



**CITY OF PARCHMENT
KALAMAZOO COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2020**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
<hr/>	
Government-wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds	
Balance Sheet	16
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balance	18
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with Statement of Activities	19
Proprietary Funds	
Statement of Net Position	20
Statement of Revenues, Expenses, and Changes in Net Position	21
Statement of Cash Flows	22
Fiduciary Funds	
Statement of Fiduciary Assets and Liabilities	23
Notes to the Financial Statements	25
REQUIRED SUPPLEMENTARY INFORMATION	
<hr/>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – General Fund	47
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Local Street	48
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – Major Street	49
Schedule of Changes in Net Pension Liability and Related Ratios	50
Schedule of Contributions - Pension	51
Schedule of Changes in Net OPEB Liability and Related Ratios	52
Schedule of Contributions - OPEB	53
OTHER SUPPLEMENTARY INFORMATION	
<hr/>	
Nonmajor Governmental Funds	
Combining Balance Sheet	55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	56

INDEPENDENT AUDITOR'S 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 aggregate remaining fund information of the City of Parchment, Michigan (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2020, 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

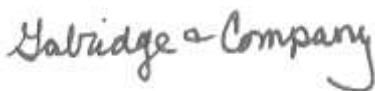
Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Grand Rapids, Michigan
January 29, 2021

Management's Discussion and Analysis

City of Parchment
Management's Discussion and Analysis
June 30, 2020

As management of the City of Parchment, Michigan (The "City" or "government") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities at the close of the most recent fiscal year by \$3,383,292 (net position). Of this amount, \$(1,525,618) represents a *deficit* unrestricted net position balance.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$465,611, an increase of \$24,848 from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$214,451 or approximately 15.2% of total general fund expenditures.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate

information for the water and sewer operations, both of which are considered to be major funds of the City.

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

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

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

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

Other supplementary information follows the required supplemental information and provides combining statements for the City's nonmajor governmental funds.

Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$3,383,292 at the close of the most recent fiscal year.

City of Parchment's Net Position

	Governmental Activities		Business-type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
ASSETS						
<i>Current Assets</i>						
Cash and Investments	\$ 597,501	\$ 599,497	\$ 301,191	\$ 334,609	\$ 898,692	\$ 934,106
Accounts Receivable	45,444	31,763	48,542	682,377	93,986	714,140
Due from State	51,512	79,190	-	-	51,512	79,190
Inventories	12,252	11,492	-	1,150	12,252	12,642
Prepaid Items	19,172	31,856	-	-	19,172	31,856
Total Current Assets	725,881	753,798	349,733	1,018,136	1,075,614	1,771,934
<i>Noncurrent Assets</i>						
Capital Assets not being Depreciated	1,303,688	1,303,688	7,000	7,000	1,310,688	1,310,688
Capital Assets being Depreciated	2,908,339	2,998,822	484,132	530,026	3,392,471	3,528,848
Total Assets	4,937,908	5,056,308	840,865	1,555,162	5,778,773	6,611,470
DEFERRED OUTFLOWS OF RESOURCES						
Pension	44,091	208,596	6,008	56,456	50,099	265,052
Total Deferred Outflows of Resources	44,091	208,596	6,008	56,456	50,099	265,052
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	210,080	248,459	82,974	46,413	293,054	294,872
Accrued Payroll and Related Liabilities	9,174	7,239	1,232	880	10,406	8,119
Unearned Revenue	15,428	35,824	-	-	15,428	35,824
Current Portion of Long-term Debt	55,044	64,823	-	-	55,044	64,823
Accrued Interest	5,014	5,334	-	-	5,014	5,334
Internal Balances	25,588	(99,107)	(25,588)	99,107	-	-
Total Current Liabilities	320,328	262,572	58,618	146,400	378,946	408,972
<i>Noncurrent Liabilities</i>						
Compensated Absences	40,786	36,725	-	-	40,786	36,725
Net OPEB Liability	239,545	140,613	32,665	38,057	272,210	178,670
Long-term Debt	682,141	737,185	-	-	682,141	737,185
Net Pension Liability	943,006	1,044,295	128,491	282,636	1,071,497	1,326,931
Total Liabilities	2,225,806	2,221,390	219,774	467,093	2,445,580	2,688,483
NET POSITION						
Net Investment in Capital Assets	4,204,190	4,276,358	491,132	537,026	4,695,322	4,813,384
Restricted	213,588	299,589	-	-	213,588	299,589
Unrestricted	(1,661,585)	(1,532,433)	135,967	607,499	(1,525,618)	(924,934)
Total Net Position	\$ 2,756,193	\$ 3,043,514	\$ 627,099	\$ 1,144,525	\$ 3,383,292	\$ 4,188,039

The largest portion of the City's net position \$4,695,322 reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position \$213,588 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$(1,525,618).

Cash and investments within business-type activities decreased by \$33,418 as there were no water meter revenues during the year. This was offset by the collection of accounts receivable, of which decreased by \$633,835 within business-type activities.

Less general expenses near year-end due to the COVID-19 Pandemic resulted in a decrease in accounts payable of \$38,379 for governmental activities. Increased SAW grant expenses increased accounts payable for business-type activities by \$36,561. Less fundraising occurred during the year as the annual festival was cancelled due to the COVID-19 Pandemic. This resulted in a decrease in unearned revenue by \$20,396.

Better market performance for the pension plan's investments resulted in an overall decrease in net pension liability by \$255,434 and the related deferred outflows of resources by \$214,953. An increase in differences between expected and actual experience within the OPEB plan resulted in an increase in net OPEB liability by \$93,540.

The City's overall net position decreased \$684,127 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

City of Parchment's Changes in Net Position

	Governmental Activities		Business-type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Revenues						
Program Revenues						
Charges for Services	\$ 385,897	\$ 439,820	\$ 42,044	\$ 522,667	\$ 427,941	\$ 962,487
Operating Grants and Contributions	264,343	261,628	251,902	239,945	516,245	501,573
Total Program Revenues	650,240	701,448	293,946	762,612	944,186	1,464,060
General Revenues						
Property Taxes	893,595	887,985	-	-	893,595	887,985
State Revenue Sharing	185,494	189,065	-	-	185,494	189,065
Other Revenue	-	-	-	-	-	-
Gain (Loss) on Disposal of Assets	-	8,463	(21,057)	151,889	(21,057)	160,352
Interest Income	7,223	4,793	-	3,739	7,223	8,532
Total General Revenues and Transfers	1,086,312	1,090,306	(21,057)	155,628	1,065,255	1,245,934
Total Revenues	1,736,552	1,791,754	272,889	918,240	2,009,441	2,709,994
Expenses						
General Government	476,884	395,925	-	-	476,884	395,925
Public Safety	436,646	404,571	-	-	436,646	404,571
Public Works	756,999	593,615	-	-	756,999	593,615
Community and Economic Development	20,422	17,428	-	-	20,422	17,428
Recreation and Culture	200,336	161,411	-	-	200,336	161,411
Interest on Long-term Debt	11,966	13,312	-	-	11,966	13,312
Water and Sewer Operations	-	-	790,315	880,278	790,315	880,278
Total Expenses	1,903,253	1,586,262	790,315	880,278	2,693,568	2,466,540
Change in Net Position before Transfers	(166,701)	205,492	(517,426)	37,962	(684,127)	243,454
Transfers	-	75,000	-	(75,000)	-	-
Change in Net Position	(166,701)	280,492	(517,426)	(37,038)	(684,127)	243,454
<i>Net Position at the Beginning of Period</i>	<i>2,922,894</i>	<i>2,763,022</i>	<i>1,144,525</i>	<i>1,181,563</i>	<i>4,067,419</i>	<i>3,944,585</i>
Net Position at the End of Period	\$ 2,756,193	\$ 3,043,514	\$ 627,099	\$ 1,144,525	\$ 3,383,292	\$ 4,188,039

Governmental Activities. Governmental activities decreased the City's net position by \$166,701 compared to an increase of \$280,492 in the prior year. The changes in pension and OPEB liability increased general government expenses by \$80,959. Increased professional services expenses and

repairs and maintenance expenses caused public safety and public works expenses to increase by \$32,075 and \$163,384, respectively.

Business-type Activities. Business-type activities decreased the City's net position by \$517,426 compared to a decrease of \$37,038 in the prior year. An overall decrease in fees and no water sales, as described in the notes to the financial statements, resulted in a decrease of \$480,623 in charges for services. In the prior year, the City sold the water system which is the cause of the significant difference between the gain (loss) on disposal of assets. In addition, less water system expenses decreased overall expenses by \$89,963 during the year.

Financial Analysis of Governmental Funds

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

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

At June 30, 2020, the City's governmental funds reported combined fund balances of \$465,611, an increase of \$24,848 in comparison with the prior year. Approximately 46.1%, or \$214,451, of this amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, assigned, or restricted* to indicate that it is not in spendable form (\$31,424, or 6.7%, for inventory and prepaid items), assigned for particular purposes (\$18,400, or 4.0%), or restricted for particular purposes (\$201,336, or 43.2%).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$214,451. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 15.2% of total general fund expenditures and transfers out. The fund balance of the City's general fund increased by \$110,849 during the current fiscal year.

The local street fund, a major fund, had a \$33,528 decrease in fund balance during the current fiscal year which put the overall fund balance at \$169,077.

The major streets fund, a major fund, had an \$14,304 decrease in fund balance during the current fiscal year which put the overall fund balance at \$6,721.

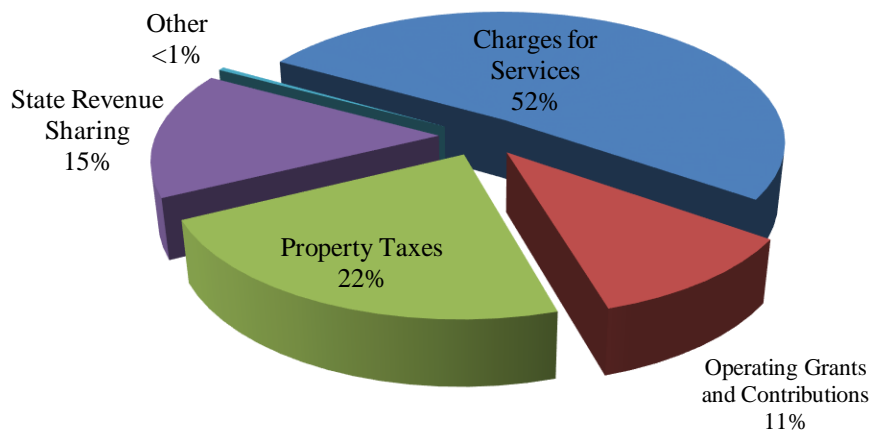
Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net position at the end of the year was \$4,462 for the sewer fund and \$131,505 for the water fund. There was a decrease of \$183,795 in net position for the sewer fund and a decrease of \$333,631 in net position for the water fund.

Governmental Activities

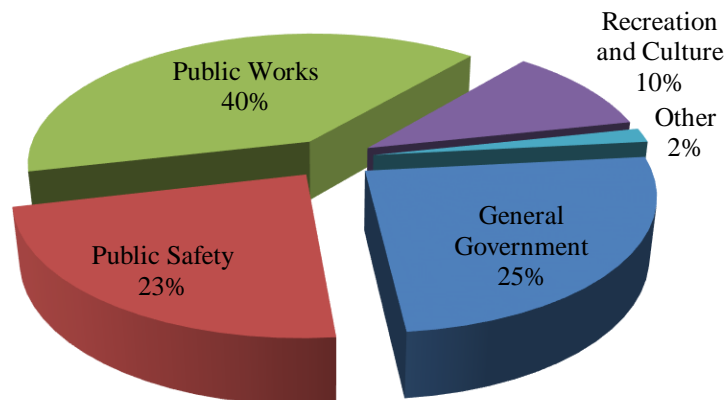
The following chart summarizes the revenue sources for the governmental activities of the City for the most recent fiscal year-end.

Governmental Activities Revenues



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

Governmental Activities Expenses



General Fund Budgetary Highlights

Original budget compared to final budget. During the year the City made an amendment to increase projected public service expenditures from \$320,675 to \$435,675.

Final budget compared to actual results. The City had one expenditure in excess of the amount appropriated within the general fund during the year ended June 30, 2020: parks, recreation, and culture had a final amended amount of \$187,520 and an actual amount of \$194,293 resulting in a negative budget variance of \$(6,773).

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2020 amounts to \$4,703,159 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, vehicles, and water and sewer infrastructure. The following summarizes the City's capital assets:

	Governmental Activities	Business-type Activities	Total
Land	\$ 1,303,688	\$ 7,000	\$ 1,310,688
Buildings and Improvements	357,275	75,416	432,691
Machinery, Equipment, and Vehicles	325,161	85,057	410,218
Infrastructure	2,225,903	323,659	2,549,562
<i>Total Capital Assets, Net</i>	\$ 4,212,027	\$ 491,132	\$ 4,703,159

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

Long-term Debt

As described in note 6 to the financial statements, the City had \$737,185 of long-term debt outstanding as of June 30, 2020.

Economic Condition and Outlook

Management estimates that a similar level of revenues will be available for appropriation in the general fund in the upcoming budget. Expenditures are expected to change by small amounts compared to 2020. The City continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2021, the City plans again to use current revenues to provide essential services and to maintain the City's financial reserves at similar levels. The ongoing costs of providing essential services for the citizens of the City will again need to be monitored in order to maintain the financial condition of the City. Additionally, the City is currently working to

determine the significance that the COVID-19 Pandemic will have on the City's upcoming revenues and expenditures.

Contacting the City

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

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

Basic Financial Statements

City of Parchment
Statement of Net Position
June 30, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 597,501	\$ 301,191	\$ 898,692
Accounts Receivable	45,444	48,542	93,986
Due from State	51,512	--	51,512
Inventories	12,252	--	12,252
Prepaid Items	19,172	--	19,172
Total Current Assets	725,881	349,733	1,075,614
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	1,303,688	7,000	1,310,688
Capital Assets being Depreciated, net	2,908,339	484,132	3,392,471
Total Assets	4,937,908	840,865	5,778,773
DEFERRED OUTFLOWS OF RESOURCES			
Pension	44,091	6,008	50,099
Total Deferred Outflows of Resources	44,091	6,008	50,099
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	210,080	82,974	293,054
Accrued Payroll and Related Liabilities	9,174	1,232	10,406
Unearned Revenue	15,428	--	15,428
Current Portion of Long-term Debt	55,044	--	55,044
Accrued Interest Payable	5,014	--	5,014
Internal Balances	25,588	(25,588)	--
Total Current Liabilities	320,328	58,618	378,946
<i>Noncurrent Liabilities</i>			
Long-term Debt	682,141	--	682,141
Compensated Absences	40,786	--	40,786
Net OPEB Liability	239,545	32,665	272,210
Net Pension Liability	943,006	128,491	1,071,497
Total Liabilities	2,225,806	219,774	2,445,580
NET POSITION			
Net Investment in Capital Assets	4,204,190	491,132	4,695,322
<i>Restricted for:</i>			
Major and Local Streets	175,798	--	175,798
Brownfield Redevelopment	26,392	--	26,392
Capital Projects	11,398	--	11,398
<i>Unrestricted</i>	(1,661,585)	135,967	(1,525,618)
Total Net Position	\$ 2,756,193	\$ 627,099	\$ 3,383,292

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, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 476,884	\$ 63,976	\$ --	\$ --	\$ (412,908)	\$ --	\$ (412,908)
Public Safety	436,646	4,577	--	--	(432,069)	--	(432,069)
Public Works	756,999	288,983	212,997	--	(255,019)	--	(255,019)
Community and Economic Development	20,422	565	--	--	(19,857)	--	(19,857)
Recreation and Culture	200,336	27,796	51,346	--	(121,194)	--	(121,194)
Interest on Long-term Debt	11,966	--	--	--	(11,966)	--	(11,966)
Total Governmental Activities	1,903,253	385,897	264,343	--	(1,253,013)	--	(1,253,013)
Business-type Activities:							
Sewer Fund	221,279	41,609	--	--	--	(179,670)	(179,670)
Water Fund	569,036	435	251,902	--	--	(316,699)	(316,699)
Total Business-type Activities	790,315	42,044	251,902	--	--	(496,369)	(496,369)
Total Government	\$ 2,693,568	\$ 427,941	\$ 516,245	\$ --	\$ (1,253,013)	\$ (496,369)	\$ (1,749,382)
General Purpose Revenues:							
Loss on Sale of Assets					--	(21,057)	(21,057)
Property Taxes					893,595	--	893,595
Interest Income					7,223	--	7,223
State Sources					185,494	--	185,494
Total General Revenues					1,086,312	(21,057)	1,065,255
Change in Net Position					(166,701)	(517,426)	(684,127)
<i>Net Position at Beginning of Period (Restated, Note 11)</i>					<i>2,922,894</i>	<i>1,144,525</i>	<i>4,067,419</i>
Net Position at End of Period					\$ 2,756,193	\$ 627,099	\$ 3,383,292

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

**City of Parchment
Balance Sheet
Governmental Funds
June 30, 2020**

		Special Revenue			
	General	Local Street	Major Street	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 271,522	\$ 27,829	\$ 260,360	\$ 37,790	\$ 597,501
Accounts Receivable	45,444	--	--	--	45,444
Due from State	22,800	8,429	20,283	--	51,512
Inventories	--	6,126	6,126	--	12,252
Prepaid Items	19,172	--	--	--	19,172
Due from Other Funds	--	134,538	--	--	134,538
Total Assets	\$ 358,938	\$ 176,922	\$ 286,769	\$ 37,790	\$ 860,419
LIABILITIES					
Accounts Payable	\$ 57,957	\$ 7,229	\$ 144,894	\$ --	\$ 210,080
Accrued Payroll and Related Liabilities	7,942	616	616	--	9,174
Unearned Revenue	15,428	--	--	--	15,428
Due to Other Funds	25,588	--	134,538	--	160,126
Total Liabilities	106,915	7,845	280,048	--	394,808
FUND BALANCE					
Nonspendable	19,172	6,126	6,126	--	31,424
Restricted	--	162,951	595	37,790	201,336
Assigned	18,400	--	--	--	18,400
Unassigned	214,451	--	--	--	214,451
Total Fund Balance	252,023	169,077	6,721	37,790	465,611
Total Liabilities and Fund Balance	\$ 358,938	\$ 176,922	\$ 286,769	\$ 37,790	\$ 860,419

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, 2020

Total Fund Balance - Governmental Funds	\$ 465,611
General government capital assets of \$7,291,943 net of accumulated depreciation of \$3,079,916 are not financial resources and accordingly are not reported in the funds.	4,212,027
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, the interest expenditure is reported when due.	(5,014)
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.	(737,185)
Compensated absences are not due in and payable in the current period, and therefore, are not reported in the funds.	(40,786)
The net OPEB liability is not paid from current financial resources and, therefore, is excluded from the fund financial statements but is included as a liability in the government-wide financial statements.	(239,545)
The net pension liability and related deferred items are not paid from current financial resources and, therefore, are excluded from the fund financial statements but are included as a liability and deferred items in the government-wide financial statements.	(898,915)
Total Net Position - Governmental Activities	\$ <u>2,756,193</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, 2020

	<u>Special Revenue</u>			Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Local Street</u>	<u>Major Street</u>		
Revenues					
Property Taxes	\$ 837,994	\$ --	\$ --	\$ 55,601	\$ 893,595
State Sources	192,769	60,394	145,328	--	398,491
Local Sources	34,000	--	--	--	34,000
Licenses and Permits	12,982	--	--	--	12,982
Charges for Services	150,698	--	--	--	150,698
Fines and Forfeitures	3,637	--	--	--	3,637
Refunds and Reimbursements	230,000	--	--	--	230,000
Other	54,984	--	1,444	2,498	58,926
Interest Income	7,223	--	--	--	7,223
Total Revenues	1,524,287	60,394	146,772	58,099	1,789,552
Expenditures					
General Government	397,891	--	--	--	397,891
Public Safety	409,370	--	--	--	409,370
Public Works	390,621	108,322	146,676	--	645,619
Community and Economic Development	--	--	--	40,422	40,422
Recreation and Culture	194,293	--	--	--	194,293
Debt Service - Principal	18,315	--	--	46,508	64,823
Debt Service - Interest	648	--	--	11,638	12,286
Total Expenditures	1,411,138	108,322	146,676	98,568	1,764,704
Excess of Revenues Over (Under) Expenditures	113,149	(47,928)	96	(40,469)	24,848
Other Financing Sources (Uses)					
Transfers In	--	14,400	--	2,300	16,700
Transfers Out	(2,300)	--	(14,400)	--	(16,700)
Net Other Financing Sources (Uses)	(2,300)	14,400	(14,400)	2,300	--
Net Change in Fund Balance	110,849	(33,528)	(14,304)	(38,169)	24,848
<i>Fund Balance at Beginning of Period (Restated, Note 11)</i>	<i>141,174</i>	<i>202,605</i>	<i>21,025</i>	<i>75,959</i>	<i>440,763</i>
Fund Balance at End of Period	\$ 252,023	\$ 169,077	\$ 6,721	\$ 37,790	\$ 465,611

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, 2020

Total Net Change in Fund Balances - Governmental Funds	\$ 24,848
Changes to accrued interest are not shown in the fund financial statements. The net effect of the current year decrease is to increase net position.	320
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 depreciation expense of \$234,035 is in excess of capital outlay expenditures of \$143,552.	(90,483)
In the Statement of Activities, an expense is recorded for other post-employment benefits (OPEB) to adjust net OPEB obligation to the actuarial determined amount less any contributions to fund the obligation. This is the difference between the prior year and the current year net OPEB obligation.	(98,932)
Change to compensated absences are not shown in the fund financial statements. The net effect of the current year decrease is to increase net position.	(4,061)
The change in net pension liability and related deferred items amounts does require the use of current resources and is not reported in the governmental funds.	(63,216)
Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position.	64,823
Changes in Net Position - Governmental Activities	\$ <u>(166,701)</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, 2020

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 150,974	\$ 150,217	\$ 301,191
Accounts Receivable	9,465	39,077	48,542
Due from Other Funds	--	25,588	25,588
Total Current Assets	160,439	214,882	375,321
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	--	7,000	7,000
Capital Assets being Depreciated, net	378,549	105,583	484,132
Total Assets	538,988	327,465	866,453
DEFERRED OUTFLOWS OF RESOURCES			
Pension	6,008	--	6,008
Total Deferred Outflows of Resources	6,008	--	6,008
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	213	82,761	82,974
Accrued Payroll and Related Liabilities	616	616	1,232
Total Current Liabilities	829	83,377	84,206
<i>Noncurrent Liabilities</i>			
Net OPEB Liability	32,665	--	32,665
Net Pension Liability	128,491	--	128,491
Total Liabilities	161,985	83,377	245,362
NET POSITION			
Net Investment in Capital Assets	378,549	112,583	491,132
<i>Unrestricted</i>	4,462	131,505	135,967
Total Net Position	\$ 383,011	\$ 244,088	\$ 627,099

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, 2020

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$ 41,609	\$ 435	\$ 42,044
<i>Total Operating Revenues</i>	41,609	435	42,044
Operating Expenses			
Personnel Services	192,194	221,919	414,113
Supplies	--	850	850
Contractual Services	5,849	318,032	323,881
Utilities	2,240	10,418	12,658
Repairs and Maintenance	276	--	276
Depreciation	20,720	17,817	38,537
<i>Total Operating Expenses</i>	221,279	569,036	790,315
<i>Operating Income (Loss)</i>	(179,670)	(568,601)	(748,271)
Non-Operating Revenues (Expenses)			
Loss on Sale of Assets	(4,125)	(16,932)	(21,057)
State Grants	--	251,902	251,902
<i>Net Non-Operating Revenues (Expenses)</i>	(4,125)	234,970	230,845
<i>Change In Net Position</i>	(183,795)	(333,631)	(517,426)
<i>Net Position at Beginning of Period</i>	566,806	577,719	1,144,525
<i>Net Position at End of Period</i>	\$ 383,011	\$ 244,088	\$ 627,099

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, 2020

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 41,169	\$ 634,710	\$ 675,879
Cash Payments to Employees for Services and Fringe Benefits	(154,720)	(368,130)	(522,850)
Cash Payments to Suppliers for Goods and Services	(13,058)	(286,896)	(299,954)
Net Cash Used in Operating Activities	(126,609)	(20,316)	(146,925)
Cash Flows from Noncapital Financing Activities			
State Grants	-	251,902	251,902
Change in Interfund Balances	-	(124,695)	(124,695)
Net Cash Provided by Noncapital Financing Activities	-	127,207	127,207
Cash Flows from Capital and Related Financing Activities			
Purchase of Capital Assets	(13,700)	-	(13,700)
Net Cash Used in Capital and Related Financing Activities	(13,700)	-	(13,700)
Net Increase (Decrease) in Cash and Investments	(140,309)	106,891	(33,418)
<i>Cash and Investments - Beginning of Year</i>	<i>291,283</i>	<i>43,326</i>	<i>334,609</i>
Cash and Investments - End of Year	\$ 150,974	\$ 150,217	\$ 301,191
Reconciliation of Operating Loss to			
Net Cash Used in Operating Activities			
Operating Loss	\$ (179,670)	\$ (568,601)	\$ (748,271)
Adjustments to Reconcile Operating Loss to			
Net Cash Used in Operating Activities			
Depreciation Expense	20,720	17,817	38,537
Changes in Assets, Deferrals, and Liabilities			
Accounts Receivable	(440)	634,275	633,835
Inventories	-	1,150	1,150
Accounts Payable	(4,693)	41,254	36,561
Accrued Payroll and Related Liabilities	176	176	352
Net OPEB Liability	15,691	(21,083)	(5,392)
Net Pension Liability and Related Deferrals	21,607	(125,304)	(103,697)
Net Cash Used in Operating Activities	\$ (126,609)	\$ (20,316)	\$ (146,925)

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

City of Parchment
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2020

	<u>Agency</u>
ASSETS	
Prepaid Items	\$ 53,342
<i>Total Assets</i>	<u>53,342</u>
LIABILITIES	
Negative Equity in Pooled Cash	49,143
Accrued Payroll and Related Liabilities	<u>4,199</u>
<i>Total Liabilities</i>	<u>\$ 53,342</u>

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

Notes to the Financial Statements

City of Parchment

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the City of Parchment (the “City”) have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City’s accounting policies are described below.

Reporting Entity

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

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

Blended Component Unit

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

Brownfield Redevelopment Authority (the “Authority”). The Authority was created under the provisions of Act 381, Public Acts of 1996 of the State of Michigan. The purpose of the Authority is to promote the revitalization of environmentally distressed areas within the boundaries of the City. The Authority consists of a board that has an interest in the revitalization of environmentally distressed properties. Members are appointed by the Mayor with City Commission approval. The board is not current active as of the current fiscal year-end.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

City of Parchment

Notes to the Financial Statements

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

City of Parchment

Notes to the Financial Statements

The City of Parchment reports the following major governmental funds:

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

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

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

The City reports the following major proprietary funds:

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

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

Additionally, the government reports the following fund types:

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

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary and Budgetary Accounting

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

City of Parchment

Notes to the Financial Statements

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

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

Assets, Liabilities, and Fund Equity

Cash, Cash Equivalents, and Investments

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

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

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

City of Parchment

Notes to the Financial Statements

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

Receivables and Payables

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

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

Inventories

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Prepaid Items

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets and sidewalks and similar items), are reported in the applicable governmental or business-type columns

City of Parchment

Notes to the Financial Statements

in the government-wide financial statements. Capital assets are defined by the city as assets with an estimated useful life in excess of one year and an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at acquisition cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and Improvements	15 - 60
Machinery, Equipment, and Vehicles	5 - 40
Infrastructure	15 - 25
Utility Systems	25 - 100

Deferred Outflows of Resources

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

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

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

City of Parchment

Notes to the Financial Statements

Compensated Absences

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

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits

The City records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's Retiree Health Care Plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Net Position Flow Assumption

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

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

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to

City of Parchment

Notes to the Financial Statements

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

Fund Balance Policies

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

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

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

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

Property Tax Revenue Recognition

City property taxes are assessed as of December 31 and attached as an enforceable lien on the property as of July 1 of the following year and are due without penalty on or before August 14. These summer tax bills include the City's own property taxes and taxes billed on behalf of the

City of Parchment

Notes to the Financial Statements

Parchment school district, the intermediate school district, and Kalamazoo Valley Community College. Real property taxes not collected, but deemed collectable, as of March 1, are turned over to Kalamazoo County for collection, which advances the City 100% for delinquent taxes. Collection of the delinquent personal property taxes remains the responsibility of the City Treasurer. The City acts as a collection agent for Kalamazoo County and the Parchment Community Library for winter property taxes.

Use of Estimates

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

Subsequent Events

Subsequent events have been evaluated through January 29, 2021. The City will be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. COVID-19 has caused significant government and business disruptions through mandated and voluntary closings and stay at home orders.

Management is in the process of determining the significance that the outbreak will have on the City's upcoming budget. Certain revenues are expected to decrease during fiscal year 2021. Further, expenditures/expenses for personal protective equipment will be incurred during fiscal year 2021. Actual changes in both revenues and expenditures/expenses because of COVID-19 remain highly uncertain.

City of Parchment

Notes to the Financial Statements

Note 2 - Stewardship, Compliance, and Accountability

Excess of Expenditures over Appropriations

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The City had the following expenditures in excess of the amounts appropriated during the year ended June 30, 2020:

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance</u>
General Fund			
Parks, Recreation, and Culture	\$ 187,520	\$ 194,293	(6,773)
Local Streets			
Routine Maintenance	16,900	48,855	(31,955)
Administration	19,230	38,576	(19,346)
Major Streets			
Routine Maintenance	48,280	75,542	(27,262)
Administration	19,350	39,576	(20,226)

Deficit Net Position

The City had an unrestricted governmental activities net position of \$(1,661,585).

Note 3 - Cash and Investments

Following is a reconciliation of deposit balances as of June 30, 2020:

Statement of Net Position

Cash and Investments	\$ 898,692
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Statement of Fiduciary Assets and Liabilities

Negative Equity in Pooled Cash	(49,143)
Total	<u>\$ 849,549</u>

Deposits and Investments

Checking Accounts	\$ 426,450
Brokerage Accounts, Cash	214,073
Brokerage Accounts, Certificates of Deposit	208,826
Cash on Hand	200
Total	<u>\$ 849,549</u>

City of Parchment

Notes to the Financial Statements

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits might not be returned. State law does not require, and the City does not have a policy for deposit custodial credit risk. As of year-end, \$140,355 of the City's bank balance of \$441,523 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Interest Rate Risk. Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturities for the certificates of deposits of \$208,826 are all due within one to five years.

Fair Value Measurement. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The City's balances in brokerage accounts are valued using market prices (level 1 inputs) and have a balance of \$422,898 as of June 30, 2020.

City of Parchment

Notes to the Financial Statements

Note 4 - Capital Assets

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

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 1,303,688	\$ -	\$ -	\$ 1,303,688
Capital Assets being Depreciated				
Buildings and Improvements	703,826	-	-	703,826
Machinery, Equipment, and Vehicles	1,771,294	143,552	-	1,914,846
Infrastructure	3,369,583	-	-	3,369,583
<i>Subtotal</i>	<u>5,844,703</u>	<u>143,552</u>	<u>-</u>	<u>5,988,255</u>
Less Accumulated Depreciation				
Buildings and Improvements	333,358	13,193	-	346,551
Machinery, Equipment, and Vehicles	1,524,426	65,259	-	1,589,685
Infrastructure	988,097	155,583	-	1,143,680
<i>Subtotal</i>	<u>2,845,881</u>	<u>234,035</u>	<u>-</u>	<u>3,079,916</u>
<i>Capital Assets being Depreciated, Net</i>	<u>2,998,822</u>	<u>(90,483)</u>	<u>-</u>	<u>2,908,339</u>
<i>Capital Assets, Net</i>	<u>\$ 4,302,510</u>	<u>\$ (90,483)</u>	<u>\$ -</u>	<u>\$ 4,212,027</u>

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

Business-type Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets not being Depreciated				
Land	\$ 7,000	\$ -	\$ -	\$ 7,000
Capital Assets being Depreciated				
Building and Improvements	272,634	-	-	272,634
Land Improvements	13,647	-	-	13,647
Machinery, Equipment, and Vehicles	1,130,293	13,700	(54,709)	1,089,284
Distribution and Collection	800,026	-	-	800,026
<i>Subtotal</i>	<u>2,216,600</u>	<u>13,700</u>	<u>(54,709)</u>	<u>2,175,591</u>
Less Accumulated Depreciation				
Building and Improvements	197,230	5,846	-	203,076
Land Improvements	7,539	250	-	7,789
Machinery, Equipment, and Vehicles	1,016,470	21,409	(33,652)	1,004,227
Distribution and Collection	465,335	11,032	-	476,367
<i>Subtotal</i>	<u>1,686,574</u>	<u>38,537</u>	<u>(33,652)</u>	<u>1,691,459</u>
<i>Capital Assets being Depreciated, Net</i>	<u>530,026</u>	<u>(24,837)</u>	<u>(21,057)</u>	<u>484,132</u>
<i>Capital Assets, Net</i>	<u>\$ 537,026</u>	<u>\$ (24,837)</u>	<u>\$ (21,057)</u>	<u>\$ 491,132</u>

City of Parchment

Notes to the Financial Statements

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

Governmental Activities

General Government	\$ 5,230
Public Works	183,344
Recreation and Culture	18,598
Public Safety	26,863
<i>Total</i>	<u>\$ 234,035</u>

Business-type Activities

Water Fund	\$ 17,817
Sewer Fund	20,720
<i>Total</i>	<u>\$ 38,537</u>

Note 5 - Interfund Balances and Interfund Transfers

As of June 30, 2020, the interfund balances were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Local Street	Major Street	\$ 134,538
Water Fund	General Fund	25,588

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

As of June 30, 2020, the interfund transfers were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Nonmajor Governmental Funds	General Fund	\$ 2,300
Local Street	Major Street	14,400

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

City of Parchment

Notes to the Financial Statements

Note 6 - Long-term Obligations

The following is a summary of long-term obligation activity of the City for the year ended June 30, 2020:

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities							
2014 Note Payable	2021	3.64%	\$ 26,152	\$ -	\$ 18,315	\$ 7,837	\$ 7,838
MDEQ Brownfield Loan	2034	1.50%	775,856	-	46,508	729,348	47,206
<i>Total Long-term Debt</i>			802,008	-	64,823	737,185	55,044
Compensated Absences			36,725	4,061	-	40,786	-
<i>Total Governmental Activities</i>			\$ 838,733	\$ 4,061	\$ 64,823	\$ 777,971	\$ 55,044

The note payable and the MDEQ Brownfield loan are direct placement debt obligations. The debt documents contain various provisions that in the event of default, the City shall be required to use money from its general fund or levy an ad valorem tax sufficient to pay the obligation, subject to applicable constitutional, statutory, and charter limitations.

Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2021	\$ 55,044	\$ 11,003	\$ 66,047
2022	47,914	10,232	58,146
2023	48,633	9,513	58,146
2024	49,362	8,784	58,146
2025	50,103	8,043	58,146
2026-2030	262,014	28,716	290,730
2031-2034	224,115	8,468	232,583
Totals	\$ 737,185	\$ 84,759	\$ 821,944

Note 7 - Defined Benefit Pension Plan

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

City of Parchment

Notes to the Financial Statements

Retirement benefits for employees are calculated as follows:

<u>Division</u>	<u>Benefit Multiplier</u>	<u>Benefit Maximum</u>	<u>Final Average Compensation (Years)</u>	<u>Normal Retirement Age</u>	<u>Unreduced Benefit (Age/Years of Service)</u>	<u>Reduced Benefit (Age/Years of Service)</u>	<u>Vesting (Years)</u>
General - Closed	2.00%	No max	5	60	50/25	55/15	10

Employees Covered by Benefit Terms

At the December 31, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	16
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	5
<i>Total employees covered by MERS</i>	<u>24</u>

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2020, the City had the following contribution rates:

<u>Division</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
General - Closed	4.70%	\$7,611 / month

Net Pension Liability

The net pension liability reported at June 30, 2020 was determined using a measure of the total pension liability and the pension net position as of December 31, 2019. The December 31, 2019 total pension liability was determined by an actuarial valuation performed as of December 31, 2019.

City of Parchment

Notes to the Financial Statements

Actuarial Assumptions

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.00% in the long-term
Investment Rate of Return	7.35%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.00% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Gross Return	Long-term Expected Gross Contribution	Inflation Assumption	Long-term Expected Real Rate of Return
Global Equity	60.00%	7.75%	4.65%	2.50%	3.15%
Global Fixed Income	20.00%	3.75%	0.75%	2.50%	0.25%
Private Investments	20.00%	9.75%	1.95%	2.50%	1.45%
	<u>100.00%</u>		<u>7.35%</u>		<u>4.85%</u>

Discount Rate

The discount rate used to measure the total pension liability is 7.60%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Parchment

Notes to the Financial Statements

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2018	\$ 3,190,556	\$ 1,863,625	\$ 1,326,931
Service Cost	19,217	-	19,217
Interest	246,804	-	246,804
Differences Between Expected and Actual Experience	(5,549)	-	(5,549)
Changes in Assumptions	102,661	-	102,661
Employer Contributions	-	354,649	(354,649)
Employee Contributions	-	8,639	(8,639)
Net Investment Income	-	259,710	(259,710)
Benefit Payments, Including Refunds	(230,223)	(230,223)	-
Administrative Expenses	-	(4,431)	4,431
<i>Net Changes</i>	132,910	388,344	(255,434)
Balance at December 31, 2019	\$ 3,323,466	\$ 2,251,969	\$ 1,071,497
Allocated to:			
Governmental Activities			\$ 943,006
Business-type Activities			128,491
			\$ 1,071,497

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.60%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Net Pension Liability of the City	<u>\$ 1,378,789</u>	<u>\$ 1,071,497</u>	<u>\$ 805,801</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

City of Parchment

Notes to the Financial Statements

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended June 30, 2020 the City recognized pension expense of \$239,019. The City reported deferred outflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources
Differences between Projected and Actual Investment Returns	\$ 4,433
Contributions Subsequent to the Measurement Date *	45,666
Total	\$ 50,099

	Allocated to:	
	Governmental Activities	\$ 44,091
	Business-type Activities	6,008
		\$ 50,099

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2021.

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

Year Ending June 30,	Amount
2021	\$ (7,178)
2022	6,034
2023	26,671
2024	(21,094)

Note 8 - Other Post-employment Benefits

Plan Description

The City provides retiree healthcare benefits through the City's retiree healthcare plan (the "Plan") to eligible employees and their spouses. The benefits are provided under collective bargaining agreements and personnel policies. The City pays for the pay-as-you go costs from the general fund and makes additional discretionary pre-funding contributions annually.

City of Parchment

Notes to the Financial Statements

Benefits Provided and Contributions

The Plan was established and is being funded under the authority of the City. The plan's funding policy is that the employer will contribute discretionary amounts if able in subsequent years. There are no long term contracts for contributions to the plan. The plan has no legally required reserves.

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2020):

Inactive plan members or beneficiaries currently receiving benefits	2
Active plan members	<u>6</u>
<i>Total employees covered by the Plan</i>	<u>8</u>

Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2020 and a measurement date of June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.50%
Investment rate of return	5.00%
Discount rate	3.50%
Mortality	Pub-2010 Mortality Table Scale MP-2019
Healthcare cost trend rate	8.25% decreasing to 4.50%

Discount Rate

The discount rate used to measure the total OPEB liability was 3.50%. Based on those assumptions, the retirement plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members past 2020. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/As, or higher, tax-exempt municipal bond rate. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total OPEB liability.

City of Parchment

Notes to the Financial Statements

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

Changes in OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at June 30, 2019	\$ 178,670	\$ -	\$ 178,670
Service Cost	20,778	-	20,778
Interest	9,205	-	9,205
Differences Between Expected and Actual Experience	94,107	-	94,107
Employer Contributions	-	30,550	(30,550)
Benefit Payments, Including Refunds	(30,550)	(30,550)	-
<i>Net Changes</i>	<u>93,540</u>	<u>-</u>	<u>93,540</u>
Balance at June 30, 2020	<u>\$ 272,210</u>	<u>\$ -</u>	<u>\$ 272,210</u>
Allocated to:			
		Governmental Activities	\$ 239,545
		Business-type Activities	32,665
			<u>\$ 272,210</u>

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

The following presents the net OPEB liability of the employer, calculated using the discount rate of 3.50%, as well as what the employer's net OPEB liability would be using a discount rate that is 1% point lower or higher than the current rate:

	1% Decrease (2.50%)	Discount Rate (3.50%)	1% Increase (4.50%)
Net OPEB Liability	<u>\$ 296,739</u>	<u>\$ 272,210</u>	<u>\$ 250,501</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the employer, calculated using the healthcare cost trend rate, as well as what the employer's net OPEB liability would be using a healthcare cost trend rate that is 1 percentage point lower or higher than the current rate:

	Healthcare Cost		
	1% Decrease (7.25%-3.50%)	Trend Rate (8.25-4.50%)	1% Increase (9.25%-5.50%)
Net OPEB Liability	<u>\$ 250,958</u>	<u>\$ 272,210</u>	<u>\$ 295,709</u>

City of Parchment

Notes to the Financial Statements

Note 9 - Risk Management

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

Note 10 - Tax Abatement Disclosure

Industrial property tax abatements are granted in the State of Michigan under Public Act 198, as amended, to promote economic development, creation of jobs, and new or improvement facilities. The industrial facilities tax (IFT) exemption must be approved by both the local unit (after a public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the local unit. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for a period of 1 to 12 years. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. For the year ended June 30, 2020, the City's property taxes were reduced by \$3,391 under this program.

Note 11 - Prior Period Adjustments

In the prior year, the City overstated its state revenue sharing receivable and incorrectly excluded defined benefit plan contributions for two employees. The resulting correction decreased state revenue sharing receivable and decreased fund balance within the general fund and net position within governmental activities. The results of these adjustments to fund balance and position are as follows:

	General Fund	Governmental Funds	Governmental Activities
<i>Fund Balance/Net Position as of June 30, 2019, as Reported</i>	\$ 261,794	\$ 561,383	\$ 3,043,514
Adjust State Revenue Sharing Receivable	(29,845)	(29,845)	(29,845)
Record Defined Benefit Contributions	(90,775)	(90,775)	(90,775)
<i>Fund Balance/Net Position as of June 30, 2019, as Restated</i>	<u>\$ 141,174</u>	<u>\$ 440,763</u>	<u>\$ 2,922,894</u>

Note 12 - Assignment of Water and Sewer Operations

The City entered into an agreement on March 4, 2019 for the City of Kalamazoo to take over ownership and operating responsibilities of the water system. The City of Kalamazoo began billing residents on April 1, 2019. It was also agreed upon that the City of Kalamazoo would take over sewer services for the City; however, the sewer system is to be held and maintained by the City of Parchment. The City of Kalamazoo collects the charges and remits them to the City. These agreements caused a significant decrease in revenues in both the water and sewer funds. As a result of the water system agreement, the City plans to close the water fund during the fiscal year ending June 30, 2021.

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, 2020

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
Property Taxes	\$ 771,600	\$ 771,600	\$ 837,994	\$ 66,394
State Sources	196,500	196,500	192,769	(3,731)
Local Sources	32,500	32,500	34,000	1,500
Licenses and Permits	9,200	9,200	12,982	3,782
Charges for Services	151,400	151,400	150,698	(702)
Fines and Forfeitures	7,100	7,100	3,637	(3,463)
Refunds and Reimbursements	230,000	230,000	230,000	--
Other	29,570	29,570	54,984	25,414
Interest Income	4,100	4,100	7,223	3,123
Total Revenues	1,431,970	1,431,970	1,524,287	92,317
Expenditures				
General Government				
Legislative	26,270	41,270	41,296	(26)
Administration	325,130	390,980	341,057	49,923
Legal Services	24,200	24,200	15,538	8,662
Total General Government	375,600	456,450	397,891	58,559
Public Safety				
Police	361,400	361,400	327,538	33,862
Fire	123,500	123,500	81,832	41,668
Total Public Safety	484,900	484,900	409,370	75,530
Public Works				
Public Services	320,675	435,675	390,621	45,054
Parks, Recreation, and Culture	194,520	187,520	194,293	(6,773)
Debt Service	19,200	19,200	18,963	237
Total Expenditures	1,394,895	1,583,745	1,411,138	172,607
Other Financing Uses				
Transfers Out	2,300	2,300	2,300	--
Total Expenditures and Other Financing Uses	1,397,195	1,586,045	1,413,438	172,607
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	34,775	(154,075)	110,849	264,924
Net Change in Fund Balance	34,775	(154,075)	110,849	264,924
Fund Balance at Beginning of Period	141,174	141,174	141,174	--
Fund Balance at End of Period	\$ 175,949	\$ (12,901)	\$ 252,023	\$ 264,924

City of Parchment
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Street
For the year Ended June 30, 2020

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
State Sources	\$ 52,000	\$ 52,000	\$ 60,394	\$ 8,394
Total Revenues	52,000	52,000	60,394	8,394
Other Financing Sources				
Transfers In	20,400	20,400	14,400	(6,000)
Total Revenues and Other Financing Sources	72,400	72,400	74,794	2,394
Expenditures				
Routine Maintenance	16,900	16,900	48,855	(31,955)
Traffic Services	17,410	17,410	5,562	11,848
Winter Maintenance	23,100	23,100	15,329	7,771
Administration	19,230	19,230	38,576	(19,346)
Total Expenditures	76,640	76,640	108,322	(31,682)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	(4,240)	(4,240)	(33,528)	(29,288)
Net Change in Fund Balance	(4,240)	(4,240)	(33,528)	(29,288)
Fund Balance at Beginning of Period	202,605	202,605	202,605	--
Fund Balance at End of Period	\$ 198,365	\$ 198,365	\$ 169,077	\$ (29,288)

City of Parchment
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Street
For the year Ended June 30, 2020

	Budgeted Amounts			Variance Positive (Negative) Final to Actual
	Original	Final	Actual	
Revenues				
State Sources	\$ 142,800	\$ 142,800	\$ 145,328	\$ 2,528
Other	--	--	1,444	1,444
Total Revenues	142,800	142,800	146,772	3,972
Expenditures				
Routine Maintenance	48,280	48,280	75,542	(27,262)
Traffic Services	24,210	24,210	15,926	8,284
Winter Maintenance	22,815	22,815	15,632	7,183
Administration	19,350	19,350	39,576	(20,226)
Total Expenditures	114,655	114,655	146,676	(32,021)
Other Financing Uses				
Transfers Out	20,400	20,400	14,400	6,000
Total Expenditures and Other Financing Uses	135,055	135,055	161,076	(26,021)
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	7,745	7,745	(14,304)	(22,049)
Net Change in Fund Balance	7,745	7,745	(14,304)	(22,049)
Fund Balance at Beginning of Period	21,025	21,025	21,025	--
Fund Balance at End of Period	\$ 28,770	\$ 28,770	\$ 6,721	\$ (22,049)

City of Parchment
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios - MERS *
Last Six Plan Years (as of December 31)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability						
Service Cost	\$ 19,217	\$ 11,454	\$ 20,107	\$ 20,650	\$ 19,559	\$ 27,687
Interest	246,804	266,168	266,255	263,535	248,239	245,204
Differences Between Expected and Actual Experience	(5,549)	(284,791)	(29,023)	11,932	126,956	-
Changes in Assumptions	102,661	-	-	-	142,830	-
Benefit Payments, Including Refunds	<u>(230,223)</u>	<u>(247,289)</u>	<u>(260,906)</u>	<u>(262,809)</u>	<u>(242,981)</u>	<u>(221,101)</u>
Net Change in Pension Liability	132,910	(254,458)	(3,567)	33,308	294,603	51,790
<i>Total Pension Liability - Beginning</i>	<u>3,190,556</u>	<u>3,445,014</u>	<u>3,448,581</u>	<u>3,415,273</u>	<u>3,120,670</u>	<u>3,068,880</u>
Total Pension Liability - Ending (a)	<u>\$ 3,323,466</u>	<u>\$ 3,190,556</u>	<u>\$ 3,445,014</u>	<u>\$ 3,448,581</u>	<u>\$ 3,415,273</u>	<u>\$ 3,120,670</u>
Plan Fiduciary Net Position						
Contributions - Employer	\$ 354,649	\$ 80,570	\$ 78,922	\$ 47,447	\$ 57,416	\$ 56,620
Contributions - Member	8,639	9,990	10,727	11,025	14,201	15,009
Net Investment Income (Loss)	259,710	(77,137)	257,702	218,445	(31,877)	137,991
Benefit Payments, Including Refunds	(230,223)	(247,289)	(260,906)	(262,809)	(242,981)	(221,101)
Administrative Expenses	<u>(4,431)</u>	<u>(3,955)</u>	<u>(4,098)</u>	<u>(4,323)</u>	<u>(4,720)</u>	<u>(5,039)</u>
Net Change in Plan Fiduciary Net Position	388,344	(237,821)	82,347	9,785	(207,961)	(16,520)
<i>Plan Fiduciary Net Position - Beginning</i>	<u>1,863,625</u>	<u>2,101,446</u>	<u>2,019,099</u>	<u>2,009,314</u>	<u>2,217,275</u>	<u>2,233,795</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,251,969</u>	<u>\$ 1,863,625</u>	<u>\$ 2,101,446</u>	<u>\$ 2,019,099</u>	<u>\$ 2,009,314</u>	<u>\$ 2,217,275</u>
Net Pension Liability - Ending (a) - (b)	\$ 1,071,497	\$ 1,326,931	\$ 1,343,568	\$ 1,429,482	\$ 1,405,959	\$ 903,395
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.8%	58.4%	61.0%	58.5%	58.8%	71.1%
Covered Payroll	\$ 220,380	\$ 130,306	\$ 228,231	\$ 234,654	\$ 225,589	\$ 319,346
Net Pension Liability as a Percentage of Covered Payroll	486.2%	1018.3%	588.7%	609.2%	623.2%	282.9%

* Built prospectively upon implementation of GASB 68

City of Parchment
Required Supplementary Information
Schedule of Contributions - MERS
Last Ten Fiscal Years (as of June 30)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially Determined Contribution	\$ 97,043	\$ 71,789	\$ 78,922	\$ 47,447	\$ 57,416	\$ 56,620	\$ 45,910	\$ 24,330	\$ 32,526	\$ 40,698
Contributions in Relation to the Actuarially Determined Contribution	<u>279,500</u>	<u>162,564</u>	<u>78,922</u>	<u>47,447</u>	<u>57,416</u>	<u>56,620</u>	<u>45,910</u>	<u>24,330</u>	<u>32,526</u>	<u>40,698</u>
Contribution Excess (Deficiency)	<u>\$ 182,457</u>	<u>\$ 90,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 228,926	\$ 228,231	\$ 234,654	\$ 225,589	\$ 319,346	\$ 309,877	\$ 316,188	\$ 303,188	\$ 509,365	\$ 502,376
Contributions as a Percentage of Covered Payroll	122.1%	71.2%	33.6%	21.0%	18.0%	18.3%	14.5%	8.0%	6.4%	8.1%

Notes

Valuation Date

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

Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Entry-age Normal
Amortization method	Level percentage of pay, open
Remaining amortization period	19 years
Asset valuation method	5 year smoothed market
Inflation	2.50%
Salary increases	3.00% (3.75% for 2015 through 2019)
Investment rate of return	7.35% (7.75% for 2015 through 2019)
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Male - 50% Female blend of the RP-2014 Group Mortality Table

City of Parchment
Required Supplementary Information
Schedule of Changes in Net OPEB Liability and Related Ratios *
Last Three Fiscal Years

	2020	2019	2018
Total OPEB Liability			
Service Cost	\$ 20,778	\$ 11,589	\$ 12,958
Interest	9,205	6,042	8,052
Differences Between Expected and Actual Experience	94,107	(27,099)	-
Benefit Payments, Including Refunds	(30,550)	(27,955)	-
Net Change in total OPEB Liability	93,540	(37,423)	21,010
<i>Total OPEB Liability - Beginning</i>	<i>178,670</i>	<i>216,093</i>	<i>195,083</i>
Total OPEB Liability - Ending (a)	\$ 272,210	\$ 178,670	\$ 216,093
 Plan Fiduciary Net Position			
Contributions/benefit payments made from general operating funds	\$ 30,550	\$ 27,955	\$ -
Benefit Payments, Including Refunds	(30,550)	(27,955)	-
Net Change in Plan Fiduciary Net Position	-	-	-
<i>Plan Fiduciary Net Position - Beginning</i>	<i>-</i>	<i>-</i>	<i>-</i>
Plan Fiduciary Net Position - Ending (b)	\$ -	\$ -	\$ -
 Net OPEB Liability - Ending (a) - (b)	\$ 272,210	\$ 178,670	\$ 216,093
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	0.0%	0.0%	0.0%
 Covered Payroll	\$ 297,081	\$ 343,081	\$ 398,617
 Net OPEB Liability as a Percentage of Payroll	N/A	N/A	N/A

* Built prospectively upon implementation of GASB 75

City of Parchment
Required Supplementary Information
Schedule of Contributions - OPEB *
Last Three Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 30,165	\$ 33,923	\$ -
Contributions in Relation to the Actuarially Determined Contribution	30,550	27,955	-
Contribution Excess (Deficiency)	<u>\$ 385</u>	<u>\$ (5,968)</u>	<u>\$ -</u>
 Covered Payroll	 \$ 297,081	 \$ 343,081	 \$ 398,617
 Contributions as a Percentage of Covered Payroll	 N/A	 N/A	 N/A

Notes

Valuation Date: June 30, 2020

Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Entry Age Normal
Amortization method	Average Future Service
Remaining amortization period	7 years
Asset valuation method	N/A
Inflation	2.50%
Salary increases	3.50%
Investment rate of return	5.00%
Retirement Age	62
Mortality	Pub-2010 Mortality Table Scale MP-2019
Health Care Cost Trend Rate	8.25% decreasing to 4.50%

** Built prospectively upon implementation of GASB 75*

OTHER SUPPLEMENTARY INFORMATION

**City of Parchment
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2020**

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Brownfield Redevelopment</u>	<u>Veteran's Memorial Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 26,392	\$ 11,398	\$ 37,790
<i>Total Assets</i>	<u>\$ 26,392</u>	<u>\$ 11,398</u>	<u>\$ 37,790</u>
FUND BALANCE			
Restricted	26,392	11,398	37,790
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>\$ 26,392</u>	<u>\$ 11,398</u>	<u>\$ 37,790</u>

City of Parchment
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year Ended June 30, 2020

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor</u>
	<u>Brownfield</u>	<u>Veteran's</u>	<u>Governmental</u>
	<u>Redevelopment</u>	<u>Memorial Fund</u>	<u>Funds</u>
Revenues			
Property Taxes	\$ 55,601	\$ --	\$ 55,601
Other	--	2,498	2,498
<i>Total Revenues</i>	<u>55,601</u>	<u>2,498</u>	<u>58,099</u>
Expenditures			
Community and Economic Development	40,422	--	40,422
Debt Service - Principal	46,508	--	46,508
Debt Service - Interest	11,638	--	11,638
<i>Total Expenditures</i>	<u>98,568</u>	<u>--</u>	<u>98,568</u>
<i>Excess of Revenues Over</i>			
<i>(Under) Expenditures</i>	<u>(42,967)</u>	<u>2,498</u>	<u>(40,469)</u>
Other Financing Sources			
Transfers In	2,300	--	2,300
<i>Net Other Financing Sources</i>	<u>2,300</u>	<u>--</u>	<u>2,300</u>
<i>Net Change in Fund Balance</i>	<u>(40,667)</u>	<u>2,498</u>	<u>(38,169)</u>
<i>Fund Balance at Beginning of Period</i>	67,059	8,900	75,959
<i>Fund Balance at End of Period</i>	<u>\$ 26,392</u>	<u>\$ 11,398</u>	<u>\$ 37,790</u>

January 29, 2021

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 aggregate remaining fund information of the City of Parchment (the “City”) for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 21, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management’s estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management’s estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- The assumptions used in the actuarial valuations of the pension and other post-employment plans are based on historical trends and industry standards.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Adjustments to reconcile accounts payable
- Reclassifications of interfund balances and transfers between funds
- Adjustment to reconcile prepaid expenses
- Adjustment to adjust state revenue sharing receivable to actual
- Adjustments to reconcile the beginning balances of fund balance
- Adjustment to reconcile capital asset activity to actual
- Adjustment to record net pension liability and other post-employment benefit entries

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 29, 2021.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

We were engaged to report the combining and individual nonmajor fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies in internal control presented in the Schedule of Findings as 2019-01, 2019-02, and 2020-01 to be material weaknesses.

Restriction on Use

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

Very truly yours,

A handwritten signature in dark ink that reads "Gabridge & Company". The script is cursive and fluid, with the ampersand being particularly stylized.

Gabridge & Company, PLC
Grand Rapids, MI

City of Parchment

Schedule of Findings

Material Weaknesses

2019-01 – Preparation of Governmental Financial Statements (repeat finding)

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both 1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and 2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition/Finding:	As is the case with many smaller and medium sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls. In addition, we proposed, and management approved, material journal entries to properly record debt service, accounts receivable, accounts payable, and capital asset (capital outlay) transactions in the proprietary and governmental funds. We also noted that the City does not consistently review interim financial statements.
Cause:	This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.
Effect:	As a result of this condition, the City lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task. In addition, the City's records were initially misstated by an amount material to the financial statements. Finally, management of the City is not able to review and inquire of the financial condition of the City on a timely basis.
View of Responsible Officials:	The City concurs with this finding. The City feels that it is cost prohibitive to prepare financial statements in conformity with GAAP. Accordingly, the City, at least in part, will continue to rely on its auditors to prepare financial statements in accordance with GAAP.

City of Parchment

Schedule of Findings

2019-02 - Segregation of Incompatible Duties (repeat finding)

Criteria:	Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the City. A key element of internal control is the segregation of incompatible duties within the accounting function.
Condition/Finding:	The City has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include cash reconciliation, payroll, accounts receivable and accounts payable transactions.
Cause:	This condition is a result of the limited size of the City's accounting staff.
Effect:	As a result of this condition, the City is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.
Recommendation:	While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

City of Parchment

Schedule of Findings

2020-01 – Timely Reconciliation of Cash

Criteria:	The Accounting Procedures Manual states “all cash accounts should be reconciled to their respective bank statements monthly. An authorized individual not responsible for the actual physical handling of the cash should reconcile bank statements to the general ledger when possible. Bank statements and reconciliations must be retained for audit purposes.”
Condition/Finding:	The City is not reconciling bank accounts in a timely fashion.
Cause:	This condition is a result of the limited size of the City’s accounting staff and lack of knowledge in fulfilling its responsibilities.
Effect:	As a result of this condition, the City is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.
Recommendation:	We recommend that the City works more diligently to complete bank reconciliations within 60 days of month end.