

**CITY OF COLDWATER
BRANCH COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

**City Council
City of Coldwater, Michigan**

November 5, 2019

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, 2019, 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, 2019, 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.

**City Council
City of Coldwater, Michigan**

November 5, 2019

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2019, 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, 2019. 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 \$112.7 million. Of this amount, \$79.5 million related to investment in capital assets (net of depreciation and related debt). \$3.6 million are restricted assets and \$29.6 million represent 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 \$5 million. \$865,000 of this was an increase in the equity share of the Michigan South Central Power Agency.
- Governmental revenues generated \$12.8 million compared to \$18.6 million in the prior year. The decrease is primarily due to a \$4.8 million pass through grant that was received by the City in the prior year. Also, in the prior year 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. Included in the current year is \$100,000 of State Storm Water Asset Management and Wastewater (SAW) grant funds, as well as \$195,000 of Federal Emergency Management Agency grants and \$255,000 of Small Urban Development (SUD) grants. In the prior year \$600,000 of SAW grant funds and \$150,000 of local road grant funds were received from the State and \$475,000 of SUD grants were received from the Federal Government.
- Governmental expenses totaled \$11.6 million. This is a decrease of approximately \$5 million compared to the prior year total. As with the revenues the decrease is primarily due to the \$4.8 million of State grant money used for the Clemens Food Group project in the prior year. Included in the current year is \$500,000 for the Grand and Marshall Street projects, \$800,000 to rebuild the youth baseball fields and \$700,000 on the Chandler Plaza parking lot project. The prior year included \$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.
- In the City's business-type activities, revenues generated \$53.3 million. This includes the \$865,000 increase in the equity share of the Michigan South Central Power Agency. Overall utility fund charges for services increased \$1.7 million. Expenses totaled \$49.5 million. This was an increase of \$2.9 million from the prior year. Overall per kilowatt power costs were slightly 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 \$7.6 million, a decrease of \$430,000 compared to the prior year. The decrease included the spending of the \$750,000 received from the Coldwater school district in the prior year. Those funds were used in the current fiscal year on the reconstruction of youth athletic fields. Also included was the completion of the Chandler Plaza reconstruction project. This resulted in a \$590,000 reduction in the Road Bond construction fund.
- Fund balance for the General fund was \$4.68 million, or approximately 49% 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 2019 include the General Fund and three of the proprietary funds. 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 \$112.7 million at the close of June 30, 2019. The following table shows, in a condensed format, the net assets as of June 30, 2019 and 2018.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	8,843,459	\$ 9,053,488	\$ 42,085,791	\$ 40,098,520	\$ 50,929,250	\$ 49,152,008
Capital assets	41,177,873	40,314,515	71,592,665	73,666,297	112,770,538	113,980,812
Total assets	50,021,332	49,368,003	113,678,456	113,764,817	163,699,788	163,132,820
Deferred Outflows	1,220,687	93,688	900,328	248,664	2,121,015	342,352
Liabilities						
Long-term debt outstanding	6,007,263	6,804,550	25,775,064	28,337,072	31,782,327	35,141,622
Other liabilities	6,621,642	5,241,493	14,281,651	14,960,863	20,903,293	20,202,356
Total liabilities	12,628,905	12,046,043	40,056,715	43,297,935	52,685,620	55,343,978
Deferred Inflows	420,818	429,443	-	-	420,818	429,443
Net Assets						
Investment in capital assets- Net of related debt	34,862,132	33,240,483	44,632,862	44,054,900	79,494,994	77,295,383
Restricted	1,658,192	2,575,112	1,941,217	2,936,200	3,599,409	5,511,312
Unrestricted	1,671,972	1,170,610	27,947,990	23,724,446	29,619,962	24,895,056
Total net assets	\$ 38,192,296	\$ 36,986,205	\$ 74,522,069	\$ 70,715,546	\$ 112,714,365	\$ 107,701,751

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, 3%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$29.6 million, or 26% 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, \$1.7 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, 2019, compared to prior year:

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program revenues:						
Charges for services	\$ 1,242,950	\$ 1,219,538	\$ 54,597,641	\$ 52,941,011	\$ 55,840,591	\$ 54,160,549
Operating grants and contributions	658,466	1,488,573	-	185,201	658,466	1,673,774
Capital grants and contributions	217,834	5,016,017	-	-	217,834	5,016,017
General revenues:						
Property taxes	4,754,126	4,459,806	-	-	4,754,126	4,459,806
State revenues	3,056,975	2,941,927	-	-	3,056,975	2,941,927
Unrestricted investment	203,062	89,158	542,212	302,750	745,274	391,908
Gain (loss) on investment	-	-	865,269	2,233,429	865,269	2,233,429
Gain (loss) on sale	(165,289)	742,130	(146,145)	4,748	(311,434)	746,878
Miscellaneous	71,718	42,919	176,560	265,262	248,278	308,181
Transfers - internal balances	(50,000)	(50,000)	50,000	394,688	-	344,688
Payments in lieu of taxes	2,822,820	2,645,412	(2,822,820)	(2,645,412)	-	-
Total revenues	12,812,662	18,595,480	53,262,717	53,681,677	66,075,379	72,277,157
Expenses						
General government	2,810,235	2,289,119	-	-	2,810,235	2,289,119
Public safety	4,484,483	4,318,178	-	-	4,484,483	4,318,178
Public works	3,115,331	3,361,614	-	-	3,115,331	3,361,614
Recreation and cultural	850,773	1,569,846	-	-	850,773	1,569,846
Economic development	168,315	4,885,332	-	-	168,315	4,885,332
Interest	177,434	186,944	-	-	177,434	186,944
Transfers	-	-	-	-	-	-
Electric	-	-	38,936,821	35,835,770	38,936,821	35,835,770
Telecommunications	-	-	2,860,544	3,526,519	2,860,544	3,526,519
Water	-	-	2,694,823	2,572,884	2,694,823	2,572,884
Waste water	-	-	4,313,358	3,738,190	4,313,358	3,738,190
Rubbish	-	-	490,104	456,561	490,104	456,561
GIS	-	-	162,039	429,328	162,039	429,328
Total expenses	11,606,571	16,611,033	49,457,689	46,559,252	61,064,260	63,170,285
Change in Net Position	\$ 1,206,091	\$ 1,984,447	\$ 3,805,028	\$ 7,122,425	\$ 5,011,119	\$ 9,106,872

During the current fiscal year, the net asset position for the City as a whole increased \$5,011,119. Governmental activities increased its net position by \$1,206,091 and Business-type activities increased by \$3,805,028.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Governmental Activities

Total Governmental revenue is reported at \$12,812,662, a decrease of \$5,782,818 over the prior year. The decrease is primarily attributable to the fact that the prior 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 included \$255,215 of Small Urban Grant monies from the federal government that were used for two road projects one on Grand Street and the other on Jefferson Street. \$193,834 was received from a Federal Emergency Management Agency grant and was used by the City to buy self-contained breathing apparatus (SCBA) units for its Fire department. \$678,748 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. 2019 was the fourth year of that assessment.

Total Governmental expenses are reported at \$11,606,571, a decrease of \$5,004,462 from the prior year. As with revenues the decrease is primarily due to prior year pass through of \$4,813,517 grant funds related to the Clemens project. Included in the current year is \$806,419 spent on the new youth baseball complex, \$711,457 spent for the reconstruction of Chandler Plaza, \$501,022 spent on the Grand and Marshall Street road projects and \$203,540 spent to purchase the SCBA units for the Fire department.

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 \$54,597,641. The majority of expenses relate to operational expenses to provide utility services in the amount of \$49,457,689. 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 2017 fiscal operating results. Overall, total revenues exceeded expenditures by \$3,805,028.

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 \$528,420. General Fund revenues increased \$603,832 from the prior year and expenditures decreased by \$636,298. These changes along with a \$1,214,543 decrease 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 \$3,660,895 this year, an increase of \$215,698 from prior year. The second largest revenue source is PILOT payments which increased \$177,408 to \$2,822,820. Rounding out the top three is state shared revenue, which increased by \$44,117 to \$1,063,377. State shared revenue continues to trend up roughly 3% annually in recent 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 \$170,000 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 transfers of \$420,632 from the retirement millage levied in the amount of one and one-third of a mill.

In the current year overall General Fund expenditures decreased due to less planned capital spending. Included within the prior year was a \$1.2 million 2019 Seagrave aerial ladder truck. Current year capital included \$200,000 for the purchase of new self-contained breathing apparatus equipment for the Fire department and \$90,000 computer equipment & software for police patrol vehicles.

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 less than 4% 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 payments have risen from \$234,000 in 2013 to \$650,000 in 2019. 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 Street road project that was completed in the summer of 2018 as well the Jefferson Street road and infrastructure project that was completed in the fall of 2019.

Proprietary Funds

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

Electric – The Electric Fund ended the fiscal year with a \$2,812,892 increase in net position compared to the prior year when the fund experienced an increase of \$5,445,251. The current year included \$865,269 of gain related to the City's 54% ownership of the Michigan South Central Power Agency (MSCPA). Electric revenues increased by \$1,829,736 due to higher industrial usage compared to the prior year. Overall demand increased by 10% due in part to the Clemens Food Group pork processing facility having a full year of production. Purchased power costs increased \$3,093,944. Remaining costs shown are for operational and labor costs, fuels and ordinary repairs and maintenance.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Telecommunications – The Telecommunications Fund experienced a \$347,093 decrease in net position. Of that decrease, \$62,314 related to the disposal of equipment that was no longer in service. With the new Skitter TV internet-based cable alternative the City has transitioned 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 early in the fiscal year. Most of the revenue decrease is due to a decrease in the number of television customers. Cable costs have increased significantly as television content has increased. As a result of the price increase more and more consumers have switched to streaming services. Revenue from internet services dropped to a lesser degree as some former cable customers switched internet providers as well. The fund's primary costs are programming charges, data line charges and depreciation. The City has been challenged with the increasing cost of programming, however while this fund has lost money it continues to produce positive cash flow.

Water Fund – The Water Fund saw net position increase by \$697,264. This was up from the prior year when the Fund had an increase of \$644,020. Usage has increased significantly in the past two years with the start-up of the Clemens Food Group pork processing facility. Operating costs were primarily related to the cost to pump, treat and distribute water to residents and businesses. After significant infrastructure investment in the prior couple years the City didn't experience as much capital costs in 2019 outside of the completion of the Chandler Plaza project. In the long run however investment in our water infrastructure is a high priority, thus a rate increase went into effect in August, 2019 to build cash for future capital projects.

Wastewater – The Wastewater Fund had a \$556,981 increase in net position compared to the prior year when net position increased by \$1,141,556. 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. The prior year increase was bolstered by a \$344,688 contribution from the Capital Projects Fund used for improvements being done at the Water Resource Reclamation Facility (WRRF). The overall investment into the WRRF was \$13.4 million. To prepare for these upgrades at the WRRF the City began multi-step annual rate increases. The latest rate increase went into effect in August, 2019. These increases will continue into the future. In the current year \$350,000 of system capital was invested back into the City's sanitary system. A majority of that was spent reconstructing the infrastructure under Chandler Plaza and in various wastewater pipe relining projects. Relining has become a cost-effective mechanism to extend life and restore structural integrity of wastewater infrastructure by lining it with a cured in place liner to eliminate cracks in the piping. The relining is done in part to reduce groundwater infiltration into the sanitary system. This reduces the volume of water that requires treatment at the WRRF.

Rubbish – The Rubbish Fund saw an increase in net assets of \$22,350 compared to an increase of \$9,586 in the prior year. As in the prior year 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.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

GIS – The GIS Fund saw an increase in net assets of \$62,634 compared to a \$50,218 increase in the prior year. The City has partnered with Branch County as well as the City of Bronson 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 \$81,000; however, actual operations resulted in an increase in fund balance of \$528,420. The City continues to budget conservatively. In the current year revenues came in roughly 3.3% higher than budgeted with expenditures coming in at 2.7% under budget. The significant budget-to-actual differences are as follows:

Revenues –

- Contributions from State Sources were under budgeted by \$175,000. The City received an excess funding distribution from the State of Michigan's Local Community Stabilization Authority (LCSA) after the final budget amendment was complete. The fact that the distribution was going to happen was known, but the amount was not so we did not budget for it.

Expenditures –

- Expenditures for Public Works were under budget by \$110,000. The department had one unfilled position during the year. This contributed to wages and health insurance being under budget by \$64,000. Fuel prices continued to remain low during the year resulting in a savings of \$15,000.
- Expenditures for Public Safety were under budget by \$87,000. \$32,000 of this was the result of contractual fees being lower than anticipated. Amounts paid to third party inspectors were lower in the current year because building permit revenue was lower than it had been in the past two years. Repair and maintenance spending for the Police and Fire departments was \$28,000 under what was budgeted. The actual costs were very similar to the prior year however the budget remained higher to cover any significant needs that might arise. Finally fuel costs remained low and resulted in a savings of \$13,000 from the budget.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Capital Asset and Debt Administration

The City has continued its efforts to improve infrastructure. This fiscal year saw the reinvestment of \$5.1 million in capital assets for the City's Governmental and Enterprise Funds combined, \$3.2 million of which was reinvested in the City's 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. Over the last three years improvements at the water resource and recovery facility (WRRF) have been done. 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 WRRF was paid using funds from the \$15.7 million water and wastewater system bonds issued in 2017. The WRRF is near the upper end of its capacity. The City is currently studying options for future expansion. Significant equipment purchases in 2019 included \$404,000 for a new Vactor truck, \$311,000 spent on a Digger Derrick and \$155,000 for Bucket truck.

The Citizens of Coldwater approved a \$5,055,000 road bond issuance in 2015. The final project completed using the bond proceeds was 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 will not be felt until 2021. During the summer of 2019 the City undertook a major road reconstruction project on Jefferson Street. This project also included replacement of aging storm, water and wastewater infrastructure. In the fall of 2019, the City completed the Thompson Blvd. extension project connecting Thompson Blvd. with Michael Drive. Also included in this project was an extension of the wastewater infrastructure.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Economic Factors, Next Year's Budgets and Rates

The adopted budget for the fiscal year ending June 30, 2020, 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 \$271,000 for the 2020 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 43% of expenditures.

City revenues in the next fiscal year are expected to be flat. Our largest source of revenue is property taxes. Based on 2019 valuations we expect to see a slight decrease in 2020. While there has been increased real property development as well as an increase in the inflation factor used by the State for real property growth there have also been valuation adjustments. The State of Michigan updated the valuation methodologies that assessments are based on starting with the 2019 valuations. This has caused lower valuations in some commercial properties. 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. So far those payments have come in above projections, however it is expected that those increases will end and we are not including any potential excess funding in the initial 2020 budget. The second largest source of revenue, PILOT, is expected to increase to \$3.18 million due to increases in utility revenues from new industrial development. State revenue sharing, also a significant source of revenue for the City, is currently expected to increase by just under 2% to \$1.08 million.

The state economy has been strong. The Michigan unemployment rate in September, 2019 was 4.2%. This is up from 4.0% one year ago. Locally the employment level has been stable. The Clemens Food Group pork processing facility has been operational for two years. Clemens currently employs approximately 900 workers and continues to advertise for qualified production staff. Other local manufacturers are in similar situations due to recent growth. The unemployment rate in Branch County was reported by the State as 3.6% in September.

The local housing market is strong with a need for mid-range priced housing. The City purchased 15 lots on Thompson Blvd. early in 2019 and as noted above extended Thompson past Michael Drive. Through a program with the Michigan State Housing Development Authority (MSHDA) the City is currently developing one of those properties. That home will be available early in 2020. If successful the MSHDA program may be extended to a 2nd property. The remaining lots will be able to be offered for sale. In July construction of a four story, 50-unit apartment complex began on the Milnes Plaza downtown. That project is expected to be completed late in 2020.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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. 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. The reconstruction of the Chandler Plaza parking lot was completed during the 2019 fiscal year. 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 summer a major road construction project on S. Jefferson Street also addressed water and wastewater infrastructure issues. During the year the City relined various sections of underground sanitary sewer piping and during 2020 will be rebuilding a wastewater lift station that operates in the commercial area east of downtown. More and more projects like these 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 the WRRF. We are currently in the early stages of planning for this project which will require a large capital contribution funded with bond proceeds. Even before this expansion we are taking steps to make upgrades in the current facility. Over \$2.5 million will be invested into the WRRF during the upcoming fiscal year as we continue to work on ways to keep the facility in good operating condition. The 2020 fiscal year will also see the construction of a new electric substation on Butters Avenue. The cost of the substation is expected to be roughly \$5 million and will be financed by a debt issuance. This project is made necessary by a new electric transmission feed coming into the City from the north. The additional transmission feed has been long awaited and will give our local electric system needed redundancy.

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.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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, 2019

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 7,217,842	\$ 18,090,861	\$ 25,308,703	\$ 428,866
Accounts receivable	96,494	4,465,032	4,561,526	-
Special assessment receivable	21,879	-	21,879	-
Notes receivable	-	-	-	-
Inventories	-	118,828	118,828	-
Due from other governmental units	226,206	-	226,206	-
Internal balances	415,971	-	415,971	-
Prepaid expenses	415,067	131,130	546,197	-
Investment in Power Agency	-	17,572,525	17,572,525	-
Restricted assets	450,000	1,707,415	2,157,415	-
Capital assets, less accumulated depreciation	41,177,873	71,592,665	112,770,538	548,703
Total assets	50,021,332	113,678,456	163,699,788	977,569
DEFERRED OUTFLOWS OF RESOURCES	1,220,687	900,328	2,121,015	-
Total assets and deferred outflows of resources	51,242,019	114,578,784	165,820,803	977,569
LIABILITIES				
Accounts payable	554,903	4,927,838	5,482,741	285
Accrued expenditures	270,112	1,607,164	1,877,276	18,757
Long term liabilities:				
Bonds payable, due within one year	765,291	1,454,600	2,219,891	175,000
Bonds and notes payable, due in more than one year	5,550,450	25,505,203	31,055,653	5,730,000
Internal balances	-	-	-	415,971
Premium on bonds	-	650,914	650,914	90,202
Net pension liability	5,031,336	5,641,135	10,672,471	-
Compensated absences	456,813	269,861	726,674	-
Total liabilities	12,628,905	40,056,715	52,685,620	6,430,215
DEFERRED INFLOWS OF RESOURCES	420,818	-	420,818	-
Total liabilities and deferred inflows of resources	13,049,723	40,056,715	53,106,438	6,430,215
NET POSITION				
Investment in capital assets - net of related debt	34,862,132	44,632,862	79,494,994	(5,356,297)
Restricted	1,658,192	1,941,217	3,599,409	(96,349)
Unrestricted	1,671,972	27,947,990	29,619,962	-
Total net position	\$ 38,192,296	\$ 74,522,069	\$ 112,714,365	\$ (5,452,646)

See Notes to Financial Statements

CITY OF COLDWATER

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating /	Capital	Primary Government			Component Units
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:								
General government	\$ 2,810,235	\$ 268,565	\$ 151,718	\$ -	\$ (2,389,952)	\$ -	\$ (2,389,952)	\$ -
Public safety	4,484,483	388,625	64,130	193,834	(3,837,894)	-	(3,837,894)	-
Public works	3,115,331	317,017	405,018	-	(2,393,296)	-	(2,393,296)	-
Recreation and cultural	850,773	268,743	37,600	24,000	(520,430)	-	(520,430)	-
Economic development	168,315	-	-	-	(168,315)	-	(168,315)	-
Interest	177,434	-	-	-	(177,434)	-	(177,434)	-
Total governmental activities	11,606,571	1,242,950	658,466	217,834	(9,487,321)	-	(9,487,321)	-
Business-type activities:								
Electric	38,936,821	42,663,971	-	-	-	3,727,150	3,727,150	-
Telecommunications	2,860,544	2,695,604	-	-	-	(164,940)	(164,940)	-
Water	2,694,823	3,544,308	-	-	-	849,485	849,485	-
Waste water	4,313,358	5,071,886	-	-	-	758,528	758,528	-
Rubbish	490,104	503,534	-	-	-	13,430	13,430	-
GIS	162,039	118,338	-	-	-	(43,701)	(43,701)	-
Total business-type activities	49,457,689	54,597,641	-	-	-	5,139,952	5,139,952	-
Total primary government	<u>\$ 61,064,260</u>	<u>\$ 55,840,591</u>	<u>\$ 658,466</u>	<u>\$ 217,834</u>	(9,487,321)	5,139,952	(4,347,369)	-
Component units:								
Downtown Development Authority	\$ 203,883	\$ -	\$ 2,000	\$ -	-	-	-	(201,883)
Local Development Authority	265,718	-	-	-	-	-	-	(265,718)
Total component units	<u>\$ 469,601</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	-	-	-	(467,601)
General revenues:								
Property taxes					4,754,126	-	4,754,126	669,445
State revenues					3,056,975	-	3,056,975	-
Unrestricted investment earnings					203,062	542,212	745,274	18,820
Gain (loss) on investments					-	865,269	865,269	-
Gain (loss) on sale of assets					(165,289)	(146,145)	(311,434)	-
Miscellaneous					71,718	176,560	248,278	119,353
Transfers - internal balances					(50,000)	50,000	-	-
Payments in lieu of taxes					2,822,820	(2,822,820)	-	-
Total general revenues, transfers, forgiveness of debt and payments in lieu of taxes					<u>10,693,412</u>	<u>(1,334,924)</u>	<u>9,358,488</u>	<u>807,618</u>
Change in Net Position					1,206,091	3,805,028	5,011,119	340,017
Net Position - Beginning					36,986,205	70,715,546	107,701,751	(5,792,663)
Contribution in aid of construction					-	1,495	1,495	-
Net Position - Ending					<u>\$ 38,192,296</u>	<u>\$ 74,522,069</u>	<u>\$ 112,714,365</u>	<u>\$ (5,452,646)</u>

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019

	General Fund	Other Nonmajor Governmental Funds	Totals
ASSETS			
Cash and investments	\$ 5,009,470	\$ 2,208,372	\$ 7,217,842
Accounts receivable	96,494	-	96,494
Special assessment receivable	-	21,879	21,879
Notes receivable	-	-	-
Inventories	-	-	-
Due from other governmental units	-	226,206	226,206
Due from other funds	-	415,971	415,971
Prepaid expenses	72,976	342,091	415,067
Restricted assets	-	450,000	450,000
	<u>\$ 5,178,940</u>	<u>\$ 3,664,519</u>	<u>\$ 8,843,459</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 263,487	\$ 291,416	\$ 554,903
Accrued expenditures	227,000	8,949	235,949
Unearned revenue	4,850	437,850	442,700
	<u>495,337</u>	<u>738,215</u>	<u>1,233,552</u>
FUND BALANCE			
Nonspendable	72,976	342,091	415,067
Restricted	-	1,658,192	1,658,192
Committed	-	669,075	669,075
Assigned	2,146,366	256,946	2,403,312
Unassigned	2,464,261	-	2,464,261
	<u>4,683,603</u>	<u>2,926,304</u>	<u>7,609,907</u>
Total liabilities and fund balance	<u>\$ 5,178,940</u>	<u>\$ 3,664,519</u>	<u>\$ 8,843,459</u>

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET POSITION
JUNE 30, 2019

Total Fund Balance - Governmental Funds	\$ 7,609,907
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	60,400,039
Accumulated depreciation	<u>(19,222,166)</u>
Total capital assets not reported in funds	41,177,873
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	
	21,882
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid	
	(34,163)
Long-term liabilities and related deferred outflows are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable	(6,315,741)
Deferred outflows	1,220,687
Net pension liability	(5,031,336)
Compensated absences	<u>(456,813)</u>
Total long-term liabilities not reported in funds	<u>(10,583,203)</u>
Total Net Position - Governmental Activities	<u><u>\$ 38,192,296</u></u>

CITY OF COLDWATER

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund	Other Nonmajor Governmental Funds	Totals
REVENUES			
Taxes	\$ 3,660,895	\$ 1,093,231	\$ 4,754,126
Payment in lieu of taxes	2,822,820	-	2,822,820
Special assessments	-	57,430	57,430
Licenses and permits	308,431	-	308,431
Federal sources	193,834	255,215	449,049
State grants	-	97,393	97,393
State shared revenue	1,063,377	1,268,221	2,331,598
State sources	640,562	201,355	841,917
Charges for services	614,947	2,879	617,826
Rent	294,503	-	294,503
Interest income	149,829	53,233	203,062
Contributions	1,320	174,398	175,718
Other income	71,718	18,546	90,264
Total revenues	<u>9,822,236</u>	<u>3,221,901</u>	<u>13,044,137</u>
EXPENDITURES			
General government	1,598,247	-	1,598,247
Public safety	4,594,605	-	4,594,605
Public works	1,248,999	3,139,789	4,388,788
Recreation and cultural	1,078,519	-	1,078,519
Planning	157,690	-	157,690
Debt service	248,188	690,066	938,254
Other expenditures	683,148	-	683,148
Total expenditures	<u>9,609,396</u>	<u>3,829,855</u>	<u>13,439,251</u>
Excess (deficiency) of revenues over expenditures	212,840	(607,954)	(395,114)
OTHER SOURCES (USES)			
Sale of fixed assets	26,089	-	26,089
Return of grant to State	-	(10,625)	(10,625)
Transfers from (to) other funds	289,491	(339,491)	(50,000)
Total other sources (uses)	<u>315,580</u>	<u>(350,116)</u>	<u>(34,536)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	528,420	(958,070)	(429,650)
FUND BALANCE - BEGINNING	<u>4,155,183</u>	<u>3,884,374</u>	<u>8,039,557</u>
FUND BALANCE - ENDING	<u><u>\$ 4,683,603</u></u>	<u><u>\$ 2,926,304</u></u>	<u><u>\$ 7,609,907</u></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, 2019

Net change in Fund Balance - Total Governmental Funds	\$ (429,650)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(2,184,262)
Loss on sale of assets	(191,378)
Capital outlay	<u>3,238,998</u>
Total	863,358
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	(16,186)
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:	
Decrease in accrued interest is reported as a increase to expenditures	2,529
Change in net pension liability and related deferred outflows	(4,247)
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	-
Principal repayment	758,291
Decrease in compensated absences are reported as an increase to expenditures	<u>31,996</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,206,091</u></u>

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2019

	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	\$ 11,742,706	\$ 2,055,299	\$ 3,591,645	\$ -	\$ 390,374	\$ 310,837	\$ 18,090,861
Accounts receivable	3,350,216	351,520	561,202	169,192	32,902	-	4,465,032
Inventories	-	118,828	-	-	-	-	118,828
Due from other funds	304,075	-	-	-	-	-	304,075
Prepaid and other assets	76,407	26,218	21,754	6,751	-	-	131,130
Total current assets	15,473,404	2,551,865	4,174,601	175,943	423,276	310,837	23,109,926
Noncurrent assets:							
Investment in Power Agency	17,572,525	-	-	-	-	-	17,572,525
Restricted assets	136,766	75,722	1,494,927	-	-	-	1,707,415
Capital assets, less accumulated depreciation	21,628,936	16,452,472	31,007,927	2,503,330	-	-	71,592,665
Total noncurrent assets	39,338,227	16,528,194	32,502,854	2,503,330	-	-	90,872,605
Total assets	54,811,631	19,080,059	36,677,455	2,679,273	423,276	310,837	113,982,531
DEFERRED OUTFLOWS OF RESOURCES							
	437,737	197,533	197,534	67,524	-	-	900,328
Total assets and deferred outflows of resources	\$ 55,249,368	\$ 19,277,592	\$ 36,874,989	\$ 2,746,797	\$ 423,276	\$ 310,837	\$ 114,882,859
LIABILITIES AND NET POSITION							
LIABILITIES							
Current liabilities:							
Accounts payable	\$ 4,595,808	\$ 60,364	\$ 92,525	\$ 101,670	\$ 3,581	\$ 73,890	\$ 4,927,838
Accrued expenditures	1,135,632	96,591	341,969	29,406	421	3,145	1,607,164
Bonds and notes payable, due within one year	170,000	350,986	933,614	-	-	-	1,454,600
Total current liabilities	5,901,440	507,941	1,368,108	131,076	4,002	77,035	7,989,602
Noncurrent liabilities							
Bonds and notes payable, due in more than one year	4,195,000	3,283,158	18,027,045	-	-	-	25,505,203
Advance to other funds	-	-	-	304,075	-	-	304,075
Premium on bonds payable	230,890	50,403	369,621	-	-	-	650,914
Net pension liability	2,698,372	1,272,422	1,272,117	398,224	-	-	5,641,135
Compensated absences	121,353	62,653	43,468	42,234	153	-	269,861
Total noncurrent liabilities	7,245,615	4,668,636	19,712,251	744,533	153	-	32,371,188
Total liabilities	13,147,055	5,176,577	21,080,359	875,609	4,155	77,035	40,360,790
NET POSITION							
Investment in capital assets, net of related debt	17,263,936	12,818,328	12,047,268	2,503,330	-	-	44,632,862
Restricted	136,766	75,722	1,494,927	-	-	233,802	1,941,217
Unrestricted	24,701,611	1,206,965	2,252,435	(632,142)	419,121	-	27,947,990
Total net position	\$ 42,102,313	\$ 14,101,015	\$ 15,794,630	\$ 1,871,188	\$ 419,121	\$ 233,802	\$ 74,522,069

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, 2019

	<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>
REVENUES							
Charges for services	\$ 42,663,971	\$ 3,544,308	\$ 5,071,886	\$ 2,695,604	\$ 503,534	\$ 118,338	\$ 54,597,641
OPERATING EXPENSES							
Purchased power	32,288,451	-	-	-	-	-	32,288,451
Power plant	19,841	-	-	-	-	-	19,841
Natural gas plant	34	-	-	-	-	-	34
Distribution	1,360,959	446,424	-	1,841,274	-	-	3,648,657
Substation	364,036	-	-	-	-	-	364,036
Sanitation	-	-	-	-	490,104	-	490,104
Metering and lighting	923,026	-	-	-	-	-	923,026
Wells	-	64,826	-	-	-	-	64,826
Treatment	-	505,453	1,021,235	-	-	-	1,526,688
Collection system	-	-	250,285	-	-	-	250,285
Customer service	318,317	-	-	77,808	-	-	396,125
Administration	2,105,286	794,469	858,131	466,063	-	-	4,223,949
Public works	-	-	-	-	-	162,039	162,039
Payments in lieu of taxes	2,286,348	177,780	219,096	139,596	-	-	2,822,820
Depreciation	1,272,951	765,451	1,466,823	475,399	-	-	3,980,624
Total operating expenditures	40,939,249	2,754,403	3,815,570	3,000,140	490,104	162,039	51,161,505
OPERATING INCOME	1,724,722	789,905	1,256,316	(304,536)	13,430	(43,701)	3,436,136
NONOPERATING REVENUES (EXPENSES)							
Investment income	386,824	24,301	115,832	-	8,920	6,335	542,212
Interest expense	(283,920)	(118,200)	(716,884)	-	-	-	(1,119,004)
Gain (loss) on investments	865,269	-	-	-	-	-	865,269
Gain (loss) on sale of fixed assets	39,517	(12,784)	(110,564)	(62,314)	-	-	(146,145)
Miscellaneous income	130,480	14,042	12,281	19,757	-	-	176,560
Total nonoperating revenues (expenses)	1,138,170	(92,641)	(699,335)	(42,557)	8,920	6,335	318,892
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	2,862,892	697,264	556,981	(347,093)	22,350	(37,366)	3,755,028
TRANSFERS							
Transfers from (to) other funds	(50,000)	-	-	-	-	100,000	50,000
CHANGE IN NET POSITION	2,812,892	697,264	556,981	(347,093)	22,350	62,634	3,805,028
NET POSITION - BEGINNING	39,287,926	13,403,751	15,237,649	2,218,281	396,771	171,168	70,715,546
Contribution in aid of construction	1,495	-	-	-	-	-	1,495
NET POSITION - ENDING	<u>\$ 42,102,313</u>	<u>\$ 14,101,015</u>	<u>\$ 15,794,630</u>	<u>\$ 1,871,188</u>	<u>\$ 419,121</u>	<u>\$ 233,802</u>	<u>\$ 74,522,069</u>

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019

	<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	\$ 43,126,352	\$ 3,585,768	\$ 5,068,601	\$ 2,763,426	\$ 500,189	\$ 118,612	\$ 55,162,948
Payments made to suppliers	(37,344,112)	(917,924)	(1,825,801)	(1,910,547)	(471,109)	(64,931)	(42,534,424)
Payments made to employees	(2,799,764)	(1,056,635)	(1,019,579)	(814,602)	(15,701)	(99,687)	(5,805,968)
Net cash provided by operating activities	2,982,476	1,611,209	2,223,221	38,277	13,379	(46,006)	6,822,556
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in (out)	(50,000)	-	-	-	-	100,000	50,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal and interest paid on capital debt	(1,533,920)	(983,056)	(1,253,621)	-	-	-	(3,770,597)
Contribution in aid of construction	1,495	-	-	-	-	-	1,495
Proceeds on sale of assets	39,500	-	140,000	-	-	-	179,500
Purchase of capital assets	(1,061,337)	(299,820)	(833,205)	(38,277)	-	-	(2,232,639)
Net cash provided by (used in) capital and related financing activities	(2,554,262)	(1,282,876)	(1,946,826)	(38,277)	-	-	(5,822,241)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received on investments	386,824	24,301	115,832	-	8,920	6,335	542,212
Change in investments	(507,119)	507,560	357,184	-	-	-	357,625
Net cash provided by investing activities	(120,295)	531,861	473,016	-	8,920	6,335	899,837
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS							
	257,919	860,194	749,411	-	22,299	60,329	1,950,152
CASH AND CASH EQUIVALENTS - BEGINNING							
	11,484,787	1,195,105	2,842,234	-	368,075	250,508	16,140,709
CASH AND CASH EQUIVALENTS - ENDING							
	<u>\$ 11,742,706</u>	<u>\$ 2,055,299</u>	<u>\$ 3,591,645</u>	<u>\$ -</u>	<u>\$ 390,374</u>	<u>\$ 310,837</u>	<u>\$ 18,090,861</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	\$ 11,742,706	\$ 2,055,299	\$ 3,591,645	\$ -	\$ 390,374	\$ 310,837	\$ 18,090,861
Restricted cash and investments	136,766	75,722	1,494,927	-	-	-	1,707,415
Less amounts classified as investments	(136,766)	(75,722)	(1,494,927)	-	-	-	(1,707,415)
Total cash and cash equivalents	<u>\$ 11,742,706</u>	<u>\$ 2,055,299</u>	<u>\$ 3,591,645</u>	<u>\$ -</u>	<u>\$ 390,374</u>	<u>\$ 310,837</u>	<u>\$ 18,090,861</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES							
Operating income (loss)	\$ 1,724,722	\$ 789,905	\$ 1,256,316	\$ (304,536)	\$ 13,430	\$ (43,701)	\$ 3,436,136
Adjustments to reconcile operating income to net cash from operating activities:							
Miscellaneous income	130,480	14,042	12,281	19,757	-	-	176,560
Depreciation	1,272,951	765,451	1,466,823	475,399	-	-	3,980,624
Amortization	(13,853)	(2,282)	(16,738)	-	-	-	(32,873)
Changes in assets and liabilities:							
Receivables	331,901	27,418	(15,566)	48,065	(3,345)	274	388,747
Inventories	-	4,308	-	-	-	-	4,308
Prepays and other assets	48,674	8,537	7,483	11,716	-	1,060	77,470
Deferred outflows	(316,839)	(142,975)	(142,975)	(48,875)	-	-	(651,664)
Due from other governmental units	-	-	-	-	-	-	-
Due from (to) other funds	155,335	-	-	(155,335)	-	-	-
Accounts payable	(780,286)	(16,915)	(466,312)	(58,336)	3,564	(1,233)	(1,319,518)
Accrued expenditures	90,286	5,584	(36,629)	(1,708)	(160)	(2,406)	54,967
Net pension liability	364,444	164,458	164,458	56,219	-	-	749,579
Compensated absences	(25,339)	(6,322)	(5,920)	(4,089)	(110)	-	(41,780)
Net cash provided by operating activities	<u>\$ 2,982,476</u>	<u>\$ 1,611,209</u>	<u>\$ 2,223,221</u>	<u>\$ 38,277</u>	<u>\$ 13,379</u>	<u>\$ (46,006)</u>	<u>\$ 6,822,556</u>

See Notes to Financial Statements

CITY OF COLDWATER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 37,630
LIABILITIES	
Due to other governmental units	\$ 26,313
Accounts payable	11,317
	<hr/>
Total	\$ 37,630
	<hr/> <hr/>

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF NET POSITION
JUNE 30, 2019

	Downtown Development Authority	Local Development Finance Authority	Total
ASSETS			
Cash and investments	\$ 182,562	\$ 246,304	\$ 428,866
Capital assets, less accumulated depreciation	166,012	382,691	548,703
Total assets	348,574	628,995	977,569
LIABILITIES			
Accounts payable	285	-	285
Accrued expenditures	-	18,757	18,757
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	-	5,730,000	5,730,000
Advance to other funds	-	415,971	415,971
Premium on bonds payable	-	90,202	90,202
Total liabilities	285	6,429,930	6,430,215
NET ASSETS			
Investment in capital assets - net of related debt	166,012	(5,522,309)	(5,356,297)
Restricted	182,277	(278,626)	(96,349)
Total net position	\$ 348,289	\$ (5,800,935)	\$ (5,452,646)

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

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	\$ 203,883	\$ -	\$ 2,000	-	\$ (201,883)	\$ -	\$ (201,883)
Local Development Finance Authority	265,718	-	-	-	-	(265,718)	(265,718)
Total component activities	\$ 469,601	\$ -	\$ 2,000	\$ -	(201,883)	(265,718)	(467,601)
General revenues:							
Property taxes					77,053	592,392	669,445
Interest					6,775	12,045	18,820
Other income					3,623	115,730	119,353
Total general revenues					87,451	720,167	807,618
Change in Net Position					(114,432)	454,449	340,017
Net Position - Beginning					462,721	(6,255,384)	(5,792,663)
Contribution in aid of construction					-	-	-
Net Position - Ending					\$ 348,289	\$ (5,800,935)	\$ (5,452,646)

See Notes to Financial Statements

CITY OF COLDWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

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

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

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

The City first utilizes restricted resources to finance qualifying activities.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

Governmental-Wide Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

The City does not allocate indirect costs.

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

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

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

BASIS OF PRESENTATION:

MAJOR GOVERNMENTAL FUNDS

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2019

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, 2019

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 2018 tax is levied and collectible on August 1, 2018 and is recognized as revenue in the year ended June 30, 2019, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2018 taxable valuation of the City totaled \$344 million, a portion of which is abated and a portion of which is captured by the LDFA and DDA. Taxes levied consisted of 11.5827 mills for operating purposes, 1.3333 mills for the retirement system, and 1.75 mills for roadway construction. This resulted in almost \$3.5 million for general operating and approximately \$421,000 and \$676,000 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 2019 amounted to \$960,402.

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, 2019**

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, 2019, 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, 2019

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 sponsors elect to pay multiple years at a time, 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, 2019**

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, 2019**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Fund Balance – Continued

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

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>
Nonspendable:		
Prepaid expenses	\$ 72,976	\$ 342,091
Restricted:		
Grant Fund	-	550,445
Road Construction Bond	-	88,170
Major streets	-	427,687
Local streets	-	58,315
Road debt service	-	250,681
Revolving development	-	282,894
Committed:		
Parking authority	-	68,707
Library Memorial	-	134,542
Brownfield redevelopment	-	15,826
Cemetery	-	450,000
Assigned:		
Fund balancing	2,146,366	256,946
Unassigned:	2,464,261	-
	<u>2,464,261</u>	<u>-</u>
Total	<u>\$ 4,683,603</u>	<u>\$ 2,926,304</u>

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, 2019**

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 2.05% to 2.43%.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

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)	\$ 11,673,736	0.0027
U.S. government or agency bond or note	4,109,481	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	\$ 11,673,736	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, 2019, \$26,458,037 of the City’s bank balance of \$27,931,252 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, 2019**

NOTE C – DUE FROM OTHER FUNDS

The due from other funds, at June 30, 2019, for the City are as follows:

GOVERNMENTAL FUNDS

CAPITAL IMPROVEMENT FUND

Due from Local Development Finance Authority	<u>\$ 415,971</u>
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PROPRIETARY FUNDS

ELECTRIC FUND

Due from Telecommunications Fund	<u>\$ 304,075</u>
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CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE D – TRANSFERS FROM (TO) OTHER FUNDS

Transfers from (to) other funds, during the year ended June 30, 2019, for the City are as follows:

GOVERNMENTAL FUNDS

GENERAL FUND

Transfer from Retirement Fund	\$ 420,632
Transfer to Grant Fund	(81,141)
Transfer to GIS Fund	(50,000)
	<hr/>
Total General Fund	289,491

MAJOR STREETS FUND

Transfer to Local Streets Fund	(120,000)
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LOCAL STREETS FUND

Transfer from Major Streets Fund	120,000
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GRANT FUND

Transfer from General Fund	81,141
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RETIREMENT FUND

Transfer to General Fund	(420,632)
	<hr/>
Total governmental funds	<u><u>\$ (50,000)</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

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

PROPRIETARY FUNDS

ELECTRIC FUND

Transfer to GIS Fund	(50,000)
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GIS FUND

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

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE E – CAPITAL ASSETS

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

GOVERNMENTAL ACTIVITIES

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
GROUP:				
Capital assets, not being depreciated:				
Land	\$ 1,669,577	\$ 345,818	\$ 191,378	\$ 1,824,017
Capital assets, being depreciated:				
Roads and sidewalks	12,883,357	262,348	1,116,780	12,028,925
Land improvements	9,769,926	2,427,132	-	12,197,058
Buildings and improvements	27,333,722	3,225	-	27,336,947
Vehicles	4,800,129	89,604	106,991	4,782,742
Other tools and equipment	1,765,031	303,538	5,301	2,063,268
Construction in progress	359,749	167,082	359,749	167,082
Total assets being depreciated	<u>56,911,914</u>	<u>3,252,929</u>	<u>1,588,821</u>	<u>58,576,022</u>
Total assets	58,581,491	3,598,747	1,780,199	60,400,039
ACCUMULATED DEPRECIATION:				
Roads and sidewalks	7,373,095	644,168	1,116,780	6,900,483
Land improvements	924,752	426,311	-	1,351,063
Building and improvements	6,709,245	721,400	-	7,430,645
Vehicles	1,878,779	294,594	106,991	2,066,382
Other tools and equipment	1,381,105	97,789	5,301	1,473,593
Total accumulated depreciation	<u>18,266,976</u>	<u>2,184,262</u>	<u>1,229,072</u>	<u>19,222,166</u>
Net capital assets	<u>\$ 40,314,515</u>	<u>\$ 1,414,485</u>	<u>\$ 551,127</u>	<u>\$ 41,177,873</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE E – CAPITAL ASSETS – Continued

BUSINESS-TYPE ACTIVITIES

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2019</u>
GROUP:				
Capital assets, not being depreciated:				
Land	\$ 1,382,838	\$ -	\$ -	\$ 1,382,838
Capital assets, being depreciated:				
Work in progress	1,926,121	402,325	1,926,121	402,325
Land improvements	1,046,409	-	-	1,046,409
Utility systems	78,960,623	1,947,319	1,170,007	79,737,935
Buildings	30,784,869	1,661,528	26,269	32,420,128
Machinery and equipment	5,364,050	147,587	442,186	5,069,451
Total assets being depreciated	<u>118,082,072</u>	<u>4,158,759</u>	<u>3,564,583</u>	<u>118,676,248</u>
Total assets	119,464,910	4,158,759	3,564,583	120,059,086
ACCUMULATED DEPRECIATION:				
Electric	14,324,284	1,272,951	420,369	15,176,866
Telecommunications	7,127,015	475,399	667,066	6,935,348
Water	9,127,667	765,451	105,434	9,787,684
Waste water	15,219,647	1,466,822	119,946	16,566,523
Total accumulated depreciation	<u>45,798,613</u>	<u>3,980,623</u>	<u>1,312,815</u>	<u>48,466,421</u>
Net capital assets	<u>\$ 73,666,297</u>	<u>\$ 178,136</u>	<u>\$ 2,251,768</u>	<u>\$ 71,592,665</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE E – CAPITAL ASSETS – Continued

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

GOVERNMENTAL ACTIVITIES:

General government	\$ 559,814
Public safety	222,854
Public works	822,921
Recreation and culture	<u>578,673</u>
Total governmental activities	<u>\$ 2,184,262</u>

BUSINESS -TYPE ACTIVITIES:

Electric	\$ 1,272,951
Telecommunications	475,399
Water	765,451
Waste water	<u>1,466,822</u>
Total business-type activities	<u>\$ 3,980,623</u>

The component units' capital assets at June 30, 2019 consist of the following:

COMPONENT UNITS:

Infrastructure	\$ 717,790
Less, accumulated depreciation	<u>169,087</u>
Net capital assets of component units	<u>\$ 548,703</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, 2019 amounted to \$31,731.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE F – LONG-TERM DEBT

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019
Governmental Activities:				
Revenue bonds	\$ 237,013	\$ -	\$ 18,400	\$ 218,613
General obligation capital improvement bond	1,344,000	-	47,000	1,297,000
Unlimited tax general obligation bond	3,625,000	-	490,000	3,135,000
General obligation capital improvement bond	771,000	-	81,000	690,000
Equipment loan	1,097,019	-	121,891	975,128
Compensated absences	488,809	-	31,996	456,813
	<u>\$ 7,562,841</u>	<u>\$ -</u>	<u>\$ 790,287</u>	<u>\$ 6,772,554</u>
Business-type Activities:				
Revenue bonds and Refunding bonds	\$ 24,050,404	\$ 506,855	\$ 2,366,456	\$ 22,190,803
General obligation capital improvement and Refunding bonds	5,409,000	-	640,000	4,769,000
Equipment loan	151,993	-	151,993	-
Compensated absences	311,641	-	41,780	269,861
	<u>\$ 29,923,038</u>	<u>\$ 506,855</u>	<u>\$ 3,200,229</u>	<u>\$ 27,229,664</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

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	\$ 218,613
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 \$48,000 to \$98,000, due April 2038	1,297,000
Series 2015 Road Construction Unlimited Tax General Obligation Bonds, interest rates varying from 1.65% to 2.9%, annual principal payments ranging from \$495,000 to \$555,000, due May 2025	3,135,000
Series 2016 Tennis and Splash Limited Tax General Obligation Capital Improvement Bonds, interest rate of 1.5%, annual payments ranging from \$82,000 to \$91,000, due December 2026	690,000
Note payable to bank, interest rate of 2.37%, annual principal payments of \$121,891, due October 2026, secured by equipment	975,128
Accumulated compensated absences	<u>456,813</u>
Total governmental activities debt	<u><u>\$ 6,772,554</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE F – LONG-TERM DEBT – Continued

BUSINESS-TYPE ACTIVITIES

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	4,365,000
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 \$317,000 to \$354,000, due September 2025	2,335,000
Series 2016 Water Supply and Wastewater System Revenue Bonds, at an interest rate of 4.0%, annual payments ranging from \$390,000 to \$1,000,000, due August 2041	15,049,999
Series 2010 Wastewater Limited Tax General Obligation Refunding Bonds, interest rates varying from 2.75% to 4.1%, annual principal payments ranging from \$245,000 to \$315,000, due July 2024	1,670,000
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	1,220,356
Series 2016 Water Supply and Wastewater System Revenue Refunding Bonds, at an interest rate of 2.25%, annual principal payments ranging from \$91,000 to \$105,000, due July 2024	591,000

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE F – LONG-TERM DEBT – Continued

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 \$95,000 to \$122,000, due July 2025	764,000
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>964,448</u>
Total bonds and installment purchase agreements	26,959,803
Accumulated compensated absences	<u>269,861</u>
Total business-type activities debt	<u><u>\$ 27,229,664</u></u>

COMPONENT UNITS

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	2,560,000
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>3,345,000</u>
Total component units debt	<u><u>\$ 5,905,000</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE F – LONG-TERM DEBT – Continued

The annual requirements to service all debt outstanding as of June 30, 2019, including interest payments of \$13,446,053 for the debt service requirements are as follows:

	Governmental Activities		
	Principal	Interest	Total
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	823,691	96,982	920,673
2025-2029	1,600,273	252,253	1,852,526
2030-2034	385,413	134,675	520,088
2035-2039	367,000	39,362	406,362
Total	<u>\$ 6,315,741</u>	<u>\$ 1,092,068</u>	<u>\$ 7,407,809</u>
	Business-type Activities		
	Principal	Interest	Total
2020	\$ 1,454,600	\$ 1,075,196	\$ 2,529,796
2021	1,507,800	1,030,468	2,538,268
2022	1,562,800	979,140	2,541,940
2023	1,614,000	924,499	2,538,499
2024	1,672,200	866,556	2,538,756
2025-2029	5,971,400	3,493,213	9,464,613
2030-2034	5,162,556	2,383,646	7,546,202
2035-2039	5,129,448	1,292,067	6,421,515
2040-2042	2,884,999	309,200	3,194,199
Total	<u>\$ 26,959,803</u>	<u>\$ 12,353,985</u>	<u>\$ 39,313,788</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE F – LONG-TERM DEBT – Continued

	Component Units		
	Principal	Interest	Total
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	195,000	201,856	396,856
2025-2029	1,145,000	858,906	2,003,906
2030-2034	1,385,000	607,800	1,992,800
2035-2039	1,675,000	316,103	1,991,103
2040-2042	770,000	30,031	800,031
Total	\$ 5,905,000	\$ 2,877,720	\$ 8,782,720

Interest expense for the year ended June 30, 2019 was \$1,119,004 for Business-type Activities and \$179,963 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2019 amounted to \$226,831.

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, 2019

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, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	95
Inactive employees entitled to but not yet receiving benefits	13
Active employees	<u>22</u>
Total	<u><u>130</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, 2018, 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, 2019

NOTE H – RETIREMENT PROGRAM – Continued

Actuarial assumptions – The total pension liability in the December 31, 2018 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.
- 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 2018. 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, 2019**

NOTE H – RETIREMENT PROGRAM – Continued

Changes in Net Pension Liability –

Calculating Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/17	\$ 28,911,433	\$ 20,119,787	\$ 8,791,646
Changes for the Year			
Service Cost	164,223	-	164,223
Interest on Total Pension Liability	2,229,644	-	2,229,644
Changes in benefits	-	-	-
Difference between expected and actual experience	16,702	-	16,702
Changes in assumptions	-	-	-
Employer Contribution	-	1,290,000	(1,290,000)
Employee Contribution	-	38,625	(38,625)
Net investment income	-	(760,574)	760,574
Benefit payments, including employee refunds	(2,245,976)	(2,245,976)	-
Administrative expense	-	(38,308)	38,308
Other changes	-	-	-
	164,593	(1,716,233)	1,880,826
Net Changes			
Balances as of 12/31/18	\$ 29,076,026	\$ 18,403,554	\$ 10,672,472

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2019**

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)	\$ 31,708,663	\$ 29,076,026	\$ 26,798,293
Fiduciary Net Position (b)	<u>18,403,554</u>	<u>18,403,554</u>	<u>18,403,554</u>
Net Pension Liability (a-b)	<u>\$ 13,305,109</u>	<u>\$ 10,672,472</u>	<u>\$ 8,394,739</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions – For the year ended June 30, 2019, the employer recognized pension expense of \$1,472,162. 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	\$ 141,805	\$ 75,251
Differences in assumptions	-	-
Excess (Deficit) Investment Returns	1,411,016	-
Contributions subsequent to the measurement date*	<u>643,445</u>	<u>-</u>
Total	<u>\$ 2,196,266</u>	<u>\$ 75,251</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, 2019**

NOTE H – RETIREMENT PROGRAM – Continued

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

Year Ending <u>June 30</u>	
2020	\$ 226,166
2021	155,649
2022	273,815
2023	466,386

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, 2019, there were 110 plan members. Plan members are required to contribute 0% to 7.5% of covered payroll. The City is required to contribute 10% to 13.5% of annual covered payroll. The City’s contribution for the year ended June 30, 2019 was \$617,298. Plan provisions and contribution requirements are established and may be amended by the City Council.

NOTE I – 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 \$32,288,451 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 54% interest in the Michigan South Central Power Agency (MSCPA). The City records the investment using the equity method and calculates 54% 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 54% of the equity net of the City’s assets.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2019

NOTE J – 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, 2018	\$ (2,744,142)
Current year building permit revenue	117,569
Less related expenses - Direct costs	<u>(292,585)</u>
Shortfall at June 30, 2019	<u><u>\$ (2,919,158)</u></u>

NOTE K – 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.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2019

NOTE K – PURCHASED POWER CONTRACTS – Continued

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.

Since March 31, 2014, the City has made payments of \$1,401,007 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 \$63,337 and interest expense incurred on AMP's line-of-credit of \$136,244, resulting in a net impaired cost estimate at June 30, 2019 of \$793,812. The City does have a potential PHFU Liability of \$1,504,593 resulting in a net total potential liability of \$2,298,405, 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 (the "*Prairie State Refunding Bonds*") and, together with the Initial Prairie State Bonds, the "*Prairie State Bonds*") to refund all of the callable tax-exempt Initial Prairie State Bonds issued in 2008 and 2009. As of January 1, 2019, AMP had \$1,537,430,000 aggregate principal amount of Prairie State Bonds outstanding.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2019

NOTE K – PURCHASED POWER CONTRACTS – Continued

AMP sells the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract (the “*Prairie State Power Sales Contract*”) with 68 Members (the “*Prairie State Participants*”). The Prairie State 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 2.7% kW of capacity and associated energy from the PSEC.

AMP Fremont Energy Center (AFEC) – On July 28, 2011, AMP acquired from FirstEnergy Generation Corporation (“*FirstEnergy*”) the Fremont Energy Center (“*AFEC*”), a combined cycle, natural gas fueled electric generating plant, 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. AFEC has a capacity of 512 MW (unfired)/675 MW (fired) and consists 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 86 of its Members (the “*AFEC Power Sales Contract*”).

In 2012, to provide permanent financing for the 90.69% Interest, AMP issued, in two series, \$546,085,000 of its AMP Fremont Energy Center Project Revenue Bonds (the “*2012 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. In 2017, AMP issued bonds (the “*AFEC Refunding Bonds*”) and, together with the 2012 AFEC Bonds, the “*AFEC Bonds*”) to refund a portion of the 2012 AFEC Bonds. As of January 1, 2019, \$499,105,000 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% kW of capacity and associated energy from the AFEC.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2019

NOTE K – PURCHASED POWER CONTRACTS – Continued

Combined Hydroelectric Projects – AMP owns and operates three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the “*Combined Hydroelectric Projects*”), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects 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 Projects.

To provide financing for, or refinance certain obligations incurred in respect of, 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 \$2,354,485,000 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 January 1, 2019, \$2,222,975,882 aggregate principal amount of the Combined Hydroelectric Bonds and approximately \$31.6 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the 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 January 1, 2019, \$685,215,000 aggregate principal amount of the Meldahl Bonds and approximately \$2.4 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.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2019

NOTE K – PURCHASED POWER CONTRACTS – Continued

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.

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 January 1, 2019, \$125,300,000 aggregate principal amount of the 2016 Greenup Bonds 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 Project of 1,175 kW or 3.45% of capacity and associated energy from the Greenup Project.

Solar Electricity Prepayment Project – In 2016, AMP entered into the NextEra PPA pursuant to the terms of which AMP agreed to purchase and a subsidiary of NextEra agreed to sell all of the power and energy generated by solar generation facilities (each, a “System”), each of which is located behind the meter of an AMP Member’s Electric System. Under the terms of the NextEra PPA, AMP is required to prepay for twenty-five years of energy to be generated by each System at a “P90” confidence interval, meaning that, in any given year, the probability of exceeding such level of production is ninety percent (90%), and assuming a 0.5% degradation factor. [Thirteen] Systems with a rated capacity of approximately 36.825 MW have entered commercial operation and AMP has made the prepayments associated with such Systems with the proceeds of draws on its Line of Credit.

In January 2019, AMP anticipates that it will issue approximately \$56 million of its Solar Electricity Prepayment Project Revenue Bonds, Series 2019A (the “Solar Prepayment Bonds”) to refinance such draws on its Line of Credit. Such Bonds will be secured by a trust indenture (the “Solar Indenture”) and payable from amounts received by AMP under a take-and-pay power sales contract with 22 of its Members. AMP anticipates that it will issue one or more series of additional bonds under the Solar Indenture to finance or refinance the prepayments for Systems that have not yet entered commercial operation. In addition, certain development and interconnection costs associated with the solar generating facilities will remain on the Line of Credit, payable as a subordinate obligation under the Solar Indenture.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2019

NOTE K – PURCHASED POWER CONTRACTS – Continued

The City of Coldwater has executed a take-or-pay power sales contract with AMP as a participant of the Greenup Project of 1,208 kW or 1.996% of capacity and associated energy from the Solar Electricity Project.

NOTE L – 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, 2019 was approximately \$3.2 million. All of the committed funds will be paid for with bond proceeds received.

NOTE M – CONTINGENCY

The City is currently engaged in a dispute with a local manufacturer over the 2018 (12/31/17) and 2019 (12/31/18) real property valuations of the company's Coldwater manufacturing facility. The case is scheduled to go before the Michigan Tax Tribunal in February, 2020. Because the case has not yet gone to trial it is currently not possible to estimate its outcome and no estimate of liability has been made.

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 3,710,000	\$ 3,667,500	\$ 3,660,895	\$ (6,605)
Payment in lieu of taxes	2,822,828	2,822,828	2,822,820	(8)
Licenses and permits	271,000	267,000	308,431	41,431
Federal sources	-	193,834	193,834	-
State shared revenue	1,035,000	1,050,000	1,063,377	13,377
State sources	221,000	466,000	640,562	174,562
Charges for services	515,088	563,088	614,947	51,859
Rent	282,128	282,128	294,503	12,375
Interest earned	40,000	120,000	149,829	29,829
Contributions	15,000	5,000	1,320	(3,680)
Other	40,000	66,000	71,718	5,718
	<u>8,952,044</u>	<u>9,503,378</u>	<u>9,822,236</u>	<u>318,858</u>
EXPENDITURES				
General government	1,469,971	1,627,971	1,598,247	(29,724)
Public safety	4,446,272	4,681,571	4,594,605	(86,966)
Public works	1,488,546	1,358,547	1,248,999	(109,548)
Recreation and cultural	1,088,810	1,130,810	1,078,519	(52,291)
Planning	149,745	169,745	157,690	(12,055)
Debt service	248,300	248,300	248,188	(112)
Other	612,000	686,500	683,148	(3,352)
	<u>9,503,644</u>	<u>9,903,444</u>	<u>9,609,396</u>	<u>(294,048)</u>
Excess (deficiency) of revenues over expenditures	(551,600)	(400,066)	212,840	612,906
OTHER SOURCES				
Sale of fixed assets	15,000	15,000	26,089	11,089
Transfers from other funds	308,000	304,000	289,491	(14,509)
	<u>323,000</u>	<u>319,000</u>	<u>315,580</u>	<u>(3,420)</u>
Excess (deficiency) of revenues and other sources over expenditures	(228,600)	(81,066)	528,420	609,486
FUND BALANCE - BEGINNING	<u>4,155,183</u>	<u>4,155,183</u>	<u>4,155,183</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 3,926,583</u>	<u>\$ 4,074,117</u>	<u>\$ 4,683,603</u>	<u>\$ 609,486</u>

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 164,223	\$ 164,356	\$ 197,701	\$ 201,065	\$ 200,716
Interest	2,229,644	2,200,592	2,210,238	2,154,627	2,124,546
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	16,702	186,006	(459,710)	(204,284)	-
Changes of assumptions	-	-	-	1,340,439	-
Benefit payments including employee refunds	(2,245,976)	(2,129,490)	(1,982,096)	(1,991,878)	(1,908,501)
Other	-	(2)	272	876	(2)
Net Change in Total Pension Liability	<u>164,593</u>	<u>421,462</u>	<u>(33,595)</u>	<u>1,500,845</u>	<u>416,759</u>
Total Pension Liability - beginning	<u>28,911,433</u>	<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>\$ 29,076,026</u></u>	<u><u>\$ 28,911,433</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	\$ 1,290,000	\$ 1,160,202	\$ 1,005,222	\$ 919,890	\$ 827,702
Contributions - employee	38,625	44,639	53,287	56,904	60,722
Net investment income	(760,574)	2,417,550	1,965,325	(274,268)	1,172,725
Benefit payments including employee refunds	(2,245,976)	(2,129,490)	(1,982,096)	(1,991,878)	(1,908,501)
Administrative expense	(38,308)	(38,348)	(38,837)	(40,691)	(42,877)
Net Change in Plan Fiduciary Net Position	<u>(1,716,233)</u>	<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>20,119,787</u>	<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>\$ 18,403,554</u></u>	<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>\$ 10,672,472</u></u>	<u><u>\$ 8,791,646</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	63%	70%	66%	62%	70%
Covered Employee Payroll	1,587,580	1,603,897	1,919,518	1,994,277	1,998,959
Employer's Net Pension Liability as a percentage of covered employee payroll	672%	548%	512%	545%	402%

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

**CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019	2018	2017	2016	2015
Actuarial determined contributions	\$ 991,032	\$ 1,012,554	\$ 919,584	\$ 847,229	\$ 796,640
Contributions in relation to the actuarially determined contribution	1,290,000	1,160,202	1,005,222	919,890	827,702
Contribution deficiency (excess)	<u>\$ (298,968)</u>	<u>\$ (147,648)</u>	<u>\$ (85,638)</u>	<u>\$ (72,661)</u>	<u>\$ (31,062)</u>
 Covered Employee Payroll	 \$ 1,587,580	 \$ 1,603,897	 \$ 1,919,518	 \$ 1,994,277	 \$ 1,998,959
 Contributions as a percentage of covered employee payroll	 81%	 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, 2019**

	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
ASSETS						
Cash and investments	\$ 503,342	\$ 11,578	\$ 68,707	\$ -	\$ 282,894	\$ 250,681
Accounts receivable	-	-	-	-	-	-
Special assessment receivable	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-
Due from other governmental units	172,916	53,290	-	-	-	-
Due from other funds	-	-	-	-	-	-
Prepaid expenses	342,091	-	-	-	-	-
Restricted assets	-	-	-	-	-	-
Total assets	<u>\$ 1,018,349</u>	<u>\$ 64,868</u>	<u>\$ 68,707</u>	<u>\$ -</u>	<u>\$ 282,894</u>	<u>\$ 250,681</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 243,851	\$ 2,324	\$ -	\$ -	\$ -	\$ -
Accrued expenditures	4,720	4,229	-	-	-	-
Unearned revenue	-	-	-	-	-	-
Total liabilities	248,571	6,553	-	-	-	-
FUND BALANCE						
Nonspendable	342,091	-	-	-	-	-
Restricted	427,687	58,315	-	-	282,894	250,681
Committed	-	-	68,707	-	-	-
Assigned	-	-	-	-	-	-
Total fund balance	<u>769,778</u>	<u>58,315</u>	<u>68,707</u>	<u>-</u>	<u>282,894</u>	<u>250,681</u>
Total liabilities and fund balance	<u>\$ 1,018,349</u>	<u>\$ 64,868</u>	<u>\$ 68,707</u>	<u>\$ -</u>	<u>\$ 282,894</u>	<u>\$ 250,681</u>

CITY OF COLDWATER

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET - CONTINUED FOR THE YEAR ENDED JUNE 30, 2019

	Nonmajor Capital Project Funds						Nonmajor Permanent Fund	Totals
	Baseball Capital Fund	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Capital Project Grant Fund	Brownfield Redevelopment Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
ASSETS								
Cash and investments	\$ -	\$ 134,542	\$ 256,946	\$ 113,321	\$ 570,535	\$ 15,826	\$ -	\$ 2,208,372
Accounts receivable	-	-	-	-	-	-	-	-
Special assessment receivable	-	-	21,879	-	-	-	-	21,879
Notes receivable	-	-	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-	-	226,206
Due from other funds	-	-	415,971	-	-	-	-	415,971
Prepaid expenses	-	-	-	-	-	-	-	342,091
Restricted assets	-	-	-	-	-	-	450,000	450,000
Total assets	<u>\$ -</u>	<u>\$ 134,542</u>	<u>\$ 694,796</u>	<u>\$ 113,321</u>	<u>\$ 570,535</u>	<u>\$ 15,826</u>	<u>\$ 450,000</u>	<u>\$ 3,664,519</u>
LIABILITIES AND FUND BALANCE								
LIABILITIES								
Accounts payable	\$ -	\$ -	\$ -	\$ 25,151	\$ 20,090	\$ -	\$ -	\$ 291,416
Accrued expenditures	-	-	-	-	-	-	-	8,949
Unearned revenue	-	-	437,850	-	-	-	-	437,850
Total liabilities	-	-	437,850	25,151	20,090	-	-	738,215
FUND BALANCE								
Nonspendable	-	-	-	-	-	-	-	342,091
Restricted	-	-	-	88,170	550,445	-	-	1,658,192
Committed	-	134,542	-	-	-	15,826	450,000	669,075
Assigned	-	-	256,946	-	-	-	-	256,946
Total fund balance	-	134,542	256,946	88,170	550,445	15,826	450,000	2,926,304
Total liabilities and fund balance	<u>\$ -</u>	<u>\$ 134,542</u>	<u>\$ 694,796</u>	<u>\$ 113,321</u>	<u>\$ 570,535</u>	<u>\$ 15,826</u>	<u>\$ 450,000</u>	<u>\$ 3,664,519</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, 2019**

	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	\$ -	\$ -	\$ -	\$ 414,483	\$ -	\$ 678,748
Special assessments	-	-	57,430	-	-	-
Federal sources	255,215	-	-	-	-	-
State grants	-	-	-	-	-	-
State shared revenue	961,943	306,278	-	-	-	-
State sources	201,355	-	-	-	-	-
Charges for services	-	-	2,879	-	-	-
Interest income	7,711	143	-	3,789	7,405	9,951
Contributions	-	-	-	-	-	-
Other income	-	-	-	2,360	16,186	-
Total revenues	1,426,224	306,421	60,309	420,632	23,591	688,699
EXPENDITURES						
Public works	960,294	412,307	66,991	-	-	-
Debt service						
Principal	12,650	5,750	-	-	-	490,000
Interest	4,273	1,942	-	-	-	83,493
Total expenditures	977,217	419,999	66,991	-	-	573,493
Excess (deficiency) of revenues over expenditures	449,007	(113,578)	(6,682)	420,632	23,591	115,206
OTHER SOURCES (USES)						
Sale of fixed assets	-	-	-	-	-	-
Return of grant to State	-	-	-	-	(10,625)	-
Transfers from (to) other funds	(120,000)	120,000	-	(420,632)	-	-
Total other sources (uses)	(120,000)	120,000	-	(420,632)	(10,625)	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	329,007	6,422	(6,682)	-	12,966	115,206
FUND BALANCE - BEGINNING	440,771	51,893	75,389	-	269,928	135,475
FUND BALANCE - ENDING	\$ 769,778	\$ 58,315	\$ 68,707	\$ -	\$ 282,894	\$ 250,681

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, 2019**

	Nonmajor Capital Project Funds						Nonmajor Permanent Fund	Totals
	Baseball Capital Fund	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Capital Project Grant Fund	Brownfield Redevelopment Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
REVENUES								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,093,231
Special assessments	-	-	-	-	-	-	-	57,430
Federal sources	-	-	-	-	-	-	-	255,215
State grants	-	-	-	-	97,393	-	-	97,393
State shared revenue	-	-	-	-	-	-	-	1,268,221
State sources	-	-	-	-	-	-	-	201,355
Charges for services	-	-	-	-	-	-	-	2,879
Interest income	-	3,167	6,829	344	13,521	373	-	53,233
Contributions	-	398	-	150,000	24,000	-	-	174,398
Other income	-	-	-	-	-	-	-	18,546
Total revenues	-	3,565	6,829	150,344	134,914	373	-	3,221,901
EXPENDITURES								
Public works	750,000	371	86,056	742,898	120,872	-	-	3,139,789
Debt service								
Principal	-	-	-	-	81,000	-	-	589,400
Interest	-	-	-	-	10,958	-	-	100,666
Total expenditures	750,000	371	86,056	742,898	212,830	-	-	3,829,855
Excess (deficiency) of revenues over expenditures	(750,000)	3,194	(79,227)	(592,554)	(77,916)	373	-	(607,954)
OTHER SOURCES (USES)								
Sale of fixed assets	-	-	-	-	-	-	-	-
Return of grant to State	-	-	-	-	-	-	-	(10,625)
Transfers from (to) other funds	-	-	-	-	81,141	-	-	(339,491)
Total other sources (uses)	-	-	-	-	81,141	-	-	(350,116)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(750,000)	3,194	(79,227)	(592,554)	3,225	373	-	(958,070)
FUND BALANCE - BEGINNING	750,000	131,348	336,173	680,724	547,220	15,453	450,000	3,884,374
FUND BALANCE - ENDING	\$ -	\$ 134,542	\$ 256,946	\$ 88,170	\$ 550,445	\$ 15,826	\$ 450,000	\$ 2,926,304

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

	Health Insurance Fund	Tax Collection Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 11,317	\$ 26,313	\$ 37,630
LIABILITIES			
Due to other governmental units	\$ -	\$ 26,313	\$ 26,313
Accounts payable	11,317	-	11,317
Total	\$ 11,317	\$ 26,313	\$ 37,630

* Designates major program



**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 8, 2019

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, 2019, 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 5, 2019.

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.

Upcoming Changes in Regulations and Standards

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Village in the future. If you have questions regarding these standards, please contact us for further explanation.

GASB 87 Leases – Effective for fiscal years beginning after 12/15/2020

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

Taylor, Plant & Watkins, P.C.
TAYLOR, PLANT & WATKINS, P.C.
COLDWATER, MICHIGAN



November 5, 2019

City Council
City of Coldwater and CBPU
One Grand St.
Coldwater, MI 49036

We have audited the financial statements of City of Coldwater as of and for the year ended June 30, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of City of Coldwater. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether City of Coldwater's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, 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.

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Coldwater are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

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

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$727,000.

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management letter dated November 5, 2019.

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

We have discussed SAS #112 and the ability of the City’s management to independently prepare the external audit report including all required financial statement disclosures.

Management has informed us they will utilize our technical expertise to assist in preparing the audited financial statements.

Upcoming Changes in Regulations and Standards

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Board of Directors
City of Coldwater and CBPU
Coldwater, Michigan

November 5, 2019
Page 5

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

Taylor, Plant & Watkins, P.C.
TAYLOR, PLANT & WATKINS, P.C.