

**CITY OF COLDWATER
BRANCH COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2008

CONTENTS

	<u>Page</u>
Report Letter	1-2
Management’s Discussion and Analysis	3-14
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	17
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balance	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	20
Proprietary Funds:	
Statement of Net Assets	21
Statement Revenues, Expenses and Changes in Net Assets	22
Statement of Cash Flows	23-24
Fiduciary Funds:	
Statement of Fiduciary Net Assets	25
Component Units:	
Statement of Net Assets	26
Statement of Activities	27
Notes to Financial Statements	28-48
Required Supplemental Information	
General Fund:	
Budgetary Comparison Schedule	49
Revolving Development Fund:	
Budgetary Comparison Schedule	50
Notes to Required Supplemental Information	51
Retirement System Analysis of Funding Progress	52

CONTENTS – Continued

Page

Other Supplemental Information

Nonmajor Governmental Funds: Combining Balance Sheet	53
Nonmajor Governmental Funds: Combining Statement of Revenues, Expenditures and Changes In Fund Balance	54
Fiduciary Funds: Combining Balance Sheet	55

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

20 Tibbits Plaza * Coldwater, Michigan 49036

Phone (517) 279-7931 * Fax (517) 278-7087

INDEPENDENT AUDITOR'S REPORT

**City Council
City of Coldwater, Michigan**

November 7, 2008

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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Coldwater's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit, also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008 and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The management's discussion and analysis, budgetary comparison schedules, and pension system schedule of funding progress pages 3 through 14 and 49 through 52 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Combining Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Coldwater's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



RUMSEY & WATKINS, P.C.

CITY OF COLDWATER
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Coldwater's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2008:

- Total City assets increased by \$2,760,657 while liabilities were reduced by \$1,607,872 resulting in increased total fund equity of \$4,368,529 or 8.5%. This increase was primarily due to the Electric Fund's recording of \$2.5 million investment income based on the increased equity of the Michigan South Central Power Agency of which Coldwater is a more than 40% owner.
- While the Enterprise Fund Equity increased by \$4,537,093 or 10.1%, the City's Governmental Funds saw a decrease in fund equity of \$168,564 or 2.6%.
- Overall the General Fund, which accounts for the majority of the operational revenues and expenditures of the City, ended the fiscal year with a small operating deficit of \$27,608. The main reason for the decrease in the equity of the Governmental Funds was the final demolition of the remaining concrete at the former Federal Mogul warehousing facility at a cost of \$168,000 paid from the City's Capital Improvement Fund.
- Governmental revenues decreased \$347,479 or 4.1%. The main reasons were decreases in other income and federal revenue resulting from one time revenues received in fiscal year 2007 which increased prior year total revenues. This decrease as well as significant reductions in special assessments and interest income offset a 5.8% increase in property tax revenues.
- Even though Governmental revenues were down, the City was still able to spend \$1,014,412 in equipment and infrastructure improvements without incurring any additional long term debt.
- Expenditures for the Governmental Funds also decreased by \$127,197 or 1.2% without decreasing the programs and services provided to the City's residents.
- The City's Enterprise Funds, comprising Electric, Water, Wastewater and Telecommunications and Rubbish, saw an increase in revenues of \$2,307,349 or 6.5%. The amount of \$1,817,060 was a result of electric revenue growth stemming primarily from the expansion of the local automotive supplier which significantly increased their electric usage.
- Associated with the increased electrical revenues is the increased cost of supply power. Increased power costs accounted for \$1,531,072 of the total increase of \$1,862,128. Two other significant explanations for the balance of the increase in expenses is related to the costs associated with a grant from the State of Michigan to assess improvements to the wastewater system as well as the cost to hold the very popular household hazardous waste collection day.
- In addition to the positive operating results of the Enterprise Funds, \$2.9 million of capital assets, including equipment and system improvements were added without issuing additional long term debt.
- Commissioning of the various improvements to the Wastewater treatment plant were completed during 2008 and paid for with bonds issued in 2006. \$2.8 million in bonds were also issued in 2007 for water system improvements including a water tower and water pressure booster station, these projects are currently under construction with construction estimated to be completed in spring, 2009.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Financial Highlights – Continued

- The remaining funds in the City's Retirement Fund have been depleted as planned, shifting an additional \$155,000 of retirement expense to the City's General Fund.
- Severe winter snowstorms also affected the City's General Fund in a positive fashion as equipment rental increased revenues. However, as a result the additional costs also increased costs of street operations and depleted reserves in the Parking Authority Fund. Ultimately, the General Fund transferred \$32,156 to the Parking Authority Fund to keep the fund from ending the year in a deficit fund equity position.
- State revenue sharing received from the State of Michigan was cut for the sixth consecutive year. Current funding being received is now less than what was received in the 1996 fiscal year.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting to measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the Government-Wide financial statements by providing information about the City's most significant funds. The Fiduciary Fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The City as a Whole

The following table shows, in condensed format, the net assets as of the current date and compared to the prior year under the modified accrual basis:

	Governmental Funds		Enterprise Funds		Total	
	2008	2007	2008	2007	2008	2007
Assets	\$ 7,582,557	\$ 8,157,159	\$ 78,512,292	\$ 75,177,033	\$ 86,094,849	\$ 83,334,192
Liabilities	1,365,501	1,771,539	29,200,336	30,402,170	30,565,837	32,173,709
Fund Equity						
Investment in capital - Net of related debt	-	-	18,265,673	15,821,803	18,265,673	15,821,803
Retained earnings:						
Restricted	-	-	5,592,234	6,813,278	5,592,234	6,813,278
Unreserved	-	-	25,454,049	22,139,782	25,454,049	22,139,782
Fund balances:						
Reserved	-	-	-	-	-	-
Designated	450,000	450,000	-	-	450,000	450,000
Undesignated	5,767,056	5,935,620	-	-	5,767,056	5,935,620
Total fund equity	\$ 6,217,056	\$ 6,385,620	\$ 49,311,956	\$ 44,774,863	\$ 55,529,012	\$ 51,160,483

The following table shows, in condensed format, the net assets as of the current date as required by GASB 34 stated under the full accrual basis compared to prior year:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current and other assets	\$ 7,582,557	\$ 8,157,159	\$ 35,004,588	\$ 32,238,935	\$ 42,587,145	\$ 40,396,094
Capital assets	18,832,954	18,872,170	42,725,673	42,071,506	61,558,627	60,943,676
Total assets	26,415,511	27,029,329	77,730,261	74,310,441	104,145,772	101,339,770
Liabilities						
Long-term debt outstanding	2,205,844	2,706,817	23,610,677	25,242,589	25,816,521	27,949,406
Other liabilities	928,023	1,243,065	4,807,628	4,292,989	5,735,651	5,536,054
Total liabilities	3,133,867	3,949,882	28,418,305	29,535,578	31,552,172	33,485,460
Net Assets						
Investment in capital assets- Net of related debt	16,632,942	15,965,350	18,265,673	15,821,803	34,898,615	31,787,153
Restricted	-	-	5,592,234	6,813,278	5,592,234	6,813,278
Unrestricted	6,648,702	7,114,097	25,454,049	22,139,782	32,102,751	29,253,879
Total net assets	\$ 23,281,644	\$ 23,079,447	\$ 49,311,956	\$ 44,774,863	\$ 72,593,600	\$ 67,854,310

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table shows the changes of the fund equity during the current year and as compared to the prior year, under the modified accrual basis:

	Governmental Funds		Enterprise Funds		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Taxes	\$ 3,964,326	\$ 3,746,600	\$ -	\$ -	\$ 3,964,326	\$ 3,746,600
Special assessments	261,716	351,842	-	-	261,716	351,842
Licenses and permits	180,700	194,803	-	-	180,700	194,803
Federal sources	1,549	110,888	-	-	1,549	110,888
State shared revenue	1,780,604	1,815,695	-	-	1,780,604	1,815,695
State sources	158,656	146,317	-	-	158,656	146,317
Charges for services	520,986	520,092	34,234,499	32,198,486	34,755,485	32,718,578
Rent	776,723	672,198	-	-	776,723	672,198
Interest income	433,722	495,463	3,233,297	3,049,241	3,667,019	3,544,704
Contributions	4,713	4,264	-	-	4,713	4,264
Other income	74,839	447,851	114,913	24,989	189,752	472,840
Forgiveness of debt	-	-	-	817,510	-	817,510
Sale of fixed assets	3,670	2,380	752	(814,114)	4,422	(811,734)
Total income	8,162,204	8,508,393	37,583,461	35,276,112	45,745,665	43,784,505
Program expenses						
General government	1,305,017	1,297,278	-	-	1,305,017	1,297,278
Public safety	3,438,677	3,314,888	-	-	3,438,677	3,314,888
Public works	2,492,833	2,775,763	-	-	2,492,833	2,775,763
Recreation and cultural	1,335,668	1,490,606	-	-	1,335,668	1,490,606
Planning	120,284	228,153	-	-	120,284	228,153
Economic development	57,030	47,933	-	-	57,030	47,933
Debt service	844,550	775,517	-	-	844,550	775,517
Other expenditures	649,761	440,879	-	-	649,761	440,879
Purchased power	-	-	19,573,735	18,042,663	19,573,735	18,042,663
Power plant	-	-	326,009	578,732	326,009	578,732
Distribution	-	-	2,934,245	2,798,788	2,934,245	2,798,788
Substation	-	-	135,127	163,519	135,127	163,519
Sanitation	-	-	426,547	350,997	426,547	350,997
Metering and lighting	-	-	378,764	363,207	378,764	363,207
Wells	-	-	54,614	87,897	54,614	87,897
Treatment	-	-	1,167,712	1,039,811	1,167,712	1,039,811
Collection system	-	-	133,797	151,070	133,797	151,070
Customer service	-	-	339,027	324,736	339,027	324,736
Administration	-	-	2,430,173	2,074,274	2,430,173	2,074,274
Depreciation and amortization	-	-	2,373,467	2,432,523	2,373,467	2,432,523
Interest expense	-	-	1,106,606	1,109,478	1,106,606	1,109,478
Total expenses	10,243,820	10,371,017	31,379,823	29,517,695	41,623,643	39,888,712
Excess (deficit) of revenues over expenditures	(2,081,616)	(1,862,624)	6,203,638	5,758,417	4,122,022	3,895,793
Other Sources (Uses)	1,913,052	2,021,102	(1,666,545)	(1,771,728)	246,507	249,374
Change in fund equity	\$ (168,564)	\$ 158,478	\$ 4,537,093	\$ 3,986,689	\$ 4,368,529	\$ 4,145,167

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The following table shows, in condensed format, the changes of net assets as of the current date as required by GASB 34 stated under full accrual basis:

	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
Revenues				
Program revenues:				
Charges for services	\$ 1,351,329	\$ 1,255,649	\$ 34,234,499	\$ 32,198,486
Operating grants and contributions	101,774	119,088	-	-
Capital grants and contributions	20,800	102,630	-	-
General revenues:				
Property taxes	3,964,326	3,746,600	-	-
State shared revenues	1,780,604	1,815,695	-	-
Unrestricted investment earnings	433,722	495,463	3,233,297	3,049,241
Miscellaneous	22,835	185,008	114,913	24,989
Forgiveness of debt	-	(817,510)	-	817,510
Capital contributions	-	-	246,507	-
Payments in lieu of taxes	1,913,052	1,771,728	(1,913,052)	(1,771,728)
Total revenues	9,588,442	8,674,351	35,916,164	34,318,498
Expenses				
General government	2,443,870	2,161,889	-	-
Public safety	3,467,999	3,010,537	-	-
Public works	1,979,459	1,747,692	-	-
Recreation and cultural	1,179,861	1,278,119	-	-
Economic development	177,314	276,086	-	-
Interest	137,742	176,085	-	-
Transfers	-	3,976	-	(3,976)
Electric	-	-	23,727,543	22,264,028
Telecommunications	-	-	2,901,397	3,801,430
Water	-	-	1,832,834	1,770,615
Waste water	-	-	2,477,125	2,130,103
Rubbish	-	-	440,172	365,633
Total expenses	9,386,245	8,654,384	31,379,071	30,327,833
Increase in Net Assets	<u>\$ 202,197</u>	<u>\$ 19,967</u>	<u>\$ 4,537,093</u>	<u>\$ 3,990,665</u>

As stated in the financial highlights the City increased fund equity by 8.5% (short-term view) and total net assets by 7.0% (long-term view); however, these total increases are largely due to the financial results of the Enterprise and Business-type Activities. Governmental Funds and Governmental Activities reflected a decrease of 2.6% and an increase of 0.8%, respectively.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

This negative growth and relatively flat increase are not cause for concern due to the strong reserves accumulated in prior years. It represents the conservative fiscal policies adopted by current and past City Councils. Costs are being contained and paid for on a pay as you go system and are not being passed on to future tax and rate payers. Budgets adopted by City Council continue to put an emphasis on maintaining the City's infrastructure while not issuing long-term debt or dipping into accumulated fund equity.

Utility system reserves continue to be accumulated in the utility operations in anticipation of replacement of aging infrastructure primarily in the water and wastewater systems. This is being accomplished through cost containment as well as keeping a watchful eye on utility rates. While utility rate increases are not popular, they are needed to maintain the various utility systems at the same time making sure ratepayers are paying an equitable rate equivalent to the cost of providing the services.

Overall, the City as a whole continues to remain in a very strong financial position. Financial reserves are adequate to weather any short or long term financial downturns.

Governmental Funds

As previously stated Governmental Fund revenues decreased 4.1% or \$347,479 compared to fiscal year 2007. However, a closer analysis of the 2007 revenues, reveal several onetime revenues. When comparing back to the 2006 fiscal year, revenues have actually increased by 5.7% over the two years, or 2.9% averaged.

Property taxes have steadily increased since 2006 reflecting increased home values and growth in commercial and industrial tax base. The sustained decline in the Michigan economy would indicate a static or declining tax base. The decline in State Shared Revenue is mirrored in the reduction of building permit activity, particularly permits for new single family homes.

The City has not experienced a Headlee millage rollback as have many other communities. In addition, the difference between the assessed and taxable values for 2009 is 88%; a gap that has been decreasing over the last several years.

City operations remain relatively constant including capital improvements. The cost of operations has been closely monitored, employment costs curtailed through attrition and selective self funding of fringe benefits while maintaining a comparable level of coverage.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

During the year the City invested \$1,014,412 in equipment and infrastructure including \$498,866 in the repair of major and local streets, sidewalk extension and repairs and linear park improvements. Equipment purchases accounted for \$199,717 and future development land was acquired in the amount of \$33,198. Significant improvements were also made to the City's parks including pavilions, restroom facilities and playground equipment at the newly acquired Northshore Park. We added a pavilion to the swimming pool and paved the entrance and parking lot that provide access to the Rotary Park boat launch.

The concrete pad that remained after removal of the old Federal Mogul building was competitively bid and removed at a cost of \$168,413. The aggressive bid, well below estimates, was a result of contractors looking for work in a very difficult economy.

The City charter provides for a 6.5% transfer of revenue from utility operations to the General Fund as a payment in lieu of taxes. The \$1,913,052 transfer included an 8% increase of \$168,564 over prior year.

Overall, final operating results for the Governmental Funds showed a decrease of \$168,564 in fund balance. This planned deficit was directly related to the concrete removal previously discussed. Otherwise, the Governmental Funds would have ended the fiscal year in a breakeven position. The ending Fund Balance for the Governmental Funds was \$6,217,056 at June 30, 2008.

Enterprise Funds

The Enterprise Funds as a whole saw unrestricted net assets increase by \$3,314,267 or 15.0%. However, \$2,906,594 of this increase is attributed to the Electric Fund.

Electric revenues increased by \$1,817,060, or 7.4%. This increase was directly attributable to the expansion of an automotive supplier who significantly increased its demand for power. In response to the company's needs a new substation was constructed at a cost of \$2,029,638. This was accomplished without incurring additional long term debt and was paid for out of operating reserves.

The Electric Fund ended the year with a change in net assets of \$4,235,860, of that amount \$2.5 million is attributable to the investment income based on the increased equity of the Michigan South Central Power Agency of which Coldwater is a 40% owner. Adjusting for this investment, the operating income for the Electric Fund amounted to \$1,735,860.

While the Electric Fund maintains significant cash reserves to maintain the electrical system the same cannot be said of the Water and Wastewater Funds. These systems, many of which were installed in the 1930's, require major capital investment. The City is currently developing a system of planned replacements and upgrades. Building financial reserves is imperative to minimize the cost of borrowing and equally important to minimize the impact to the utility ratepayers.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The Wastewater Fund received a \$505,550 grant from the State of Michigan in 2006 to evaluate the water and wastewater system. This study has a local match of 10% and has been underway over the past two fiscal years. For the 2008 fiscal year, \$288,942 of grant proceeds is shown in operating revenues and \$321,046 in associated expenditures. Results of the study have shown needed improvements in the system that will be addressed in the 2009 fiscal year. Net assets adjusted for the costs of the grant decreased by \$9,302.

Revenue bond proceeds from 2006 were also used to make improvements to the wastewater treatment plant.

The impact of the Water Fund rate adjustment was reflected in a \$219,016 increase in net assets. Expenses were relatively flat compared to 2007, while operating revenues decreased by \$23,265. However, further analysis of the 2007 operating revenues reveal the last of the revenue attributed to the full meter conversion of residential homes started in 2005.

Prior to 2005 a majority of the residential water customers in the City had unmetered water. Management adopted a policy of implementing meters City wide. Residents who were previously unmetered and billed on a flat monthly amount were converted to meters and were allowed to pay back the cost of installing those meters over a two year period. This led operating revenues to be overstated by these payments in the amount of \$49,855 in fiscal year 2007. Adjusting for these meter conversion revenues, the actual revenues from services provided would have increased by \$26,590 for 2008 compared to 2007.

A revenue bond was issued for \$2.8 million in fiscal year 2007 for water improvements. Construction is currently underway on system improvement including a new water tower and water booster pump station. Construction is expected to be completed in Fall of 2009.

Operating revenues for the Telecommunications Funds decreased by \$68,264. This is directly attributable to decreases in dial up internet service and long distance resale revenues. Both of these services continue to be replaced by other services including the use of cell phones, voice over internet telephone service (VOIP) and moves to other internet providers in rural areas. The cost of providing these services is directly proportional to the revenues generated.

To offset these losses the utility has offered new wireless services and voice over internet telephone services. There will continue to be a migration away from these older technologies to new technological advances. This has led to increased wireless internet and VOIP revenues.

Net assets for the Telecommunications Fund have increased by \$112,940. This has been accomplished by controlling costs as shown in the decrease of expenditures of \$68,005 compared to prior year.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Overall, the financial condition of the City's utility funds is economically stable. Rates continue to be analyzed and increased to keep rates consistent with the cost to provide the services to the City's customers. Continued emphasis on reliability, customer service and community remain a vital key to the financial success of the utility systems.

Component Units

The City includes two other entities in its report – the Coldwater Downtown Development Authority and Coldwater Local Finance Development Authority. Although legally separate, these "component units" are financially accountable to the City.

Financial Analysis of the City's Funds

Our presentation of the City's major funds begins on page 17, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended June 30, 2008 include the General Fund, Revolving Development Fund and Capital Improvement Fund.

The General Fund pays for most of the City's governmental services. The primary services include police and fire, street repair and maintenance, parks and recreation and administrative services related to general operations that support the primary services.

Overall the General Fund continues to have strong financial results. This is the result of the conservative fiscal policy set by the City Council. The City also continues to employ a workforce who is very effective and efficient given the City's financial resources. This is reflected in the City's Fund Balance that is 30.6% of revenues and other sources.

The City's main sources of income; property taxes, payments in lieu of taxes and state shared revenue, make up 80.7% of all revenues. These revenues are primarily used to pay for public safety (40.8%), public works (17.8%) and parks and recreation (15.6%). All other expenditures account for 25.8% of total expenditures and go towards providing the administrative functions of City services, such as elections, assessing, tax collections and debt service.

This year's General Fund ended the fiscal year with expenditures in excess of revenues in the amount of \$27,608. This deficit was primarily attributed to the operating transfer of \$32,156 to the City's Parking Authority Fund to keep the fund from ending the year in a deficit fund equity position associated with the cost of severe winter weather snow removal.

The Revolving Development Fund was established with federal community block grants and serves to foster economic development in the City. The majority of the assets are loans to new and existing businesses. As revenue is not realized until payment is received, an offsetting deferred revenue liability is recorded. This fund also assists low income residents with emergency housing grants.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The Capital Improvement Fund accounts for various capital projects as they are constructed. The fund also provides for payment of the liabilities through special assessments or bonded special assessments. Revenues from special assessments and interest earned are used to offset debt service payments. In 2008, as previously stated, \$168,413 was spent to remove the concrete at the former Federal Mogul building that was previously demolished.

General Fund Budgetary Highlights

As shown in the required supplemental information, the City's final amended budget shows a deficit of \$33,634. Actual operating results ended up as a deficit of \$27,608, a difference of \$6,026. The significant budget-to-actual differences are as follows:

Revenues -

- Property tax revenue was over budget by \$10,650 as final collections of delinquent personal property taxes were underestimated.
- Licenses and permits revenue was over budget by \$13,800 as final permits issued at the end of the year were higher than anticipated.
- Rental income was \$62,875 over budget as final equipment rental charged to Major and Local Street Funds was higher than expected.

Expenditures –

- Public Safety expenditures were over budget due to incorrect estimates of final wage and employee benefits costs.
- Final Public Works costs for operating supplies were underestimated.
- Recreation and Cultural budget was overspent due to the construction of a pavilion for the pool area. This project was not expected to be completed until the 2009 fiscal year. Various other costs were also underestimated at the end of year, but there was no one significant item.

Capital Asset and Debt Administration

The City has continued its policy of investing back into the community without incurring additional long-term debt. This fiscal year saw \$357,165 reinvested in the City's Major and Local Streets for repaving and maintenance. Other significant capital improvements included \$103,000 towards the construction of City sidewalks, \$176,000 was invested in a pavilion, restroom and playground equipment for the newly purchased Northshore Park, \$30,000 was invested in a pavilion and storage area for the City pool, \$14,000 was spent to reconstruct the Rotary Park boat launch, \$52,000 went towards paving of a City parking lot and \$33,000 was spent towards purchase of future land development in the Sauk River Forest development.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

In addition, to infrastructure assets the City also continued to upgrade equipment for the Street and Police departments. Scheduled vehicle replacements, an asphalt roller and a new lawnmower were the most significant of the equipment purchases. Computer equipment for all City Departments was also purchased according to the computer replacement program. Total equipment purchases amounted to \$200,000.

Business-type activities saw capital additions in the current fiscal year in excess of \$2.9 million. The most significant addition was the nearly \$2 million dollar electric substation constructed to meet the electrical needs of an expanding automotive supply manufacturer. This improvement was funded through existing financial reserves.

During the fiscal year the \$1.3 million wastewater treatment plant expansion was completed. This expansion was funded by a debt issuance in 2006.

Other less significant system improvements were also made during the year for all the utilities. These other improvements amounted to approximately \$250,000.

As part of the City's ongoing equipment replacement program various trucks, computer equipment and other equipment was purchased during the year.

In 2007 the City issued \$2.8 million in additional debt for future water system improvements. These improvements include a new water tower and water booster pump station which are expected to be constructed and operational by the Fall of 2009.

As part of the City's grant to study the wastewater system, various improvements of the collection system and the wastewater treatment plant were identified. Preliminary cost estimates for these improvements is \$4.5 million. As a condition of the grant, these future system improvements are required to be funded through the State of Michigan's revolving loan program at an interest rate of 2.5% over 20 years.

Looking forward and in line with the conservative fiscal policies of City Council there is no anticipation of any future debt issuances, with the exception of needed improvements within the utility systems. All budgeted capital improvements will be paid for on a pay as you go basis.

Economic Factors, Next Year's Budgets and Rates

The City of Coldwater has been very fortunate to enjoy a fairly diverse business base. While there are some ties to the automotive industry the companies seem to have a diversified customer base as opposed to just serving the big 3 automakers. However, the City is not immune to the problems that have been plaguing the Michigan economy for the past several years.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

American automakers which make their home in Michigan are struggling in this world economy. This is more apparent in Michigan than in any other state. Unemployment in Michigan continues to rise to a national high. The outlook for a quick economic recovery is dim at best and even darker for Michigan.

The struggling Michigan economy is directly reflected in decreased state shared revenue, loss of tax base through property value reductions and foreclosure. The fiscal stress for many Michigan communities cannot be overstated. Coldwater has weathered the storm relatively intact through conservative budgeting practices and a philosophy of pay as you go for capital investment in non-utility operations.

The 2009 fiscal year budget was adopted with a planned operating deficit of \$237,436. With a Fund Balance equivalent to 30.3% of revenues, the City Council was comfortable reducing the balance in order to spend \$890,150 on planned capital improvements. The remaining fund balance will equal 28% of General Fund revenues at June 30, 2009 leaving the City in very solid financial position in a very tough economy.

Upon the advice of the Board of Public Utilities, the City Council will strive to set utility rates at affordable levels recognizing the pressing need to upgrade aging infrastructure. Leaving such difficult decisions as rate making and investment to future elected and appointed officials would serve to compound the funding and infrastructure deficit in the utility funds, particularly the water and sewer system.

Overall, the City continues to maintain a strong financial position. The fiscal conservatism of the City Council has positioned the City to be able to mitigate any short-term financial crisis resulting from additional reductions in state shared revenue or the occurrence of a natural disaster.

Contacting the City's Management

This financial report is intended to provide our 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 ASSETS
JUNE 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 5,934,023	\$ 11,170,190	\$ 17,104,213	\$ 429,020
Accounts receivable	112,796	4,685,273	4,798,069	-
Special assessment receivable	330,668	-	330,668	-
Notes receivable	609,703	-	609,703	16,101
Inventory	-	115,877	115,877	-
Due from other governmental units	145,367	-	145,367	-
Prepaid expenses	-	72,902	72,902	-
Unamortized bond costs	-	1,198,663	1,198,663	-
Investment in Power Agency	-	12,169,449	12,169,449	-
Restricted assets	450,000	5,592,234	6,042,234	-
Capital assets, less accumulated depreciation	18,832,954	42,725,673	61,558,627	864,976
Total assets	26,415,511	77,730,261	104,145,772	1,310,097
LIABILITIES				
Accounts payable	218,514	2,722,900	2,941,414	1,478
Accrued expenditures	221,403	834,728	1,056,131	-
Due to others	4,769	-	4,769	354,854
Long term liabilities:				
Bonds payable, due within one year	483,337	1,250,000	1,733,337	-
Bonds payable, due in more than one year	1,716,675	23,210,000	24,926,675	460,606
Compensated absences	489,169	400,677	889,846	-
Total liabilities	3,133,867	28,418,305	31,552,172	816,938
NET ASSETS				
Investment in capital assets - net of related debt	16,632,942	18,265,673	34,898,615	507,963
Restricted	-	5,592,234	5,592,234	-
Unrestricted	6,648,702	25,454,049	32,102,751	(14,804)
Total net assets	<u>\$ 23,281,644</u>	<u>\$ 49,311,956</u>	<u>\$ 72,593,600</u>	<u>\$ 493,159</u>

See Notes to Financial Statements

CITY OF COLDWATER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating / Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,443,870	\$ 246,562	\$ -	\$ -
Public safety	3,467,999	319,094	7,285	-
Public works	1,979,459	577,164	94,489	-
Recreation and cultural	1,179,861	173,304	-	-
Economic development	177,314	35,205	-	20,800
Interest	137,742	-	-	-
Total governmental activities	9,386,245	1,351,329	101,774	20,800
Business-type activities:				
Electric	23,727,543	26,285,988	-	-
Telecommunications	2,901,397	3,070,046	-	-
Water	1,832,834	2,014,933	-	-
Waste water	2,477,125	2,412,677	-	-
Rubbish	440,172	450,855	-	-
Total business-type activities	31,379,071	34,234,499	-	-
Total primary government	<u>\$ 40,765,316</u>	<u>\$ 35,585,828</u>	<u>\$ 101,774</u>	<u>\$ 20,800</u>
Component units:				
Downtown Development Authority	\$ 134,641	\$ 9,000	\$ 15,580	\$ -
Local Development Authority	43,091	-	-	-
Total component units	<u>\$ 177,732</u>	<u>\$ 9,000</u>	<u>\$ 15,580</u>	<u>\$ -</u>

General revenues:
Property taxes
State shared revenues
Unrestricted investment earnings
Miscellaneous
Capital contributions
Payments in lieu of taxes

Total general revenues, transfers, forgiveness of debt and
payments in lieu of taxes

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,197,308)	\$ -	\$ (2,197,308)	\$ -
(3,141,620)	-	(3,141,620)	-
(1,307,806)	-	(1,307,806)	-
(1,006,557)	-	(1,006,557)	-
(121,309)	-	(121,309)	-
(137,742)	-	(137,742)	-
(7,912,342)	-	(7,912,342)	-
-	2,558,445	2,558,445	-
-	168,649	168,649	-
-	182,099	182,099	-
-	(64,448)	(64,448)	-
-	10,683	10,683	-
-	2,855,428	2,855,428	-
(7,912,342)	2,855,428	(5,056,914)	-
-	-	-	(110,061)
-	-	-	(43,091)
-	-	-	(153,152)
3,964,326	-	3,964,326	261,033
1,780,604	-	1,780,604	-
433,722	3,233,297	3,667,019	23,276
22,835	114,913	137,748	-
-	246,507	246,507	-
1,913,052	(1,913,052)	-	-
8,114,539	1,681,665	9,796,204	284,309
202,197	4,537,093	4,739,290	131,157
23,079,447	44,774,863	67,854,310	362,002
<u>\$ 23,281,644</u>	<u>\$ 49,311,956</u>	<u>\$ 72,593,600</u>	<u>\$ 493,159</u>

CITY OF COLDWATER
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

	General Fund	Revolving Development Fund	Capital Improvement Fund
ASSETS			
Cash and investments	\$ 2,866,508	\$ 1,376,599	\$ 847,486
Accounts receivable	112,330	-	-
Special assessment receivable	-	-	310,608
Notes receivable	357,013	252,690	-
Due from other governmental units	-	-	-
Restricted assets	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 3,335,851</u></u>	<u><u>\$ 1,629,289</u></u>	<u><u>\$ 1,158,094</u></u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 206,227	\$ 2,000	\$ 3,758
Accrued expenditures	217,416	-	-
Deferred revenue	357,013	233,134	310,608
Due to others	4,769	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	785,425	235,134	314,366
FUND BALANCE			
Designated	-	-	-
Undesignated	2,550,426	1,394,155	843,728
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>2,550,426</u>	<u>1,394,155</u>	<u>843,728</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u><u>\$ 3,335,851</u></u>	<u><u>\$ 1,629,289</u></u>	<u><u>\$ 1,158,094</u></u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Totals
\$ 843,430	\$ 5,934,023
466	112,796
20,060	330,668
-	609,703
145,367	145,367
450,000	450,000
<u>\$ 1,459,323</u>	<u>\$ 7,582,557</u>
\$ 6,529	\$ 218,514
3,987	221,403
20,060	920,815
-	4,769
<u>30,576</u>	<u>1,365,501</u>
450,000	450,000
978,747	5,767,056
<u>1,428,747</u>	<u>6,217,056</u>
<u>\$ 1,459,323</u>	<u>\$ 7,582,557</u>

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2008

Total Fund Balance - Governmental Funds	\$ 6,217,056
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in funds:</p>	
The cost of the capital assets	28,391,515
Accumulated depreciation	<u>(9,558,561)</u>
Total capital assets not reported in funds	18,832,954
<p>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</p>	
	920,815
<p>Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:</p>	
Bonds payable	(2,200,012)
Compensated absences	<u>(489,169)</u>
Total long-term liabilities not reported in funds	<u>(2,689,181)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 23,281,644</u></u>

CITY OF COLDWATER
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Revolving Development Fund	Capital Improvement Fund
REVENUES			
Taxes	\$ 3,855,199	\$ -	\$ -
Special assessments	-	-	218,119
Licenses and permits	180,700	-	-
Federal sources	1,549	-	-
State shared revenue	951,742	-	-
State sources	64,168	-	-
Charges for services	515,713	-	-
Rent	550,375	-	-
Interest income	249,808	77,194	68,662
Contributions	3,341	-	-
Other income	38,995	33,758	-
Total revenues	6,411,590	110,952	286,781
EXPENDITURES			
General government	1,305,017	-	-
Public safety	3,438,677	-	-
Public works	1,499,693	-	-
Recreation and cultural	1,313,429	-	-
Planning	120,284	-	-
Economic development	-	57,030	-
Debt service	276,157	-	342,045
Other expenditures	481,167	-	168,413
Total expenditures	8,434,424	57,030	510,458
Excess (deficiency) of revenues over expenditures	(2,022,834)	53,922	(223,677)
OTHER SOURCES (USES)			
Sale of fixed assets	3,670	-	-
Payment in lieu of taxes	1,913,052	-	-
Transfers from (to) other funds	78,504	-	-
Total other sources (uses)	1,995,226	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(27,608)	53,922	(223,677)
FUND BALANCE - BEGINNING	2,578,034	1,340,233	1,067,405
FUND BALANCE - ENDING	\$ 2,550,426	\$ 1,394,155	\$ 843,728

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Totals
\$ 109,127	\$ 3,964,326
43,597	261,716
-	180,700
-	1,549
828,862	1,780,604
94,488	158,656
5,273	520,986
226,348	776,723
38,058	433,722
1,372	4,713
2,086	74,839
<hr/>	<hr/>
1,349,211	8,158,534
-	1,305,017
-	3,438,677
993,140	2,492,833
22,239	1,335,668
-	120,284
-	57,030
226,348	844,550
181	649,761
<hr/>	<hr/>
1,241,908	10,243,820
107,303	(2,085,286)
-	3,670
-	1,913,052
(78,504)	-
<hr/>	<hr/>
(78,504)	1,916,722
<hr/>	<hr/>
28,799	(168,564)
1,399,948	6,385,620
<hr/>	<hr/>
\$ 1,428,747	\$ 6,217,056
<hr/> <hr/>	<hr/> <hr/>

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, 2008

Net change in Fund Balance - Total Governmental Funds	\$ (168,564)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(1,053,628)
Capital outlay	<u>1,014,412</u>
Total	(39,216)
Special assessment revenues are recorded in the statement of activities when the assessment is assessed; they are not reported in the funds until collected:	
Payments received	(226,708)
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	(33,758)
Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Principal repayment	706,808
Increases in compensated absences are reported as an increase to expenditures	<u>(36,365)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 202,197</u></u>

CITY OF COLDWATER
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Electric Fund	Telecommunications Fund	Water Fund
ASSETS			
Current assets:			
Cash and investments	\$ 8,363,198	\$ -	\$ 118,954
Accounts receivable	3,962,453	179,721	260,565
Inventories	56,435	-	59,442
Due from other funds	782,031	-	-
Prepaid and other assets	13,629	52,102	3,516
Total current assets	13,177,746	231,823	442,477
Noncurrent assets:			
Unamortized bond costs	446,916	35,142	453,355
Investment in Power Agency	12,169,449	-	-
Restricted assets	1,573,383	433,025	2,909,199
Capital assets, less accumulated depreciation	16,573,560	5,290,404	8,478,182
Total noncurrent assets	30,763,308	5,758,571	11,840,736
Total assets	\$ 43,941,054	\$ 5,990,394	\$ 12,283,213
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 2,410,620	\$ 94,843	\$ 58,696
Accrued expenditures	450,732	103,003	104,560
Due to other funds	-	782,031	-
Notes payable, due within one year	615,000	260,000	135,000
Total current liabilities	3,476,352	1,239,877	298,256
Noncurrent liabilities			
Notes payable, due in more than one year	7,645,000	3,000,000	6,195,000
Compensated absences	210,530	71,716	46,451
Total noncurrent liabilities	7,855,530	3,071,716	6,241,451
Total liabilities	11,331,882	4,311,593	6,539,707
NET ASSETS			
Investment in capital assets, net of related debt	8,313,560	2,030,404	2,148,182
Restricted	1,573,383	433,025	2,909,199
Unrestricted	22,722,229	(784,628)	686,125
Total net assets	\$ 32,609,172	\$ 1,678,801	\$ 5,743,506

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 2,259,510	\$ 428,528	\$ 11,170,190
258,201	24,333	4,685,273
-	-	115,877
-	-	782,031
3,655	-	72,902
<hr/> 2,521,366	<hr/> 452,861	<hr/> 16,826,273
263,250	-	1,198,663
-	-	12,169,449
676,627	-	5,592,234
<hr/> 12,335,416	<hr/> 48,111	<hr/> 42,725,673
<hr/> 13,275,293	<hr/> 48,111	<hr/> 61,686,019
<hr/> \$ 15,796,659	<hr/> \$ 500,972	<hr/> \$ 78,512,292
\$ 121,654	\$ 37,087	\$ 2,722,900
173,584	2,849	834,728
-	-	782,031
240,000	-	1,250,000
<hr/> 535,238	<hr/> 39,936	<hr/> 5,589,659
6,370,000	-	23,210,000
71,980	-	400,677
<hr/> 6,441,980	<hr/> -	<hr/> 23,610,677
<hr/> 6,977,218	<hr/> 39,936	<hr/> 29,200,336
5,725,416	48,111	18,265,673
676,627	-	5,592,234
2,417,398	412,925	25,454,049
<hr/> \$ 8,819,441	<hr/> \$ 461,036	<hr/> \$ 49,311,956

CITY OF COLDWATER
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	Electric Fund	Telecommunications Fund	Water Fund
REVENUES			
Charges for services	\$ 26,285,988	\$ 3,070,046	\$ 2,014,933
OPERATING EXPENSES			
Purchased power	19,573,735	-	-
Power plant	326,009	-	-
Distribution	1,025,682	1,588,747	319,816
Substation	135,127	-	-
Sanitation	-	-	-
Metering and lighting	378,764	-	-
Wells	-	-	54,614
Treatment	-	-	395,510
Collection system	-	-	-
Customer service	129,758	209,269	-
Administration	859,293	422,071	425,152
Depreciation and amortization	926,450	483,143	389,465
Total operating expenditures	<u>23,354,818</u>	<u>2,703,230</u>	<u>1,584,557</u>
OPERATING INCOME	2,931,170	366,816	430,376
NONOPERATING REVENUES (EXPENSES)			
Investment income	2,967,283	21,015	125,924
Interest expense	(372,725)	(198,919)	(248,277)
Gain (loss) on sale of fixed assets	496	45	143
Miscellaneous	50,837	22,131	21,766
Total nonoperating revenues (expenses)	<u>2,645,891</u>	<u>(155,728)</u>	<u>(100,444)</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	5,577,061	211,088	329,932
TRANSFERS AND CONTRIBUTIONS			
Capital contributions	246,507	-	-
Payments in lieu of taxes	(1,587,708)	(98,148)	(110,916)
Total transfers and contributions	<u>(1,341,201)</u>	<u>(98,148)</u>	<u>(110,916)</u>
CHANGE IN NET ASSETS	4,235,860	112,940	219,016
NET ASSETS - BEGINNING	<u>28,373,312</u>	<u>1,565,861</u>	<u>5,524,490</u>
NET ASSETS - ENDING	<u>\$ 32,609,172</u>	<u>\$ 1,678,801</u>	<u>\$ 5,743,506</u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 2,412,677	\$ 450,855	\$ 34,234,499
-	-	19,573,735
-	-	326,009
-	-	2,934,245
-	-	135,127
-	426,547	426,547
-	-	378,764
-	-	54,614
772,202	-	1,167,712
133,797	-	133,797
-	-	339,027
723,657	-	2,430,173
560,784	13,625	2,373,467
<u>2,190,440</u>	<u>440,172</u>	<u>30,273,217</u>
222,237	10,683	3,961,282
119,075	-	3,233,297
(286,685)	-	(1,106,606)
68	-	752
20,179	-	114,913
<u>(147,363)</u>	<u>-</u>	<u>2,242,356</u>
74,874	10,683	6,203,638
-	-	246,507
<u>(116,280)</u>	<u>-</u>	<u>(1,913,052)</u>
<u>(116,280)</u>	<u>-</u>	<u>(1,666,545)</u>
(41,406)	10,683	4,537,093
8,860,847	450,353	44,774,863
<u>\$ 8,819,441</u>	<u>\$ 461,036</u>	<u>\$ 49,311,956</u>

CITY OF COLDWATER
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 25,761,157	\$ 3,110,810	\$ 2,030,730
Payments made to suppliers	(22,371,938)	(1,677,332)	(857,039)
Payments made to employees	(1,079,178)	(651,100)	(461,608)
Net cash provided by operating activities	2,310,041	782,378	712,083
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	(962,725)	(938,622)	(578,277)
Capital contributions	246,507	-	-
Purchase of capital assets	(2,043,302)	(169,901)	(321,747)
Net cash provided by (used) in capital and related financing activities	(2,759,520)	(1,108,523)	(900,024)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	2,967,283	21,015	125,924
Change in investments	(2,498,585)	-	180,971
Net cash provided by (used) in investing activities	468,698	21,015	306,895
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,219	(305,130)	118,954
CASH AND CASH EQUIVALENTS - BEGINNING	8,343,979	738,155	-
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 8,363,198</u>	<u>\$ 433,025</u>	<u>\$ 118,954</u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 2,437,195	\$ 453,507	\$ 33,793,399
(1,250,407)	(318,792)	(26,475,508)
(427,294)	(75,663)	(2,694,843)
759,494	59,052	4,623,048
(416,685)	-	(2,896,309)
-	-	246,507
(386,350)	-	(2,921,300)
(803,035)	-	(5,571,102)
119,075	-	3,233,297
309,703	-	(2,007,911)
428,778	-	1,225,386
385,237	59,052	277,332
1,874,273	369,476	11,325,883
<u>\$ 2,259,510</u>	<u>\$ 428,528</u>	<u>\$ 11,603,215</u>

CITY OF COLDWATER

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS			
Cash and investments	\$ 8,363,198	\$ -	\$ 118,954
Restricted cash and investments	1,573,383	433,025	2,909,199
Less amounts classified as investments	<u>(1,573,383)</u>	<u>-</u>	<u>(2,909,199)</u>
Total cash and cash equivalents	<u>\$ 8,363,198</u>	<u>\$ 433,025</u>	<u>\$ 118,954</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income	\$ 2,931,170	\$ 366,816	\$ 430,376
Adjustments to reconcile operating income to net cash from operating activities:			
Other income (expense)	50,837	22,131	21,766
Depreciation and amortization	926,450	483,143	389,465
Loss (Gain) on sale of assets	496	45	143
Payments in lieu of taxes	(1,587,708)	(98,148)	(110,916)
Changes in assets and liabilities:			
Receivables	(576,164)	18,588	(6,112)
Inventories	7,316	-	(1,641)
Prepays and other assets	4,351	(40,284)	414
Due from (to) other funds	(1,125)	1,125	(85,686)
Accounts payable	498,832	2,311	32,264
Accrued expenditures	19,978	(2,880)	43,251
Compensated absences	<u>35,608</u>	<u>29,531</u>	<u>(1,241)</u>
Net cash provided by operating activities	<u>\$ 2,310,041</u>	<u>\$ 782,378</u>	<u>\$ 712,083</u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 2,259,510	\$ 428,528	\$ 11,170,190
676,627	-	5,592,234
(676,627)	-	(5,159,209)
<u>\$ 2,259,510</u>	<u>\$ 428,528</u>	<u>\$ 11,603,215</u>
\$ 222,237	\$ 10,683	\$ 3,961,282
20,179	-	114,913
560,784	13,625	2,373,467
68	-	752
(116,280)	-	(1,913,052)
4,271	2,652	(556,765)
-	-	5,675
(135)	-	(35,654)
85,686	-	-
(11,524)	31,976	553,859
(20,544)	116	39,921
14,752	-	78,650
<u>\$ 759,494</u>	<u>\$ 59,052</u>	<u>\$ 4,623,048</u>

CITY OF COLDWATER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 12,342
LIABILITIES	
Accounts payable	\$ 12,069
Due to other governmental units	273
	<hr/>
Total liabilities	\$ 12,342
	<hr/> <hr/>

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Downtown Development Authority	Local Development Finance Authority	Total
ASSETS			
Cash and investments	\$ 74,166	\$ 354,854	\$ 429,020
Notes receivable	16,101	-	16,101
Capital assets, less accumulated depreciation	422,073	442,903	864,976
 Total assets	 512,340	 797,757	 1,310,097
LIABILITIES			
Accounts payable	1,478	-	1,478
Due to others	-	354,854	354,854
Long term liabilities:			
Notes payable, due in more than one year	-	460,606	460,606
 Total liabilities	 1,478	 815,460	 816,938
NET ASSETS (DEFICIT)			
Investment in capital assets - net of related debt	422,073	85,890	507,963
Unrestricted (deficit)	88,789	(103,593)	(14,804)
 Total net assets (deficit)	 \$ 510,862	 \$ (17,703)	 \$ 493,159

**CITY OF COLDWATER
 COMPONENT UNITS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u> <u>Operating / Grants and Contributions</u>
Downtown Development Authority	\$ 134,641	\$ 9,000	\$ 15,580
Local Development Finance Authority	43,091	-	-
Total component activities	<u>\$ 177,732</u>	<u>\$ 9,000</u>	<u>\$ 15,580</u>

General revenues:

Property taxes

Interest

Total general revenues

Change in Net Assets

Net Assets (Deficit) - Beginning

Net Assets (Deficit) - Ending

Net (Expense) Revenue and Changes in Net Assets

Downtown Development Authority	Local Development Finance Authority	Total
\$ (110,061)	\$ -	\$ (110,061)
-	(43,091)	(43,091)
(110,061)	(43,091)	(153,152)
213,428	47,605	261,033
5,263	18,013	23,276
218,691	65,618	284,309
108,630	22,527	131,157
402,232	(40,230)	362,002
\$ 510,862	\$ (17,703)	\$ 493,159

CITY OF COLDWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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 Coldwater Municipal Building Authority was created for the purpose of financing the site acquisition, construction, furnishing, and equipping of municipal buildings. The Building Authority leases the buildings to the City in amounts sufficient to service debt issued to finance costs incurred related to the activities stated above. The Building Authority, a three member group, is appointed by the mayor with City Council approval. The Building Authority is treated as a blended component unit in accordance with GASB 14.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements, the statement of net assets 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. 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.

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, 2008

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.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State shared revenues.

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.

Revolving Development Fund is used to loan money to various projects that will improve economic development, housing industry or public infrastructure of the City. Revenue is derived from interest received on outstanding loans.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION: - Continued

Capital Improvement Fund is used to account for the capital improvements in the City. The fund includes payment of debt service on special assessments bonds used to finance the various capital projects.

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.

Telecommunications Fund is a municipal utility formed by City Ordinance to provide cable television, Internet, and other data services. Rates are established by the Board of Public Utilities. The board consists of five members selected 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, 2008

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 2007 tax is levied and collectible on August 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$322.6 million, a portion of which is abated and a portion of which is captured by the LDFA and DDA. Taxes levied consisted of 11.5978 mills for operating purposes and .3333 mills for the retirement system. This resulted in almost \$3.7 million for general operating and approximately \$108,000 for retirement. These amounts are reported in the respective General and Retirement Funds in the financial statements.

ASSETS, LIABILITIES AND NET ASSETS:

Deposits 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, 2008**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES AND NET ASSETS: - Continued

Inventory and Prepaid items – Inventory is valued at cost, on a first-in, first-out basis.

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

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, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

Fund Balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

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 2.60% to 5.15%.

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.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE B – DEPOSITS AND INVESTMENTS – Continued

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Bank investment pool (not 2a-7)	\$ 6,520,093	0.0027
U.S. government or agency bond or note	12,834,387	2

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.

<u>Investment</u>	<u>Fair Value</u>	<u>Fitch Rating</u>
Michigan CLASS pool	\$ 6,520,093	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, 2008, \$23,334,366 the City’s bank balance of \$24,134,366 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, 2008**

NOTE C – DUE FROM (TO) OTHER FUNDS

The due from (to) other funds, at June 30, 2008, for the City are as follows:

ELECTRIC FUND

Due from Telecommunications Fund	<u><u>\$ 782,031</u></u>
----------------------------------	--------------------------

NOTE D – TRANSFERS FROM (TO) OTHER FUNDS

Transfers from (to) other funds, during the year ended June 30, 2008, for the City are as follows:

GENERAL FUND

Transfer to Parking Authority	\$ (32,156)
Transfer from Retirement Fund	<u>110,660</u>
Total General Fund	<u><u>\$ 78,504</u></u>

OTHER NONMAJOR FUNDS

Major Streets Fund	
Transfer to Local Streets Fund	(157,794)
Local Streets Fund	
Transfer from Major Streets Fund	157,794
Parking Authority	
Transfer from General Fund	32,156
Retirement Fund	
Transfer to General Fund	<u>(110,660)</u>
Total other nonmajor governmental funds	<u><u>\$ (78,504)</u></u>

Transfers from the Major Streets Fund to the Local Streets Fund represent the sharing of gas and weight tax revenues, in accordance with State of Michigan Act 51. The transfers from the Retirement Fund represent the distribution of retirement funds.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE E – CAPITAL ASSETS

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

GOVERNMENTAL ACTIVITIES

GROUP:	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Land	\$ 1,032,183	\$ 33,198	\$ -	\$ 1,065,381
Roads and sidewalks	11,226,338	494,866	-	11,721,204
Land improvements	831,632	65,397	-	897,029
Buildings and improvements	11,051,753	170,090	-	11,221,843
Vehicles	1,824,078	145,712	-	1,969,790
Other tools and equipment	1,411,119	105,149	-	1,516,268
Subtotal	27,377,103	1,014,412	-	28,391,515
ACCUMULATED DEPRECIATION:				
Roads and sidewalks	4,159,517	528,550	-	4,688,067
Land improvements	226,926	20,876	-	247,802
Building and improvements	2,068,424	266,663	-	2,335,087
Vehicles	1,140,841	138,412	-	1,279,253
Other tools and equipment	909,225	99,127	-	1,008,352
Total accumulated depreciation	8,504,933	1,053,628	-	9,558,561
Net capital assets	<u>\$ 18,872,170</u>	<u>\$ (39,216)</u>	<u>\$ -</u>	<u>\$ 18,832,954</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE E – CAPITAL ASSETS – Continued

BUSINESS-TYPE ACTIVITIES

GROUP:	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Land	\$ 101,124	\$ 26,373	\$ -	\$ 127,497
Work in progress	1,190,618	201,703	1,190,116	202,205
Utility systems	41,771,638	3,787,370	14,272	45,544,736
Buildings	18,968,593	5,097	-	18,973,690
Machinery and equipment	7,224,780	90,873	-	7,315,653
Subtotal	69,256,753	4,111,416	1,204,388	72,163,781
ACCUMULATED DEPRECIATION:				
Electric	12,199,172	878,796	9,459	13,068,509
Telecommunications	3,202,631	467,197	798	3,669,030
Water	4,649,343	362,927	2,730	5,009,540
Waste water	7,022,638	544,587	1,285	7,565,940
Sanitation	111,463	13,626	-	125,089
Total accumulated depreciation	27,185,247	2,267,133	14,272	29,438,108
Net capital assets	<u>\$ 42,071,506</u>	<u>\$ 1,844,283</u>	<u>\$ 1,190,116</u>	<u>\$ 42,725,673</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE E – CAPITAL ASSETS – Continued

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

GOVERNMENTAL ACTIVITIES:

General government	\$ 761,256
Public safety	103,665
Public works	103,822
Recreation and culture	<u>84,885</u>
Total governmental activities	<u>\$ 1,053,628</u>

BUSINESS -TYPE ACTIVITIES:

Electric	\$ 878,796
Telecommunications	467,197
Water	362,927
Waste water	544,587
Sanitation	<u>13,626</u>
Total business-type activities	<u>\$ 2,267,133</u>

The component units capital assets at June 30, 2008 consist of the following:

COMPONENT UNITS:

Land	\$ 715,521
Building	<u>226,096</u>
Total component units	941,617
Less, accumulated depreciation	<u>76,641</u>
Net capital assets of component units	<u>\$ 864,976</u>

All assets are held in the Downtown Development Authority, except for land of approximately \$442,903 held in the Local Development Finance Authority.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE F – LONG-TERM DEBT

	Balance			Balance
	July 1, 2007	Additions	Reductions	June 30, 2008
Governmental Activities:				
General obligation bonds	\$ 110,000	\$ -	\$ 65,000	\$ 45,000
Building authority bonds	1,735,000	-	140,000	1,595,000
Installment purchase agreements	381,820	-	191,808	190,012
Special assessment bonds	680,000	-	310,000	370,000
Compensated absences	452,804	36,365	-	489,169
	<u>3,359,624</u>	<u>36,365</u>	<u>706,808</u>	<u>2,689,181</u>
Total governmental activities	<u>\$ 3,359,624</u>	<u>\$ 36,365</u>	<u>\$ 706,808</u>	<u>\$ 2,689,181</u>
Business-type Activities:				
Revenue bonds	\$ 17,920,000	\$ -	\$ 1,290,000	\$ 16,630,000
General obligation capital improvement bond	1,500,000	-	-	1,500,000
General obligation capital improvement and Refunding Bonds	6,330,000	-	-	6,330,000
Installment purchase agreements	499,703	-	499,703	-
Compensated absences	322,027	78,650	-	400,677
	<u>26,571,730</u>	<u>78,650</u>	<u>1,789,703</u>	<u>24,860,677</u>
Total business-type activities	<u>\$ 26,571,730</u>	<u>\$ 78,650</u>	<u>\$ 1,789,703</u>	<u>\$ 24,860,677</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE F – LONG-TERM DEBT – Continued

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

GOVERNMENTAL ACTIVITIES

1999 special assessment bonds payable at an interest rate of 4.5%, annual principal payment of \$15,000, due March 2009	\$ 15,000
1999 special assessment bonds payable at an interest rate of 5.15%, annual principal payment of \$35,000, due March 2009	35,000
1999 special assessment bonds payable at an interest rate of 5.0%, annual principal payment of \$105,000, due March 2009	105,000
2001 special assessment bonds payable at an interest rate of 3.95%, annual principal payments of \$70,000 to \$75,000, due February 2011	215,000
1999 general obligation limited tax bonds payable at an interest rate of 5.0%, annual principal payment of \$35,000, due March 2009	35,000
1999 Building Authority Bonds payable at interest rates of 4.75% to 5.375%, semiannually principal payments of \$90,000 to \$155,000, due October 2019	1,415,000
2000 Building Authority Bonds payable at interest rates of 5.20% to 5.25%, semiannual principal payments of \$55,000 to \$65,000, due October 2010	180,000
1999 general obligation limited tax bonds payable at an interest rate of 4.5%, annual principal payment of \$10,000, due March 2009	10,000

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE F – LONG-TERM DEBT – Continued

Act 99 contract payable at an interest rate of 3.5%, annual principal payment of \$63,338, plus semiannual interest payments, principal due February, 2011	<u>190,012</u>
Total bonds and installment purchase agreements	2,200,012
Accumulated compensated absences	<u>498,169</u>
Total governmental activities debt	<u>\$ 2,698,181</u>

BUSINESS-TYPE ACTIVITIES

Series 2000 Electric Revenue Bonds interest rates varying from 5.7% to 6.0%, annual principal payments ranging from \$75,000 to \$140,000, due August 2019	\$ 1,250,000
Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 2.6% to 4.9%, annual payments ranging from \$80,000 to \$180,000, due August 2024	2,085,000
Series 2006 Electric Utility System Revenue Refunding Bonds, interest rates varying from 4.0% to 4.5%, annual payments ranging from \$460,000 to \$650,000, due August 2016	4,925,000
Series 2002 Telecommunications System Revenue Refunding Bonds, at an interest rate of 5.5%, annual principal payments ranging from \$260,000 to \$390,000, due August 2017	3,260,000

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE F – LONG-TERM DEBT – Continued

Series 2007 Water Supply and Waste Water System General Obligation Capital Improvement and Refunding Bonds at an interest rate of 4.0%, annual principal payments ranging from \$135,000 to \$365,000, due September 2025 6,330,000

Series 1999 Waste Water System Revenue Bonds, interest rates varying from 4.5% to 4.6%, annual principal payments ranging from \$135,000 to \$330,000, due July 2024 3,735,000

Series 2005 Water Supply and Waste Water System General Obligation Capital Improvement Bonds, interest rates varying from 3.3% to 4.45%, annual payments ranging from \$50,000 to \$130,000, due July 2025 1,500,000

Series 2004 Water Supply and Waste Water System Revenue Bonds, interest rates varying from 3.0% to 4.6%, annual payments ranging from \$55,000 to \$115,000, due July 2024 1,375,000

Total bonds and installment purchase agreements 24,460,000

Accumulated compensated absences 400,677

Total business-type activities debt \$ 24,860,677

The special assessment bonds represent the financing of public improvements that benefit specific districts. These districts are special assessed, at least in part, for the cost of improvements. Under Michigan law, the City is secondarily liable for payment of these bonds.

COMPONENT UNITS

Local Development Finance Authority note payable, at an interest rate of 7.0%, due 2009 \$ 460,606

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE F – LONG-TERM DEBT – Continued

The annual requirements to service all debt outstanding as of June 30, 2008, including interest payments of \$9,068,738 for the debt service requirements are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 483,337	\$ 100,948	\$ 584,285
2010	288,338	80,239	368,577
2011	293,337	67,383	360,720
2012	100,000	56,976	156,976
2013	105,000	51,851	156,851
2014-2018	630,000	167,796	797,796
2019-2020	300,000	16,394	316,394
Total	\$ 2,200,012	\$ 541,587	\$ 2,741,599

	Business-type Activities		
	Principal	Interest	Total
2009	\$ 1,250,000	\$ 1,063,042	\$ 2,313,042
2010	1,550,000	1,002,977	2,552,977
2011	1,620,000	934,930	2,554,930
2012	1,695,000	862,051	2,557,051
2013	1,775,000	784,054	2,559,054
2014-2018	9,155,000	2,632,598	11,787,598
2019-2023	4,780,000	1,100,372	5,880,372
2024-2026	2,635,000	147,127	2,782,127
Total	\$ 24,460,000	\$ 8,527,151	\$ 32,987,151

Interest expense for the year ended June 30, 2008 was \$1,106,606 for Business-type Activities and \$137,742 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2008 amounted to \$27,929.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

**NOTE G – RESERVED, DESIGNATED AND RESTRICTED FUND BALANCE
AND RETAINED EARNINGS**

The City has reserved, designated and restricted fund balances and retained earnings, as of June 30, 2008, as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Reserved and designated:		
Cemetery maintenance	<u>\$ 450,000</u>	
Restricted		
Bond reserve		<u>\$ 5,592,234</u>

NOTE H – 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, 2008

NOTE I – RETIREMENT PROGRAM – Continued

Defined Benefit Plan – The City contributes to the Municipal Employees’ Retirement System of Michigan (MERS), which is an agent multiple employer retirement system that covers a portion of employees of the City. MERS provides retirement benefits as well as death and disability benefits. Service retirement benefits vest after 10 years of service; payment is based on various factors depending on the type of benefit to be paid. Deferred retirement benefits vest after 10 years of service, but are not paid until the date retirement would have occurred had the member remained an employee.

The Michigan Municipal Employees’ Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan, 48917.

Funding Policy – The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the six collective bargaining units and requires a contribution from the employees of 0% to 6% of gross wages.

Annual Pension Cost – For the year ended June 30, 2008, the City’s required and actual pension cost was \$337,640. The annual required contribution percentage was determined as a part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include: a rate of return on investment of present and future assets of 8% per year compounded annually, projected salary increases of 4.5% per year compounded annually, attributable to inflation, additional projected salary increases ranging from 0% to 4.2% per year, depending on age, attributable to seniority/merit and the assumption that benefits will increase 2.5 percent year (annually) after retirement for persons with selected benefits.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized by level percent of payroll contributions over a period ranging from 30 to 40 years.

Defined Contribution Plan – The City also participates in the ICMA retirement plan, a division of MERS, which is a defined contribution pension plan 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, 2008, there were 72 plan members. Plan members are required to contribute 0% to 7.5% of covered payroll. The City is required to contribute 6% to 13.5% of annual covered payroll. The City’s contribution for the year ended June 30, 2008 was \$272,482. Plan provisions and contribution requirements are established and may be amended by the City Council.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2008

NOTE J – REVOLVING DEVELOPMENT FUND LOANS RECEIVABLE

During the last several years, the City has loaned funds to several local companies. The balance of these loans receivable at June 30, 2008 is \$252,690.

The City recognizes collections of principal and interest on the federal portion of these loans as deferred revenue as the loans are repaid. Deferred revenue amounted to \$233,134 at June 30, 2008. Repayment of the local portion of these loans is recorded as a reduction of the loan receivable and interest income when received. Upon repayment of the balance of each loan, deferred revenue will either be recognized as revenue when deemed available by the granting agency or the funds will be returned to the granting agency.

NOTE K – 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 \$19,573,735 for purchased power and debt retirement. The City is unaware of any 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 40% interest in the Michigan South Central Power Agency (MSCPA). The City records the investment using the equity method and calculates 40% 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 40% of the equity net of the City's assets.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE L – 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, 2007	\$ (993,744)
Current year building permit revenue	74,447
Less related expenses - Direct costs	<u>(263,409)</u>
Shortfall at June 30, 2008	<u><u>\$ (1,182,706)</u></u>

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,880,850	\$ 3,844,549	\$ 3,855,199	\$ 10,650
Licenses and permits	179,200	166,900	180,700	13,800
Federal sources	-	-	1,549	1,549
State shared revenue	977,760	951,742	951,742	-
State sources	46,300	63,350	64,168	818
Charges for services	484,600	509,700	515,713	6,013
Rent	467,500	487,500	550,375	62,875
Interest earned	200,000	253,000	249,808	(3,192)
Contributions	1,000	2,500	3,341	841
Other	34,200	36,310	38,995	2,685
Total revenues	<u>6,271,410</u>	<u>6,315,551</u>	<u>6,411,590</u>	<u>96,039</u>
EXPENDITURES				
General government	1,436,785	1,335,589	1,305,017	(30,572)
Public safety	3,383,434	3,403,800	3,438,677	34,877
Public works	1,430,800	1,497,479	1,499,693	2,214
Recreation and cultural	1,153,950	1,232,700	1,313,429	80,729
Planning	107,700	121,000	120,284	(716)
Debt service	263,786	278,786	276,157	(2,629)
Other	398,420	499,019	481,167	(17,852)
Total expenditures	<u>8,174,875</u>	<u>8,368,373</u>	<u>8,434,424</u>	<u>66,051</u>
Excess (deficiency) of revenues over expenditures	(1,903,465)	(2,052,822)	(2,022,834)	29,988
OTHER SOURCES				
Sale of fixed assets	-	-	3,670	3,670
Payment in lieu of taxes	1,913,047	1,913,047	1,913,052	5
Transfers from other funds	109,000	106,141	78,504	(27,637)
Total other sources	<u>2,022,047</u>	<u>2,019,188</u>	<u>1,995,226</u>	<u>(23,962)</u>
Excess (deficiency) of revenues and other sources over expenditures	118,582	(33,634)	(27,608)	6,026
FUND BALANCE - BEGINNING	<u>2,039,455</u>	<u>2,578,034</u>	<u>2,578,034</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 2,158,037</u></u>	<u><u>\$ 2,544,400</u></u>	<u><u>\$ 2,550,426</u></u>	<u><u>\$ 6,026</u></u>

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
REVOLVING DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest income	\$ 75,000	\$ 70,000	\$ 77,194	\$ 7,194
Other	-	30,000	33,758	3,758
	<u>75,000</u>	<u>100,000</u>	<u>110,952</u>	<u>10,952</u>
EXPENDITURES				
Economic development	<u>75,000</u>	<u>61,000</u>	<u>57,030</u>	<u>(3,970)</u>
Excess (deficiency) of revenues over expenditures	-	39,000	53,922	14,922
FUND BALANCE - BEGINNING	<u>1,340,233</u>	<u>1,340,233</u>	<u>1,340,233</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,340,233</u>	<u>\$ 1,379,233</u>	<u>\$ 1,394,155</u>	<u>\$ 14,922</u>

CITY OF COLDWATER
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

NOTE A - COMPLIANCE WITH STATE REGULATIONS

A comparison of actual results of operations to the budgeted amounts, at the level of control adopted by the City, for the General Fund and Revolving Development Fund are presented as Required Supplemental Information. The budgets are adopted on the department level.

During the year the City of Coldwater, incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Final Budget</u>	<u>Actual</u>
General Fund		
Public safety	\$ 3,403,800	\$ 3,438,677
Public works	\$ 1,497,479	\$ 1,499,693
Recreation and cultural	\$ 1,232,700	\$ 1,313,429

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2008

Fiscal Year Ended June 30,

<u>As of December 31</u>	<u>Annual Pension Cost*</u>	<u>Percentage of Annual Pension Contributed</u>	<u>Net Pension Obligation</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>
2003	217,007	100%	-	19,578,175	21,361,625	1,783,450
2004	306,086	100%	-	19,822,285	22,636,615	2,814,330
2005	377,196	100%	-	20,024,113	22,863,080	2,838,967
2006	451,514	100%	-	20,702,863	23,267,283	2,564,420
2007	337,640	100%	-	21,433,474	24,026,708	2,593,234

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

Funded Ratio	Covered Payroll	Underfunded Actuarial Accrued Liability Percentage of Covered Payroll
92%	3,018,999	59.07%
88%	2,903,461	96.93%
88%	2,796,620	101.51%
89%	2,798,056	91.65%
89%	2,809,097	92.32%

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2008

Nonmajor Special Revenue Funds

	Major Streets Fund	Local Streets Fund	Parking Authority Fund	Retirement Fund
ASSETS				
Cash and investments	\$ 343,203	\$ 266,761	\$ -	\$ -
Accounts receivable	466	-	-	-
Special assessment receivable	20,060	-	-	-
Due from other governmental units	112,973	32,394	-	-
Restricted assets	-	-	-	-
Total assets	<u>\$ 476,702</u>	<u>\$ 299,155</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 3,216	\$ -	\$ -	\$ -
Accrued expenditures	3,063	924	-	-
Deferred revenue	20,060	-	-	-
Total liabilities	26,339	924	-	-
FUND BALANCE				
Designated	-	-	-	-
Unreserved	450,363	298,231	-	-
Total fund balance	<u>450,363</u>	<u>298,231</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 476,702</u>	<u>\$ 299,155</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Nonmajor Capital Project Funds</u>			<u>Nonmajor Permanent Fund</u>	
<u>Library Memorial Fund</u>	<u>Coldwater Municipal Building Authority Fund</u>	<u>Cemetery Special and Perpetual Care Nonexpendable Trust Fund</u>		<u>Totals</u>
\$ 233,466	\$ -	\$ -	\$ -	\$ 843,430
-	-	-	-	466
-	-	-	-	20,060
-	-	-	-	145,367
-	-	450,000	-	450,000
<u>\$ 233,466</u>	<u>\$ -</u>	<u>\$ 450,000</u>		<u>\$ 1,459,323</u>
\$ 3,313	\$ -	\$ -	\$ -	\$ 6,529
-	-	-	-	3,987
-	-	-	-	20,060
3,313	-	-	-	30,576
-	-	450,000	-	450,000
230,153	-	-	-	978,747
<u>230,153</u>	<u>-</u>	<u>450,000</u>		<u>1,428,747</u>
\$ 233,466	\$ -	\$ 450,000	\$ -	\$ 1,459,323

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, 2008

Nonmajor Special Revenue Funds

	Major Streets Fund	Local Streets Fund	Parking Authority Fund	Retirement Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 109,127
Special assessments	8,589	-	35,008	-
State shared revenue	631,175	197,687	-	-
State sources	94,488	-	-	-
Charges for services	-	-	4,269	-
Rent and royalties	-	-	-	-
Interest income	19,146	6,104	-	1,491
Contributions	-	-	-	-
Other income	1,863	-	-	223
Total revenues	<u>755,261</u>	<u>203,791</u>	<u>39,277</u>	<u>110,841</u>
EXPENDITURES				
Public works	623,967	285,308	83,865	-
Recreation and cultural	-	-	-	-
Debt service	-	-	-	-
Other	-	-	-	181
Total expenditures	<u>623,967</u>	<u>285,308</u>	<u>83,865</u>	<u>181</u>
Excess (deficiency) of revenues over expenditures	131,294	(81,517)	(44,588)	110,660
OTHER SOURCES (USES)				
Transfers from (to) other funds	<u>(157,794)</u>	<u>157,794</u>	<u>32,156</u>	<u>(110,660)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(26,500)	76,277	(12,432)	-
FUND BALANCE - BEGINNING	<u>476,863</u>	<u>221,954</u>	<u>12,432</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 450,363</u>	<u>\$ 298,231</u>	<u>\$ -</u>	<u>\$ -</u>

Nonmajor Capital Project Funds		Nonmajor Permanent Fund	
Library Memorial Fund	Coldwater Municipal Building Authority Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	Totals
\$ -	\$ -	\$ -	\$ 109,127
-	-	-	43,597
-	-	-	828,862
-	-	-	94,488
1,004	-	-	5,273
-	226,348	-	226,348
11,317	-	-	38,058
1,372	-	-	1,372
-	-	-	2,086
13,693	226,348	-	1,349,211
-	-	-	993,140
22,239	-	-	22,239
-	226,348	-	226,348
-	-	-	181
22,239	226,348	-	1,241,908
(8,546)	-	-	107,303
-	-	-	(78,504)
(8,546)	-	-	28,799
238,699	-	450,000	1,399,948
<u>\$ 230,153</u>	<u>\$ -</u>	<u>\$ 450,000</u>	<u>\$ 1,428,747</u>

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008

	Agency Funds		
	Health Insurance Fund	Tax Collection Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 12,069	\$ 273	\$ 12,342
LIABILITIES			
Accounts payable	\$ 12,069	\$ -	\$ 12,069
Due to other governmental units	-	273	273
Total liabilities	\$ 12,069	\$ 273	\$ 12,342

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

20 Tibbits Plaza * Coldwater, Michigan 49036

Phone (517) 279-7931 * Fax (517) 278-7087

November 7, 2008

Board of Directors
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, 2008. 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 \$889,846.

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.

Audit Adjustments

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

We have requested certain representations from management that are included in the management letter dated November 7, 2008.

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.

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.

Difficulties Encountered in Performing the Audit

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

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.



RUMSEY & WATKINS, P.C.