

**CITY OF COLDWATER
BRANCH COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

**City Council
City of Coldwater, Michigan**

November 1, 2018

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, 2018, 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, 2018, 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, 2018, 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, 2018. Please read it in conjunction with the City's financial statements, which begin on page 18.

Financial Highlights

- The City's assets exceeded liabilities by \$107.7 million. Of this amount, \$77.3 million related to investment in capital assets (net of depreciation and related debt). \$5.5 million are restricted assets and \$24.9 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 \$9.1 million. \$2.2 million of this was an increase in the equity share of the Michigan South Central Power Agency.
- Governmental revenues generated \$18.6 million compared to \$13 million in the prior year. The increase is primarily due to a \$4.8 million pass through grant that was received by the City. Additionally, the City sold property to the local school district to make room for a new elementary school building. The price of \$750,000 was so the City could reconstruct recreational facilities from that property to another property. Also included is \$600,000 of Storm Water Asset Management and Wastewater (SAW) grant funds, \$150,000 of local road grants from the State, and \$475,000 of Small Urban Development grants from the Federal government. In the prior year \$600,000 of SAW grant funds and \$900,000 of local road grant funds were received from the State
- Governmental expenses totaled \$16.6 million. This is an increase of approximately \$4.5 million compared to the prior year total. Included in the current year is the \$4.8 million of State grant money used for the Clemens Food Group project, \$1.3 million for the Grand and Church Streets infrastructure project as well as the completion of the Fiske Road construction project, and \$600,000 of grant money used for sanitary and storm drain work. The prior year total included \$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 court and splash park expenses.
- In the City's business-type activities, revenues generated \$53.7 million. This includes a \$2.2 million increase in the equity share of the Michigan South Central Power Agency. Overall utility fund charges for services increased \$6.1 million. The majority of the additional revenue was due to the start of operations for the Clemens Food Groups pork processing facility. Expenses totaled \$46.6 million. This was an increase of \$2 million from the prior year primarily due to the addition of the Clemens facility. Overall per kilowatt power costs were lower in the current year. Lower unit costs allow the City to pass the savings on to its electrical users.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

- Governmental funds reported combined fund balances of \$8 million, an increase of \$1.1 million compared to the prior year. The increase includes the \$750,000 received from the Coldwater school district. Those funds are being spent in the following fiscal year on the reconstruction of youth athletic fields
- Fund balance for the General fund was \$4.16 million, or approximately 41% 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 18 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 20 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. The City's major funds for 2018 include the General Fund and Grant 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 \$107.7 million at the close of June 30, 2018. The following table shows, in a condensed format, the net assets as of June 30, 2018 and 2017.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current and other assets	\$ 9,053,488	\$ 8,174,366	\$ 40,098,520	\$ 44,434,700	\$ 49,152,008	\$ 52,609,066
Capital assets	40,314,515	38,996,515	73,666,297	54,777,251	113,980,812	93,773,766
Total assets	49,368,003	47,170,881	113,764,817	99,211,951	163,132,820	146,382,832
Deferred Outflows	93,688	703,797	248,664	443,326	342,352	1,147,123
Liabilities						
Long-term debt outstanding	6,804,550	6,476,354	28,337,072	29,988,824	35,141,622	36,465,178
Other liabilities	5,241,493	6,071,043	14,960,863	17,474,553	20,202,356	23,545,596
Total liabilities	12,046,043	12,547,397	43,297,935	47,463,377	55,343,978	60,010,774
Deferred Inflows	429,443	325,523	-	-	429,443	325,523
Net Assets						
Investment in capital assets- Net of related debt	33,240,483	32,396,902	44,054,900	23,314,136	77,295,383	55,711,038
Restricted	2,575,112	1,924,873	2,936,200	10,744,494	5,511,312	12,669,367
Unrestricted	1,170,610	679,983	23,724,446	18,133,270	24,895,056	18,813,253
Total net assets	\$ 36,986,205	\$ 35,001,758	\$ 70,715,546	\$ 52,191,900	\$ 107,701,751	\$ 87,193,658

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, 5%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24.9 million, or 23% 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, \$1 million 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, 2018, compared to prior year:

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 1,219,538	\$ 1,301,516	\$ 52,941,011	\$ 46,794,896	\$ 54,160,549	\$ 48,096,412
Operating grants and contributions	1,488,573	1,690,652	185,201	-	1,673,774	1,690,652
Capital grants and contributions	5,016,017	231,269	-	-	5,016,017	231,269
General revenues:						
Property taxes	4,459,806	4,457,655	-	-	4,459,806	4,457,655
State revenues	2,941,927	2,487,419	-	-	2,941,927	2,487,419
Unrestricted investment	89,158	55,859	302,750	174,954	391,908	230,813
Gain (loss) on investment	-	-	2,233,429	1,189,580	2,233,429	1,189,580
Gain (loss) on sale	742,130	54,123	4,748	169,154	746,878	223,277
Miscellaneous	42,919	63,808	265,262	488,531	308,181	552,339
Transfers - internal balances	(50,000)	36,486	394,688	(36,486)	344,688	-
Payments in lieu of taxes	2,645,412	2,622,324	(2,645,412)	(2,622,324)	-	-
Total revenues	18,595,480	13,001,111	53,681,677	46,158,305	72,277,157	59,159,416
Expenses						
General government	2,289,119	2,197,878	-	-	2,289,119	2,197,878
Public safety	4,318,178	4,262,926	-	-	4,318,178	4,262,926
Public works	3,361,614	3,716,531	-	-	3,361,614	3,716,531
Recreation and cultural	1,569,846	1,572,496	-	-	1,569,846	1,572,496
Economic development	4,885,332	199,420	-	-	4,885,332	199,420
Interest	186,944	170,261	-	-	186,944	170,261
Transfers	-	-	-	-	-	-
Electric	-	-	35,835,770	34,761,176	35,835,770	34,761,176
Telecommunications	-	-	3,526,519	3,351,823	3,526,519	3,351,823
Water	-	-	2,572,884	2,441,313	2,572,884	2,441,313
Waste water	-	-	3,738,190	3,382,588	3,738,190	3,382,588
Rubbish	-	-	456,561	448,239	456,561	448,239
GIS	-	-	429,328	166,382	429,328	166,382
Total expenses	16,611,033	12,119,512	46,559,252	44,551,521	63,170,285	56,671,033
Change in Net Position	\$ 1,984,447	\$ 881,599	\$ 7,122,425	\$ 1,606,784	\$ 9,106,872	\$ 2,488,383

During the current fiscal year, the net asset position for the City as a whole increased \$9,106,872. Governmental activities increased its net position by \$1,984,447 and Business-type activities increased by \$7,122,425.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Governmental Activities

Total Governmental revenue is reported at \$18,595,480, an increase of \$5,594,369 over the prior year. The increase is primarily attributable to the fact that the current year included \$4,813,517 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 also included \$475,422 of Small Urban Grant monies from the federal government that were used for two separate road projects on Grand Street. An additional \$148,098 was received 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. \$616,253 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. 2018 was the third year of that assessment. \$602,707 was received as part of a Storm Water Asset Management and 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 third year and near completion will allow the City to better determine where system repairs are needed.

Total Governmental expenses are reported at \$16,611,033, an increase of \$4,491,521 from the prior year. As with revenues the increase is due to \$4,813,517 of the pass through grant related to the Clemens project. Also included is \$1,323,805 for the Grand and Church Streets infrastructure project as well as the completion of the Fiske Road extension. An additional \$635,122 spent related to the SAW grant.

Business-type Activities

The City of Coldwater's business-type activities consist of electricity, water supply, and wastewater (all classified as Major Funds), as well as telecommunications, rubbish and GIS services. Charges to residents for utility services amounted to \$52,941,011. The majority of expenses relate to operational expenses to provide utility services in the amount of \$46,559,252. 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 2016 fiscal operating results. Overall, total revenues exceeded expenditures by \$7,122,425.

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 20.

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, revenues exceeded expenditures by \$502,833. General Fund revenues increased \$241,082 from the prior year and expenditures increased by \$647,916. These changes along with a \$1,192,200 increase in other sources of revenue resulted in the overall increase in fund balance.

General Fund revenues are derived from three main sources. The largest source is property tax collections, which were \$3,445,197 this year, a decrease of \$12,448 from prior year. The second largest revenue source is PILOT payments which increased \$23,088 to \$2,645,412. Rounding out the top three is state shared revenue, which increased by \$30,910 to \$1,019,260. State shared revenue continues to trend up roughly 3% annually over the last eight years following a decade of reduced funding from the State. Even with the recent increases the amount of state shared revenue received by the City was \$216,000 less than it was 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 \$1,218,910 of proceeds from debt issued to finance a new aerial ladder truck and transfers of \$394,409 from the retirement millage levied in the amount of one and one-third of a mill.

As in the prior year overall General Fund expenditures increased due to significant planned capital spending. Of the \$1.7 million of capital costs, \$1.2 million was used to purchase a 2018 Seagrave aerial ladder truck replacing the previous ladder truck which was 25 years old. \$130,000 was spent on a 2018 International truck and another \$55,000 on a Ventrac tractor. Additionally, a downtown building valued at \$126,000 was donated to the City and is recorded within the capital.

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 non-debt financed 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 2% in the last five 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 have risen from \$234,000 in 2013 to \$600,000 in 2018. 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 the City received Small Urban Grant money that was used on the Grand and Church Streets road and infrastructure project that was completed in the Fall of 2017 as well the road milling project further north on Grand Street that was completed in the Summer of 2018.

Grant Fund – The Grant Fund was established to handle significant non routine grant 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 third year of the SAW grant, as well as the \$4.8 million economic development grant that was received by the City and passed through to the Clemens Food Group to acknowledge the achievement of employment goals that the Clemens Group was obligated to meet as part of the stimulus package that was provided by the State to get them to locate in Michigan

Proprietary Funds

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Electric – The Electric Fund ended the fiscal year with a \$5,445,251 increase in net position compared to the prior year when the fund experienced an increase of \$1,252,984. The current year included \$2,233,429 of gain related to the City's 46% ownership of the Michigan South Central Power Agency (MSCPA). Electric revenues increased by \$4,443,611 due to significantly higher industrial usage compared to the prior year. The higher revenue figure was in spite of lower average power costs for the year. Overall demand increased by 16% due to the start-up of the Clemens Food Groups pork processing facility in late summer, 2017. Purchased power costs only increased \$530,503 due to lower power supply costs incurred by the MSCPA. Remaining costs shown are for operational and labor costs, fuels and ordinary repairs and maintenance.

Telecommunications – The Telecommunications Fund experienced a \$168,206 decrease in net position. Revenue from cable television dropped while internet services were essentially flat compared to the prior year. Cable rates were raised proportionally in the second half of the year 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 has been challenged with the increasing cost of cable programming. Significant cost increases have occurred in recent years. In response the City introduced a new internet based cable alternative to its customers in the second half of the fiscal year. With the new Skitter TV alternative the City began to transition away from being an independent cable company and is now simply a reseller of the Skitter brand. The transition from the previous system was completed after the end of the fiscal year.

Water Fund – The Water Fund saw net position increase by \$644,020. This was up from the prior year when the Fund had an increase of \$228,966. The increase was primarily due to increases in revenue associated with the start of operations of the Clemens Food Group facility while non depreciation expenditures held stable. Operating costs were primarily related to the cost to pump, treat and distribute water to residents and businesses. During the current year, \$6 million of capital was invested back into the City's water system. Of that \$5.3 million was infrastructure associated with the Clemens project. This infrastructure was paid for with grant money as well as tax capture proceeds, not utility charges. A rate increase went into effect in September, 2017 to build cash for future capital projects.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Wastewater – The Wastewater Fund experienced a \$1,141,556 increase in net position compared to a year ago when the fund saw a \$24,283 decrease. As with the Water Fund much of the year to year increase in net position was due to increases in revenue associated with the start of operations of the Clemens Food Group facility. \$344,688 of the increase was a contribution from the Capital Projects Fund used for improvements being done at the Water Resource Reclamation Facility (WRRF). To prepare for these upgrades at the WRRF the City began multi-step annual rate increases five years ago. These increases will continue into the future. The overall investment into the WRRF was \$13.4 million. Most of the money used for the improvements came from debt issued in the prior fiscal year. In addition to that project, \$3.4 million of infrastructure associated with the Clemens Food Group project was capitalized. As in the case of the Water Fund this infrastructure was paid for with grant money as well as tax capture proceeds, not utility charges. Another \$425,000 of system capital was invested back into the City's sanitary system in the current year.

Rubbish – The Rubbish Fund saw an increase in net assets of \$9,586 compared to a decrease of \$12,564 in the prior year. After holding rates steady for over a decade the City increased its one totter rate by \$1 per month due to continuing contractual cost increases. 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 \$50,218 compared to a \$51,879 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. In 2018 the remainder of the grant funds were spent on updating aerial imagery. In the current year the fund received \$117,500 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 \$77,000; however, actual operating resulted in an increase in fund balance of \$502,833, primarily because of curtailed expenditures. The significant budget-to-actual differences are as follows:

Revenues –

- Contributions from private entities were under budgeted by \$126,000. The City received a donation in the form of a building during the current year and did not record the donation until after the final budget amendment was complete.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

General Fund Budgetary Highlights – Continued

Expenditures –

- Expenditures for Public Safety were under budget by \$113,000. There was no specific cause to the savings however on an overall basis wages in the three departments included in this category were under budget by \$86,000. That was primarily due to changes in personnel in the Police and Neighborhood Services departments. It is noted that the Public Safety grouping makes up over 50% of the overall General Fund budget and that the under budget amount represented approximately 2% of the combined departments.

Capital Asset and Debt Administration

The City has continued its efforts to improve infrastructure. This fiscal year saw the reinvestment of \$26.1 million in capital assets for the City's Governmental and Enterprise Funds combined, \$21.6 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. With the project completed to connect LDFA #6 to the City \$5.3 million of water infrastructure and \$6.1 million of wastewater infrastructure were capitalized into the utility system during the year. Additionally, during the year, improvements at the water resource and recovery facility were nearly complete. The investment in overhauling the facilities three trickling filters totaled nearly \$3.4 million and the construction of the one million gallon EQ basin cost \$10 million. The work at the water resource and recovery facility was paid using funds from the \$15.7 million water and wastewater system bonds issued during the prior year. Significant capital was also spent on equipment this year. \$1,218,000 was used to purchase a Seagrave aerial scope fire truck for the fire department. It replaced a ladder unit that was 25 years old. Other major equipment purchases included a \$130,000 International dump truck and a \$55,000 Ventrac multi-purpose tractor.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Capital Asset and Debt Administration – Continued

The Citizens of Coldwater approved a \$5,055,000 road bond issuance in 2015. The remainder of the bond proceeds were used for the reconstruction of the Chandler parking lot which was reopened in October, 2018. This project was similar in scope to the 2016 Tibbits parking lot project. In both projects, funds from the City's utility funds were used to supplement the bond funds in replacing the water and wastewater infrastructure beneath the parking lots as well as in reworking the electrical utilities around the parking structures.

In November, 2015 the State passed a \$1.2 billion road funding bill. The City began seeing additional ACT 51 road revenues during 2017 and that trend continued into the current fiscal year. 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 was completed in the current year. This project also included replacement of aging storm, water and wastewater infrastructure. Another significant road project further north on Grand Street was undertaken during the summer of 2018 with completion prior to the current school year. This project did not involve underground infrastructure.

Economic Factors, Next Year's Budgets and Rates

The adopted budget for the fiscal year ending June 30, 2019, reflects the current funding assumptions of the City. 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 \$229,000 for the 2019 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 41% of revenues.

After accounting for debt proceeds, City revenues in the next fiscal year are budgeted to decrease slightly. Our largest source of revenue is property taxes. We expect to see a slight increase in 2019 as there has been increased real property development as well as an increase in the inflation factor used by the State for real property growth. We have seen decreases in personal property revenues 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 have come in above projections in the first two years of the law, however it is expected that those increases will end and we are not including any potential excess funding in the initial 2019 budget. The second largest source of revenue, PILOT, is, expected to increase to \$2.82 million due to slight increases in utility revenues. State revenue sharing, also a significant source of revenue for the City, is currently expected to increase by just under 2% to \$1.04 million.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The state economy has been strong. The Michigan unemployment rate in September, 2018 was 4.0%. This is down from 4.7% one year ago. Locally we continue to see an increase in economic development. The Clemens Food Group pork processing facility has been open for over a year and is employing more than 800 workers. Schmitz Foam Products just celebrated its one year anniversary as well and Sport Truck USA continues to expand its facilities in Coldwater. The unemployment rate in Coldwater was reported as being down to 3.3% in September. The local housing market is strong even as the overall number of units available has increased with the addition of 210 units at the now completed Apartments at Sauk Trail development and the currently underway build out of the Oakwood Village Condominium development.

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.

Even with a solid local economy there are still 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 recent 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 the Grand/Church Street road and utility reconstruction project was completed and later in the year work began on reconstruction of the Chandler Plaza parking. That project, like the Tibbits Plaza parking lot project, also included the reconstruction of the local utility infrastructure that runs under the parking lot. During the upcoming year the City will be relining a section of underground sanitary sewer piping. More and more projects like this are necessary to maintain our aging infrastructure system. As we look forward we also see the need to expand our water resource reclamation facility (WRRF). As our industrial base continues to expand we will need to expand capacity at our WRRF facility. We are currently in the early stages of planning for this project which will require a large capital contribution funded with bond proceeds.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 7,201,872	\$ 16,140,709	\$ 23,342,581	\$ 566,461
Accounts receivable	93,515	4,853,779	4,947,294	-
Special assessment receivable	21,879	-	21,879	-
Notes receivable	16,186	-	16,186	-
Inventories	142,885	123,136	266,021	-
Due from other governmental units	333,630	-	333,630	-
Internal balances	421,971	-	421,971	(421,971)
Prepaid expenses	371,550	208,600	580,150	-
Investment in Power Agency	-	16,007,264	16,007,264	-
Restricted assets	450,000	2,765,032	3,215,032	-
Capital assets, less accumulated depreciation	40,314,515	73,666,297	113,980,812	580,434
Total assets	49,368,003	113,764,817	163,132,820	724,924
DEFERRED OUTFLOWS OF RESOURCES				
	93,688	248,664	342,352	-
Total assets and deferred outflows of resources	49,461,691	114,013,481	163,475,172	724,924
LIABILITIES				
Accounts payable	322,111	6,247,356	6,569,467	193,803
Accrued expenditures	261,001	1,552,197	1,813,198	19,049
Due to others	-	-	-	114,232
Long term liabilities:				
Bonds payable, due within one year	758,291	1,585,966	2,344,257	175,000
Bonds and notes payable, due in more than one year	6,315,741	28,025,431	34,341,172	5,921,186
Premium on bonds	-	683,788	683,788	94,317
Net pension liability	3,900,090	4,891,556	8,791,646	-
Compensated absences	488,809	311,641	800,450	-
Total liabilities	12,046,043	43,297,935	55,343,978	6,517,587
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue	429,443	-	429,443	-
Total liabilities and deferred inflows of resources	12,475,486	43,297,935	55,773,421	6,517,587
NET POSITION				
Investment in capital assets - net of related debt	33,240,483	44,054,900	77,295,383	(5,515,752)
Restricted	2,575,112	2,936,200	5,511,312	(276,911)
Unrestricted	1,170,610	23,724,446	24,895,056	-
Total net position	<u>\$ 36,986,205</u>	<u>\$ 70,715,546</u>	<u>\$ 107,701,751</u>	<u>\$ (5,792,663)</u>

See Notes to Financial Statements

CITY OF COLDWATER

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Primary Government			Governmental Activities	Business-type Activities	Total	Component Units
		Charges for Services	Operating / Grants and Contributions	Capital Grants and Contributions				
Governmental activities:								
General government	\$ 2,289,119	\$ 253,892	\$ 152,611	\$ -	\$ (1,882,616)	\$ -	\$ (1,882,616)	\$ -
Public safety	4,318,178	411,032	6,949	-	(3,900,197)	-	(3,900,197)	-
Public works	3,361,614	300,590	1,295,463	-	(1,765,561)	-	(1,765,561)	-
Recreation and cultural	1,569,846	254,024	33,550	202,500	(1,079,772)	-	(1,079,772)	-
Economic development	4,885,332	-	-	4,813,517	(71,815)	-	(71,815)	-
Interest	186,944	-	-	-	(186,944)	-	(186,944)	-
Total governmental activities	16,611,033	1,219,538	1,488,573	5,016,017	(8,886,905)	-	(8,886,905)	-
Business-type activities:								
Electric	35,835,770	40,834,235	-	-	-	4,998,465	4,998,465	-
Telecommunications	3,526,519	3,477,245	-	-	-	(49,274)	(49,274)	-
Water	2,572,884	3,363,975	-	-	-	791,091	791,091	-
Waste water	3,738,190	4,609,877	-	-	-	871,687	871,687	-
Rubbish	456,561	461,724	-	-	-	5,163	5,163	-
GIS	429,328	193,955	185,201	-	-	(50,172)	(50,172)	-
Total business-type activities	46,559,252	52,941,011	185,201	-	-	6,566,960	6,566,960	-
Total primary government	\$ 63,170,285	\$ 54,160,549	\$ 1,673,774	\$ 5,016,017	(8,886,905)	6,566,960	(2,319,945)	-
Component units:								
Downtown Development Authority	\$ 68,420	\$ -	\$ 2,000	\$ -	-	-	-	(66,420)
Local Development Authority	492,446	-	-	-	-	-	-	(492,446)
Total component units	\$ 560,866	\$ -	\$ 2,000	\$ -	-	-	-	(558,866)
General revenues:								
Property taxes					4,459,806	-	4,459,806	403,694
State revenues					2,941,927	-	2,941,927	-
Unrestricted investment earnings					89,158	302,750	391,908	19,379
Gain (loss) on investments					-	2,233,429	2,233,429	-
Gain (loss) on sale of assets					742,130	4,748	746,878	-
Miscellaneous					42,919	265,262	308,181	320,099
Transfers - internal balances					(50,000)	394,688	344,688	(344,688)
Payments in lieu of taxes					2,645,412	(2,645,412)	-	-
Total general revenues, transfers, forgiveness of debt and payments in lieu of taxes					10,871,352	555,465	11,426,817	398,484
Change in Net Position					1,984,447	7,122,425	9,106,872	(160,382)
Net Position - Beginning					35,001,758	52,191,900	87,193,658	5,706,975
Contribution in aid of construction					-	11,401,221	11,401,221	(11,339,256)
Net Position - Ending					\$ 36,986,205	\$ 70,715,546	\$ 107,701,751	\$ (5,792,663)

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	<u>General Fund</u>	<u>Capital Project Grant Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals</u>
ASSETS				
Cash and investments	\$ 4,351,020	\$ 466,929	\$ 2,383,923	\$ 7,201,872
Accounts receivable	90,444	-	3,071	93,515
Special assessment receivable	-	-	21,879	21,879
Notes receivable	-	-	16,186	16,186
Inventories	142,885	-	-	142,885
Due from other governmental units	-	80,291	253,339	333,630
Due from other funds	-	-	421,971	421,971
Prepaid expenses	70,651	-	300,899	371,550
Restricted assets	-	-	450,000	450,000
	<u>\$ 4,655,000</u>	<u>\$ 547,220</u>	<u>\$ 3,851,268</u>	<u>\$ 9,053,488</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 270,153	\$ -	\$ 51,958	\$ 322,111
Accrued expenditures	216,189	-	8,120	224,309
Due to other funds	-	-	-	-
Unearned revenue	13,475	-	454,036	467,511
	<u>499,817</u>	<u>-</u>	<u>514,114</u>	<u>1,013,931</u>
FUND BALANCE				
Nonspendable	70,651	-	300,899	371,550
Restricted	-	547,220	2,027,892	2,575,112
Committed	-	-	672,190	672,190
Assigned	1,915,600	-	336,173	2,251,773
Unassigned	2,168,932	-	-	2,168,932
	<u>4,155,183</u>	<u>547,220</u>	<u>3,337,154</u>	<u>8,039,557</u>
Total liabilities and fund balance	<u>\$ 4,655,000</u>	<u>\$ 547,220</u>	<u>\$ 3,851,268</u>	<u>\$ 9,053,488</u>

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET POSITION
JUNE 30, 2018

Total Fund Balance - Governmental Funds	\$ 8,039,557
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	58,581,491
Accumulated depreciation	<u>(18,266,976)</u>
Total capital assets not reported in funds	40,314,515
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	38,068
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid	(36,692)
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	(7,074,032)
Deferred outflows	93,688
Net pension liability	(3,900,090)
Compensated absences	<u>(488,809)</u>
Total long-term liabilities not reported in funds	<u>(11,369,243)</u>
Total Net Position - Governmental Activities	<u><u>\$ 36,986,205</u></u>

CITY OF COLDWATER

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Capital Project Grant Fund	Other Nonmajor Governmental Funds	Totals
REVENUES				
Taxes	\$ 3,445,197	\$ -	\$ 1,014,608	\$ 4,459,805
Payment in lieu of taxes	2,645,412	-	-	2,645,412
Special assessments	-	-	54,917	54,917
Licenses and permits	329,080	-	-	329,080
Federal sources	1,498	4,812,019	475,422	5,288,939
State grants	-	602,708	148,098	750,806
State shared revenue	1,019,260	-	1,186,678	2,205,938
State sources	653,209	-	158,965	812,174
Charges for services	574,283	-	3,116	577,399
Rent	289,423	-	-	289,423
Interest income	66,398	2,223	20,536	89,157
Contributions	151,725	202,500	886	355,111
Other income	42,919	-	11,307	54,226
Total revenues	<u>9,218,404</u>	<u>5,619,450</u>	<u>3,074,533</u>	<u>17,912,387</u>
EXPENDITURES				
General government	1,324,610	-	-	1,324,610
Public safety	5,432,239	-	-	5,432,239
Public works	1,566,152	635,122	2,408,630	4,609,904
Recreation and cultural	986,821	-	-	986,821
Planning	79,848	4,812,019	-	4,891,867
Debt service	241,121	91,157	593,988	926,266
Other expenditures	614,903	-	-	614,903
Total expenditures	<u>10,245,694</u>	<u>5,538,298</u>	<u>3,002,618</u>	<u>18,786,610</u>
Excess (deficiency) of revenues over expenditures	(1,027,290)	81,152	71,915	(874,223)
OTHER SOURCES (USES)				
Sale of fixed assets	79,218	-	750,000	829,218
Debt proceeds	1,218,910	-	-	1,218,910
Return of grant to State	-	-	(7,885)	(7,885)
Transfers from (to) other funds	231,995	112,414	(394,409)	(50,000)
Total other sources (uses)	<u>1,530,123</u>	<u>112,414</u>	<u>347,706</u>	<u>1,990,243</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	502,833	193,566	419,621	1,116,020
FUND BALANCE - BEGINNING	<u>3,652,350</u>	<u>353,654</u>	<u>2,917,533</u>	<u>6,923,537</u>
FUND BALANCE - ENDING	<u>\$ 4,155,183</u>	<u>\$ 547,220</u>	<u>\$ 3,337,154</u>	<u>\$ 8,039,557</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, 2018

Net change in Fund Balance - Total Governmental Funds	\$ 1,116,020
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(2,184,563)
Loss on sale of assets	(87,088)
Capital outlay	<u>3,589,651</u>
Total	1,318,000
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	(9,037)
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	(5,169)
Change in net pension liability and related deferred outflows	28,520
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):	
Debt proceeds	(1,218,910)
Principal repayment	744,491
Decrease in compensated absences are reported as an increase to expenditures	<u>10,532</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,984,447</u></u>

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

	Electric Fund	Water Fund	Waste Water Fund	Nonmajor Telecom- munications Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES							
ASSETS							
Current assets:							
Cash and investments	\$ 11,484,787	\$ 1,195,105	\$ 2,842,234	\$ -	\$ 368,075	\$ 250,508	\$ 16,140,709
Accounts receivable	3,682,117	378,938	545,636	217,257	29,557	274	4,853,779
Inventories	-	123,136	-	-	-	-	123,136
Due from other funds	459,410	-	-	-	-	-	459,410
Prepaid and other assets	125,081	34,755	29,237	18,467	-	1,060	208,600
Total current assets	<u>15,751,395</u>	<u>1,731,934</u>	<u>3,417,107</u>	<u>235,724</u>	<u>397,632</u>	<u>251,842</u>	<u>21,785,634</u>
Noncurrent assets:							
Investment in Power Agency	16,007,264	-	-	-	-	-	16,007,264
Restricted assets	329,639	583,282	1,852,111	-	-	-	2,765,032
Capital assets, less accumulated depreciation	<u>21,840,533</u>	<u>16,930,888</u>	<u>31,892,110</u>	<u>3,002,766</u>	<u>-</u>	<u>-</u>	<u>73,666,297</u>
Total noncurrent assets	<u>38,177,436</u>	<u>17,514,170</u>	<u>33,744,221</u>	<u>3,002,766</u>	<u>-</u>	<u>-</u>	<u>92,438,593</u>
Total assets	<u>53,928,831</u>	<u>19,246,104</u>	<u>37,161,328</u>	<u>3,238,490</u>	<u>397,632</u>	<u>251,842</u>	<u>114,224,227</u>
DEFERRED OUTFLOWS OF RESOURCES							
	<u>120,898</u>	<u>54,558</u>	<u>54,559</u>	<u>18,649</u>	<u>-</u>	<u>-</u>	<u>248,664</u>
Total assets and deferred outflows of resources	<u>\$ 54,049,729</u>	<u>\$ 19,300,662</u>	<u>\$ 37,215,887</u>	<u>\$ 3,257,139</u>	<u>\$ 397,632</u>	<u>\$ 251,842</u>	<u>\$ 114,472,891</u>
LIABILITIES AND NET POSITION							
LIABILITIES							
Current liabilities:							
Accounts payable	\$ 5,376,094	\$ 77,279	\$ 558,837	\$ 160,006	\$ 17	\$ 75,123	\$ 6,247,356
Accrued expenditures	1,045,346	91,007	378,598	31,114	581	5,551	1,552,197
Due to other funds	-	-	-	459,410	-	-	459,410
Bonds and notes payable, due within one year	<u>300,000</u>	<u>358,000</u>	<u>927,966</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,585,966</u>
Total current liabilities	<u>6,721,440</u>	<u>526,286</u>	<u>1,865,401</u>	<u>650,530</u>	<u>598</u>	<u>80,674</u>	<u>9,844,929</u>
Noncurrent liabilities							
Bonds and notes payable, due in more than one year	5,315,000	4,141,000	18,569,431	-	-	-	28,025,431
Premium on bonds payable	244,743	52,686	386,359	-	-	-	683,788
Net pension liability	2,333,928	1,107,964	1,107,659	342,005	-	-	4,891,556
Compensated absences	<u>146,692</u>	<u>68,975</u>	<u>49,388</u>	<u>46,323</u>	<u>263</u>	<u>-</u>	<u>311,641</u>
Total noncurrent liabilities	<u>8,040,363</u>	<u>5,370,625</u>	<u>20,112,837</u>	<u>388,328</u>	<u>263</u>	<u>-</u>	<u>33,912,416</u>
Total liabilities	<u>14,761,803</u>	<u>5,896,911</u>	<u>21,978,238</u>	<u>1,038,858</u>	<u>861</u>	<u>80,674</u>	<u>43,757,345</u>
NET POSITION							
Investment in capital assets, net of related debt	16,225,533	12,431,888	12,394,713	3,002,766	-	-	44,054,900
Restricted	329,639	583,282	1,852,111	-	-	171,168	2,936,200
Unrestricted	<u>22,732,754</u>	<u>388,581</u>	<u>990,825</u>	<u>(784,485)</u>	<u>396,771</u>	<u>-</u>	<u>23,724,446</u>
Total net position	<u>\$ 39,287,926</u>	<u>\$ 13,403,751</u>	<u>\$ 15,237,649</u>	<u>\$ 2,218,281</u>	<u>\$ 396,771</u>	<u>\$ 171,168</u>	<u>\$ 70,715,546</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, 2018

	Electric Fund	Water Fund	Waste Water Fund	Nonmajor Telecom- munications Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
REVENUES							
Charges for services	\$ 40,834,235	\$ 3,363,975	\$ 4,609,877	\$ 3,477,245	\$ 461,724	\$ 193,955	\$ 52,941,011
State grants	-	-	-	-	-	185,201	185,201
Total revenues	40,834,235	3,363,975	4,609,877	3,477,245	461,724	379,156	53,126,212
OPERATING EXPENSES							
Purchased power	29,194,507	-	-	-	-	-	29,194,507
Power plant	29,756	-	-	-	-	-	29,756
Natural gas plant	111,481	-	-	-	-	-	111,481
Distribution	1,398,309	442,900	-	2,460,273	-	-	4,301,482
Substation	209,184	-	-	-	-	-	209,184
Sanitation	-	-	-	-	456,561	-	456,561
Metering and lighting	757,585	-	-	-	-	-	757,585
Wells	-	64,952	-	-	-	-	64,952
Treatment	-	476,508	932,374	-	-	-	1,408,882
Collection system	-	-	259,537	-	-	-	259,537
Customer service	355,630	-	-	66,944	-	-	422,574
Administration	2,317,142	771,156	713,333	485,797	-	-	4,287,428
Public works	-	-	-	-	-	429,328	429,328
Payments in lieu of taxes	2,124,816	169,560	208,356	142,680	-	-	2,645,412
Depreciation	1,166,288	668,391	1,091,652	511,718	-	-	3,438,049
Total operating expenditures	37,664,698	2,593,467	3,205,252	3,667,412	456,561	429,328	48,016,718
OPERATING INCOME	3,169,537	770,508	1,404,625	(190,167)	5,163	(50,172)	5,109,494
NONOPERATING REVENUES (EXPENSES)							
Investment income	211,377	7,997	78,563	-	4,423	390	302,750
Interest expense	(295,888)	(148,977)	(741,294)	(1,787)	-	-	(1,187,946)
Gain (loss) on investments	2,233,429	-	-	-	-	-	2,233,429
Gain (loss) on sale of fixed assets	4,641	-	-	107	-	-	4,748
Miscellaneous income	172,155	14,492	54,974	23,641	-	-	265,262
Total nonoperating revenues (expenses)	2,325,714	(126,488)	(607,757)	21,961	4,423	390	1,618,243
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	5,495,251	644,020	796,868	(168,206)	9,586	(49,782)	6,727,737
TRANSFERS							
Transfers from (to) other funds	(50,000)	-	344,688	-	-	100,000	394,688
CHANGE IN NET POSITION	5,445,251	644,020	1,141,556	(168,206)	9,586	50,218	7,122,425
NET POSITION - BEGINNING	33,780,710	7,474,669	8,041,899	2,386,487	387,185	120,950	52,191,900
Contribution in aid of construction	61,965	5,285,062	6,054,194	-	-	-	11,401,221
NET POSITION - ENDING	\$ 39,287,926	\$ 13,403,751	\$ 15,237,649	\$ 2,218,281	\$ 396,771	\$ 171,168	\$ 70,715,546

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Waste Water Fund</u>	<u>Nonmajor Telecom- munications Fund</u>	<u>Nonmajor Rubbish Fund</u>	<u>Nonmajor GIS Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from customers	\$ 41,960,978	\$ 3,354,893	\$ 4,533,357	\$ 3,494,179	\$ 459,414	\$ 378,882	\$ 54,181,703
Payments made to suppliers	(36,556,152)	(1,347,789)	(2,010,718)	(2,105,977)	(442,439)	(276,909)	(42,739,984)
Payments made to employees	(1,915,557)	(628,234)	(613,041)	(583,815)	(14,585)	(82,302)	(3,837,534)
Net cash provided by operating activities	3,489,269	1,378,870	1,909,598	804,387	2,390	19,671	7,604,185
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in (out)	(50,000)	-	344,688	-	-	100,000	394,688
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal and interest paid on capital debt	(620,888)	(448,777)	(1,578,212)	(391,787)	-	-	(3,039,664)
Contribution in aid of construction	61,965	5,285,062	6,054,194	-	-	-	11,401,221
Purchase of capital assets	(4,000,457)	(5,772,965)	(12,169,140)	(421,894)	-	-	(22,364,456)
Net cash provided by (used in) capital and related financing activities	(4,559,380)	(936,680)	(7,693,158)	(813,681)	-	-	(14,002,899)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received on investments	211,377	7,997	78,563	-	4,423	390	302,750
Change in investments	96,115	438,132	6,263,313	-	-	-	6,797,560
Net cash provided by investing activities	307,492	446,129	6,341,876	-	4,423	390	7,100,310
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(812,619)	888,319	903,004	(9,294)	6,813	120,061	1,096,284
CASH AND CASH EQUIVALENTS - BEGINNING	12,297,406	306,786	1,939,230	9,294	361,262	130,447	15,044,425
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 11,484,787</u>	<u>\$ 1,195,105</u>	<u>\$ 2,842,234</u>	<u>\$ -</u>	<u>\$ 368,075</u>	<u>\$ 250,508</u>	<u>\$ 16,140,709</u>

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS - Continued FOR THE YEAR ENDED JUNE 30, 2018

	Electric Fund	Water Fund	Waste Water Fund	Nonmajor Telecom- munications Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS							
Cash and investments	\$ 11,484,787	\$ 1,195,105	\$ 2,842,234	\$ -	\$ 368,075	\$ 250,508	\$ 16,140,709
Restricted cash and investments	329,639	583,282	1,852,111	-	-	-	2,765,032
Less amounts classified as investments	(329,639)	(583,282)	(1,852,111)	-	-	-	(2,765,032)
Total cash and cash equivalents	<u>\$ 11,484,787</u>	<u>\$ 1,195,105</u>	<u>\$ 2,842,234</u>	<u>\$ -</u>	<u>\$ 368,075</u>	<u>\$ 250,508</u>	<u>\$ 16,140,709</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES							
Operating income (loss)	\$ 3,169,537	\$ 770,508	\$ 1,404,625	\$ (190,167)	\$ 5,163	\$ (50,172)	\$ 5,109,494
Adjustments to reconcile operating income to net cash from operating activities:							
Miscellaneous income	176,796	14,492	54,974	23,748	-	-	270,010
Depreciation	1,166,288	668,391	1,091,652	511,718	-	-	3,438,049
Amortization	(13,854)	(2,282)	(16,738)	-	-	-	(32,874)
Loss (Gain) on sale of assets	27,642	4,827	4,827	65	-	-	37,361
Changes in assets and liabilities:							
Receivables	922,305	(28,401)	(131,494)	(6,814)	(2,310)	(274)	753,012
Inventories	-	(10,341)	-	-	-	-	(10,341)
Prepays and other assets	58,920	35,837	9,725	17,213	-	217	121,912
Deferred outflows	94,646	42,708	42,708	14,600	-	-	194,662
Due from other governmental units	-	-	-	-	-	3,750	3,750
Due from (to) other funds	(459,410)	-	-	459,410	-	-	-
Accounts payable	(1,530,111)	(17,499)	(389,577)	14,687	17	66,043	(1,856,440)
Accrued expenditures	111,886	(7,224)	(64,607)	(3,437)	(684)	107	36,041
Net pension liability	(191,789)	(86,545)	(86,545)	(29,585)	-	-	(394,464)
Compensated absences	(43,587)	(5,601)	(9,952)	(7,051)	204	-	(65,987)
Net cash provided by operating activities	<u>\$ 3,489,269</u>	<u>\$ 1,378,870</u>	<u>\$ 1,909,598</u>	<u>\$ 804,387</u>	<u>\$ 2,390</u>	<u>\$ 19,671</u>	<u>\$ 7,604,185</u>

See Notes to Financial Statements

CITY OF COLDWATER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 34,466
Taxes receivable	<u>737</u>
Total	<u><u>\$ 35,203</u></u>
 LIABILITIES	
Due to other governmental units	\$ 23,886
Accounts payable	<u>11,317</u>
Total	<u><u>\$ 35,203</u></u>

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Downtown Development Authority	Local Development Finance Authority	Total
ASSETS			
Cash and investments	\$ 282,505	\$ 283,956	\$ 566,461
Capital assets, less accumulated depreciation	181,103	399,331	580,434
Total assets	463,608	683,287	1,146,895
LIABILITIES			
Accounts payable	887	192,916	193,803
Accrued expenditures	-	19,049	19,049
Due to other funds	-	421,971	421,971
Due to others	-	114,232	114,232
Bonds and notes payable, due within one year	-	175,000	175,000
Long term liabilities:			
Bonds and notes payable, due in more than one year	-	5,921,186	5,921,186
Premium on bonds payable	-	94,317	94,317
Total liabilities	887	6,938,671	6,939,558
NET ASSETS			
Investment in capital assets - net of related debt	181,103	(5,696,855)	(5,515,752)
Restricted	281,618	(558,529)	(276,911)
Total net position	\$ 462,721	\$ (6,255,384)	\$ (5,792,663)

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

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	\$ 68,420	\$ -	\$ 2,000	-	\$ (66,420)	\$ -	\$ (66,420)
Local Development Finance Authority	492,446	-	-	-	-	(492,446)	(492,446)
Total component activities	<u>\$ 560,866</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	(66,420)	(492,446)	(558,866)
General revenues:							
Property taxes					72,440	331,254	403,694
Interest					3,594	15,785	19,379
Other income					3,133	316,966	320,099
Transfers - internal balances					-	(344,688)	(344,688)
Total general revenues					<u>79,167</u>	<u>319,317</u>	<u>398,484</u>
Change in Net Position					12,747	(173,129)	(160,382)
Net Position - Beginning					449,974	5,257,001	5,706,975
Contribution in aid of construction					-	(11,339,256)	(11,339,256)
Net Position - Ending					<u>\$ 462,721</u>	<u>\$ (6,255,384)</u>	<u>\$ (5,792,663)</u>

See Notes to Financial Statements

CITY OF COLDWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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.

The LDFA currently has a negative net position which will be eliminated in future years with tax recapture.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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 government-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, 2018

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.

Grant Fund is a capital improvement fund used to account for grants received and major projects done in the City as a result of those grants.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2018

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, 2018

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 2017 tax is levied and collectible on August 1, 2017 and is recognized as revenue in the year ended June 30, 2018, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2017 taxable valuation of the City totaled \$325 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 \$374,000 and \$556,000 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 2018 amounted to \$818,918.

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, 2018**

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, 2018, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2018

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, 2018**

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, 2018**

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>Grant Fund</u>	<u>Other Nonmajor Governmental Funds</u>
Nonspendable:			
Prepaid expenses	\$ 70,651	\$ -	\$ 300,899
Restricted:			
Grant Fund	-	547,220	-
Road Construction Bond	-	-	680,724
Major streets	-	-	280,054
Local streets	-	-	51,893
Road debt service	-	-	135,475
Baseball	-	-	609,818
Revolving development	-	-	269,928
Committed:			
Parking authority	-	-	75,389
Library Memorial	-	-	131,348
Brownfield redevelopment	-	-	15,453
Cemetery	-	-	450,000
Assigned:			
Fund balancing	1,915,600	-	336,173
Unassigned:	2,168,932	-	-
	<u>\$ 4,155,183</u>	<u>\$ 547,220</u>	<u>\$ 3,337,154</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, 2018**

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 .75% to 2.00%.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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)	\$ 11,371,570	0.0027
U.S. government or agency bond or note	2,477,900	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	\$ 11,371,570	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, 2018, \$26,195,696 of the City’s bank balance of \$27,665,835 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, 2018**

NOTE C – DUE FROM OTHER FUNDS

The due from other funds, at June 30, 2018, for the City are as follows:

GOVERNMENTAL FUNDS

CAPITAL IMPROVEMENT FUND

Due from Local Development Finance Authority	<u>\$ 421,971</u>
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PROPRIETARY FUNDS

ELECTRIC FUND

Due from Telecommunications Fund	<u>\$ 459,410</u>
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CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE D – TRANSFERS FROM (TO) OTHER FUNDS

Transfers from (to) other funds, during the year ended June 30, 2018, for the City are as follows:

GOVERNMENTAL FUNDS

GENERAL FUND

Transfer from Retirement Fund	\$ 394,409
Transfer to Grant Fund	(112,414)
Transfer to GIS Fund	(50,000)
	<hr/>
Total General Fund	231,995

MAJOR STREETS FUND

Transfer to Local Streets Fund	(320,000)
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LOCAL STREETS FUND

Transfer from Major Streets Fund	320,000
Transfer from Capital Improvement Fund	106,545
	<hr/>
Total General Fund	426,545

GRANT FUND

Transfer from General Fund	112,414
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RETIREMENT FUND

Transfer to General Fund	(394,409)
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CAPITAL IMPROVEMENT FUND

Transfer to Local Streets Fund	(106,545)
	<hr/>
Total governmental funds	<u><u>\$ (50,000)</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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

PROPRIETARY FUNDS

ELECTRIC FUND

Transfer to GIS Fund	(50,000)
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WASTEWATER FUND

Transfer from LDFA Fund	344,688
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GIS FUND

Transfer from General Fund	50,000
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Transfer from Electric Fund	<u>50,000</u>
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Total GIS Fund	<u>100,000</u>
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Total proprietary funds	<u><u>\$ 394,688</u></u>
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COMPONENT UNITS

LDFA FUND

Transfer to Wastewater Fund	<u><u>\$ 344,688</u></u>
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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 the General Fund to cover major projects completed during the year. The LDFA transferred funds that were not used for major projects to the Wastewater Fund.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2018</u>
GROUP:				
Capital assets, not being depreciated:				
Land	\$ 1,711,756	\$ 14,420	\$ 56,599	\$ 1,669,577
Capital assets, being depreciated:				
Roads and sidewalks	13,878,913	171,914	1,167,470	12,883,357
Land improvements	8,305,505	1,464,421	-	9,769,926
Buildings and improvements	27,207,722	126,000	-	27,333,722
Vehicles	3,919,735	1,455,409	575,015	4,800,129
Other tools and equipment	1,693,408	71,623	-	1,765,031
Construction in progress	-	359,749	-	359,749
Total assets being depreciated	<u>55,005,283</u>	<u>3,649,116</u>	<u>1,742,485</u>	<u>56,911,914</u>
Total assets	56,717,039	3,663,536	1,799,084	58,581,491
ACCUMULATED DEPRECIATION:				
Roads and sidewalks	7,846,619	693,946	1,167,470	7,373,095
Land improvements	547,872	376,880	-	924,752
Building and improvements	5,985,995	723,250	-	6,709,245
Vehicles	2,141,926	281,379	544,526	1,878,779
Other tools and equipment	1,271,997	109,108	-	1,381,105
Total accumulated depreciation	<u>17,794,409</u>	<u>2,184,563</u>	<u>1,711,996</u>	<u>18,266,976</u>
Net capital assets	<u>\$ 38,922,630</u>	<u>\$ 1,478,973</u>	<u>\$ 87,088</u>	<u>\$ 40,314,515</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE E – CAPITAL ASSETS – Continued

BUSINESS-TYPE ACTIVITIES

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
GROUP:				
Capital assets, not being depreciated:				
Land	\$ 1,026,581	\$ 356,257	\$ -	\$ 1,382,838
Capital assets, being depreciated:				
Work in progress	8,601,684	1,605,379	8,280,942	1,926,121
Land improvements	535,882	510,527	-	1,046,409
Utility systems	63,605,177	15,498,527	143,081	78,960,623
Buildings	19,140,099	11,649,469	4,699	30,784,869
Machinery and equipment	4,368,271	1,015,920	20,141	5,364,050
Total assets being depreciated	<u>96,251,113</u>	<u>30,279,822</u>	<u>8,448,863</u>	<u>118,082,072</u>
Total assets	97,277,694	30,636,079	8,448,863	119,464,910
ACCUMULATED DEPRECIATION:				
Electric	13,213,680	1,166,288	55,684	14,324,284
Telecommunications	6,656,380	511,718	41,083	7,127,015
Water	8,476,523	668,391	17,247	9,127,667
Waste water	14,153,860	1,091,652	25,865	15,219,647
Total accumulated depreciation	<u>42,500,443</u>	<u>3,438,049</u>	<u>139,879</u>	<u>45,798,613</u>
Net capital assets	<u>\$ 54,777,251</u>	<u>\$ 27,198,030</u>	<u>\$ 8,308,984</u>	<u>\$ 73,666,297</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE E – CAPITAL ASSETS – Continued

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

GOVERNMENTAL ACTIVITIES:

General government	\$ 501,204
Public safety	202,335
Public works	881,590
Recreation and culture	<u>599,434</u>
Total governmental activities	<u>\$ 2,184,563</u>

BUSINESS -TYPE ACTIVITIES:

Electric	\$ 1,166,288
Telecommunications	511,718
Water	668,391
Waste water	<u>1,091,652</u>
Total business-type activities	<u>\$ 3,438,049</u>

The component units' capital assets at June 30, 2018 consist of the following:

COMPONENT UNITS:

Infrastructure	\$ 717,790
Less, accumulated depreciation	<u>137,356</u>
Net capital assets of component units	<u>\$ 580,434</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, 2018 amounted to \$31,731.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE F – LONG-TERM DEBT

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Governmental Activities:				
Revenue bonds	\$ 254,613	\$ -	\$ 17,600	\$ 237,013
General obligation capital improvement bond	1,390,000	-	46,000	1,344,000
Unlimited tax general obligation bond	4,105,000	-	480,000	3,625,000
General obligation capital improvement bond	850,000	-	79,000	771,000
Equipment loan	-	1,218,910	121,891	1,097,019
Compensated absences	499,341	-	10,532	488,809
	<u>\$ 7,098,954</u>	<u>\$ 1,218,910</u>	<u>\$ 755,023</u>	<u>\$ 7,562,841</u>
Business-type Activities:				
Revenue bonds and Refunding bonds	\$ 25,281,804	\$ -	\$ 1,231,400	\$ 24,050,404
General obligation capital improvement and Refunding bonds	5,994,000	-	585,000	5,409,000
Equipment loan	187,312	-	35,319	151,993
Compensated absences	377,628	-	65,987	311,641
	<u>\$ 31,840,744</u>	<u>\$ -</u>	<u>\$ 1,917,706</u>	<u>\$ 29,923,038</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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 \$18,400 to \$22,400, due April 2030	\$ 237,013
Series 2013 Pool and Recreation Hall Limited Tax General Obligation Capital Improvement Bonds, interest rates varying from 1.80% to 4.65%, annual principal payments ranging from \$47,000 to \$98,000, due April 2038	1,344,000
Series 2015 Road Construction Unlimited Tax General Obligation Bonds, interest rates varying from 1.65% to 2.9%, annual principal payments ranging from \$490,000 to \$555,000, due May 2025	3,625,000
Series 2016 Tennis and Splash Limited Tax General Obligation Capital Improvement Bonds, interest rate of 1.5%, annual payments ranging from \$81,000 to \$91,000, due December 2026	771,000
Note payable to bank, interest rate of 2.37%, annual principal payments of \$121,891, due October 2026, secured by equipment	1,097,019
Accumulated compensated absences	<u>488,809</u>
Total governmental activities debt	<u><u>\$ 7,562,841</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE F – LONG-TERM DEBT – Continued

BUSINESS-TYPE ACTIVITIES

Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 4.4% to 4.9%, annual payments ranging from \$130,000 to \$180,000, due August 2024	\$ 1,080,000
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	4,535,000
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 \$375,000 to \$1,000,000, due August 2041	15,425,000
Series 2010 Wastewater Limited Tax General Obligation Refunding Bonds, interest rates varying from 2.75% to 4.1%, annual principal payments ranging from \$235,000 to \$315,000, due July 2024	1,905,000
Series 2009 Water Supply and Wastewater System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$96,600 to \$132,556, due April 2030	1,316,956

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE F – LONG-TERM DEBT – Continued

Note payable to bank, interest rate of 2.45%, annual payments ranging from \$36,366 to \$40,108, due June 2022, secured by equipment	151,993
Series 2016 Water Supply and Wastewater System Revenue Refunding Bonds, at an interest rate of 2.25%, annual principal payments ranging from \$88,000 to \$105,000, due July 2024	679,000
Series 2015 Water Supply and Wastewater System General Obligation Limited Tax Refunding Bonds, interest rates varying from 1.3% to 2.9%, annual principal payments ranging from \$92,000 to \$122,000, due July 2025	856,000
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>1,014,448</u>
Total bonds and installment purchase agreements	29,611,397
Accumulated compensated absences	<u>311,641</u>
Total business-type activities debt	<u><u>\$ 29,923,038</u></u>

COMPONENT UNITS

Local Development Finance Authority note payable, at an interest rate of 7.0%, due 2019	\$ 16,186
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	2,635,000
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 \$100,000 to \$220,000, due December 2040	<u>3,445,000</u>
Total component units debt	<u><u>\$ 6,096,186</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE F – LONG-TERM DEBT – Continued

The annual requirements to service all debt outstanding as of June 30, 2018, including interest payments of \$16,730,569 for the debt service requirements are as follows:

	Governmental Activities		
	Principal	Interest	Total
2019	\$ 758,291	\$ 179,963	\$ 938,254
2020	765,291	166,342	931,633
2021	778,091	151,325	929,416
2022	791,091	134,613	925,704
2023	804,891	116,516	921,407
2024-2028	2,336,564	311,850	2,648,414
2029-2033	390,813	152,135	542,948
2034-2038	449,000	59,288	508,288
Total	\$ 7,074,032	\$ 1,272,032	\$ 8,346,064
	Business-type Activities		
	Principal	Interest	Total
2019	\$ 1,585,966	\$ 1,075,196	\$ 2,661,162
2020	1,631,892	1,030,468	2,662,360
2021	1,691,026	979,140	2,670,166
2022	1,757,908	924,499	2,682,407
2023	1,774,000	866,556	2,640,556
2024-2028	6,996,000	3,493,213	10,489,213
2029-2033	5,070,156	2,383,646	7,453,802
2034-2038	5,334,449	1,292,067	6,626,516
2039-2042	3,770,000	309,200	4,079,200
Total	\$ 29,611,397	\$ 12,353,985	\$ 41,965,382

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE F – LONG-TERM DEBT – Continued

	Component Units		
	Principal	Interest	Total
2019	\$ 191,186	\$ 226,831	\$ 418,017
2020	175,000	223,331	398,331
2021	185,000	218,806	403,806
2022	185,000	213,256	398,256
2023	190,000	207,631	397,631
2024-2028	1,090,000	910,956	2,000,956
2029-2033	1,335,000	657,050	1,992,050
2034-2038	1,615,000	379,847	1,994,847
2039-2041	1,130,000	66,844	1,196,844
Total	<u>\$ 6,096,186</u>	<u>\$ 3,104,552</u>	<u>\$ 9,200,738</u>

Interest expense for the year ended June 30, 2018 was \$1,187,946 for Business-type Activities and \$181,775 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2018 amounted to \$231,779.

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, 2018**

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.

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, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	96
Inactive employees entitled to but not yet receiving benefits	12
Active employees	<u>23</u>
Total	<u><u>131</u></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, 2017, 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, 2018

NOTE H – RETIREMENT PROGRAM – Continued

Actuarial assumptions – The total pension liability in the December 31, 2017 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 2017. 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, 2018**

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 12/31/16	\$ 28,489,971	\$ 18,665,234	\$ 9,824,737
Changes for the Year			
Service Cost	164,356	-	164,356
Interest on Total Pension Liability	2,200,592	-	2,200,592
Changes in benefits	-	-	-
Difference between expected and actual experience	186,006	-	186,006
Changes in assumptions	-	-	-
Employer Contribution	-	1,160,202	(1,160,202)
Employee Contribution	-	44,639	(44,639)
Net investment income	-	2,417,550	(2,417,550)
Benefit payments, including employee refunds	(2,129,490)	(2,129,490)	-
Administrative expense	-	(38,348)	38,348
Other changes	(2)	-	(2)
Net Changes	<u>421,462</u>	<u>1,454,553</u>	<u>(1,033,091)</u>
Balances as of 12/31/17	<u>\$ 28,911,433</u>	<u>\$ 20,119,787</u>	<u>\$ 8,791,646</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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)	\$ 31,584,973	\$ 28,911,432	\$ 26,603,664
Fiduciary Net Position (b)	<u>20,119,787</u>	<u>20,119,787</u>	<u>20,119,787</u>
Net Pension Liability (a-b)	<u>\$ 11,465,186</u>	<u>\$ 8,791,645</u>	<u>\$ 6,483,877</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions – For the year ended June 30, 2018, the employer recognized pension expense of \$1,031,677. 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	\$ 49,852	\$ -
Differences in assumptions	-	-
Excess (Deficit) Investment Returns	(337,498)	-
Contributions subsequent to the measurement date*	<u>629,998</u>	<u>-</u>
Total	<u>\$ 342,352</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, 2019.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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:

<u>Year Ending</u> <u>June 30</u>	
2019	\$ 166,881
2020	48,780
2021	(310,737)
2022	(192,570)

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, 2018, there were 112 plan members. Plan members are required to contribute 0% to 9% of covered payroll. The City is required to contribute 9% to 13.5% of annual covered payroll. The City’s contribution for the year ended June 30, 2018 was \$596,651. 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 \$16,186 as of June 30, 2018.

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 \$16,186 at June 30, 2018. 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, 2018**

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 \$29,194,507 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 46% 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 46% 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, 2017	\$ (2,626,539)
Current year building permit revenue	164,832
Less related expenses - Direct costs	<u>(282,435)</u>
Shortfall at June 30, 2018	<u>\$ (2,744,142)</u>

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2018

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, 2018

NOTE L – PURCHASED POWER CONTRACTS – Continued

Since March 31, 2014, the City has made payments of \$721,007 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 \$62,660 and interest expense incurred on AMP's line-of-credit of \$101,775, resulting in a net impaired cost estimate at June 30, 2018 of \$1,438,666. The City does have a potential PHFU Liability of \$1,458,904 resulting in a net total potential liability of \$2,897,570, 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 (PSEC) - On December 20, 2007, AMP acquired a 23.26% undivided ownership interest (the "*PSEC Ownership Interest*") in the Prairie State Energy Campus ("PSEC"), a two-unit, supercritical coal-fired power plant designed to have a net rated capacity of approximately 1,582 MW 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. Unit 1 of the PSEC commenced operations in the second quarter of 2012 and Unit 2 of the PSEC commenced operations in the fourth quarter of 2012.

From July 2008 through September 2010, AMP issued five series of Prairie State Energy Campus Revenue Bonds (collectively, the "*Initial Prairie State Bonds*") to finance PSEC project costs and PSEC related expenses. The Initial Prairie State Bonds consist of tax-exempt, taxable and tax advantaged Build America Bonds issued in the original aggregate principal amount of \$1,696,800,000. On January 14, 2015 and November 30, 2017, AMP issued bonds to refund all of the callable tax-exempt Initial Prairie State Bonds issued in 2008 and 2009. As of December 31, 2017, AMP had \$1,552,270,000 aggregate principal amount of Prairie State Bonds.

AMP sells the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract with 68 Members (the "*Prairie State Participants*"). 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.

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2018

NOTE L – PURCHASED POWER CONTRACTS – Continued

AMP Fremont Energy Center (AFEC) – On July 28, 2011, AMP acquired from FirstEnergy Generation Corporation (“FirstEnergy”) the Fremont Energy Center (“AFEC”), then nearing completion of construction and located in Fremont, Sandusky County, Ohio. Following completion of the commissioning and testing, AMP declared AFEC to be in commercial operation as of January 20, 2012. The AMP Fremont Energy Center is a natural gas fired, combined cycle, electric power generation plant with a capacity of 512 MW (unfired)/675 MW (fired), consisting of two combustion turbines, two heat recovery steam generators and one steam turbine and condenser.

AMP subsequently sold a 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency and entered into a power sales contract with the Central Virginia Electric Cooperative for the output associated with a 4.15% undivided ownership interest in AFEC. The output of AFEC associated with the remaining 90.69% undivided ownership interest (the “90.69% Interest”) is sold to AMP Members pursuant to a take-or-pay power sales contract with 87 of its members (the “AFEC Power Sales Contract”).

To provide permanent financing for the 90.69% Interest, in 2012, AMP issued, in two series \$546,085,000 of its AMP Fremont Energy Center Project Revenue Bonds (the “AFEC Bonds”), consisting of taxable and tax-exempt obligations. The AFEC Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under the AFEC Power Sales Contract. On December 20, 2017, AMP issued bonds to refund all of the callable tax-exempt AFEC Bonds issued in 2012. As of December 31, 2017, \$508,465,000 aggregate principal amount of AFEC Bonds was outstanding.

The City of Coldwater has executed a take-or-pay power sales contract with AMP as a participant of the AFEC of 18,055 kW or 3.88% of capacity and associated energy from the AFEC.

Combined Hydroelectric Projects - AMP owns and operates 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 is in commercial operation and consists of run-of-the-river hydroelectric generating facilities on existing Army Corps dams and includes associated transmission facilities. 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, 2018

NOTE L – PURCHASED POWER CONTRACTS – Continued

To provide financing for the Combined Hydroelectric Projects, AMP has issued eight series of its Combined Hydroelectric Projects Revenue Bonds (the “Combined Hydroelectric Bonds”), in an original aggregate principal amount of \$2,254,955,000 and 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 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. As of December 31, 2017, \$2,150,625,294 aggregate principal amount of the Combined Hydroelectric Bonds and approximately \$126.9 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Combined Hydroelectric Bonds.

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

Meldahl Hydroelectric Project - AMP owns and, together with the City of Hamilton, Ohio, an AMP Member, developed and constructed a 108.8 MW, three-unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing Army Corps dam on the Ohio River, and related equipment and associated transmission facilities (the “Meldahl Project”). The Meldahl Project is operated by the City of Hamilton.

In order to finance the construction of the Meldahl Project and related costs, AMP issued seven series of its Meldahl Hydroelectric Project Revenue Bonds (“Meldahl Bonds”) in an original aggregate principal amount of \$820,185,000 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. As of December 31, 2017, \$694,280,000 aggregate principal amount of the Meldahl Bonds and approximately \$15 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Meldahl Bonds.

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2018

NOTE L – PURCHASED POWER CONTRACTS – Continued

Greenup Hydroelectric Project – In connection with the development of the Meldahl Project, Hamilton agreed to sell and AMP agreed to purchase a 48.6% undivided ownership interest (the “AMP Interest”) in the Greenup Hydroelectric Facility. On May 11, 2016, AMP issued \$125,630,000 aggregate principal amount of its Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the “2016 Greenup Bonds”) and, with a portion of the proceeds thereof, acquired the AMP interest. The 2016 Greenup Bonds are secured by a separate power sales contract that has been executed by the same Members (with the exception of Hamilton, which retained title to a 51.4% ownership interest in the Greenup Hydroelectric Facility) that executed the Meldahl Power Sales Contract. As of December 31, 2017, \$125,630,000 aggregate principal amount of the 2016 Greenup Bonds and approximately \$2.6 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the 2016 Greenup Bonds.

The City of Coldwater has executed a take-or-pay power sales contract with AMP as a participant of the Greenup Hydroelectric Facility of 1,175 kW of 3.45% of capacity and associated energy from the Greenup Hydroelectric 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, 2018 was approximately \$3.1 million. All of the committed funds will be paid for with bond proceeds received.

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,452,700	\$ 3,435,700	\$ 3,445,197	\$ 9,497
Payment in lieu of taxes	2,645,413	2,645,413	2,645,412	(1)
Licenses and permits	259,000	303,000	329,080	26,080
Federal sources	-	-	1,498	1,498
State shared revenue	970,000	990,000	1,019,260	29,260
State sources	318,000	642,000	653,209	11,209
Charges for services	521,500	523,500	574,283	50,783
Rent	291,884	288,884	289,423	539
Interest earned	25,000	45,000	66,398	21,398
Contributions	15,000	25,000	151,725	126,725
Other	37,000	37,000	42,919	5,919
Total revenues	<u>8,535,497</u>	<u>8,935,497</u>	<u>9,218,404</u>	<u>282,907</u>
EXPENDITURES				
General government	1,353,140	1,357,140	1,324,610	(32,530)
Public safety	5,448,231	5,545,731	5,432,239	(113,492)
Public works	1,348,428	1,576,539	1,566,152	(10,387)
Recreation and cultural	1,065,589	1,072,089	986,821	(85,268)
Planning	196,056	126,056	79,848	(46,208)
Debt service	170,200	241,300	241,121	(179)
Other	525,500	637,500	614,903	(22,597)
Total expenditures	<u>10,107,144</u>	<u>10,556,355</u>	<u>10,245,694</u>	<u>(310,661)</u>
Excess (deficiency) of revenues over expenditures	(1,571,647)	(1,620,858)	(1,027,290)	593,568
OTHER SOURCES				
Sale of fixed assets	3,000	75,000	79,218	4,218
Debt proceeds	1,218,910	1,218,910	1,218,910	-
Transfers from other funds	250,000	250,000	231,995	(18,005)
Total other sources	<u>1,471,910</u>	<u>1,543,910</u>	<u>1,530,123</u>	<u>(13,787)</u>
Excess (deficiency) of revenues and other sources over expenditures	(99,737)	(76,948)	502,833	579,781
FUND BALANCE - BEGINNING	<u>3,023,707</u>	<u>3,652,350</u>	<u>3,652,350</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 2,923,970</u></u>	<u><u>\$ 3,575,402</u></u>	<u><u>\$ 4,155,183</u></u>	<u><u>\$ 579,781</u></u>

CITY OF COLDWATER

**REQUIRED SUPPLEMENTAL INFORMATION
RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2018**

As of December 31	Fiscal Year Ended June 30,				Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Underfunded Actuarial Accrued Liability Percentage of Covered Payroll
	Annual Pension Cost*	Percentage of Annual Pension Contributed	Net Pension Obligation							
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%	
2017	1,260,000	100%	-	20,347,560	29,542,702	9,195,142	69%	1,603,897	573.30%	

* 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, 2018**

Total Pension Liability	2018	2017	2016	2015
Service cost	\$ 164,356	\$ 197,701	\$ 201,065	\$ 200,716
Interest	2,200,592	2,210,238	2,154,627	2,124,546
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	186,005	(459,710)	(204,284)	-
Changes of assumptions	-	-	1,340,439	-
Benefit payments including employee refunds	(2,129,490)	(1,982,096)	(1,991,878)	(1,908,501)
Other	(2)	272	876	(2)
Net Change in Total Pension Liability	<u>421,461</u>	<u>(33,595)</u>	<u>1,500,845</u>	<u>416,759</u>
Total Pension Liability - beginning	<u>28,489,971</u>	<u>28,523,566</u>	<u>27,022,721</u>	<u>26,605,962</u>
Total Pension Liability - ending	<u><u>\$ 28,911,432</u></u>	<u><u>\$ 28,489,971</u></u>	<u><u>\$ 28,523,566</u></u>	<u><u>\$ 27,022,721</u></u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 1,160,202	\$ 1,005,222	\$ 919,890	\$ 827,702
Contributions - employee	44,639	53,287	56,904	60,722
Net investment income	2,417,550	1,965,325	(274,268)	1,172,725
Benefit payments including employee refunds	(2,129,490)	(1,982,096)	(1,991,878)	(1,908,501)
Administrative expense	(38,348)	(38,837)	(40,691)	(42,877)
Net Change in Plan Fiduciary Net Position	<u>1,454,553</u>	<u>1,002,901</u>	<u>(1,330,043)</u>	<u>109,771</u>
Plan Fiduciary Net Position - beginning	<u>18,665,234</u>	<u>17,662,333</u>	<u>18,992,376</u>	<u>18,882,605</u>
Plan Fiduciary Net Position - ending	<u><u>\$ 20,119,787</u></u>	<u><u>\$ 18,665,234</u></u>	<u><u>\$ 17,662,333</u></u>	<u><u>\$ 18,992,376</u></u>
Employer Net Pension Liability	<u><u>\$ 8,791,645</u></u>	<u><u>\$ 9,824,737</u></u>	<u><u>\$ 10,861,233</u></u>	<u><u>\$ 8,030,345</u></u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	70%	66%	62%	70%
Covered Employee Payroll	1,603,897	1,919,518	1,994,277	1,998,959
Employer's Net Pension Liability as a percentage of covered employee payroll	548%	512%	545%	402%

Note to schedule: The above amounts are based on measurement date of December 31st, 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, 2018**

	2018	2017	2016	2015
Actuarial determined contributions	\$ 1,012,554	\$ 919,584	\$ 847,229	\$ 796,640
Contributions in relation to the actuarially determined contribution	1,160,202	1,005,222	919,890	827,702
Contribution deficiency (excess)	<u>\$ (147,648)</u>	<u>\$ (85,638)</u>	<u>\$ (72,661)</u>	<u>\$ (31,062)</u>
 Covered Employee Payroll	 \$ 1,603,897	 \$ 1,919,518	 \$ 1,994,277	 \$ 1,998,959
 Contributions as a percentage of covered employee payroll	 72%	 52%	 46%	 41%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 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 31st, 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, 2018**

	<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>
ASSETS						
Cash and investments	\$ 127,515	\$ 9,722	\$ 72,318	\$ -	\$ 269,928	\$ 135,475
Accounts receivable	-	-	3,071	-	-	-
Special assessment receivable	-	-	-	-	-	-
Notes receivable	-	-	-	-	16,186	-
Due from other governmental units	204,821	48,518	-	-	-	-
Due from other funds	-	-	-	-	-	-
Prepaid expenses	160,717	-	-	-	-	-
Restricted assets	-	-	-	-	-	-
Total assets	<u>\$ 493,053</u>	<u>\$ 58,240</u>	<u>\$ 75,389</u>	<u>\$ -</u>	<u>\$ 286,114</u>	<u>\$ 135,475</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 49,616	\$ 893	\$ -	\$ -	\$ -	\$ -
Accrued expenditures	2,666	5,454	-	-	-	-
Unearned revenue	-	-	-	-	16,186	-
Total liabilities	52,282	6,347	-	-	16,186	-
FUND BALANCE						
Nonspendable	160,717	-	-	-	-	-
Restricted	280,054	51,893	-	-	269,928	135,475
Committed	-	-	75,389	-	-	-
Assigned	-	-	-	-	-	-
Total fund balance	<u>440,771</u>	<u>51,893</u>	<u>75,389</u>	<u>-</u>	<u>269,928</u>	<u>135,475</u>
Total liabilities and fund balance	<u>\$ 493,053</u>	<u>\$ 58,240</u>	<u>\$ 75,389</u>	<u>\$ -</u>	<u>\$ 286,114</u>	<u>\$ 135,475</u>

CITY OF COLDWATER

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018**

	Nonmajor Capital Project Funds					Nonmajor Permanent Fund	Totals
	Baseball Capital Fund	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Brownfield Redevelopment Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
ASSETS							
Cash and investments	\$ 611,267	\$ 131,348	\$ 330,173	\$ 680,724	\$ 15,453	\$ -	\$ 2,383,923
Accounts receivable	-	-	-	-	-	-	3,071
Special assessment receivable	-	-	21,879	-	-	-	21,879
Notes receivable	-	-	-	-	-	-	16,186
Due from other governmental units	-	-	-	-	-	-	253,339
Due from other funds	-	-	421,971	-	-	-	421,971
Prepaid expenses	140,182	-	-	-	-	-	300,899
Restricted assets	-	-	-	-	-	450,000	450,000
Total assets	<u>\$ 751,449</u>	<u>\$ 131,348</u>	<u>\$ 774,023</u>	<u>\$ 680,724</u>	<u>\$ 15,453</u>	<u>\$ 450,000</u>	<u>\$ 3,851,268</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	\$ 1,449	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,958
Accrued expenditures	-	-	-	-	-	-	8,120
Unearned revenue	-	-	437,850	-	-	-	454,036
Total liabilities	1,449	-	437,850	-	-	-	514,114
FUND BALANCE							
Nonspendable	140,182	-	-	-	-	-	300,899
Restricted	609,818	-	-	680,724	-	-	2,027,892
Committed	-	131,348	-	-	15,453	450,000	672,190
Assigned	-	-	336,173	-	-	-	336,173
Total fund balance	<u>750,000</u>	<u>131,348</u>	<u>336,173</u>	<u>680,724</u>	<u>15,453</u>	<u>450,000</u>	<u>3,337,154</u>
Total liabilities and fund balance	<u>\$ 751,449</u>	<u>\$ 131,348</u>	<u>\$ 774,023</u>	<u>\$ 680,724</u>	<u>\$ 15,453</u>	<u>\$ 450,000</u>	<u>\$ 3,851,268</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, 2018

	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
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ 391,326	\$ -	\$ 619,703
Special assessments	-	-	54,917	-	-	-
Federal sources	475,422	-	-	-	-	-
State grants	-	148,098	-	-	-	-
State shared revenue	902,995	283,683	-	-	-	-
State sources	158,965	-	-	-	-	-
Charges for services	-	-	3,116	-	-	-
Interest income	2,321	1,062	-	730	4,753	4,422
Contributions	-	-	-	-	-	-
Other income	-	-	-	2,270	9,037	-
Total revenues	1,539,703	432,843	58,033	394,326	13,790	624,125
EXPENDITURES						
Public works	1,329,919	848,166	58,928	-	-	-
Debt service						
Principal	12,100	5,500	-	-	-	480,000
Interest	4,576	2,080	-	-	-	89,732
Total expenditures	1,346,595	855,746	58,928	-	-	569,732
Excess (deficiency) of revenues over expenditures	193,108	(422,903)	(895)	394,326	13,790	54,393
OTHER SOURCES (USES)						
Sale of fixed assets	-	-	-	-	-	-
Return of grant to State	-	-	-	-	(7,885)	-
Transfers from (to) other funds	(320,000)	426,545	-	(394,409)	-	-
Total other sources (uses)	(320,000)	426,545	-	(394,409)	(7,885)	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(126,892)	3,642	(895)	(83)	5,905	54,393
FUND BALANCE - BEGINNING	567,663	48,251	76,284	83	264,023	81,082
FUND BALANCE - ENDING	\$ 440,771	\$ 51,893	\$ 75,389	\$ -	\$ 269,928	\$ 135,475

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, 2018**

	Nonmajor Capital Project Funds					Nonmajor Permanent Fund	Totals
	Baseball Capital Fund	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Brownfield Redevelopment Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 3,579	\$ -	\$ 1,014,608
Special assessments	-	-	-	-	-	-	54,917
Federal sources	-	-	-	-	-	-	475,422
State grants	-	-	-	-	-	-	148,098
State shared revenue	-	-	-	-	-	-	1,186,678
State sources	-	-	-	-	-	-	158,965
Charges for services	-	-	-	-	-	-	3,116
Interest income	-	1,594	3,730	1,702	222	-	20,536
Contributions	-	886	-	-	-	-	886
Other income	-	-	-	-	-	-	11,307
Total revenues	-	2,480	3,730	1,702	3,801	-	3,074,533
EXPENDITURES							
Public works	-	-	-	171,617	-	-	2,408,630
Debt service							
Principal	-	-	-	-	-	-	497,600
Interest	-	-	-	-	-	-	96,388
Total expenditures	-	-	-	171,617	-	-	3,002,618
Excess (deficiency) of revenues over expenditures	-	2,480	3,730	(169,915)	3,801	-	71,915
OTHER SOURCES (USES)							
Sale of fixed assets	750,000	-	-	-	-	-	750,000
Transfers from (to) other funds	-	-	(106,545)	-	-	-	(7,885)
Total other sources (uses)	750,000	-	(106,545)	-	-	-	(394,409)
Excess (deficiency) of revenues and other sources over expenditures and other uses	750,000	2,480	(102,815)	(169,915)	3,801	-	419,621
FUND BALANCE - BEGINNING	-	128,868	438,988	850,639	11,652	450,000	2,917,533
FUND BALANCE - ENDING	<u>\$ 750,000</u>	<u>\$ 131,348</u>	<u>\$ 336,173</u>	<u>\$ 680,724</u>	<u>\$ 15,453</u>	<u>\$ 450,000</u>	<u>\$ 3,337,154</u>

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

	Health Insurance Fund	Tax Collection Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 11,317	\$ 23,149	\$ 34,466
Taxes receivable	-	737	737
Total	<u>\$ 11,317</u>	<u>\$ 23,886</u>	<u>\$ 35,203</u>
LIABILITIES			
Due to other governmental units	\$ -	\$ 23,886	\$ 23,886
Accounts payable	11,317	-	11,317
Total	<u>\$ 11,317</u>	<u>\$ 23,886</u>	<u>\$ 35,203</u>

* Designates major program

CITY OF COLDWATER

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018**

<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, 2017</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2018</u>	<u>Prior Years Expenditures</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
Passed Through State of Michigan Housing Development Authority Planning and Development								
* Community Development Block Grant/ State's Program	14.228	214053-EDIG	\$ 12,550,000	\$ 4,420	\$ 4,816,439	\$ 4,812,019	\$ -	7,737,980
Department of Transportation								
Highway Planning and Construction	20.205		489,037	-	475,422	475,422	-	13,615
DEPARTMENT OF JUSTICE								
Bulletproof Vest Partnership Program	16.607		<u>1,498</u>	<u>-</u>	<u>1,498</u>	<u>1,498</u>	<u>-</u>	<u>-</u>
Total Department of Housing and Urban Development			<u>\$ 13,040,535</u>	<u>\$ 4,420</u>	<u>\$ 5,293,359</u>	<u>\$ 5,288,939</u>	<u>\$ -</u>	

* Designates major program

CITY OF COLDWATER

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2018**

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

Total Federal Assistance received	\$ 5,293,359
Accrued revenue at June 30, 2017	(4,420)
Accrued revenue at June 30, 2018	<u>-</u>
Total Federal Assistance expenditures	<u>\$ 5,288,939</u>
Governmental Funds Federal Sources	\$ 5,288,939
Total Federal Sources per financial statements	<u>\$ 5,288,939</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, 2018**

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, 2018

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, 2018, 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, 2018.

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, 2018

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, 2018. 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, 2018.

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, 2018

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, 2018**

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

CFDA Number(s)	Name of Federal Program or Cluster
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, 2018

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