

**CITY OF COLDWATER  
BRANCH COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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## **INDEPENDENT AUDITOR'S REPORT**

**City Council  
City of Coldwater, Michigan**

**November 1, 2017**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan, as of and for the year ended June 30, 2017, 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 the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan, as of June 30, 2017, 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.

### **Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, and retirement system information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 of Coldwater’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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2017, on our consideration of the City of Coldwater, Michigan’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Coldwater, Michigan’s internal control over financial reporting and compliance.

*Taylor, Plant & Watkins, P.C.*

**TAYLOR, PLANT & WATKINS, P.C.  
COLDWATER, MICHIGAN**

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the City of Coldwater's financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the City's financial statements, which begin on page 17.

#### **Financial Highlights**

- The City's assets exceeded liabilities by \$87.2 million. Of this amount, \$55.7 million related to investment in capital assets (net of depreciation and related debt). \$12.7 million are restricted assets and \$18.8 million represents unrestricted net assets. Unrestricted net assets may be used to meet the City's ongoing obligations to residents and creditors, without legal restriction.
- Overall revenues exceeded expenditures by \$2.5 million. \$1.2 million of this was an increase in the equity share of the Michigan South Central Power Agency.
- Governmental revenues generated \$13 million compared to \$14.7 million in the prior year. The decrease is primarily due to a \$2.2 million pass through grant that was received by the City in the prior year. Offsetting that decrease is \$900,000 of an MDOT grant recognized due to work done on the Fiske road extension. Also included is \$600,000 of Storm water Asset management Wastewater (SAW) grant funds from the State and \$200,000 of excess funds received from the State reimbursing the City for losses due to changes in the personal property tax law. In the prior year \$500,000 of SAW grant funds were received from the State, \$500,000 was community donations used for the construction of new tennis courts and a splash park in Heritage Park, and \$450,000 of the Fiske road MDOT grant was recognized.
- Governmental expenses totaled \$12.1 million. This is a decrease of approximately \$1.3 million compared to the prior year total. Included in the current year is \$1.4 million of Fiske road construction costs, \$600,000 of grant money used for sanitary and storm drain work, and \$900,000 of tennis and splash expenses. The prior year total included the \$2.2 million of State grant money used for the Clemens Food Group project, \$500,000 of grant money used for sanitary and storm drain work, \$450,000 of Fiske road construction costs and \$350,000 of tennis and splash expenses.
- In the City's business-type activities, revenues generated \$46.2 million. This includes a \$1.2 million increase in the equity share of the Michigan South Central Power Agency. In the prior year the revenues included a \$7.7 million loss taken when the Endicott Power Plant was closed. Without that non cash write down revenues would have been \$41.5 million. The majority of the additional revenue was due to higher electricity costs paid by the City and passed on to the electric users. Expenses totaled \$44.6 million. This was an increase of \$5.5 million from the prior year primarily due to higher electric power costs.

## CITY OF COLDWATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

- Governmental funds reported combined fund balances of \$6.9 million, a decrease of \$2.4 million compared to the prior year. The decrease included \$1.6 million of road bond funds being spent on road projects within the City and \$600,000 of net expenditures related to the completion of the tennis and splash projects.
- Fund balance for the General fund was \$3.65 million, or approximately 38% of total General fund expenditures.

#### **Using this Annual Report**

The City's basic financial statements consist of three components: government-wide financial statements, fund financial statements, and notes and other supplementary information:

**Government-wide Financial Statements** – Government-wide financial statements begin on page 17 and provide readers with a broad overview of the finances of the City of Coldwater as a whole, in a manner similar to a private sector business, distinguishing functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as “governmental activities”) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as “business-type activities”). These statements present a longer-term view using the accrual basis of accounting, which requires that revenues are reported when they are earned and expenses are reported when incurred. They measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services. The statements include a Statement of Net Position and Statement of Activities.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. The Statement of Activities reports the current year's revenues and expenses and how the City's net position changed during the year. Over time, increases or decreases in net position can serve as one indicator of the financial position of the City. Other indicators include factors such as changes in the City's property tax base and the condition of the City's roads and other infrastructure.

**Fund Financial Statements** – The fund financial statements begin on page 19 and present more detailed information about the City's most significant funds, not the City as a whole. The fund financial statements present a short-term view, using a modified accrual basis of accounting, and tell us how the taxpayers' resources were spent during the year as well as how much is available for future spending. Funds are accounting tools the City uses to keep track of specific sources of funding and spending for particular purposes. In 2017 the City didn't have any major funds outside of the General Fund. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.



## CITY OF COLDWATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

- **Governmental funds** account for most, if not all, of a government's tax-supported functions. They are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.
- **Proprietary funds** account for a government's business-type activities, where all or part of the cost of activities are supported by fees and charges that are paid by those who benefit from the activities. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements.
- **Fiduciary funds** account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to finance the City's operations. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided and are an integral part of the government-wide and fund financial statements.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General Fund and the funding progress for the City's retirement system, as well as other supplementary information.

# CITY OF COLDWATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### The City as a Whole

**Statement of Net Position** – As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City's assets exceeded total liabilities by \$87.2 million at the close of June 30, 2017. The following table shows, in a condensed format, the net assets as of June 30, 2017 and 2016.

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Current and other assets	\$ 8,174,366	\$ 11,843,482	\$ 44,434,700	\$ 31,786,513	\$ 52,609,066	\$ 43,629,995
Capital assets	38,996,515	36,343,228	54,777,251	43,640,731	93,773,766	79,983,959
Total assets	47,170,881	48,186,710	99,211,951	75,427,244	146,382,832	123,613,954
<b>Deferred Outflows</b>	703,797	1,246,086	443,326	1,150,456	1,147,123	2,396,542
<b>Liabilities</b>						
Long-term debt outstanding	6,476,354	7,158,199	29,988,824	11,281,690	36,465,178	18,439,889
Other liabilities	6,071,043	7,197,003	17,474,553	14,601,415	23,545,596	21,798,418
Total liabilities	12,547,397	14,355,202	47,463,377	25,883,105	60,010,774	40,238,307
<b>Deferred Inflows</b>	325,523	957,435	-	-	325,523	957,435
<b>Net Assets</b>						
Investment in capital assets- Net of related debt	32,396,902	29,205,015	23,314,136	30,656,542	55,711,038	59,861,557
Restricted	1,924,873	3,952,940	10,744,494	2,251,569	12,669,367	6,204,509
Unrestricted	679,983	962,204	18,133,270	17,786,484	18,813,253	18,748,688
Total net assets	<u>\$ 35,001,758</u>	<u>\$ 34,120,159</u>	<u>\$ 52,191,900</u>	<u>\$ 50,694,595</u>	<u>\$ 87,193,658</u>	<u>\$ 84,814,754</u>

Over 50% of the City's net assets reflect its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide a variety of services to our citizens. Accordingly, these assets are not available for future spending. An additional portion of the City's net position, 15%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$18.8 million, or 22% of the City's net position, is unrestricted and may be used to meet the City's ongoing obligations to its residents and creditors. Of the unrestricted funds, \$680,000 is available to the governmental funds.

# CITY OF COLDWATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

**Statement of Activities** – The following table shows, in condensed format, the changes of net position as of June 30, 2017, compared to prior year:

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,301,516	\$ 1,238,096	\$ 46,794,896	\$ 43,749,960	\$ 48,096,412	\$ 44,988,056
Operating grants and contributions	1,690,652	1,266,082	-	-	1,690,652	1,266,082
Capital grants and contributions	231,269	2,789,305	-	-	231,269	2,789,305
General revenues:						
Property taxes	4,457,655	4,630,938	-	-	4,457,655	4,630,938
State revenues	2,487,419	2,116,067	-	-	2,487,419	2,116,067
Unrestricted investment	55,859	61,853	174,954	93,563	230,813	155,416
Gain (loss) on investment	-	-	1,189,580	(7,735,058)	1,189,580	(7,735,058)
Gain (loss) on sale	54,123	19,505	169,154	(3,620)	223,277	15,885
Miscellaneous	63,808	43,576	488,531	160,891	552,339	204,467
Transfers - internal balances	36,486	(50,000)	(36,486)	50,000	-	-
Payments in lieu of taxes	2,622,324	2,543,184	(2,622,324)	(2,543,184)	-	-
<b>Total revenues</b>	<b>13,001,111</b>	<b>14,658,606</b>	<b>46,158,305</b>	<b>33,772,552</b>	<b>59,159,416</b>	<b>48,431,158</b>
<b>Expenses</b>						
General government	2,197,878	1,936,502	-	-	2,197,878	1,936,502
Public safety	4,262,926	4,631,714	-	-	4,262,926	4,631,714
Public works	3,716,531	2,544,306	-	-	3,716,531	2,544,306
Recreation and cultural	1,572,496	1,654,874	-	-	1,572,496	1,654,874
Economic development	199,420	2,477,862	-	-	199,420	2,477,862
Interest	170,261	159,517	-	-	170,261	159,517
Transfers	-	-	-	-	-	-
Electric	-	-	34,761,176	30,244,277	34,761,176	30,244,277
Telecommunications	-	-	3,351,823	3,369,476	3,351,823	3,369,476
Water	-	-	2,441,313	2,144,828	2,441,313	2,144,828
Waste water	-	-	3,382,588	2,728,333	3,382,588	2,728,333
Rubbish	-	-	448,239	456,449	448,239	456,449
GIS	-	-	166,382	146,027	166,382	146,027
<b>Total expenses</b>	<b>12,119,512</b>	<b>13,404,775</b>	<b>44,551,521</b>	<b>39,089,390</b>	<b>56,671,033</b>	<b>52,494,165</b>
<b>Change in Net Position</b>	<b>\$ 881,599</b>	<b>\$ 1,253,831</b>	<b>\$ 1,606,784</b>	<b>\$ (5,316,838)</b>	<b>\$ 2,488,383</b>	<b>\$ (4,063,007)</b>

During the current fiscal year, the net asset position for the City as a whole increased \$2,488,383. Governmental activities increased its net position by \$881,599 and Business-type activities increased by \$1,606,784.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

#### **Governmental Activities**

Total Governmental revenue is reported at \$13,001,111, a decrease of \$1,657,495 over the prior year. The decrease is primarily attributable to the fact that the prior year included \$2,217,712 of a Community Development Block Grant from the Michigan Economic Development Corporation that passed through the City relating to the Clemens Food Group project. The current year included \$936,060 of funds recognized from a Michigan Department of Transportation grant used by the City to complete construction of the Fiske road extension that was also part of the Clemens project. An additional \$615,302 was received as part of a Storm water Asset management Wastewater (SAW) grant from the State being used to televise sections of the City's sanitary and storm drain system. This project now in its second year will allow the City to better determine where system repairs are needed. \$597,598 was received through a road millage previously approved by City residents. The funds from the sale of the related bonds are being used for construction projects in the City. 2017 was the second year of that assessment.

Total Governmental expenses are reported at \$12,119,512, a decrease of \$1,285,263 from the prior year. As with revenues the decrease is due to the prior year including \$2,217,712 of the pass through grant related to the Clemens project. Included in the current year are \$1,385,486 of construction costs for the Fiske road extension, \$660,470 spent related to the SAW grant, and \$902,718 spent on the tennis and splash park projects.

#### **Business-type Activities**

The City of Coldwater's business-type activities consist of electricity, telecommunications, water supply, and wastewater (all classified as Major Funds), as well as rubbish and GIS services. Charges to residents for utility services amounted to \$46,794,896. The majority of expenses relate to operational expenses to provide utility services in the amount of \$44,551,521. Additional significant costs relate to a payment in lieu of tax which is a 6.5% of revenue City charter provision transfer to the City's General Fund. Current year PILOT transfers were based on the 2015 fiscal operating results. Overall, total revenues exceeded expenditures by \$1,606,784.

#### **Financial Analysis of the City's Funds**

In the preceding analysis, we have been discussing the Government-wide Financial Statements, which report the financial results of the City in aggregate. To fully understand the reasons behind significant changes in fund balance or fund net position, it is important to look at these funds on an individual basis. For this more detailed information about the City's most significant funds, we look at the Fund Financial Statements, which begin on page 19.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

#### **Governmental Funds**

**General Fund** – The General Fund is the City's main operational fund. Revenues are primarily derived from taxpayers for basic services including public safety, general maintenance, parks and recreation and City administration. Reviewing the General Fund financial operating results will broadly inform a taxpayer what has been received in exchange for the payment of property taxes.

In the General Fund, expenditures exceeded revenues by \$282,533. General Fund revenues increased \$149,317 from the prior year and expenditures increased by \$1,192,845. These changes along with a \$42,620 decrease in other sources of revenue resulted in the overall decrease in fund balance.

General Fund revenues are derived from three main sources. The largest source is property tax collections, which were \$3,333,112 this year, a decrease of \$145,068 from prior year. The second largest revenue source is PILOT payments which increased \$79,140 to \$2,622,324. Rounding out the top three is State shared revenue, which increased by \$47,723 to \$988,350. State shared revenue has been trending up in recent years following a decade of reduced funding from the State. The City received \$250,000 less state shared revenue in 2017 than was received in 2002. Other significant revenues include charges for services which include fees generated by the recreation department and the cemeteries as well as contractual fire protection services charges paid by two local townships. Also state sources which include funds distributed by the state to compensate local governments for losses caused by changes in Michigan's personal property tax laws.

Other sources of revenues include transfers of \$396,441 from the retirement millage levied in the amount of one and one-third of a mill.

Overall General Fund expenditures increased compared to last year due to significant planned capital spending. A number of large pieces of equipment were purchased in the current year including a \$540,000 Seagrave pumper fire truck, a \$217,000 CAT loader, and a \$129,000 JAWS truck. Additionally \$95,000 was spent on a parcel of land to be developed in the future.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

The majority of the remaining costs associated with the General Fund are directly tied to labor and fringe benefits and represent over 60 percent of expenses. Providing City services is very labor intensive, especially in the area of public safety where coverage is provided twenty-four hours a day to protect the safety and welfare of City residents. Outside of retirement costs, labor spending continues to hold steady with minimal increases. Due to many cost-saving initiatives over the past years, including reduction of staff levels, health care cost reductions, improvement and streamlining of work processes, and greater use of technology to improve productivity and create efficiencies, non-retirement related labor costs have risen only 3% in the last eight years. The City continues to experience a significant increase in retirement costs related to our long closed defined benefit plans. Annual defined benefit retirement costs payments are twice as much as they were just four years ago. While we unfortunately see continued increases in the cost of payments into the defined benefit plan the City is working with the Municipal Employees Retirement System (MERS) to spread out the payments over time. While painful in the short term, for the long term Coldwater remains positioned very well. By moving away from defined benefit pensions many years ago the City's long term legacy cost obligations are much less than those experienced by many other municipalities.

**Major and Local Street Funds** – The Major and Local Street Funds account for the maintenance of the City's street infrastructure. The majority of revenues are made up of Act 51 money received from the State of Michigan. Act 51 money is provided by the State to finance the construction and maintenance of major streets within the City of Coldwater. Other money is received from the State of Michigan to pay for the maintenance of Highway US-12 that runs through the City. In the current year grant money from the State was used to finish construction on the extension of Fiske road from Newton road to Jonesville road. This project was part of the overall Clemens infrastructure project.

**Grant Fund** – The Grant fund was established to handle significant non routine grants activity. The activity running through this fund will vary significantly from year to year. In the current year this fund accounted for the revenues and expenditures for the second year of the SAW grant, construction activities related to the tennis and splash park construction projects which were both completed during the 2017 fiscal year, and the Great Lakes Commission grant which provided funds to stabilize the riverbank at Waterworks Park.

#### **Proprietary Funds**

Proprietary Funds comprise the bulk of the City's total assets. These funds include Electric, Water, Wastewater, Telecommunications and Rubbish services.

## CITY OF COLDWATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

**Electric** – The Electric Fund ended the fiscal year with a \$1,252,984 increase in net position compared to the prior year when the fund experienced a decrease of \$6,288,129. The current year included \$1,189,580 of gain related to the City's 46% ownership of the Michigan South Central Power Agency (MSCPA).

Electric revenues increased by \$2,751,263 due to higher power costs compared to the prior year. The higher revenue figure was in spite of slightly lower demand by commercial and industrial customers. Overall demand decreased by 2%. Purchased power costs increased \$3,939,840 due to higher power costs incurred by the MSCPA. Remaining costs shown are for operational and labor costs, fuels and ordinary repairs and maintenance. In the current year the fund issued \$4.7 million of bonds to build a new substation at the corner of Fiske and Jonesville roads. This substation will service customers on the northern part of the system.

**Telecommunications** – The Telecommunications Fund experienced a \$109,802 increase in net position. Revenue from cable television and internet services were essentially flat compared to the prior year. Cable rates were raised proportionally to keep up with increases in cost from channel providers, however the number of customers has dropped. Revenues for phone service decreased slightly while internet business fiber saw an increase. The fund's primary costs are programming charges, data line charges, depreciation and third party costs to administer the telephone service. The City continues to be challenged with the increasing cost of cable programming. Significant cost increases have occurred during the last couple years.

**Water Fund** – The Water Fund saw net position increase by \$228,966. This was down from the prior year when the Fund had an increase of \$402,135. The decrease was related to costs associated with taking on new debt for capital improvements to the system. Operating costs were primarily related to the cost to pump, treat and distribute water to residents and businesses. During the current year, \$1,450,000 of capital was invested back into the City's water system. A rate increase went into effect in August 2017 to build cash for future capital projects.

**Wastewater** – The Wastewater Fund experienced a \$24,283 decrease in net position compared to a year ago when the Fund saw a \$363,354 increase. As with the Water Fund the year to year decrease in net position was due to costs associated with taking on new debt, in this case to pay for significant upgrades to the City's wastewater treatment facility. This project started in the current year and will be completed in 2018. The work is necessary to maintain the long term integrity of the facility. To prepare for these upgrades the City began multi-step annual rate increases four years ago. These increases will continue into the future. Some of the costs expensed in the current year were one time debt issuance costs; however, others, such as the interest, will continue until the debt is paid off. The overall investment into the wastewater treatment facility is expected to be \$13.1 million. Outside of that project, \$384,000 of capital was invested back into the City's sanitary system in the current year.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

**Rubbish** – The Rubbish Fund saw a decrease in net assets of \$12,564 compared to a decrease of \$23,249 in the prior year. The City has held rates steady for over a decade, however due to continuing cost increases, rates were increased early in the 2018 fiscal year. Garbage collection services are billed by the City, but operated by a private contractor.

**GIS** – The GIS Fund saw an increase in net assets of \$51,879 compared to a \$65,525 increase in the prior year. The City has partnered with Branch County as well as the City of Bronson, the Villages of Quincy and Union City, and a number of local townships to coordinate and consolidate GIS services within the county. Due to the collaborative endeavor the City applied for and received a \$406,645 grant from the State of Michigan. A portion of the grant money was spent to collect, input and map various data into the system. The remainder of the grant funds plus some of the Fund's built up equity will be spent on updating aerial imagery in the spring of 2018. In the current year the Fund received \$117,000 of membership fees from its partners. Additionally the City's General and Electric Funds each transferred \$50,000 to the Fund to cover its operating costs. The Fund also offers fee based services to individuals and outside organizations.

#### **General Fund Budgetary Highlights**

As shown in the required supplemental information, the City's final amended budget showed a planned budget decrease of \$911,176; however, actual operating resulted in a decrease in fund balance of \$282,533, primarily because of curtailed expenditures. The significant budget-to-actual differences are as follows:

Revenues – There were no significant variances with the final budget.

Expenditures –

- Expenditures for Public Works were under budget by \$289,951. A little over half of the variance related to expected equipment purchases that didn't occur during the year in which they were budgeted for. The most significant being \$84,000 for the cab and chassis of a new International dump truck that was budgeted for 2017, but due to delays by the manufacturer was not received until August 2017. The same situation existed for a \$39,000 Ford F-350 truck that was ordered in the middle of the fiscal year, but also wasn't received until August. Both of these items will be added to the 2018 budget. Other significant items included a lower than anticipated spending related to the SAW grant as well as decreases in supply costs and continued lower fuel prices that reduced the cost of operating the City's fleet of trucks.



## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

#### **Capital Asset and Debt Administration**

The City has continued its efforts to improve infrastructure. This fiscal year saw the reinvestment of \$19.3 million in capital assets for the City's Governmental and Enterprise Funds combined, \$17.9 million of which was reinvested in the City's aging utility infrastructure. In addition to the utility infrastructure, various vehicles and equipment were replaced during the year.

Because capital equipment and infrastructure are central to providing high-level service to our citizens, it is imperative that we keep those items in good, serviceable condition. Emergency and service vehicles, underground utility pipes and systems, roads, sidewalks, parking lots and parks benefit our citizens and contribute to our safety, welfare and quality of life. Capital expenditures for these items are carefully planned. The City maintains a five-year capital project and replacement plan. A sequenced and prioritized set of projects and a replacement schedule for equipment and vehicles is incorporated into the master plan. Each year, purchases and projects are completed as planned, or delayed, based on availability of funds. In the current year a number of large construction projects were undertaken. \$4.7 million of bonds were issued to pay for the construction of a new electric substation located off of the Fiske Road extension. \$15.7 million of bonds were issued for improvements in the water and wastewater systems. Approximately \$13.1 million of which is being used for improvements at the City's wastewater treatment facility. Significant capital was also spent on equipment this year. \$540,000 was used to purchase a new pumper truck for the fire department. It replaced a pumper unit that was 27 years old. Other major equipment purchases were a \$217,000 CAT loader and a \$130,000 JAWS truck.

The Citizens of Coldwater approved a \$5,055,000 road bond issue in 2015. A portion of those funds were used in the reconstruction of the Tibbits parking lot which was reopened in October, 2016. Plans are being made for another parking lot project for the summer of 2018.

In November 2015 the State passed a \$1.2 billion road funding bill. The City started to see additional ACT 51 road revenues midway through the current fiscal year. However the increase in funds is being phased in so the full impact of the increase won't be felt for a number of years. During the summer of 2017 the City undertook a major road reconstruction project on Grand and Church streets. This project also included replacement of aging storm, water and wastewater infrastructure.

Also in the current year a combination of community contributions, grant money and City funds were used to reconstruct Heritage Park tennis courts and build a splash pad. The tennis courts opened in September 2016 and the splash pad in late May 2017.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

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

The adopted budget for the fiscal year ending June 30, 2018, reflects the current Michigan economy. City Council continues to maintain its policy of fiscal conservatism while providing the citizens of Coldwater quality services.

The City's initial budget projects a deficit of \$100,000 for the 2018 fiscal year. That figure will be evaluated by staff and the Council as the year progresses. Even with the projected deficit, the City will remain in a financially strong position with an operating fund balance reserve of over 35% of revenues.

City revenues in the next fiscal year are budgeted to decrease slightly. Our largest source of revenue, property taxes, is expected to be roughly the same as 2017. We have seen decreases due to a change in state law that reduces the amount of personal property subject to taxes. Most of that loss will be made up by the State via payments from the State's Local Community Stabilization Authority. Those payments came in above projections in 2017 however we are not including any potential excess funding at this time for 2018. The second largest source of revenue, PILOT, is, expected to increase minimally to \$2.64 million due to slight increases in utility revenues. State revenue sharing, also a significant source of revenue for the City is currently expected to decrease after an unexpected increase in 2017.

The state economy continues to hold steady. The Michigan unemployment rate is currently under 4.5% after being as high as 15% at end of the great recession. Locally we continue to see an increase in economic development. The new Clemens Food Group pork processing facility opened in September. They are employing over 800 workers as they continue to ramp up production. Schmitz Foam Products opened their Coldwater facility early in the 2018 fiscal year and Sport Truck USA continues to expand its facilities in Coldwater. We are also seeing an increase in housing which includes a number of single family homes going up in Coldwater as well as the Apartments at Sauk Trail project which started in the late fall of 2016 and will continue well into 2018. The first buildings are now open. When completed the complex will include 210 units.

Demand for utilities – electric, water, wastewater and telecommunications – continues to grow. The growth in utility demand ultimately results in increased revenues for the General Fund in the form of PILOT payments. All of these are positive economic indicators for Coldwater's local economy.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

Even with all the positive economic news there are still looming concerns for the City. Property tax revenue continues to lag behind the increasing cost of labor which is paramount to providing essential City services. Legislative constraints limit the ability to raise property taxes even as home values increase. Staff is predicting another decade will pass before taxes return to their 2010 levels. Fortunately, Coldwater's revenue will grow as a result of the increased demand for our utility services. It is this growth that will allow the City to continue to provide essential services to our citizens and rate payers.

Concerns also continue to exist over aging infrastructure and the escalating costs to replace and repair underground pipes and roads. We continue to maximize our resources to strategically minimize the financial impact to our citizens and rate payers. In the last two years the City has invested substantial resources in our local infrastructure. These projects have been paid from a variety of funding sources including debt issued through the City's Local Development Finance Authority (LDFA), grant funding from the Michigan Economic Development Corporation and the Michigan Department of Transportation, the issuance of local road bonds, and our ACT 51 road funding from the State. Early in the 2018 fiscal year phase #2 of the Grand/Church street road and utility reconstruction project was completed. As we look to next summer there are plans moving forward to reconstruct the Chandler Plaza parking lot. That project like the Tibbits Plaza parking lot project would also include the reconstruction of the local utility infrastructure that runs under the parking lot.

The City continues to hold the line on expenditures, scrutinizing spending to ensure it fits with the conservative fiscal philosophy of the City Council and delivers benefit to the community. The result is a City in sound financial condition and able to weather unforeseen financial conditions and provide excellent service and improved quality of life to its citizens.

#### **Contacting the City's Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Clerk's office.

**CITY OF COLDWATER**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Cash and investments	\$ 6,424,485	\$ 15,035,131	\$ 21,459,616	\$ 1,380,692
Accounts receivable	189,802	5,606,791	5,796,593	-
Special assessment receivable	21,879	-	21,879	-
Notes receivable	25,223	-	25,223	-
Inventories	3,845	112,795	116,640	-
Due from other governmental units	440,471	3,750	444,221	100,000
Internal balances	309,426	-	309,426	(309,426)
Prepaid expenses	309,235	330,512	639,747	-
Investment in Power Agency	-	12,722,177	12,722,177	-
Restricted assets	450,000	10,623,544	11,073,544	-
Capital assets, less accumulated depreciation	38,996,515	54,777,251	93,773,766	11,542,397
Total assets	47,170,881	99,211,951	146,382,832	12,713,663
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	703,797	443,326	1,147,123	-
Total assets and deferred outflows of resources	47,874,678	99,655,277	147,529,955	12,713,663
<b>LIABILITIES</b>				
Accounts payable	654,467	8,103,796	8,758,263	182,502
Accrued expenditures	255,257	1,516,156	1,771,413	19,332
Due to others	-	-	-	431,198
Long term liabilities:				
Bonds payable, due within one year	622,600	1,851,919	2,474,519	-
Bonds and notes payable, due in more than one year	5,977,013	29,611,196	35,588,209	6,275,223
Premium on bonds	-	716,662	-	98,433
Net pension liability	4,538,719	5,286,020	9,824,739	-
Compensated absences	499,341	377,628	876,969	-
Total liabilities	12,547,397	47,463,377	60,010,774	7,006,688
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenue	325,523	-	325,523	-
Total liabilities and deferred inflows of resources	12,872,920	47,463,377	60,336,297	7,006,688
<b>NET POSITION</b>				
Investment in capital assets - net of related debt	32,396,902	23,314,136	55,711,038	5,292,397
Restricted	1,924,873	10,744,494	12,669,367	414,578
Unrestricted	679,983	18,133,270	18,813,253	-
Total net position	<u>\$ 35,001,758</u>	<u>\$ 52,191,900</u>	<u>\$ 87,193,658</u>	<u>\$ 5,706,975</u>

See Notes to Financial Statements

# CITY OF COLDWATER

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating / Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	Component Units
<b>Governmental activities:</b>								
General government	\$ 2,197,878	\$ 239,053	\$ 24,560	\$ -	\$ (1,934,265)	\$ -	\$ (1,934,265)	\$ -
Public safety	4,262,926	536,921	2,989	-	(3,723,016)	-	(3,723,016)	-
Public works	3,716,531	263,242	1,631,053	-	(1,822,236)	-	(1,822,236)	-
Recreation and cultural	1,572,496	262,300	32,050	51,000	(1,227,146)	-	(1,227,146)	-
Economic development	199,420	-	-	180,269	(19,151)	-	(19,151)	-
Interest	170,261	-	-	-	(170,261)	-	(170,261)	-
Total governmental activities	12,119,512	1,301,516	1,690,652	231,269	(8,896,075)	-	(8,896,075)	-
<b>Business-type activities:</b>								
Electric	34,761,176	36,390,624	-	-	-	1,629,448	1,629,448	-
Telecommunications	3,351,823	3,591,679	-	-	-	239,856	239,856	-
Water	2,441,313	2,809,829	-	-	-	368,516	368,516	-
Waste water	3,382,588	3,451,471	-	-	-	68,883	68,883	-
Rubbish	448,239	433,378	-	-	-	(14,861)	(14,861)	-
GIS	166,382	117,915	-	-	-	(48,467)	(48,467)	-
Total business-type activities	44,551,521	46,794,896	-	-	-	2,243,375	2,243,375	-
Total primary government	<u>\$ 56,671,033</u>	<u>\$ 48,096,412</u>	<u>\$ 1,690,652</u>	<u>\$ 231,269</u>	(8,896,075)	2,243,375	(6,652,700)	-
<b>Component units:</b>								
Downtown Development Authority	\$ 90,133	\$ -	\$ 2,000	\$ -	-	-	-	(88,133)
Local Development Authority	301,005	-	-	2,295,331	-	-	-	1,994,326
Total component units	<u>\$ 391,138</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ 2,295,331</u>	-	-	-	1,906,193
General revenues:								
Property taxes					4,457,655	-	4,457,655	160,244
State revenues					2,487,419	-	2,487,419	-
Unrestricted investment earnings					55,859	174,954	230,813	27,570
Gain (loss) on investments					-	1,189,580	1,189,580	-
Gain (loss) on sale of assets					54,123	169,154	223,277	4,585
Miscellaneous					63,808	488,531	552,339	-
Transfers - internal balances					36,486	(36,486)	-	-
Payments in lieu of taxes					2,622,324	(2,622,324)	-	-
Total general revenues, transfers, forgiveness of debt and payments in lieu of taxes					<u>9,777,674</u>	<u>(636,591)</u>	<u>9,141,083</u>	<u>192,399</u>
<b>Change in Net Position</b>					881,599	1,606,784	2,488,383	2,098,592
<b>Prior Period Adjustment</b>					-	(109,854)	(109,854)	-
<b>Net Position - Beginning</b>					34,120,159	50,694,595	84,814,754	3,608,383
Contribution in aid of construction					-	375	375	-
<b>Net Position - Ending</b>					<u>\$ 35,001,758</u>	<u>\$ 52,191,900</u>	<u>\$ 87,193,658</u>	<u>\$ 5,706,975</u>

See Notes to Financial Statements

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2017**

	<b>General Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and investments	\$ 3,973,716	\$ 2,450,769	\$ 6,424,485
Accounts receivable	89,747	100,055	189,802
Special assessment receivable	-	21,879	21,879
Notes receivable	-	25,223	25,223
Inventories	3,845	-	3,845
Due from other governmental units	-	440,471	440,471
Due from other funds	-	449,426	449,426
Prepaid expenses	68,713	240,522	309,235
Restricted assets	-	450,000	450,000
	<u>\$ 4,136,021</u>	<u>\$ 4,178,345</u>	<u>\$ 8,314,366</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 247,988	\$ 406,479	\$ 654,467
Accrued expenditures	219,583	4,151	223,734
Due to other funds	-	140,000	140,000
Unearned revenue	16,100	356,528	372,628
	<u>483,671</u>	<u>907,158</u>	<u>1,390,829</u>
<b>FUND BALANCE</b>			
Nonspendable	68,713	240,522	309,235
Restricted	-	1,924,873	1,924,873
Committed	-	666,804	666,804
Assigned	2,145,147	438,988	2,584,135
Unassigned	1,438,490	-	1,438,490
	<u>3,652,350</u>	<u>3,271,187</u>	<u>6,923,537</u>
Total liabilities and fund balance	<u>\$ 4,136,021</u>	<u>\$ 4,178,345</u>	<u>\$ 8,314,366</u>

See Notes to Financial Statements

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO NET POSITION**  
**JUNE 30, 2017**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 6,923,537</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in funds:	
The cost of the capital assets	56,790,924
Accumulated depreciation	<u>(17,794,409)</u>
Total capital assets not reported in funds	38,996,515
Special assessment receivables and loans and related interest receivable are expected to be collected over several years, and are not available to pay for current year expenditures	47,105
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid	(31,523)
Long-term liabilities and related deferred outflows are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable	(6,599,613)
Deferred outflows	703,797
Net pension liability	(4,538,719)
Compensated absences	<u>(499,341)</u>
Total long-term liabilities not reported in funds	<u>(10,933,876)</u>
<b>Total Net Position - Governmental Activities</b>	<b><u><u>\$ 35,001,758</u></u></b>

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<b>General Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
<b>REVENUES</b>			
Taxes	\$ 3,457,645	\$ 1,000,011	\$ 4,457,656
Payment in lieu of taxes	2,622,324	-	2,622,324
Special assessments	-	55,107	55,107
Licenses and permits	451,806	-	451,806
Federal sources	-	193,884	193,884
State grants	-	1,551,363	1,551,363
State shared revenue	988,350	990,375	1,978,725
State sources	511,684	32,763	544,447
Charges for services	580,379	2,795	583,174
Rent	241,878	-	241,878
Interest income	35,630	20,231	55,861
Contributions	23,818	51,742	75,560
Other income	63,808	49,787	113,595
Total revenues	<u>8,977,322</u>	<u>3,948,058</u>	<u>12,925,380</u>
<b>EXPENDITURES</b>			
General government	1,375,198	-	1,375,198
Public safety	4,851,792	-	4,851,792
Public works	1,476,200	4,196,335	5,672,535
Recreation and cultural	997,390	919,892	1,917,282
Planning	275,265	80,269	355,534
Debt service	101,840	606,175	708,015
Other expenditures	520,093	-	520,093
Total expenditures	<u>9,597,778</u>	<u>5,802,671</u>	<u>15,400,449</u>
Excess (deficiency) of revenues over expenditures	(620,456)	(1,854,613)	(2,475,069)
<b>OTHER SOURCES (USES)</b>			
Sale of fixed assets	96,649	-	96,649
Debt proceeds	-	-	-
Return of grant to State	-	(9,467)	(9,467)
Transfers from (to) other funds	241,274	(204,788)	36,486
Total other sources (uses)	<u>337,923</u>	<u>(214,255)</u>	<u>123,668</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(282,533)	(2,068,868)	(2,351,401)
<b>FUND BALANCE - BEGINNING</b>	<u>3,934,883</u>	<u>5,340,055</u>	<u>9,274,938</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 3,652,350</u>	<u>\$ 3,271,187</u>	<u>\$ 6,923,537</u>

See Notes to Financial Statements



**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

<b>Net change in Fund Balance - Total Governmental Funds</b>	<b>\$ (2,351,401)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(1,924,397)
Loss on sale of assets	(42,526)
Capital outlay	<u>4,620,210</u>
Total	2,653,287
Special assessment revenues are recorded in the statement of activities when the assessment is assessed; they are not reported in the funds until collected:	
Payments received	(190)
Long-term receivables recorded as revenue in the statement of activities when the receivable is recorded; they are not reported in the funds until collected:	
Payments received	(14,688)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Increase in accrued interest is reported as a decrease to expenditures	(846)
Change in net pension liability and related deferred outflows	(2,408)
Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Principal repayment	538,600
Decrease in compensated absences are reported as an increase to expenditures	<u>59,245</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ 881,599</u></u></b>

See Notes to Financial Statements

# CITY OF COLDWATER

## PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2017

	Electric Fund	Water Fund	Waste Water Fund	Nonmajor Telecom- munications Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>							
<b>ASSETS</b>							
<b>Current assets:</b>							
Cash and investments	\$ 12,297,406	\$ 306,786	\$ 1,939,230	\$ -	\$ 361,262	\$ 130,447	\$ 15,035,131
Accounts receivable	4,604,422	350,537	414,142	210,443	27,247	-	5,606,791
Inventories	-	112,795	-	-	-	-	112,795
Due from other governmental units	-	-	-	-	-	3,750	3,750
Prepaid and other assets	184,001	70,592	38,962	35,680	-	1,277	330,512
Total current assets	17,085,829	840,710	2,392,334	246,123	388,509	135,474	21,088,979
<b>Noncurrent assets:</b>							
Investment in Power Agency	12,722,177	-	-	-	-	-	12,722,177
Restricted assets	1,477,412	1,021,414	8,115,424	9,294	-	-	10,623,544
Capital assets, less accumulated depreciation	19,034,006	11,831,141	20,819,449	3,092,655	-	-	54,777,251
Total noncurrent assets	33,233,595	12,852,555	28,934,873	3,101,949	-	-	78,122,972
Total assets	50,319,424	13,693,265	31,327,207	3,348,072	388,509	135,474	99,211,951
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>215,544</b>	<b>97,266</b>	<b>97,267</b>	<b>33,249</b>	<b>-</b>	<b>-</b>	<b>443,326</b>
Total assets and deferred outflows of resources	<u>\$ 50,534,968</u>	<u>\$ 13,790,531</u>	<u>\$ 31,424,474</u>	<u>\$ 3,381,321</u>	<u>\$ 388,509</u>	<u>\$ 135,474</u>	<u>\$ 99,655,277</u>
<b>LIABILITIES AND NET POSITION</b>							
<b>LIABILITIES</b>							
<b>Current liabilities:</b>							
Accounts payable	\$ 6,906,205	\$ 94,778	\$ 948,414	\$ 145,319	\$ -	\$ 9,080	\$ 8,103,796
Accrued expenditures	933,460	98,231	443,205	34,551	1,265	5,444	1,516,156
Bonds and notes payable, due within one year	325,000	299,800	837,119	390,000	-	-	1,851,919
Total current liabilities	8,164,665	492,809	2,228,738	569,870	1,265	14,524	11,471,871
<b>Noncurrent liabilities</b>							
Bonds and notes payable, due in more than one year	5,615,000	4,499,000	19,497,196	-	-	-	29,611,196
Premium on bonds payable	258,597	54,968	403,097	-	-	-	716,662
Net pension liability	2,525,717	1,194,509	1,194,204	371,590	-	-	5,286,020
Compensated absences	190,279	74,576	59,340	53,374	59	-	377,628
Total noncurrent liabilities	8,589,593	5,823,053	21,153,837	424,964	59	-	35,991,506
Total liabilities	16,754,258	6,315,862	23,382,575	994,834	1,324	14,524	47,463,377
<b>NET POSITION</b>							
Investment in capital assets, net of related debt	13,094,006	7,032,341	485,134	2,702,655	-	-	23,314,136
Restricted	1,477,412	1,021,414	8,115,424	9,294	-	120,950	10,744,494
Unrestricted	19,209,292	(579,086)	(558,659)	(325,462)	387,185	-	18,133,270
Total net position	<u>\$ 33,780,710</u>	<u>\$ 7,474,669</u>	<u>\$ 8,041,899</u>	<u>\$ 2,386,487</u>	<u>\$ 387,185</u>	<u>\$ 120,950</u>	<u>\$ 52,191,900</u>

See Notes to Financial Statements

# CITY OF COLDWATER

## PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2017

	Electric Fund	Water Fund	Waste Water Fund	Nonmajor Telecom- munications Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
<b>REVENUES</b>							
Charges for services	\$ 36,390,624	\$ 2,809,829	\$ 3,451,471	\$ 3,591,679	\$ 433,378	\$ 117,915	\$ 46,794,896
<b>OPERATING EXPENSES</b>							
Purchased power	28,664,004	-	-	-	-	-	28,664,004
Power plant	26,168	-	-	-	-	-	26,168
Natural gas plant	200,452	-	-	-	-	-	200,452
Distribution	1,365,566	474,999	-	2,352,514	-	-	4,193,079
Substation	193,664	-	-	-	-	-	193,664
Sanitation	-	-	-	-	448,239	-	448,239
Metering and lighting	757,073	-	-	-	-	-	757,073
Wells	-	59,768	-	-	-	-	59,768
Treatment	-	412,486	827,566	-	-	-	1,240,052
Collection system	-	-	232,662	-	-	-	232,662
Customer service	347,739	-	-	65,465	-	-	413,204
Administration	2,096,277	806,612	967,805	481,127	-	-	4,351,821
Public works	-	-	-	-	-	166,382	166,382
Payments in lieu of taxes	2,135,604	164,100	185,100	137,520	-	-	2,622,324
Depreciation	966,821	521,603	858,328	429,479	-	-	2,776,231
Total operating expenditures	<u>36,753,368</u>	<u>2,439,568</u>	<u>3,071,461</u>	<u>3,466,105</u>	<u>448,239</u>	<u>166,382</u>	<u>46,345,123</u>
<b>OPERATING INCOME</b>	(362,744)	370,261	380,010	125,574	(14,861)	(48,467)	449,773
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Investment income	90,618	3,720	77,973	-	2,297	346	174,954
Interest expense	(143,412)	(165,845)	(496,227)	(23,238)	-	-	(828,722)
Gain (loss) on investments	1,189,580	-	-	-	-	-	1,189,580
Gain (loss) on sale of fixed assets	130,440	35,874	1,420	1,420	-	-	169,154
Miscellaneous income	441,502	8,442	22,541	16,046	-	-	488,531
Total nonoperating revenues (expenses)	<u>1,708,728</u>	<u>(117,809)</u>	<u>(394,293)</u>	<u>(5,772)</u>	<u>2,297</u>	<u>346</u>	<u>1,193,497</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	1,345,984	252,452	(14,283)	119,802	(12,564)	(48,121)	1,643,270
<b>TRANSFERS</b>							
Transfers from (to) other funds	(93,000)	(23,486)	(10,000)	(10,000)	-	100,000	(36,486)
<b>CHANGE IN NET POSITION</b>	1,252,984	228,966	(24,283)	109,802	(12,564)	51,879	1,606,784
<b>PRIOR PERIOD ADJUSTMENT</b>	-	(11,866)	(97,988)	-	-	-	(109,854)
<b>NET POSITION - BEGINNING</b>	32,527,351	7,257,569	8,164,170	2,276,685	399,749	69,071	50,694,595
Contribution in aid of construction	375	-	-	-	-	-	375
<b>NET POSITION - ENDING</b>	<u>\$ 33,780,710</u>	<u>\$ 7,474,669</u>	<u>\$ 8,041,899</u>	<u>\$ 2,386,487</u>	<u>\$ 387,185</u>	<u>\$ 120,950</u>	<u>\$ 52,191,900</u>

See Notes to Financial Statements

# CITY OF COLDWATER

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2017

	Electric Fund	Water Fund	Waste Water Fund	Nonmajor Telecom- munications Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Cash received from customers	\$ 35,408,013	\$ 2,842,198	\$ 3,413,950	\$ 3,630,655	\$ 437,491	\$ 117,987	\$ 45,850,294
Payments made to suppliers	(31,934,256)	(1,945,301)	(739,549)	(2,530,186)	(414,244)	(69,874)	(37,633,410)
Payments made to employees	(1,872,738)	(572,167)	(565,362)	(516,638)	(35,419)	(86,476)	(3,648,800)
Net cash provided by (used in) operating activities	1,601,019	324,730	2,109,039	583,831	(12,172)	(38,363)	4,568,084
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Transfers in (out)	(93,000)	(23,486)	(10,000)	(10,000)	-	100,000	(36,486)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Principal and interest paid on capital debt	(913,412)	(3,065,845)	(1,055,301)	(413,238)	-	-	(5,447,796)
Proceeds on issuance of bonds	4,997,060	4,590,100	14,242,069	-	-	-	23,829,229
Contribution in aid of construction	375	-	-	-	-	-	375
Purchase of capital assets	(4,395,539)	(1,146,424)	(7,987,757)	(383,031)	-	-	(13,912,751)
Net cash provided by (used in) capital and related financing activities	(311,516)	377,831	5,199,011	(796,269)	-	-	4,469,057
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Interest received on investments	90,618	3,720	77,973	-	2,297	346	174,954
Change in investments	(505,543)	(686,599)	(7,590,317)	-	-	-	(8,782,459)
Net cash provided by (used in) investing activities	(414,925)	(682,879)	(7,512,344)	-	2,297	346	(8,607,505)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	781,578	(3,804)	(214,294)	(222,438)	(9,875)	61,983	393,150
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	11,515,828	310,590	2,153,524	231,732	371,137	68,464	14,651,275
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 12,297,406</u>	<u>\$ 306,786</u>	<u>\$ 1,939,230</u>	<u>\$ 9,294</u>	<u>\$ 361,262</u>	<u>\$ 130,447</u>	<u>\$ 15,044,425</u>

See Notes to Financial Statements

# CITY OF COLDWATER

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS - Continued FOR THE YEAR ENDED JUNE 30, 2017

	Electric Fund	Water Fund	Waste Water Fund	Telecom- munications Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
<b>BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS</b>							
Cash and investments	\$ 12,297,406	\$ 306,786	\$ 1,939,230	\$ -	\$ 361,262	\$ 130,447	\$ 15,035,131
Restricted cash and investments	1,477,412	1,021,414	8,115,424	9,294	-	-	10,623,544
Less amounts classified as investments	<u>(1,477,412)</u>	<u>(1,021,414)</u>	<u>(8,115,424)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,614,250)</u>
Total cash and cash equivalents	<u>\$ 12,297,406</u>	<u>\$ 306,786</u>	<u>\$ 1,939,230</u>	<u>\$ 9,294</u>	<u>\$ 361,262</u>	<u>\$ 130,447</u>	<u>\$ 15,044,425</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>							
Operating income (loss)	\$ (362,744)	\$ 370,261	\$ 380,010	\$ 125,574	\$ (14,861)	\$ (48,467)	\$ 449,773
Adjustments to reconcile operating income to net cash from operating activities:							
Miscellaneous income	441,502	8,442	22,541	16,046	-	-	488,531
Depreciation	966,821	521,603	858,328	429,479	-	-	2,776,231
Amortization	(3,463)	(1,332)	(9,772)	-	-	-	(14,567)
Loss (Gain) on sale of assets	130,440	35,874	1,420	1,420	-	-	169,154
Prior period adjustment	-	(11,866)	(97,988)	-	-	-	(109,854)
Changes in assets and liabilities:							
Receivables	(1,554,553)	(81)	37,926	22,930	4,113	72	(1,489,593)
Inventories	-	3,959	-	-	-	-	3,959
Prepays and other assets	44,207	(23,162)	853	(16,371)	-	257	5,784
Deferred outflows	366,857	137,797	137,723	64,753	-	-	707,130
Due from (to) other funds	-	(636,187)	(166,961)	-	-	-	(803,148)
Accounts payable	1,622,400	(8,885)	751,427	(2,861)	-	9,080	2,371,161
Accrued expenditures	209,253	19,774	290,954	(6,362)	(136)	695	514,178
Net pension liability	(264,505)	(91,610)	(91,536)	(48,964)	-	-	(496,615)
Compensated absences	<u>4,804</u>	<u>143</u>	<u>(5,886)</u>	<u>(1,813)</u>	<u>(1,288)</u>	<u>-</u>	<u>(4,040)</u>
Net cash provided (used) by operating activities	<u>\$ 1,601,019</u>	<u>\$ 324,730</u>	<u>\$ 2,109,039</u>	<u>\$ 583,831</u>	<u>\$ (12,172)</u>	<u>\$ (38,363)</u>	<u>\$ 4,568,084</u>

See Notes to Financial Statements

**CITY OF COLDWATER**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2017**

	<u><b>Agency Funds</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 11,317
Due from other governmental units	<u>6</u>
Total	<u><u>\$ 11,323</u></u>
 <b>LIABILITIES</b>	
Bank overdraft	\$ 6
Accounts payable	<u>11,317</u>
Total	<u><u>\$ 11,323</u></u>

See Notes to Financial Statements

**CITY OF COLDWATER**  
**COMPONENT UNITS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 254,280	\$ 1,126,412	\$ 1,380,692
Due from other governmental units	-	100,000	100,000
Capital assets, less accumulated depreciation	196,194	11,346,203	11,542,397
 Total assets	 450,474	 12,572,615	 13,023,089
<b>LIABILITIES</b>			
Accounts payable	500	182,002	182,502
Accrued expenditures	-	19,332	19,332
Due to other funds	-	309,426	309,426
Due to others	-	431,198	431,198
Long term liabilities:			
Bonds and notes payable, due in more than one year	-	6,275,223	6,275,223
Premium on bonds payable	-	98,433	98,433
 Total liabilities	 500	 7,315,614	 7,316,114
<b>NET ASSETS</b>			
Investment in capital assets - net of related debt	196,194	5,096,203	5,292,397
Restricted	253,780	160,798	414,578
 Total net position	 \$ 449,974	 \$ 5,257,001	 \$ 5,706,975

See Notes to Financial Statements

**CITY OF COLDWATER**

**COMPONENT UNITS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating / Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Local Development Finance Authority	Total
Downtown Development Authority	\$ 90,133	\$ -	\$ 2,000	-	\$ (88,133)	\$ -	\$ (88,133)
Local Development Finance Authority	301,005	-	-	2,295,331	-	1,994,326	1,994,326
Total component activities	<u>\$ 391,138</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ 2,295,331</u>	(88,133)	1,994,326	1,906,193
General revenues:							
					76,903	83,341	160,244
					1,663	25,907	27,570
					4,585	-	4,585
					<u>83,151</u>	<u>109,248</u>	<u>192,399</u>
					(4,982)	2,103,574	2,098,592
					<u>454,956</u>	<u>3,153,427</u>	<u>3,608,383</u>
					<u>\$ 449,974</u>	<u>\$ 5,257,001</u>	<u>\$ 5,706,975</u>

See Notes to Financial Statements



**CITY OF COLDWATER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of City of Coldwater conform to generally accepted accounting principles in the United States of America as applicable to local governmental units. The following is a summary of significant policies:

**REPORTING ENTITY:**

The City is governed by a nine member council. These financial statements present the City of Coldwater and its component units, as required by generally accepted accounting principles. The individual component units below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Board of Public Utilities was created to provide electric services, water supply services, telecommunications, sanitary sewers, and sewage disposal facilities and to conduct the affairs of the City's systems for the construction, generation, maintenance, purchase, extension and distribution of these services to the residents of the City. The board's governing body, which consists of five individuals, is selected by the mayor with City Council approval. The Board of Public Utilities is included as a part of the primary government because it is not legally separate from the City.

The following funds are reported within the component units' column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

**The Downtown Development Authority** was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority, a nine member group, is selected by the mayor and City Council. City Council also approves the Authority's budget.

**The Local Development Finance Authority** (LDFA) was created to provide means and methods for the encouragement and assistance of industry in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The LDFA, a nine member group, is selected by the mayor with City Council approval. City Council also approves the LDFA's budget.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

The government-wide financial statements, the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which primary government is financially accountable.

The statement of activities demonstrates the degree of 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 revenue includes: (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. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, taxes and other items not properly included among program revenues are reported as general revenue.

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

The City first utilizes restricted resources to finance qualifying activities.

##### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:**

**Governmental-Wide Statements** – 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. Revenue is 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 revenue 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.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

##### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: - Continued**

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources, interest income and other revenues).

The City does not allocate indirect costs.

**Fund-based Statements** – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, licenses, unrestricted State shared revenues, intergovernmental grants, charges for services and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

##### **BASIS OF PRESENTATION:**

##### **MAJOR GOVERNMENTAL FUNDS**

**General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **BASIS OF PRESENTATION: - Continued**

##### **MAJOR PROPRIETARY FUNDS**

**Electric Fund, Water Fund and Waste Water Fund** is a municipal utility formed by City Charter to generate and distribute electricity, pump and distribute water, and operate and maintain the wastewater collections and treatment. Rates are established by the Board of Public Utilities. The Board consists of five members appointed by the mayor with City Council approval.

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

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

##### **FIDUCIARY FUNDS**

**Fiduciary Funds** are used to account for assets held by the City in an agency capacity for organizations and special projects. Agency funds are custodian in nature, assets equal liabilities, and do not involve measurement of results of operations.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

##### PROPERTY TAX REVENUE

The City's property taxes are levied each August 1 and based on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2016 tax is levied and collectible on August 1, 2016 and is recognized as revenue in the year ended June 30, 2017, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2016 taxable valuation of the City totaled \$326 million, a portion of which is abated and a portion of which is captured by the LDFA and DDA. Taxes levied consisted of 11.5978 mills for operating purposes, 1.3333 mills for the retirement system, and 1.98 mills for roadway construction. This resulted in almost \$3.3 million for general operating and approximately \$377,000 and \$560,000 for retirement and roadways. These amounts are reported in the respective General, Retirement and Road Debt Service Funds in the financial statements.

**Tax Abatements** - 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 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. Property taxes abated by the City in fiscal year 2017 amounted to \$634,141.

##### **ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION:**

**Cash and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturity of three months or less when acquired. Investments are stated at costs, which approximates fair market value.

**Receivables and Payables** – In general, outstanding balances between funds are reported as "due from/to other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances from/to other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government wide financial statements as "internal balances".

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND  
NET POSITION: - Continued**

**Inventory and Prepaid items** – Inventory is valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** – Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, vehicles, and infrastructure are depreciated using the straight-line method over the following useful lives:

Land improvements	40 Years
Utility systems	40-75 Years
Buildings and improvements	40-50 Years
Roads and sidewalks	15-20 Years
Machinery and equipment	5-20 Years
Vehicles	3-5 Years
Other tools and equipment	3-7 Years

**Deferred Outflows/Inflows of Resources** – In addition to assets, the statement of financial 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 a future period 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, which is the deferred outflows of resources related to pensions resulting from City contributions subsequent to June 30, 2017, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND  
NET POSITION: – Continued**

**Deferred Outflows/Inflows of Resources** – In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City only has one item that qualifies for reporting in this category, which is unearned revenue. The City collected sponsorship money for their recreation program for a four year period starting in fiscal year 2016. The remainder of the sponsorship money is deferred until future years, when the revenue applies.

**Compensated Absences** – It is the City’s policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year-end.

**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 statement of net position.

**Net Pension Liability** – 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.

**Fund Balance** – The City implemented GASB statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

**Nonspendable fund balance** – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND  
NET POSITION: – Continued**

**Fund Balance – Continued**

**Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation. The City’s Revolving Development Fund, Local Streets fund, Retirement Fund, Road Debt Service Fund, Road Construction Bond Fund, and Grant Fund balances are considered restricted.

**Committed fund balance** – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

**Assigned fund balance** – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

**Unassigned fund balance** – amounts that are available for any purpose; positive amounts are reported only in the general fund.

The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the City’s Board through adoption or amendment of the budget as intended for specific purpose. The City would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.



**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND  
NET POSITION: – Continued**

**Fund Balance – Continued**

The specific purpose detail of the fund balances presented in the Governmental Funds are as follows:

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>
Nonspendable:		
Prepaid expenses	\$ 68,713	\$ -
Restricted:		
Grant Fund	-	353,654
Road Construction Bond	-	850,639
Major streets	-	567,663
Local streets	-	48,251
Road debt service	-	81,082
Retirement	-	83
Revolving development	-	264,023
Committed:		
Parking authority	-	76,284
Library Memorial	-	128,868
Brownfield redevelopment	-	11,652
Cemetery	-	450,000
Assigned:		
Fund balancing	2,145,147	438,988
Unassigned:	1,438,490	-
	<u>\$ 3,652,350</u>	<u>\$ 3,271,187</u>
Total		

**BASIS OF BUDGETING:**

The City adopted their annual budgets based on the appropriate method of accounting for the corresponding governmental or proprietary fund. Revenues and expenditures were estimated by the individual line item basis, but adopted and amended by the City Council by the functional level for each fund. Once a budget is approved, it can be amended at the functional level. Amendments are presented to the City Council at their regular meetings. Each amendment must have City Council approval. Such amendments are reflected in the official minutes of the City Council, and are not made after year end as dictated by law. Revisions to the budgets were made during the year.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **ENCUMBRANCE ACCOUNTING:**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year end may be reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

##### **USE OF ESTIMATES:**

The City uses estimates and assumptions in the preparation of the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenditures.

##### **SUBSEQUENT EVENTS:**

The City evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through the audit date.

#### **NOTE B – DEPOSITS AND INVESTMENTS**

The City uses financial institutions for cash purposes, which is in accordance with statutory authority. The accounts maintained in the financial institutions are checking, savings and certificates of deposit. The interest rates of the checking and savings accounts are at variable daily rates.

Investments consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost which approximates market value. The certificates of deposits are currently earning rates of .40% to 1.51%.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE B – DEPOSITS AND INVESTMENTS – Continued**

**Interest rate risk** – In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City’s cash requirements.

Investment	Fair Value	Weighted Average Maturity (Years)
Bank investment pool (not 2a-7)	\$ 10,411,294	0.0027
U.S. government or agency bond or note	2,656,962	1

1 day maturity equals 0.0027, one year equals 1.00

**Credit risk** – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The City does not allow direct investment in commercial paper or corporate bonds.

Investment	Fair Value	Fitch Rating
Michigan CLASS pool	\$ 10,411,294	AAA

**Concentration of credit risk** – The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk for deposits** – In the case of deposits, this is the risk that in the event of a financial institution failure, the City’s deposits may not be recovered. As of June 30, 2017, \$32,118,826 of the City’s bank balance of \$33,586,705 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

**Foreign currency risk** – The City is not authorized to invest in investments which have this type of risk.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE C – DUE FROM OTHER FUNDS**

The due from other funds, at June 30, 2017, for the City are as follows:

**CAPITAL IMPROVEMENT FUND**

Due from Local Streets Fund	\$ 140,000
Due from Local Development Finance Authority	<u>309,426</u>
Total Capital Improvement Fund	<u>\$ 449,426</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE D – TRANSFERS FROM (TO) OTHER FUNDS**

Transfers from (to) other funds, during the year ended June 30, 2017, for the City are as follows:

**GOVERNMENTAL FUNDS**

**GENERAL FUND**

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Transfer from Retirement Fund	\$ 396,441
Transfer to Grant Fund	(105,167)
Transfer to GIS Fund	(50,000)
	<hr/>
Total General Fund	241,274

**MAJOR STREETS FUND**

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Transfer to Local Streets Fund	(150,000)
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**LOCAL STREETS FUND**

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Transfer from Major Streets Fund	150,000
Transfer from Capital Improvement Fund	309,426
	<hr/>
Total General Fund	459,426

**GRANT FUND**

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Transfer from General Fund	105,167
Transfer from Electric Fund	43,000
Transfer from Water Fund	23,486
Transfer from Wastewater Fund	10,000
Transfer from Telecommunications Fund	10,000
	<hr/>
Total Grant Fund	191,653

**RETIREMENT FUND**

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Transfer to General Fund	(396,441)
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**CAPITAL IMPROVEMENT FUND**

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Transfer to Local Streets Fund	(309,426)
	<hr/>
Total governmental funds	<u>\$ 36,486</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE D – TRANSFERS FROM (TO) OTHER FUNDS - Continued**

**PROPRIETARY FUNDS**

**ELECTRIC FUND**

Transfer to GIS Fund	(50,000)
Transfer to Grant Fund	<u>(43,000)</u>
Total Electric Fund	(93,000)

**WATER FUND**

Transfer to Grant Fund	(23,486)
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**WASTEWATER FUND**

Transfer to Grant Fund	(10,000)
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**TELECOMMUNICATIONS FUND**

Transfer to Grant Fund	(10,000)
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**GIS FUND**

Transfer from General Fund	50,000
Transfer from Electric Fund	<u>50,000</u>
Total GIS Fund	<u>100,000</u>
Total proprietary funds	<u><u>\$ (36,486)</u></u>

The transfers from the Retirement Fund represent the distribution of retirement funds. The City and the BPU split non-grant costs for the GIS Fund. The Grant Fund received transfers from all funds to cover major projects completed during the year.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE E – CAPITAL ASSETS**

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

**GOVERNMENTAL ACTIVITIES**

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2017</u>
<b>GROUP:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,547,701	\$ 165,581	\$ 1,526	\$ 1,711,756
Capital assets, being depreciated:				
Roads and sidewalks	14,124,460	80,511	326,058	13,878,913
Land improvements	2,130,157	6,538,335	289,102	8,379,390
Buildings and improvements	27,207,722	-	-	27,207,722
Vehicles	2,874,582	1,118,144	72,991	3,919,735
Other tools and equipment	1,704,305	88,391	99,288	1,693,408
Construction in progress	3,370,752	-	3,370,752	-
Total assets being depreciated	<u>51,411,978</u>	<u>7,825,381</u>	<u>4,158,191</u>	<u>55,079,168</u>
Total assets	52,959,679	7,990,962	4,159,717	56,790,924
<b>ACCUMULATED DEPRECIATION:</b>				
Roads and sidewalks	7,466,454	706,223	326,058	7,846,619
Land improvements	629,548	207,426	289,102	547,872
Building and improvements	5,261,412	724,583	-	5,985,995
Vehicles	2,038,093	176,824	72,991	2,141,926
Other tools and equipment	1,220,944	109,341	58,288	1,271,997
Total accumulated depreciation	<u>16,616,451</u>	<u>1,924,397</u>	<u>746,439</u>	<u>17,794,409</u>
Net capital assets	<u>\$ 36,343,228</u>	<u>\$ 6,066,565</u>	<u>\$ 3,413,278</u>	<u>\$ 38,996,515</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE E – CAPITAL ASSETS – Continued**

**BUSINESS-TYPE ACTIVITIES**

<b>GROUP:</b>	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2017</b>
Capital assets, not being depreciated:				
Land	\$ 881,932	\$ 144,649	\$ -	\$ 1,026,581
Capital assets, being depreciated:				
Work in progress	1,109,320	8,097,404	605,040	8,601,684
Land improvements	535,882	-	-	535,882
Utility systems	59,745,997	8,091,803	4,232,623	63,605,177
Buildings	19,140,099	-	-	19,140,099
Machinery and equipment	4,363,466	35,350	30,545	4,368,271
Total assets being depreciated	<u>84,894,764</u>	<u>16,224,557</u>	<u>4,868,208</u>	<u>96,251,113</u>
Total assets	85,776,696	16,369,206	4,868,208	97,277,694
<b>ACCUMULATED DEPRECIATION:</b>				
Electric	14,294,119	966,821	2,047,260	13,213,680
Telecommunications	6,229,181	429,479	2,280	6,656,380
Water	8,280,291	521,603	325,371	8,476,523
Waste water	13,332,374	858,328	36,842	14,153,860
Total accumulated depreciation	<u>42,135,965</u>	<u>2,776,231</u>	<u>2,411,753</u>	<u>42,500,443</u>
Net capital assets	<u>\$ 43,640,731</u>	<u>\$ 13,592,975</u>	<u>\$ 2,456,455</u>	<u>\$ 54,777,251</u>



**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE E – CAPITAL ASSETS – Continued**

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

**GOVERNMENTAL ACTIVITIES:**

General government	\$ 360,759
Public safety	123,674
Public works	863,949
Recreation and culture	<u>576,015</u>
Total governmental activities	<u>\$ 1,924,397</u>

**BUSINESS -TYPE ACTIVITIES:**

Electric	\$ 966,821
Telecommunications	429,479
Water	521,603
Waste water	<u>858,328</u>
Total business-type activities	<u>\$ 2,776,231</u>

The component units' capital assets at June 30, 2017 consist of the following:

**COMPONENT UNITS:**

Infrastructure	\$ 611,245
Construction in progress	11,036,777
Less, accumulated depreciation	<u>105,625</u>
Net capital assets of component units	<u>\$ 11,542,397</u>

Assets are held in the Downtown Development Authority and the Local Development Finance Authority. The component units' depreciation expense for the year ended June 30, 2017 amounted to \$15,091.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE F – LONG-TERM DEBT**

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>
<b>Governmental Activities:</b>				
Revenue bonds	\$ 272,213	\$ -	\$ 17,600	\$ 254,613
General obligation capital improvement bond	1,436,000	-	46,000	1,390,000
Unlimited tax general obligation bond	4,580,000	-	475,000	4,105,000
General obligation capital improvement bond	850,000	-	-	850,000
Compensated absences	558,586	-	59,245	499,341
	<u>\$ 7,696,799</u>	<u>\$ -</u>	<u>\$ 597,845</u>	<u>\$ 7,098,954</u>
<b>Business-type Activities:</b>				
Revenue bonds and Refunding bonds	\$ 5,099,756	\$ 20,450,000	\$ 1,332,400	\$ 24,217,356
General obligation capital improvement and Refunding bonds	6,553,000	2,648,000	3,207,000	5,994,000
Equipment loan	221,985	-	34,673	187,312
2014 Wastewater supply revenue bonds	1,109,448	-	45,000	1,064,448
Compensated absences	381,668	-	4,040	377,628
	<u>\$ 13,365,857</u>	<u>\$ 23,098,000</u>	<u>\$ 4,623,113</u>	<u>\$ 31,840,744</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE F – LONG-TERM DEBT – Continued**

The following is a summary of the long-term obligations for the City:

**GOVERNMENTAL ACTIVITIES**

Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$17,600 to \$22,400, due April 2030	\$ 254,613
Series 2013 Pool and Recreation Hall Limited Tax General Obligation Capital Improvement Bonds, interest rates varying from 1.50% to 4.65%, annual principal payments ranging from \$46,000 to \$98,000, due April 2038	1,390,000
Series 2015 Road Construction Unlimited Tax General Obligation Bonds, interest rates varying from 1.05% to 2.9%, annual principal payments ranging from \$480,000 to \$555,000, due May 2025	4,105,000
Series 2016 Tennis and Splash Limited Tax General Obligation Capital Improvement Bonds, interest rate of 1.5%, annual payments ranging from \$79,000 to \$91,000, due December 2026	850,000
Accumulated compensated absences	<u>499,341</u>
Total governmental activities debt	<u><u>\$ 7,098,954</u></u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE F – LONG-TERM DEBT – Continued**

**BUSINESS-TYPE ACTIVITIES**

Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 4.3% to 4.9%, annual payments ranging from \$125,000 to \$180,000, due August 2024	\$ 1,205,000
Series 2017 Electric Utility System Revenue Bonds, interest rates varying from 2.0% to 4.0%, annual payments ranging from \$170,000 to \$330,000, due February 2037	4,735,000
Series 2002 Telecommunications System Revenue Refunding Bonds, at an interest rate of 5.5%, principal payment of \$390,000, due August 2017	390,000
Series 2007 Water Supply and Wastewater System General Obligation Capital Improvement and Refunding Bonds at an interest rate of 4.0%, principal payment of \$265,000, due September 2017	265,000
Series 2016 Water Supply and Wastewater System General Obligation Capital Improvement and Refunding Bonds, interest rates varying from 1.3% to 2.05%, annual payments of \$313,000 to \$354,000, due September 2025	2,648,000
Series 2016 Water Supply and Wastewater System Revenue Bonds, at an interest rate of 4.0%, annual payments ranging from \$290,000 to \$1,000,000, due August 2041	15,715,000
Series 2010 Wastewater Limited Tax General Obligation Refunding Bonds, interest rates varying from 2.75% to 4.1%, annual principal payments ranging from \$230,000 to \$315,000, due July 2024	2,135,000
Series 2009 Water Supply and Wastewater System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$92,400 to \$120,934, due April 2030	1,409,356

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017

#### NOTE F – LONG-TERM DEBT – Continued

Note payable to bank, interest rate of 2.45%, annual payments ranging from \$35,519 to \$39,860, due June 2022, secured by equipment	187,312
Series 2016 Water Supply and Wastewater System Revenue Refunding Bonds, at an interest rate of 2.25%, annual principal payments ranging from \$84,000 to \$105,000, due July 2024	763,000
Series 2015 Water Supply and Wastewater System General Obligation Limited Tax Refunding Bonds, interest rates varying from 1.05% to 2.9%, annual principal payments ranging from \$90,000 to \$122,000, due July 2025	946,000
Series 2014 Wastewater supply revenue bonds, interest rate of 2.5%, annual principal payments ranging from \$50,000 to \$74,448, due October 2034	<u>1,064,448</u>
Total bonds and installment purchase agreements	31,463,116
Accumulated compensated absences	<u>377,628</u>
Total business-type activities debt	<u><u>\$ 31,840,744</u></u>

#### COMPONENT UNITS

Local Development Finance Authority note payable, at an interest rate of 7.0%, due 2018	\$ 25,223
Local Development Finance Authority Series 2016A Limited Tax General Obligation Bonds, interest rates ranging from 2.0% to 5.0%, annual principal payments ranging from \$75,000 to \$170,000, due December 2040	2,710,000
Local Development Finance Authority Series 2016B Limited Tax General Obligation Bonds, interest rates ranging from 2.0% to 5.0%, annual principal payments ranging from \$95,000 to \$220,000, due December 2040	<u>3,540,000</u>
Total component units debt	<u><u>\$ 6,275,223</u></u>

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017**

#### **NOTE F – LONG-TERM DEBT – Continued**

##### **REFUNDING OF BONDS**

In November, 2016, the City of Coldwater issued Water Supply and Wastewater System Revenue Refunding bonds of \$2,648,000 with interest rates varying from 1.3% and 2.05% to advance \$2,535,000 of refund bonds with an interest rate of 4.0%. The bonds mature in June 2026. The Water Supply and Wastewater System Revenue Refunding bonds were issued at par after paying issuance costs of \$23,230 which includes underwriters discount, the net proceeds were \$2,648,000. The net proceeds from the issuance of the Water Supply and Wastewater System Revenue Refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the Series 2007 Water Supply and Wastewater Revenue bonds were removed from the City's government-wide financial statements.

As a result of the advance refunding, the City reduced its total debt service requirements by \$209,343, which resulted in an economic gain, difference between present value of the debt services payments on the old and new debt of \$197,178.

The City has defeased Series 2007 Water Supply and Wastewater System Revenue bonds by placing the proceeds of new bond in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and liability for the defeased bond is not included in the City's financial statements. At June 30, 2017, \$2,535,000 of bonds outstanding is considered defeased, paid on November 15, 2016.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE F – LONG-TERM DEBT – Continued**

The annual requirements to service all debt outstanding as of June 30, 2017, including interest payments of \$18,173,885 for the debt service requirements are as follows:

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 622,600	\$ 163,737	\$ 786,337
2019	636,400	155,063	791,463
2020	643,400	144,314	787,714
2021	656,200	132,283	788,483
2022	669,200	118,500	787,700
2023-2027	2,446,600	351,142	2,797,742
2028-2032	398,213	169,104	567,317
2033-2037	429,000	79,469	508,469
2038	98,000	3,419	101,419
<b>Total</b>	<b>\$ 6,599,613</b>	<b>\$ 1,317,031</b>	<b>\$ 7,916,644</b>

  

	<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 1,851,920	\$ 1,168,092	\$ 3,020,012
2019	1,586,002	1,075,160	2,661,162
2020	1,631,898	1,030,462	2,662,360
2021	1,691,032	979,134	2,670,166
2022	1,757,660	924,493	2,682,153
2023-2027	7,812,400	3,752,354	11,564,754
2028-2032	4,972,756	2,602,774	7,575,530
2033-2037	5,534,448	1,512,453	7,046,901
2038-2042	4,625,000	477,100	5,102,100
<b>Total</b>	<b>\$ 31,463,116</b>	<b>\$ 13,522,022</b>	<b>\$ 44,985,138</b>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE F – LONG-TERM DEBT – Continued**

	<b>Component Units</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 195,223	\$ 230,281	\$ 425,504
2019	175,000	226,831	401,831
2020	175,000	223,331	398,331
2021	185,000	218,806	403,806
2022	185,000	213,256	398,256
2023-2027	1,040,000	958,406	1,998,406
2028-2032	1,285,000	705,241	1,990,241
2033-2037	1,560,000	441,363	2,001,363
2038-2041	1,475,000	117,317	1,592,317
<b>Total</b>	<b>\$ 6,275,223</b>	<b>\$ 3,334,832</b>	<b>\$ 9,610,055</b>

Interest expense for the year ended June 30, 2017 was \$828,722 for Business-type Activities and \$169,416 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2017 amounted to \$224,928.

**NOTE G – RISK MANAGEMENT**

The City is exposed to various risk of loss related to torts; errors and omissions; injuries to employee’s and natural disasters. The City has purchased commercial insurance for employee medical benefit claims and participates in the Michigan Municipal Liability and Property Pool and Michigan Municipal Workers’ Compensation Fund for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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



**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE H – RETIREMENT PROGRAM**

Defined Benefit Plan – The City’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City 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](http://www.mersofmich.com).

Benefits provided – Benefits provided include plans with multipliers ranging from 2.0% to 2.5%. Vesting periods are 10 years for all divisions. Normal retirement age is 60 with reduced early retirement options at 50 with 25 years of service or at age 55 with 15 years of service. The union also has an unreduced early retirement options at 50 with 25 years of service, age 55 with 25 years of service, or at age 55 with 30 years of service. Final average compensation is calculated based on 3 years. Member contributions range from 0% to 6%.

Employees covered by benefit terms – At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	93
Inactive employees entitled to but not yet receiving benefits	14
Active employees	29
Total	<u>136</u>

Contributions – The City 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 City may establish contribution rates to be paid by its covered employees. All divisions are closed to new employees.

Net Pension Liability – The employer’s Net Pension Liability was measured as of December 31, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017

#### NOTE H – RETIREMENT PROGRAM – Continued

Actuarial assumptions – The total pension liability in the December 31, 2016 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.75% in the long-term
- Investment rate of return: 7.75%, net of investment and administrative expense including inflation. Although no specific price inflation assumptions are needed for the valuation, the 2.5% 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount rate – The discount rate used to measure the total pension liability is 8% for 2016. 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 COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE H – RETIREMENT PROGRAM – Continued**

Changes in Net Pension Liability –

Calculating Net Pension Liability

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balances at 12/31/15	\$ 28,523,566	\$ 17,662,333	\$ 10,861,233
Changes for the Year			
Service Cost	197,701	-	197,701
Interest on Total Pension Liability	2,210,238	-	2,210,238
Changes in benefits	-	-	-
Difference between expected and actual experience	(459,710)	-	(459,710)
Changes in assumptions	-	-	-
Employer Contribution	-	1,005,222	(1,005,222)
Employee Contribution	-	53,287	(53,287)
Net investment income	-	1,965,325	(1,965,325)
Benefit payments, including employee refunds	(1,982,096)	(1,982,096)	-
Administrative expense	-	(38,837)	38,837
Other changes	272	-	272
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net Changes	(33,595)	1,002,901	(1,036,496)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balances as of 12/31/16	<u>\$ 28,489,971</u>	<u>\$ 18,665,234</u>	<u>\$ 9,824,737</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE H – RETIREMENT PROGRAM – Continued**

Sensitivity of the Net Pension Liability to changes in the discount rate – The following presents the Net Pension Liability of the City, calculated using the discount rate of 8.0%, as well as what the City’s Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.0%) or 1% higher (9.0%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total Pension Liability (a)	\$ 31,164,977	\$ 28,489,971	\$ 26,179,828
Fiduciary Net Position (b)	<u>18,665,234</u>	<u>18,665,234</u>	<u>18,665,234</u>
Net Pension Liability (a-b)	<u>\$ 12,499,743</u>	<u>\$ 9,824,737</u>	<u>\$ 7,514,594</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions – For the year ended June 30, 2017, the employer recognized pension expense of \$1,273,327. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ (125,461)	\$ -
Differences in assumptions	-	-
Excess (Deficit) Investment Returns	742,384	-
Contributions subsequent to the measurement date*	<u>530,200</u>	<u>-</u>
Total	<u>\$ 1,147,123</u>	<u>\$ -</u>

\*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, 2018.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE H – RETIREMENT PROGRAM – Continued**

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

Year Ending <u>June 30</u>	
2018	\$ 184,139
2019	309,600
2020	241,351
2021	(118,167)

Defined Contribution Plan – The City also participates in the MERS defined contribution retirement plan that was established in 1997 to provide retirement benefits to employees not covered under the defined benefit plan. All employees hired after May, 2002 are covered by the defined contribution plan. At June 30, 2017, there were 106 plan members. Plan members are required to contribute 0% to 9% of covered payroll. The City is required to contribute 8% to 13.5% of annual covered payroll. The City’s contribution for the year ended June 30, 2017 was \$506,681. Plan provisions and contribution requirements are established and may be amended by the City Council.

**NOTE I – REVOLVING DEVELOPMENT FUND LOANS RECEIVABLE**

In the past the City has loaned funds to several local companies. There is one loan remaining with a balance of \$25,233 as of June 30, 2017.

The City recognizes collections of principal and interest on the federal portion of these loans as unearned revenue as the loans are repaid. Unearned revenue amounted to \$25,233 at June 30, 2017. Repayment of the local portion of these loans is recorded as a reduction of the loan receivable and interest income when received. Upon repayment of the balance of each loan, unearned revenue will either be recognized as revenue when deemed available by the granting agency or the funds will be returned to the granting agency.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE J – JOINT VENTURES**

The City is a member of the Michigan South Central Power Agency, which provides electric services to the residents of its member communities. The participating communities provide annual funding for its operations. During the current year, the City paid \$28,664,004 for purchased power and debt retirement. The City is unaware of any other circumstances that would cause any additional benefit or burden to participating governments in the near future. Complete financial statements for the Michigan South Central Power Agency can be obtained from the administrative offices at 720 Herring Road, Litchfield, Michigan 49252.

The City’s Board of Public Utilities owns an approximate 46% interest in the Michigan South Central Power Agency (MSCPA). The City records the investment using the equity method and calculates 43% of the MSCPA’s equity at year end. The MSCPA also holds assets of the City, which have been included in the MSCPA’s equity over the years. The calculation of the investment includes 100% of the City’s assets held at the MSCPA plus 43% of the equity net of the City’s assets.

**NOTE K – CONSTRUCTION CODE FEES**

The City of Coldwater oversees building construction, in accordance with the State’s Construction Code Act, including inspection of building construction and renovation to ensure compliance with building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires the collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Shortfall at July 1, 2016	\$ (2,612,835)
Current year building permit revenue	289,249
Less related expenses - Direct costs	<u>(302,953)</u>
Shortfall at June 30, 2017	<u><u>\$ (2,626,539)</u></u>

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017

#### NOTE L – PURCHASED POWER CONTRACTS

**American Municipal Power Generating Station (AMPGS)** - The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio.

The City's share was 30,400 kilowatts of a total 771,281 kilowatts, giving the City a 3.94 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs.

These costs were therefore deemed *impaired* and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability.

The City's estimated share at June 30, 2014 of the impaired costs was \$5,263,019. The City received a credit of \$1,892,945 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$1,374,836 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of \$1,995,238.

Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City's liability. These amounts are recorded as they become estimable.

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017

#### NOTE L – PURCHASED POWER CONTRACTS – Continued

Since March 31, 2014, the City has made payments of \$548,837 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the City's allocation of additional costs incurred by the project is \$57,954 and interest expense incurred on AMP's line-of-credit of \$67,807, resulting in a net impaired cost estimate oat June 30, 2017 of \$1,572,162. The City does have a potential PHFU Liability of \$1,426,710 resulting in a net total potential liability of \$2,998,872, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include such negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

**Prairie State Energy Campus (68 Members)** - On December 20, 2007, AMP acquired 368,000 kW or an effective 23.26% undivided ownership interest (the "*PSEC Ownership Interest*") in the Prairie State Energy Campus ("PSEC"), a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company ("*AMP 368 LLC*"). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007.

On June 12, 2012, Unit 1 of the PSEC began commercial operation and on November 2, 2012 Unit 2 of the PSEC began commercial operation.

AMP sells the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract (the "*Prairie State Power Sales Contract*") with 68 Members (the "*Prairie State Participants*"). The Prairie State Power Sales Contract is, in all material respects, comparable to the Power Sales Contract for the Project. The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

AMP's share of the total Project costs, including AMP's share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1.697 billion of debt. These estimated costs include (i) AMP's costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project. As of December 31, 2016 the outstanding obligation on Prairie State project is \$1,576,845,000.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 9,952 kW or 2.70% kW of capacity and associated energy from the Prairie State facility.



## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017**

#### **NOTE L – PURCHASED POWER CONTRACTS – Continued**

**AMP Fremont Energy Center (AFEC)** - AFEC is a 707 MW natural gas fired combined cycle generation plant with a Base Capacity of 512 MW, located near the city of Fremont, Ohio. AMP acquired AFEC on July 28, 2011. AMP's acquisition of the plant was financed with draws on an additional line of credit for \$600,000,000 secured solely for the purpose of purchasing the plant.

To provide permanent financing for the AFEC Project on June 29, 2012 AMP issued in two series \$546,085,000 of its AMP Fremont Center Project Revenue Bonds consisting of taxable and tax-exempt obligations to (i) with other available funds, to repay the \$600,000,000 principal amount of an interim loan that financed the acquisition of the AMP Fremont Energy Center ("AFEC") and development costs and completion of construction and commissioning of AFEC; (ii) to make deposits to the Construction Accounts under the Indenture to finance additional capital expenditures; (iii) to fund deposits to certain reserve accounts; and (iv) to pay the costs of issuance of the Series 2012 Bonds.

On January 21, 2012 the AMP Fremont Energy Center ("AFEC") began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642. This amount included a development fee of \$35,535,448 paid by AFEC participants for the account of AMP Generating Station participants who are also AFEC participants. The amount was previously recorded as a noncurrent regulatory asset at December 31, 2011. In June 2012, AMP sold 26.419 MW or 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency ("MPPA") and entered into a power sales contract with Central Virginia Electric Cooperative ("CVEC") for the output of a 21.248 MW or 4.15% interest in AFEC. AMP has sold the output of the remaining 464.355 MW or 90.69% interest to the AFEC participants, which consist of 87 members, pursuant to a take-or-pay power sales contract. As of December 31, 2016 the outstanding obligation on the Fremont Energy Center ("AFEC") on AMP's books is \$520,620,000.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 17,615 kW or 3.79% of capacity and associated energy from the AFEC facility.

**Combined Hydroelectric Projects** - AMP recently completed construction of three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the "Combined Hydroelectric Project"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Project facilities entailed the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers' dams and includes associated transmission facilities. The Combined Hydroelectric Project, including associated transmission facilities, are operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Project.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017**

#### **NOTE L – PURCHASED POWER CONTRACTS – Continued**

The Cannelton Hydro Project, 88MW, in operation as of June 7, 2016, is located on the Kentucky shore of the Cannelton Locks and Dam on federal land. AMP has a FERC license for the project that expires May 31, 2041. The hydro project diverts water from the locks and dam through bulb turbines, which have a horizontal shaft and Kaplan-type turbines. The site includes an intake channel, a reinforced concrete powerhouse (to house turbine and 3 generator units), and a tailrace or downstream channel.

The Willow Island Hydro Project, 44MW, in operation as of February 4, 2016, diverts water from the existing Willow Island Locks and Dam through bulb turbines. The FERC license for the Willow Project expires August 31, 2030. Average gross annual output is 279 million kWh. The powerhouse houses two horizontal 29.3 MW bulb type turbines and generating units.

The Smithland Hydro Project, 76MW, in operation as of September 1, 2017, is located 62.5 miles upstream of the confluence of the Ohio and Mississippi Rivers. The Smithland project has a FERC license that expires May 31, 2038. The powerhouse houses three horizontal 29.3 MW bulb type turbines and generating units. Average gross annual output is 379 million kWh.

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP issued in seven series \$2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the “Combined Hydroelectric Bonds”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

In addition, AMP issued the Combined Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) for \$209,530,000 on October 6, 2016. The bonds were used to finance final completion costs and also reimbursement to the AMP credit line, which provided interim financing for costs related to construction, fund a deposit to the Parity Common Reserve Account, deposit to Escrow Account and pay the cost of issuance of the Series 2016A. The purpose of the “Green bonds” label is to allow investors to invest in an environmentally beneficial project.

As of December 31, 2016 the total outstanding Hydro Project debt on AMP’s books is approximately \$2,175,339,706.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 6,496 kW or 3.12% of capacity and associated energy from the Combined hydro facilities.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017

#### NOTE L – PURCHASED POWER CONTRACTS – Continued

**Meldahl Hydroelectric Project** - AMP constructed a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and related equipment and associated transmission facilities (the “Meldahl Project”). The Meldahl Project has a generating capacity of approximately 108.8 MW. The City of Hamilton, Ohio, a Member of AMP and a participant in the Meldahl Project, and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license to operate the Meldahl Project.

In June 2008, Hamilton received a FERC license to operate a hydroelectric generation facility to be constructed on the Captain Anthony Meldahl Locks Dam (Meldahl Project”). In March 2009, AMP and Hamilton executed a series of agreements (the “AMP-Hamilton Agreements”) pursuant to which AMP committed to finance the development and the construction of the Meldahl Project and to acquire within 60 days of the date on which Meldahl Project entered commercial operation, a 48.6% undivided ownership interest in the City of Hamilton’s Greenup Hydroelectric Facility.

Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project is owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company (“Meldahl, LLC”). AMP is the sole member of Meldahl, LLC and appoints three members of its Board of Directors (the Meldahl Board). AMP, acting as agent of Meldahl LLC, has financed the development, acquisition, construction and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of its Meldahl Hydroelectric Project Revenue Bonds (the “Meldahl Bonds”) in the amount of \$685,100,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members. The Meldahl Project entered commercial operation on April 12, 2016.

Additional, AMP issued Meldahl Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) in the amount of \$80,050,000 on July 27, 2016. The proceeds of which were utilized to make a deposit to the Construction Accounts to retire balances held for the costs and expenses associated with the Project on AMP’s line of credit, fund a deposit to the Parity Common Reserve Account and pay the cost of issuance of the Series 2016A. As of December 31, 2016, the outstanding debt for the Meldahl Hydroelectric Projects facility on AMP’s books was approximately \$702,370,000.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 1,794 kW or 1.71% of capacity and associated energy from the Meldahl hydro facility.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2017**

#### **NOTE L – PURCHASED POWER CONTRACTS – Continued**

**Greenup Hydroelectric Project** – The Greenup Hydroelectric Facility (the “Greenup Facility”) is a 70.2 MW run-of-the river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River. The Greenup Facility entered commercial operation in 1982 and owned and operated by the City of Hamilton, Ohio (“Hamilton”) since 1988. AMP and Hamilton executed a series of agreements (the “AMP-Hamilton Agreements”) pursuant to which AMP acquired a 48.6% undivided ownership interest in the Greenup Facility (the “AMP Interest”) on May 11, 2016.

On May 11, 2016, in order to finance the acquisition of AMP’s Interest as well as AMP’s share of certain capital expenditures at the Greenup Facility and related costs, AMP issued its Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the “Greenup Bonds”) in the principal amount of \$125,630,000. The Greenup Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 47 of its Members.

AMP and Hamilton are responsible for an aliquot share, equal to their respective undivided ownership interest in the Greenup Facility (51.4% for Hamilton and 48.6% for AMP), of the operating and maintenance expenses of the Greenup Facility. In accordance with, and subject to the provisions of, the AMP-Hamilton Agreements, Hamilton continues to operate the Greenup Facility.

As of December 31, 2016 the total outstanding Greenup Facility debt on AMP’s books is approximately \$125,630,000.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 1,175 kW of 3.45% of capacity and associated energy from the Greenup facility.

#### **NOTE M – COMMITMENTS**

The City of Coldwater has entered into contracts to complete various road construction and capital improvement projects. The amount committed to finish the projects at June 30, 2017 was approximately \$8.5 million. All of the committed funds will be paid for with bond proceeds received.

#### **NOTE N – PRIOR PERIOD ADJUSTMENT**

For the year ended June 30, 2017, the City of Coldwater has prior period adjustments in the Fund Financial Statements and the Government-Wide Financial Statements due to billing errors in prior years that were corrected in the current fiscal year.

**CITY OF COLDWATER**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 3,476,000	\$ 3,457,500	\$ 3,457,645	\$ 145
Payment in lieu of taxes	2,622,329	2,622,329	2,622,324	(5)
Licenses and permits	232,000	425,000	451,806	26,806
State shared revenue	977,000	956,000	988,350	32,350
State sources	254,000	500,000	511,684	11,684
Charges for services	510,000	557,000	580,379	23,379
Rent	297,780	252,780	241,878	(10,902)
Interest earned	38,000	23,000	35,630	12,630
Contributions	5,000	19,000	23,818	4,818
Other	36,000	58,000	63,808	5,808
	<u>8,448,109</u>	<u>8,870,609</u>	<u>8,977,322</u>	<u>106,713</u>
<b>EXPENDITURES</b>				
General government	1,491,594	1,479,194	1,375,198	(103,996)
Public safety	5,305,724	4,902,423	4,851,792	(50,631)
Public works	1,684,151	1,766,151	1,476,200	(289,951)
Recreation and cultural	926,145	1,002,145	997,390	(4,755)
Planning	210,925	306,925	275,265	(31,660)
Debt service	248,000	102,000	101,840	(160)
Other	552,947	537,947	520,093	(17,854)
	<u>10,419,486</u>	<u>10,096,785</u>	<u>9,597,778</u>	<u>(499,007)</u>
Excess (deficiency) of revenues over expenditures	(1,971,377)	(1,226,176)	(620,456)	605,720
<b>OTHER SOURCES</b>				
Sale of fixed assets	3,000	97,000	96,649	(351)
Debt proceeds	1,200,000	-	-	-
Transfers from other funds	185,000	218,000	241,274	23,274
	<u>1,388,000</u>	<u>315,000</u>	<u>337,923</u>	<u>22,923</u>
Excess (deficiency) of revenues and other sources over expenditures	(583,377)	(911,176)	(282,533)	628,643
<b>FUND BALANCE - BEGINNING</b>	<u>3,213,750</u>	<u>3,934,883</u>	<u>3,934,883</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u><u>\$ 2,630,373</u></u>	<u><u>\$ 3,023,707</u></u>	<u><u>\$ 3,652,350</u></u>	<u><u>\$ 628,643</u></u>

**CITY OF COLDWATER**

**REQUIRED SUPPLEMENTAL INFORMATION  
RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2017**

As of December 31	Fiscal Year Ended June 30,							Underfunded Actuarial Accrued Liability Percentage of Covered Payroll	
	Annual Pension Cost*	Percentage of Annual Pension Contributed	Net Pension Obligation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio		Covered Payroll
2007	337,640	100%	-	21,433,474	24,026,708	2,593,234	89%	2,809,097	92.32%
2008	322,106	100%	-	21,228,432	24,695,681	3,467,249	86%	2,703,461	128.25%
2009	345,540	100%	-	20,736,364	25,353,044	4,616,680	82%	2,600,872	177.51%
2010	441,735	100%	-	20,451,738	25,659,658	5,207,920	80%	2,393,508	217.59%
2011	546,133	100%	-	20,255,548	26,258,719	6,003,171	77%	2,439,638	246.07%
2012	686,300	100%	-	19,981,036	26,715,368	6,734,332	75%	2,253,464	298.84%
2013	834,200	100%	-	20,050,307	27,411,350	7,361,043	73%	2,291,257	321.27%
2014	889,500	100%	-	20,130,723	27,610,748	7,480,025	73%	1,998,959	374.20%
2015	950,040	100%	-	20,053,495	29,164,124	9,110,629	69%	1,994,277	456.84%
2016	1,060,404	100%	-	20,104,231	29,121,782	9,017,551	69%	1,919,518	469.78%

\* Net of accelerated funding credits. Percentage of actual wages paid. Equal to actuarially determined required contributions.

**CITY OF COLDWATER**

**REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
FOR THE YEAR ENDING JUNE 30, 2017**

<b>Total Pension Liability</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Service cost	\$ 197,701	\$ 201,065	\$ 200,716
Interest	2,210,238	2,154,627	2,124,546
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(459,710)	(204,284)	-
Changes of assumptions	-	1,340,439	-
Benefit payments including employee refunds	(1,982,096)	(1,991,878)	(1,908,501)
Other	272	876	(2)
<b>Net Change in Total Pension Liability</b>	<b>(33,595)</b>	<b>1,500,845</b>	<b>416,759</b>
<b>Total Pension Liability - beginning</b>	<b>28,523,566</b>	<b>27,022,721</b>	<b>26,605,962</b>
<b>Total Pension Liability - ending</b>	<b>\$ 28,489,971</b>	<b>\$ 28,523,566</b>	<b>\$ 27,022,721</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - employer	\$ 1,005,222	\$ 919,890	\$ 827,702
Contributions - employee	53,287	56,904	60,722
Net investment income	1,965,325	(274,268)	1,172,725
Benefit payments including employee refunds	(1,982,096)	(1,991,878)	(1,908,501)
Administrative expense	(38,837)	(40,691)	(42,877)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,002,901</b>	<b>(1,330,043)</b>	<b>109,771</b>
<b>Plan Fiduciary Net Position - beginning</b>	<b>17,662,333</b>	<b>18,992,376</b>	<b>18,882,605</b>
<b>Plan Fiduciary Net Position - ending</b>	<b>\$ 18,665,234</b>	<b>\$ 17,662,333</b>	<b>\$ 18,992,376</b>
<b>Employer Net Pension Liability</b>	<b>\$ 9,824,737</b>	<b>\$ 10,861,233</b>	<b>\$ 8,030,345</b>
<b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b>	<b>66%</b>	<b>62%</b>	<b>70%</b>
 <b>Covered Employee Payroll</b>	 <b>1,919,518</b>	 <b>1,994,277</b>	 <b>1,998,959</b>
 <b>Employer's Net Pension Liability as a percentage of covered employee payroll</b>	 <b>512%</b>	 <b>545%</b>	 <b>402%</b>

Note to schedule: The above amounts are based on measurement date of December 31<sup>st</sup>, which does not tie to the fiscal year.

**CITY OF COLDWATER**

**REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS  
FOR THE YEAR ENDING JUNE 30, 2017**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Actuarial determined contributions	\$ 919,584	\$ 847,229	\$ 796,640
Contributions in relation to the actuarially determined contribution	1,005,222	919,890	827,702
Contribution deficiency (excess)	<u>\$ (85,638)</u>	<u>\$ (72,661)</u>	<u>\$ (31,062)</u>
 Covered Employee Payroll	 \$ 1,919,518	 \$ 1,994,277	 \$ 1,998,959
 Contributions as a percentage of covered employee payroll	 52%	 46%	 41%

**Notes to Schedule**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	23 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	60
Mortality	50% Female/50% Male RP-2014 Group Annual Mortality Table

The above amounts are based on measurement date of December 31<sup>st</sup>, which does not tie to the fiscal year.



**CITY OF COLDWATER**

**OTHER SUPPLEMENTAL INFORMATION  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Nonmajor Special Revenue Funds</u>					<u>Nonmajor Debt Fund</u>
	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Parking Authority Fund</u>	<u>Retirement Fund</u>	<u>Revolving Development Fund</u>	<u>Road Debt Service Fund</u>
<b>ASSETS</b>						
Cash and investments	\$ 338,616	\$ 364,773	\$ 76,982	\$ 83	\$ 264,023	\$ 81,082
Accounts receivable	55	-	-	-	-	-
Special assessment receivable	-	-	-	-	-	-
Notes receivable	-	-	-	-	25,223	-
Due from other governmental units	149,552	45,794	-	-	-	-
Due from other funds	-	-	-	-	-	-
Prepaid expenses	240,522	-	-	-	-	-
Restricted assets	-	-	-	-	-	-
Total assets	<u>\$ 728,745</u>	<u>\$ 410,567</u>	<u>\$ 76,982</u>	<u>\$ 83</u>	<u>\$ 289,246</u>	<u>\$ 81,082</u>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 159,518	\$ 220,427	\$ -	\$ -	\$ -	\$ -
Accrued expenditures	1,564	1,889	698	-	-	-
Due to other funds	-	140,000	-	-	-	-
Unearned revenue	-	-	-	-	25,223	-
Total liabilities	161,082	362,316	698	-	25,223	-
<b>FUND BALANCE</b>						
Nonspendable	240,522	-	-	-	-	-
Restricted	327,141	48,251	-	83	264,023	81,082
Committed	-	-	76,284	-	-	-
Assigned	-	-	-	-	-	-
Total fund balance	<u>567,663</u>	<u>48,251</u>	<u>76,284</u>	<u>83</u>	<u>264,023</u>	<u>81,082</u>
Total liabilities and fund balance	<u>\$ 728,745</u>	<u>\$ 410,567</u>	<u>\$ 76,982</u>	<u>\$ 83</u>	<u>\$ 289,246</u>	<u>\$ 81,082</u>

# CITY OF COLDWATER

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET - CONTINUED FOR THE YEAR ENDED JUNE 30, 2017

	Nonmajor Capital Project Funds					Nonmajor Permanent Fund	Totals
	Grant Fund	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Brownfield Redevelopment Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
<b>ASSETS</b>							
Cash and investments	\$ 29,046	\$ 128,868	\$ 298,988	\$ 856,656	\$ 11,652	\$ -	\$ 2,450,769
Accounts receivable	100,000	-	-	-	-	-	100,055
Special assessment receivable	-	-	21,879	-	-	-	21,879
Notes receivable	-	-	-	-	-	-	25,223
Due from other governmental units	245,125	-	-	-	-	-	440,471
Due from other funds	-	-	449,426	-	-	-	449,426
Prepaid expenses	-	-	-	-	-	-	240,522
Restricted assets	-	-	-	-	-	450,000	450,000
Total assets	<u>\$ 374,171</u>	<u>\$ 128,868</u>	<u>\$ 770,293</u>	<u>\$ 856,656</u>	<u>\$ 11,652</u>	<u>\$ 450,000</u>	<u>\$ 4,178,345</u>
<b>LIABILITIES AND FUND BALANCE</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 20,517	\$ -	\$ -	\$ 6,017	\$ -	\$ -	\$ 406,479
Accrued expenditures	-	-	-	-	-	-	4,151
Due to other funds	-	-	-	-	-	-	140,000
Unearned revenue	-	-	331,305	-	-	-	356,528
Total liabilities	20,517	-	331,305	6,017	-	-	907,158
<b>FUND BALANCE</b>							
Nonspendable	-	-	-	-	-	-	240,522
Restricted	353,654	-	-	850,639	-	-	1,924,873
Committed	-	128,868	-	-	11,652	450,000	666,804
Assigned	-	-	438,988	-	-	-	438,988
Total fund balance	<u>353,654</u>	<u>128,868</u>	<u>438,988</u>	<u>850,639</u>	<u>11,652</u>	<u>450,000</u>	<u>3,271,187</u>
Total liabilities and fund balance	<u>\$ 374,171</u>	<u>\$ 128,868</u>	<u>\$ 770,293</u>	<u>\$ 856,656</u>	<u>\$ 11,652</u>	<u>\$ 450,000</u>	<u>\$ 4,178,345</u>

# CITY OF COLDWATER

## OTHER SUPPLEMENTAL INFORMATION NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2017

	Nonmajor Special Revenue Funds					Nonmajor Debt Fund
	Major Streets Fund	Local Streets Fund	Parking Authority Fund	Retirement Fund	Revolving Development Fund	Road Debt Service Fund
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ 394,024	\$ -	\$ 600,789
Special assessments	-	-	54,917	-	-	-
Federal sources	13,615	-	-	-	-	-
State grants	-	936,060	-	-	-	-
State shared revenue	753,637	236,738	-	-	-	-
State sources	32,763	-	-	-	-	-
Charges for services	-	-	2,795	-	-	-
Interest income	1,672	1,010	-	824	4,293	3,713
Contributions	-	-	-	-	-	-
Other income	-	33,312	-	1,787	14,688	-
	801,687	1,207,120	57,712	396,635	18,981	604,502
<b>EXPENDITURES</b>						
Public works	255,389	1,648,056	36,589	-	-	-
Recreation and cultural Planning	-	-	-	-	-	-
Debt service						
Principal	12,100	5,500	-	-	-	475,000
Interest	4,879	2,218	-	-	-	94,720
	272,368	1,655,774	36,589	-	-	569,720
Excess (deficiency) of revenues over expenditures	529,319	(448,654)	21,123	396,635	18,981	34,782
<b>OTHER SOURCES (USES)</b>						
Return of grant to State	-	-	-	-	(9,467)	-
Transfers from (to) other funds	(150,000)	459,426	-	(396,441)	-	-
	(150,000)	459,426	-	(396,441)	(9,467)	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	379,319	10,772	21,123	194	9,514	34,782
<b>FUND BALANCE - BEGINNING</b>	188,344	37,479	55,161	(111)	254,509	46,300
<b>FUND BALANCE - ENDING</b>	\$ 567,663	\$ 48,251	\$ 76,284	\$ 83	\$ 264,023	\$ 81,082

# CITY OF COLDWATER

**OTHER SUPPLEMENTAL INFORMATION  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017**

	Nonmajor Capital Project Funds					Nonmajor Permanent Fund	Totals
	Grant Fund	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Brownfield Redevelopment Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
<b>REVENUES</b>							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 5,198	\$ -	\$ 1,000,011
Special assessments	-	-	190	-	-	-	55,107
Federal sources	180,269	-	-	-	-	-	193,884
State grants	615,303	-	-	-	-	-	1,551,363
State shared revenue	-	-	-	-	-	-	990,375
State sources	-	-	-	-	-	-	32,763
Charges for services	-	-	-	-	-	-	2,795
Interest income	1,053	812	4,715	2,056	83	-	20,231
Contributions	51,000	742	-	-	-	-	51,742
Other income	-	-	-	-	-	-	49,787
<b>Total revenues</b>	<b>847,625</b>	<b>1,554</b>	<b>4,905</b>	<b>2,056</b>	<b>5,281</b>	<b>-</b>	<b>3,948,058</b>
<b>EXPENDITURES</b>							
Public works	660,470	-	-	1,595,831	-	-	4,196,335
Recreation and cultural	916,204	3,688	-	-	-	-	919,892
Planning	80,269	-	-	-	-	-	80,269
Debt service							
Principal	-	-	-	-	-	-	492,600
Interest	11,758	-	-	-	-	-	113,575
<b>Total expenditures</b>	<b>1,668,701</b>	<b>3,688</b>	<b>-</b>	<b>1,595,831</b>	<b>-</b>	<b>-</b>	<b>5,802,671</b>
Excess (deficiency) of revenues over expenditures	(821,076)	(2,134)	4,905	(1,593,775)	5,281	-	(1,854,613)
<b>OTHER SOURCES (USES)</b>							
Return of grant to State	-	-	-	-	-	-	(9,467)
Transfers from (to) other funds	191,653	-	(309,426)	-	-	-	(204,788)
<b>Total other sources (uses)</b>	<b>191,653</b>	<b>-</b>	<b>(309,426)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(214,255)</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(629,423)	(2,134)	(304,521)	(1,593,775)	5,281	-	(2,068,868)
<b>FUND BALANCE - BEGINNING</b>	<b>983,077</b>	<b>131,002</b>	<b>743,509</b>	<b>2,444,414</b>	<b>6,371</b>	<b>450,000</b>	<b>5,340,055</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 353,654</b>	<b>\$ 128,868</b>	<b>\$ 438,988</b>	<b>\$ 850,639</b>	<b>\$ 11,652</b>	<b>\$ 450,000</b>	<b>\$ 3,271,187</b>

**CITY OF COLDWATER**  
**OTHER SUPPLEMENTAL INFORMATION**  
**FIDUCIARY FUNDS**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2017**

	<b>Health Insurance Fund</b>	<b>Tax Collection Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,317	\$ -	\$ 11,317
Due from other governmental units	-	6	6
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 11,317</u>	<u>\$ 6</u>	<u>\$ 11,323</u>
<b>LIABILITIES</b>			
Bank overdraft	\$ -	\$ 6	\$ 6
Accounts payable	11,317	-	11,317
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 11,317</u>	<u>\$ 6</u>	<u>\$ 11,323</u>

\* Designates major program

**CITY OF COLDWATER**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2017**

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Program or or Award Amount</u>	<u>Accrued or (Deferred) Revenue at July 1, 2016</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2017</u>	<u>Prior Years Expenditures</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>								
Passed Through State of Michigan Housing Development Authority Planning and Development								
* Community Development Block Grant/ State's Program	14.228	214053-EDIG	\$ 12,555,000	\$ 3,224,159	\$ 5,535,339	\$ 2,315,600	\$ 4,420	5,422,380
Department of Transportation								
Highway Planning and Construction	20.205		13,615	-	13,615	13,615	-	-
Department of Interior								
Outdoor Recreation, Acquisition Development and Planning	15.916	P16AP00114	107,400	-	-	100,000	100,000	-
Department of Agriculture								
Soil and Water Conservation	10.902	68-3A75-12-138	60,000	-	60,000	60,000	-	-
Total Department of Housing and Urban Development			<u>\$ 12,736,015</u>	<u>\$ 3,224,159</u>	<u>\$ 5,608,954</u>	<u>\$ 2,489,215</u>	<u>\$ 104,420</u>	

\* Designates major program

**CITY OF COLDWATER**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued  
FOR THE YEAR ENDED JUNE 30, 2017**

**Reconciliation of Total Federal Assistance  
to Financial Statements:**

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Total Federal Assistance received	\$ 5,608,954
Accrued revenue at June 30, 2016	(3,224,159)
Accrued revenue at June 30, 2017	<u>104,420</u>
Total Federal Assistance expenditures	<u>\$ 2,489,215</u>
Governmental Funds Federal Sources	\$ 193,884
Component Units Capital Grants and Contributions	<u>2,295,331</u>
Total Federal Sources per financial statements	<u>\$ 2,489,215</u>

**ADDITIONAL COMMENTS**

For the grants tested in accordance with the Single Audit Act, the expenditures identified in the schedule of expenditures of Federal awards are supported by source documentation, accurate, current, proper, and in agreement with financial reports submitted.

**CITY OF COLDWATER**

**NOTES TO INTERNAL CONTROL AND FEDERAL GRANT REPORT  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of City of Coldwater conform to generally accepted accounting principles in the United States of America as applicable to Cities. Please refer to Note A of the financial statements for a summary of significant policies.





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

**City Council  
City of Coldwater, Michigan**

**November 1, 2017**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Coldwater, Michigan's basic financial statements, and have issued our report thereon dated November 1, 2017.

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

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

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

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

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

*Taylor, Plant & Watkins, P.C.*

**TAYLOR, PLANT & WATKINS, P.C.  
COLDWATER, MICHIGAN**



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**City Council  
City of Coldwater, Michigan**

**November 1, 2017**

**Report on Compliance for Each Major Federal Program:** We have audited the City of Coldwater, Michigan's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City of Coldwater, Michigan's major federal programs for the year ended June 30, 2017. City of Coldwater, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility:** Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility:** Our responsibility is to express an opinion on compliance for each of the City of Coldwater, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Coldwater, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the City of Coldwater, Michigan's compliance.

**Opinion on Each Major Federal Program:** In our opinion, the City of Coldwater, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control over Compliance:** Management of the City of Coldwater, Michigan, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Coldwater, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Coldwater, Michigan's internal control over compliance.

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

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

**City Council  
City of Coldwater, Michigan**

**November 1, 2017**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Taylor, Plant & Watkins, P.C.*

**TAYLOR, PLANT & WATKINS, P.C.  
COLDWATER, MICHIGAN**

**CITY OF COLDWATER**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified that are considered  
to be material weakness(es)?        Yes   X   None reported

Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?        Yes   X   No

Reportable condition(s) identified that are not considered  
to be material weakness(es)?        Yes   X   No

Type of auditors' report issued on compliance for major  
programs: Unqualified

Any audit findings disclosed that are required to be reported  
accordance 2 CFR section 200.516(a)?        Yes   X   No

**Identification of major programs**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant/State's Program

Dollar threshold used to distinguish between type A and type  
B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes        No

**FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**CITY OF COLDWATER**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

There were no findings for the City of Coldwater in the prior year.