Assets, net	2,033,976	1,215,907	3,249,883
Total Assets	4,312,643	1,659,228	5,971,871
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	169,925	16,409	186,334
Accrued Liabilities	1,683	--	1,683
Accrued Payroll & Related Liabilities	25,051	4,774	29,825
Unearned Revenue	102,397	--	102,397
Due to State	317,100	--	317,100
Current Portion of Long-term Debt	97,659	--	97,659
Due to Other Agencies	17,957	--	17,957
Total Current Liabilities	731,772	21,183	752,955
<i>Noncurrent Liabilities</i>			
Long-term Debt	886,479	--	886,479
Compensated Absences	101,890	--	101,890
Unfunded OPEB Liability	262,241	--	262,241
Total Liabilities	1,982,382	21,183	2,003,565
NET POSITION			
Net Investment in Capital Assets	2,353,526	1,222,907	3,576,433
<i>Restricted for:</i>			
Major & Local Streets	9,247	--	9,247
<i>Unrestricted</i>	(32,512)	415,138	382,626
Total Net Position	\$ 2,330,261	\$ 1,638,045	\$ 3,968,306

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, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Unit DDA
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 339,363	\$ 138,007	\$ 9,502	\$ --	\$ (191,854)	\$ --	\$ (191,854)	\$ --
Public Safety	441,341	9,744	--	--	(431,597)	--	(431,597)	--
Public Works	479,690	133,851	124,592	--	(221,247)	--	(221,247)	--
Recreation & Culture	126,100	40,002	11,598	--	(74,500)	--	(74,500)	--
<i>Total Governmental Activities</i>	<u>1,386,494</u>	<u>321,604</u>	<u>145,692</u>	<u>--</u>	<u>(919,198)</u>	<u>--</u>	<u>(919,198)</u>	<u>--</u>
Business-type Activities:								
Sewer Fund	278,677	298,482	--	--	--	19,805	19,805	--
Water Fund	318,481	345,402	--	--	--	26,921	26,921	--
<i>Total Business-type Activities</i>	<u>597,158</u>	<u>643,884</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>46,726</u>	<u>46,726</u>	<u>--</u>
<i>Total Primary Government</i>	<u>\$ 1,983,652</u>	<u>\$ 965,488</u>	<u>\$ 145,692</u>	<u>\$ --</u>	<u>\$ (919,198)</u>	<u>\$ 46,726</u>	<u>\$ (872,472)</u>	<u>--</u>
Component Units								
DDA	\$ 391,644	\$ --	\$ 200	\$ --	--	--	--	(391,444)
<i>Total Component Units</i>	<u>\$ 391,644</u>	<u>\$ --</u>	<u>\$ 200</u>	<u>\$ --</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(391,444)</u>
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					726,396	--	726,396	144,088
Other					33,169	--	33,169	--
Investment Income (Loss)					3,507	1,724	5,231	770
State Sources					163,725	--	163,725	--
Intergovernmental Revenues					300,966	--	300,966	--
Transfers					--	--	--	--
<i>Total General Revenues and Transfers</i>					<u>1,227,763</u>	<u>1,724</u>	<u>1,229,487</u>	<u>144,858</u>
<i>Change in Net Position</i>					308,565	48,450	357,015	(246,586)
<i>Net Position at Beginning of Period</i>					2,021,696	1,589,595	3,611,291	246,586
<i>Net Position at End of Period</i>					<u>\$ 2,330,261</u>	<u>\$ 1,638,045</u>	<u>\$ 3,968,306</u>	<u>\$ --</u>

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

**City of Parchment
Balance Sheet
Governmental Funds
June 30, 2013**

	<u>Special Revenue</u>		<u>Nonmajor Special Revenue</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	
ASSETS				
Cash & Cash Equivalents	\$ 139,450	\$ --	\$ --	\$ 139,450
Investments	273,364	--	--	273,364
Taxes Receivable	21,794	--	--	21,794
Accounts Receivable	40,757	42,899	--	83,656
Due from State	27,277	14,399	5,745	47,421
Due from School District	317,100	--	--	317,100
Due from Agency Funds	5,873	--	--	5,873
Inventories	--	5,491	5,491	10,982
Restricted Cash	102,397	--	--	102,397
<i>Total Assets</i>	<u>\$ 928,012</u>	<u>\$ 62,789</u>	<u>\$ 11,236</u>	<u>\$ 1,002,037</u>
LIABILITIES				
Accounts Payable	\$ 56,294	\$ 113,631	\$ --	\$ 169,925
Accrued Liabilities	1,683	--	--	1,683
Negative Equity in Pooled Cash	--	26,518	540	27,058
Accrued Payroll & Related Liabilities	22,153	1,449	1,449	25,051
Unearned Revenue	102,397	--	--	102,397
Due to State	317,100	--	--	317,100
Due to Other Agencies	17,957	--	--	17,957
<i>Total Liabilities</i>	<u>517,584</u>	<u>141,598</u>	<u>1,989</u>	<u>661,171</u>
DEFERRED INFLOWS OF RESOURCES				
State Shared Revenue	27,277	--	--	27,277
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>544,861</u>	<u>141,598</u>	<u>1,989</u>	<u>688,448</u>
FUND BALANCE				
Restricted	--	--	9,247	9,247
Unassigned	383,151	(78,809)	--	304,342
<i>Total Fund Balance</i>	<u>383,151</u>	<u>(78,809)</u>	<u>9,247</u>	<u>313,589</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 928,012</u>	<u>\$ 62,789</u>	<u>\$ 11,236</u>	<u>\$ 1,002,037</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, 2013

Total Fund Balance - Governmental Funds	\$ 313,589
General government capital assets of \$5,169,893 net of accumulated depreciation of \$1,832,229 are not financial resources and accordingly are not reported in the funds	3,337,664
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	(984,138)
Compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds	(101,890)
Other post employment benefits are not due and payable in the current period, and therefore, are not reported in the funds	(262,241)
State shared revenue receivable was earned in June 2013 but is not available to pay for current expenditures. Therefore, they are deferred inflows of resources and not reported in the funds	27,277
Total Net Position - Governmental Funds	\$ <u>2,330,261</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, 2013

	<u>Special Revenue</u>		<u>Nonmajor Special Revenue</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	
Revenues				
Property Taxes	\$ 726,396	\$ --	\$ --	\$ 726,396
State Sources	165,536	87,598	36,994	290,128
State & Local Grants	4,442	--	--	4,442
Licenses & Permits	11,518	--	--	11,518
Intergovernmental Revenues	300,966	--	--	300,966
Charges for Services	115,813	42,899	--	158,712
Fines & Forfeitures	8,599	--	--	8,599
Refunds & Reimbursements	110,000	--	--	110,000
Other	77,542	--	--	77,542
Investment Income (Loss)	3,128	261	118	3,507
Total Revenues	<u>1,523,940</u>	<u>130,758</u>	<u>37,112</u>	<u>1,691,810</u>
Expenditures				
General Government	287,575	--	--	287,575
Public Safety	403,599	--	--	403,599
Public Works	274,670	64,412	58,479	397,561
Recreation & Culture	106,592	--	--	106,592
Capital Outlay	148,952	247,477	16,802	413,231
Total Expenditures	<u>1,221,388</u>	<u>311,889</u>	<u>75,281</u>	<u>1,608,558</u>
Excess of Revenues Over (Under) Expenditures	<u>302,552</u>	<u>(181,131)</u>	<u>(38,169)</u>	<u>83,252</u>
Other Financing Sources (Uses)				
Transfers from Other Funds	--	--	5,000	5,000
Transfers to Other Funds	--	(5,000)	--	(5,000)
Net Other Financing Sources (Uses)	<u>--</u>	<u>(5,000)</u>	<u>5,000</u>	<u>--</u>
Net Change in Fund Balance	<u>302,552</u>	<u>(186,131)</u>	<u>(33,169)</u>	<u>83,252</u>
<i>Fund Balance at Beginning of Period</i>	80,599	107,322	42,416	230,337
Fund Balance at End of Period	<u>\$ 383,151</u>	<u>\$ (78,809)</u>	<u>\$ 9,247</u>	<u>\$ 313,589</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, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	83,252
<p>Governmental funds report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which the capital outlay expenditures of \$413,231 are in excess of depreciation expense of \$143,821</p>		
		269,410
Increase in other post employment benefits liability		(49,218)
Decrease in compensated absences liability		1,872
Increase in state revenue receivable		3,249
Changes in Net Position - Governmental Funds	\$	<u>308,565</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, 2013**

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 42,712	\$ 20,502	\$ 63,214
Investments	107,449	53,476	160,925
Special Assessment Receivable	1,276	--	1,276
Accounts Receivable	92,769	93,230	185,999
Inventories	--	22,144	22,144
Total Current Assets	244,206	189,352	433,558
<i>Noncurrent Assets</i>			
Special Assessment Receivable	2,763	--	2,763
Land	--	7,000	7,000
Depreciable Capital Assets, net	528,408	687,499	1,215,907
Total Assets	775,377	883,851	1,659,228
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	8,164	8,245	16,409
Accrued Payroll & Related Liabilities	2,376	2,398	4,774
Total Current Liabilities	10,540	10,643	21,183
<i>Noncurrent Liabilities</i>			
Total Liabilities	10,540	10,643	21,183
NET POSITION			
Net Investment in Capital Assets	528,408	694,499	1,222,907
<i>Unrestricted</i>	236,429	178,709	415,138
Total Net Position	\$ 764,837	\$ 873,208	\$ 1,638,045

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, 2013

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$ 292,254	\$ 329,926	\$ 622,180
Penalties	6,228	9,636	15,864
Hydrant Rental	--	5,840	5,840
Total Operating Revenues	298,482	345,402	643,884
Operating Expenses			
Personnel Services	120,676	121,558	242,234
Supplies	1,243	28,349	29,592
Contractual Services	124,888	48,197	173,085
Utilities	1,918	58,122	60,040
Repairs & Maintenance	939	663	1,602
Depreciation	29,013	60,392	89,405
Other	--	1,200	1,200
Total Operating Expenses	278,677	318,481	597,158
Operating Income (Loss)	19,805	26,921	46,726
Non-Operating Revenues (Expenses)			
Investment Income (Loss)	1,278	446	1,724
Net Non-Operating Revenues (Expenses)	1,278	446	1,724
Income Before Contributions and Transfers	21,083	27,367	48,450
Transfers from Other Funds	--	--	--
Transfers to Other Funds	--	--	--
Change In Net Position	21,083	27,367	48,450
<i>Net Position at Beginning of Period</i>	743,754	845,841	1,589,595
Net Position at End of Period	\$ 764,837	\$ 873,208	\$ 1,638,045

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

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

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 304,736	\$ 347,158	\$ 651,894
Cash Payments to Employees for Services and Fringe Benefits	(120,258)	(121,553)	(241,811)
Cash Payments to Suppliers for Goods and Services	(128,887)	(138,417)	(267,304)
<i>Total Cash Flows from Operating Activities</i>	55,591	87,188	142,779
Cash Flows from Investing Activities			
Interest on Investments	1,278	446	1,724
<i>Total Cash Flows from Investing Activities</i>	1,278	446	1,724
<i>Net Increase (Decrease) in Cash and Equivalents</i>	56,869	87,634	144,503
<i>Cash and Equivalents - Beginning of Year</i>	93,292	(13,656)	79,636
<i>Cash and Equivalents - End of Year</i>	\$ 150,161	\$ 73,978	\$ 224,139

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

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

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income	\$ 19,805	\$ 26,921	\$ 46,726
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	29,013	60,392	89,405
Changes in Assets & Liabilities			
Accounts Receivable	3,895	1,756	5,651
Special Assessments Receivable	2,359	-	2,359
Inventory	-	(3,622)	(3,622)
Accounts Payable	101	1,736	1,837
Accrued Payroll & Related Liabilities	418	5	423
Net Cash Provided by Operating Activities	<u>\$ 55,591</u>	<u>\$ 87,188</u>	<u>\$ 142,779</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, 2013

	Agency	
	Payroll	Tax Collection
ASSETS		
Cash & Cash Equivalents	\$ --	\$ 8,542
Investments	--	23,619
Due from General Fund	17,957	--
Prepaid Expenses	10,099	--
<i>Total Assets</i>	28,056	32,161
LIABILITIES		
Accrued Payroll & Related Liabilities	28,056	--
Due to Other Agencies	--	26,288
Due to General Fund	--	5,873
<i>Total Liabilities</i>	28,056	32,161
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 City of Parchment, Michigan, was incorporated in 1939 and is located in Kalamazoo County, Michigan. The City is governed by a seven member City Commission, elected by the community at large. The legislative body selects, from among its members, the Mayor, and appoints a City Manager to administer the affairs of the City. The City provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture & recreation, public improvements, planning and zoning, and general administrative services. In addition, the City operates two major enterprise activities; a water supply system and a sewage collection and treatment system. The City's financial statements include the accountings of all City operations.

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

Reporting Entity

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

Discretely Presented Component Unit – The following component unit is reported within the component unit column in the Statement of Net Position and in the Statement of Activities. It is reported in a separate column to emphasize that it is legally separate from the City.

Downtown Development Authority

The members of the governing board are appointed by the City Commission. The Authority's budget is subject to approval by the City's Commission. The DDA does not issue any other form of financial statements except as contained in the City of Parchment annual financial statements. The City dissolved the DDA as of June 30, 2013. The DDA resources belong to the General Fund.

Government-wide Fund Financial Statements

The government-wide financial statements (e.g., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and

City of Parchment

Notes to the Financial Statements

intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

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

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

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized

City of Parchment

Notes to the Financial Statements

as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

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

The City of Parchment reports the following major governmental funds:

General Fund

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

Major Street Fund

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

Local Street Fund

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

Kindleberger Summer Festival Special Revenue Fund

The Kindleberger Summer Festival Special Revenue Fund accounts for the activities of the summer festival and stage activities. This fund has been included as a department within the General Fund to satisfy GASB 54 reporting requirements.

The City of Parchment reports the following major proprietary funds:

Water Fund

City of Parchment

Notes to the Financial Statements

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

Sewer Fund

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

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

Fiduciary Funds

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Fund and Sewer Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

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

City of Parchment

Notes to the Financial Statements

Investments

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

Receivables and Payables

In general, outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Real property taxes are considered delinquent on August 15th, at which time penalties and interest are assessed. Real property taxes not collected are turned over to Kalamazoo County for collection as of March 1st of the following year. Kalamazoo County advances the City 100% for the delinquent taxes as the County maintains a revolving tax fund to finance delinquent real property taxes for local units.

Property Taxes

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

The City collects a 1% property tax administration fee.

City of Parchment

Notes to the Financial Statements

Inventories and Prepaid Items

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

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of one year and an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

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

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

City of Parchment

Notes to the Financial Statements

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The City has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortizations of premiums, discounts, and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2003. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position

Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments; or law through constitutional provisions of enabling legislation.

Unrestricted - All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Equity

In the fund financial statements fund balance is presented in five possible categories, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which the amounts can be spent:

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

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

City of Parchment

Notes to the Financial Statements

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

Assigned – amounts that are constrained by the Council’s intent, or designee of the council, to be used for specific purposes, but are neither restricted nor committed.

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

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

Use of Estimates

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

Comparative Data / Reclassifications

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

Note 2 – Stewardship, Compliance and Accountability

Deficit Fund Equity

The City has a deficit fund balance in the Major Streets fund which will be eliminated with future revenues.

Budgetary Information

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

City of Parchment

Notes to the Financial Statements

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

1. The first commission meeting in April, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 1st, the budget is legally enacted through passage of ordinance.
4. The City Manager is authorized to transfer up to \$5,000 from any function of the budget to any other function of the budget within the same fund without further approval.
5. At the beginning of each quarter during the fiscal year, and more often if required by the City Commission, the City Manager shall submit to the Commission data showing the relationship between the estimated and actual income and expenses to date; and if it shall appear that the income is less than anticipated, the Commission may reduce appropriations, except any amounts required for debt and interest charges, to such degree as may be necessary to keep expenditures within income and designated reserves. If the revenues exceed the amounts estimated in the budget, the Commission may make supplemental appropriations.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Commission from time to time throughout the year. The City amended its budget three times during the current fiscal year.
7. Budget appropriations lapse at the end of the fiscal year for all funds, except for certain capital projects which are adopted on a per project basis.

The City had the following budget variances, it is presented as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Legislative	\$ 48,351	\$ 54,175	\$ (5,824)
Police	293,439	305,309	(11,870)
Major Streets			
Capital Outlay	93,000	247,477	(154,477)

City of Parchment

Notes to the Financial Statements

Note 3 – Deposits and Investments

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

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

	Governmental Activities	Business-type Activities	Total Primary Government	Agency Funds	Total Cash
Cash & Cash Equivalents	\$ 112,392	\$ 63,214	\$ 175,606	\$ 8,542	\$ 184,148
Restricted Cash	102,397	-	102,397	-	102,397
	\$ 214,789	\$ 63,214	\$ 278,003	\$ 8,542	\$ 286,545

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned. The city does not have a deposit policy for credit risk. The City's deposits are owned by several of the City's funds. At year end, the carrying amount of the primary government's deposits and cash on hand was \$240,416 and the bank balance was \$269,305. The bank balance is categorized as follows:

	Bank Balance	Carrying Amount
Amount Insured by the FDIC	\$ 315,434	\$ 286,545
Amount Uncollateralized and Uninsured	-	-
	\$ 315,434	\$ 286,545

City of Parchment

Notes to the Financial Statements

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

Investment	Fair Value	Rating	Rating Organization
Fixed Income			
Certificate of Deposit	\$ 302,037		
FHLB Bond	94,681	AA+	Standard & Poors
Cash & Money Market	61,190		
Total	\$ 457,908		

Note 4 - Receivables

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

	General Fund	Major Streets	Local Streets	Water & Sewer	Total
Receivables					
Due From State	\$ 27,277	\$ 14,399	\$ 5,745	\$ -	\$ 47,421
Property Taxes	21,794	-	-	-	21,794
Special Assessment	-	-	-	4,039	4,039
Due From School District	317,100	-	-	-	317,100
Accounts	40,757	42,899	-	185,999	269,655
Total Receivables	\$406,928	\$ 57,298	\$ 5,745	\$190,038	\$660,009

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

City of Parchment

Notes to the Financial Statements

Note 5 – Capital Assets

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

Governmental Activities

	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Capital assets not being depreciated				
Land	\$ 1,303,688	\$ -	\$ -	\$ 1,303,688
Capital assets being depreciated				
Buildings & Improvements	671,226	-	-	671,226
Machinery & Equipment	1,656,059	148,952	-	1,805,011
Infrastructure	1,125,689	264,279	-	1,389,968
Total capital assets, being depreciated	<u>3,452,974</u>	<u>413,231</u>	<u>-</u>	<u>3,866,205</u>
Less accumulated depreciation				
Buildings & Improvements	248,714	11,896	-	260,610
Machinery & Equipment	1,220,287	79,057	-	1,299,344
Infrastructure	219,407	52,868	-	272,275
Total accumulated depreciation	<u>1,688,408</u>	<u>143,821</u>	<u>-</u>	<u>1,832,229</u>
Net capital assets	<u>\$ 3,068,254</u>	<u>\$ 269,410</u>	<u>\$ -</u>	<u>\$ 3,337,664</u>

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

Business-type Activities

	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
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	1,363,284	-	-	1,363,284
Distribution & Collection	1,629,569	-	-	1,629,569
Total capital assets, being depreciated	<u>3,405,415</u>	<u>-</u>	<u>-</u>	<u>3,405,415</u>
Less accumulated depreciation				
Building & Improvements	154,817	5,846	-	160,663
Other Improvements	9,062	1,896	-	10,958
Machinery & Equipment	1,062,591	47,956	-	1,110,547
Distribution & Collection	873,633	33,707	-	907,340
Total accumulated depreciation	<u>2,100,103</u>	<u>89,405</u>	<u>-</u>	<u>2,189,508</u>
Net capital assets	<u>\$ 1,312,312</u>	<u>\$ (89,405)</u>	<u>\$ -</u>	<u>\$ 1,222,907</u>

City of Parchment

Notes to the Financial Statements

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

Component Unit - DDA

	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Capital assets being depreciated				
Land Improvements	21,300	\$ 29,705	\$ -	51,005
Machinery & Equipment	80,177	35,114	-	115,291
<i>Total capital assets, being depreciated</i>	101,477	64,819	-	166,296
 Less accumulated depreciation				
Land Improvements	2,130	2,055	-	4,185
Machinery & Equipment	16,664	9,695	-	26,359
<i>Total accumulated depreciation</i>	18,794	11,750	-	30,544
<i>Net capital assets</i>	\$ 82,683	\$ 53,069	\$ -	\$ 135,752

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

Governmental Activities

General Government	\$ 4,442
Public Works	82,129
Recreation & Culture	19,508
Public Safety	37,742
<i>Total Governmental Activities</i>	\$ 143,821

Business-type Activities

Water Fund	\$ 60,392
Sewer Fund	29,013
<i>Total Business-type Activities</i>	\$ 89,405

Component Unit

DDA	\$ 11,751
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City of Parchment

Notes to the Financial Statements

Note 6 – Long-term Debt

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

Long-term obligation activity can be summarized as follows:

	<u>Maturity</u>	<u>Interest Rate</u>	<u>6/30/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2013</u>	<u>Due Within One Year</u>
Governmental Activities							
MDEQ Brownfield Loan	2024	1.50%	\$ 984,138	\$ -	\$ -	\$ 984,138	\$ 97,659
Compensated Absences			103,762	-	1,872	101,890	-
Total Governmental Activities			<u>\$ 103,762</u>	<u>\$ -</u>	<u>\$ 1,872</u>	<u>\$ 101,890</u>	<u>\$ -</u>

The City of Parchment is working with River Reach Partners LLC to redevelop the Brownfield site that is the former Crown Vantage property. The City has received a low interest loan in the amount of \$998,289 from the State of Michigan to assist in that redevelopment. The City has spent \$984,138 of the loan and has booked a long-term liability in that amount to reflect the loan payable. The redevelopment is in progress as of June 30, 2013 and the final payment terms of the loan have yet to be established.

Accrued Vacation and Sick Leave Payable

The City has accrued liabilities for accumulated vested sick leave benefits. See Note 1 for a description of the City's accounting policies related to these items.

Note 7 – Employee Retirement Systems

Defined Benefit Plan

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

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation between the employer and employees and requires City employees to contribute

City of Parchment

Notes to the Financial Statements

4.7% of their annual compensation. The City is required to contribute the remaining amounts necessary to fund MERS, using the actuarial basis specified by statute.

Method Used to Value Investments

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

Annual Pension Costs

For the year ended June 30, 2013, the City's annual pension cost of \$39,203 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry age normal funding cost method. Significant actuarial assumptions used included a rate of return on the investment of present and future assets of 8% per year compounded annually; projected salary increases of 4.5% per year compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The difference in investment income between expected return and market return is recognized over a 10-year period at the rate of 10% per year. The City's unfunded actuarial accrued liability is being amortized at a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, the date of the most recent valuation, was 27 years.

The required schedule of funding progress immediately following the notes to the financial statements presents multi year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Year Ended	Annual	Percentage	Net Pension
June 30,	Pension Cost	of APC	Obligation
		Contributed	
2013	\$ 39,203	100%	\$ -
2012	52,265	100%	-
2011	53,638	100%	-

City of Parchment

Notes to the Financial Statements

Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
12/31/2012	2,403,901	3,115,145	711,244	77%	316,188	225%

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

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

Note 8 – Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 45 that is administered by ICMA Retirement Corporation. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document. Voluntary employee contributions for the year ended June 30, 2013 were \$6,240.

Note 9 – Other Post- Employment Benefits

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

Plan Description

The City of Parchment's Other Post Employment Benefit is a single-employer defined other post employment benefit plan administered by the City of Parchment. The authority to establish and

City of Parchment

Notes to the Financial Statements

amend the benefit provisions rest with the City Commission under City Charter. The City provides one year of health insurance for every five years worked after 10 years of employment for eligible retirees. The Plan does not issue separate financial statements.

Funding Policy

There are no required contributions by Plan participants. The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2012, the City contributed \$23,324 to the plan, as a specialty agreement with one of the current retirees. The Plan has two retiree participants who meet the eligibility requirements.

Annual OPEB Cost

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

Annual Required Contribution	\$	59,026
Interest on Net OPEB Obligation		13,517
Annual OPEB Cost (Expense)		72,543
Less: Contributions Made		23,325
Increase in OPEB Obligation		49,218
Net OPEB Obligation - Beginning		213,023
Net OPEB Obligation - Ending	\$	262,241

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 are as follows:

Trend Information - OPEB

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	57,091	7,487	13%	168,967
6/30/2012	65,183	21,127	32%	213,033
6/30/2013	72,543	23,325	32%	262,241

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$534,421, and the actuarial value of assets was

City of Parchment

Notes to the Financial Statements

\$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$534,421. The covered payroll (annual payroll of active employees covered by the plan) was \$439,975 and the ratio of the UAAL to the covered payroll was 82 percent.

	Fiscal Year Ended June 30,		
	2011	2012	2013
Actuarial Value of Assets	\$ -	\$ -	\$ -
Actuarial Accrued Liability (AAL)	493,525	514,128	534,421
Unfunded AAL (UAAL)	493,525	514,128	534,421
Funded Ratio	0%	0%	0%
Covered Payroll	\$ 567,761	\$ 534,188	\$ 439,975
UAAL as a % of Covered Payroll	87%	96%	82%

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the personnel policy currently in place. In the June 30, 2013, actuarial valuation, the alternative valuation method was used. The actuarial assumptions include: (a) a rate of return on investments of 2.0%; (b) projected healthcare benefit increases of 6.2%. The City's unfunded actuarial accrued liability will be amortized over 30 years in level dollar amounts. There are no assets as the City is funding OPEB on a pay as you go basis.

Note 10 – Risk Management

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

The Michigan Municipal League Risk Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

City of Parchment

Notes to the Financial Statements

Note 11 – Contingent Liabilities

The Michigan Department of Treasury completed an audit of the City Treasurer's disbursement of the State's share of the Industrial Facilities Tax (IFT) for 1995 through 2006. The Department of Treasury has requested payment of \$317,100 from the City. In 1994 when Proposal A was enacted, the funding for school districts changed. Industrial Facilities Taxes that were previously paid directly to the school district were now to be paid to the State of Michigan on behalf of the school districts. This procedural change was missed by the City of Parchment. The City continued to make payments directly to the school district until 2003. During that time the City represented that no communication was received from the State of Michigan notifying the City that such disbursements were being made in error. Upon receipt of the State's audit findings, the City took immediate action to make the disbursements to the appropriate party. The accompanying government-wide Statement of Net 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.

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
Revenues				
Property Taxes	\$ 729,149	\$ 729,149	\$ 726,396	\$ (2,753)
State Sources	129,710	129,710	165,536	35,826
State Grants	--	--	4,442	4,442
Licenses & Permits	2,400	2,400	11,518	9,118
Charges for Services	126,600	126,600	115,813	(10,787)
Fines & Forfeitures	121,200	121,200	118,599	(2,601)
Other	47,900	47,900	77,542	29,642
Investment Income	--	--	3,128	3,128
Total Revenues	<u>1,156,959</u>	<u>1,156,959</u>	<u>1,222,974</u>	<u>66,015</u>
Other Financing Sources				
Total Revenues and Other Financing Sources	<u>1,156,959</u>	<u>1,156,959</u>	<u>1,222,974</u>	<u>66,015</u>
Expenditures				
Legislative	45,851	48,351	54,175	(5,824)
Administration	236,966	236,966	233,400	3,566
Police	295,939	293,439	305,309	(11,870)
Fire	92,528	100,594	98,290	2,304
Public Services	292,144	292,144	274,670	17,474
Parks, Recreation & Culture	141,773	141,773	106,592	35,181
Capital Outlay	13,200	13,200	13,200	--
Total Expenditures	<u>1,118,401</u>	<u>1,126,467</u>	<u>1,085,636</u>	<u>40,831</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>1,118,401</u>	<u>1,126,467</u>	<u>1,085,636</u>	<u>40,831</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>38,558</u>	<u>30,492</u>	<u>137,338</u>	<u>106,846</u>
Net Change in Fund Balance	<u>38,558</u>	<u>30,492</u>	<u>137,338</u>	<u>106,846</u>
Fund Balance at Beginning of Period	<u>80,599</u>	<u>80,599</u>	<u>80,599</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 119,157</u>	<u>\$ 111,091</u>	<u>\$ 217,937</u>	<u>\$ 106,846</u>

City of Parchment
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Street
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
Revenues				
State Sources	\$ 85,206	\$ 85,206	\$ 87,598	\$ 2,392
Charges for Services	85,000	85,000	42,899	(42,101)
Investment Income	1,500	1,500	261	(1,239)
Total Revenues	171,706	171,706	130,758	(40,948)
Other Financing Sources				
Total Revenues and Other Financing Sources	171,706	171,706	130,758	(40,948)
Expenditures				
Public Works	81,387	81,387	64,412	16,975
Capital Outlay	93,000	93,000	247,477	(154,477)
Total Expenditures	174,387	174,387	311,889	(137,502)
Other Financing Uses				
Transfers to other funds	40,000	40,000	5,000	35,000
Total Expenditures and Other Financing Uses	214,387	214,387	316,889	(102,502)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(42,681)	(42,681)	(186,131)	(143,450)
Net Change in Fund Balance	(42,681)	(42,681)	(186,131)	(143,450)
<i>Fund Balance at Beginning of Period</i>	107,322	107,322	107,322	--
Fund Balance at End of Period	\$ 64,641	\$ 64,641	\$ (78,809)	\$ (143,450)

City of Parchment
MERS Agent Multiple-Employer Defined Benefit Pension 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)
12/31/2012	2,403,901	3,115,145	711,244	77%	316,188	225%
12/31/2011	2,495,393	3,060,876	565,483	82%	303,188	187%
12/31/2010	2,457,399	2,771,865	314,466	89%	509,365	62%

December 12, 2013

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Parchment for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 19, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Parchment are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI

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

December 12, 2013

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Parchment, Michigan, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 12, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC
Grand Rapids, MI