

**CITY OF COLDWATER  
BRANCH COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

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## **INDEPENDENT AUDITOR'S REPORT**

**City Council  
City of Coldwater, Michigan**

**December 3, 2013**

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, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Coldwater as of June 30, 2013 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Required Supplemental Information**

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

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Coldwater's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived for and relate directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects in relation to the basic financial statements as a whole.

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

## **CITY OF COLDWATER**

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

Our discussion and analysis of the City of Coldwater's financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the City's financial statements, which begin on page 14.

#### **Financial Highlights**

- The City's assets exceeded its liabilities at the close of the most recent fiscal year by \$96 million. Of this amount, investment in capital assets (net of depreciation and related debt) accounts for almost half, or \$45.2 million, and \$37.8 million represents unrestricted net assets, which are economic resources (not total cash) which may be used to meet the City's ongoing obligations to residents and creditors, without legal restriction. The remaining \$12.9 million represent restricted assets.
- The City's total net position increased \$9.6 million, primarily attributed to the payment of \$10.3 million of a \$14.1 million total contribution from Dr. and Mrs. Robert W. Browne towards the building of a \$15.6 million project for the new aquatic and recreation centers.
- In the City's governmental activities, revenues generated \$19.4 million. This is an increase of approximately \$9.9 million, once again, primarily attributed to the contribution from Dr. and Mrs. Browne. Expenses totaled \$10.1 million. This is an increase of approximately \$0.6 million compared to prior year amounts.
- In the City's business-type activities, revenues generated \$40.1 million. This is an increase of approximately \$4.6 million compared to prior year. Expenses totaled \$39.8 million. This was an increase of \$5.9 million compared to prior years.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of almost \$15 million, an increase of \$9.4 million compared to prior year. Approximately 18.8% of the amount (\$2.8 million) is available for spending at the City's discretion (unassigned fund balance).
- At the close of the current fiscal year, unassigned fund balance for the general fund was \$2.8 million, or approximately 34.3% of total general fund expenditures.

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

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

## CITY OF COLDWATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

**Government-Wide Financial Statements** – Government-wide financial statements begin on page 14 and provide readers with a broad overview of the finances of the City of Coldwater as a whole, in a manner similar to a private sector business, distinguishing functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as “governmental activities”) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as “business-type activities”). These statements present a longer-term view using the accrual basis of accounting, which requires that revenues are reported when they are earned and expenses are reported when incurred. They measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services. The statements include a Statement of Net Position and Statement of Activities.

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

**Fund Financial Statements** – The fund financial statements begin on page 18 and present more detailed information about the City’s most significant funds, not the City as a whole. The fund financial statements present a short-term view, using a modified accrual basis of accounting, and tell us how the taxpayers’ resources were spent during the year as well as how much is available for future spending. Funds are accounting tools the City uses to keep track of specific sources of funding and spending for particular purposes. The City’s major funds for 2013 include the General Fund, Revolving Development Fund, Capital Improvement Fund, and the new Aquatic and Recreation Centers Capital Fund. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

# CITY OF COLDWATER

## MANAGEMENT’S DISCUSSION AND ANALYSIS – Continued

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

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

### The City as a Whole

**Statement of Net Position** – As noted earlier, changes in net assets may serve as a useful indicator of a government’s financial position. The City’s assets exceeded total liabilities by \$96.0 million at the close of June 30, 2013. The following table shows, in a condensed format, the net assets as of June 30, 2013 and 2012.

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Assets</b>						
Current and other assets	\$ 15,878,348	\$ 6,490,838	\$ 40,157,551	\$ 40,786,562	\$ 56,035,899	\$ 47,277,400
Capital assets	19,051,202	18,755,538	44,001,473	45,421,184	63,052,675	64,176,722
Total assets	34,929,550	25,246,376	84,159,024	86,207,746	119,088,574	111,454,122
<b>Liabilities</b>						
Long-term debt outstanding	953,743	844,326	16,378,524	18,201,765	17,332,267	19,046,091
Other liabilities	806,898	548,711	4,945,186	5,469,393	5,752,084	6,018,104
Total liabilities	1,760,641	1,393,037	21,323,710	23,671,158	23,084,351	25,064,195
<b>Net Assets</b>						
Investment in capital assets- Net of related debt	18,730,189	18,419,325	26,512,553	25,770,928	45,242,742	44,190,253
Restricted	10,774,315	2,187,146	2,171,422	2,569,730	12,945,737	4,756,876
Unrestricted	3,664,405	3,246,868	34,151,339	34,195,930	37,815,744	37,442,798
Total net assets	\$ 33,168,909	\$ 23,853,339	\$ 62,835,314	\$ 62,536,588	\$ 96,004,223	\$ 86,389,927

Over 47% of the City’s net assets reflect its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City’s capital assets are used to provide a variety of services to our citizens. Accordingly, these assets are not available for future spending. An additional portion of the City’s net position (13.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$37.8 million, or 39.4% of the City’s net position, is unrestricted and may be used to meet the City’s ongoing obligations to its residents and creditors. Of the unrestricted funds, \$3.7 million are available to the governmental funds.



# CITY OF COLDWATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Statement of Activities** – The following table shows, in condensed format, the changes of net position as of June 30, 2013, compared to prior year:

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,054,061	\$ 1,173,007	\$ 41,273,909	\$ 37,219,765	\$ 42,327,970	\$ 38,392,772
Operating grants and contributions	455,541	659,083	-	-	455,541	659,083
Capital grants and contributions	10,297,867	-	-	-	10,297,867	-
General revenues:						
Property taxes	3,589,938	3,735,358	-	-	3,589,938	3,735,358
State shared revenues	1,678,565	1,630,391	-	-	1,678,565	1,630,391
Unrestricted investment	66,800	92,389	861,898	230,812	928,698	323,201
Gain (loss) on sale	(5,981)	(8,261)	10,368	9,666	4,387	1,405
Miscellaneous	38,433	17,870	134,777	203,144	173,210	221,014
Capital contributions	-	-	-	-	-	-
Payments in lieu of taxes	2,199,864	2,159,088	(2,199,864)	(2,159,088)	-	-
Total revenues	19,375,088	9,458,925	40,081,088	35,504,299	59,456,176	44,963,224
<b>Expenses</b>						
General government	1,979,000	1,233,604	-	-	1,979,000	1,233,604
Public safety	3,789,182	3,778,781	-	-	3,789,182	3,778,781
Public works	2,794,248	2,626,482	-	-	2,794,248	2,626,482
Recreation and cultural	920,340	1,083,978	-	-	920,340	1,083,978
Economic development	568,044	700,500	-	-	568,044	700,500
Interest	8,704	66,077	-	-	8,704	66,077
Transfers	-	-	-	-	-	-
Electric	-	-	31,274,710	25,647,274	31,274,710	25,647,274
Telecommunications	-	-	3,360,097	3,173,414	3,360,097	3,173,414
Water	-	-	1,844,766	1,820,170	1,844,766	1,820,170
Waste water	-	-	2,856,822	2,766,606	2,856,822	2,766,606
Rubbish	-	-	449,067	467,780	449,067	467,780
Total expenses	10,059,518	9,489,422	39,785,462	33,875,244	49,844,980	43,364,666
<b>Increase in Net Assets</b>	<b>\$ 9,315,570</b>	<b>\$ (30,497)</b>	<b>\$ 295,626</b>	<b>\$ 1,629,055</b>	<b>\$ 9,611,196</b>	<b>\$ 1,598,558</b>

During the current fiscal year, the net position for the City as a whole increased \$9,611,196. Governmental activities increased net position by \$9,315,570, and Business-type activities increased by \$295,626.

## **CITY OF COLDWATER**

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

#### **Governmental Activities**

Total Governmental revenue is reported at \$19,375,088, an increase of \$9,916,163 over prior year. The increase is primarily attributable to a \$10,266,845 contribution from Dr. and Mrs. Robert W. Browne toward the building of new aquatic and recreation centers; payment received in the amount of \$229,708, which represents the majority of an amount due from the Local District Financing Authority for land purchase; and a slight increase in State revenue sharing of \$49,864. These increases in revenue were offset by a \$118,946 decrease in charges for service, which included a decrease of 89,004 for issuance of building permits; a decrease of \$203,542 in federal grant funding; and a \$145,420 decrease in property taxes.

Total Governmental expenses are reported at \$10,059,518, an increase of \$570,096 over prior year. The increase is attributable primarily to current year expenditures towards the new aquatic and recreation centers project as well as an increase in public works expenditures for emergency repairs and rehabilitation of the sanitary sewer and roadway on Waterman Avenue. Offsetting the above increases were decreases in other expenditure areas, primarily reduced expenditures for the Tibbits restoration project, which is nearing completion. In addition, last year, an early payoff in the amount of \$596,138 was made on the Henry L. Brown Municipal Building. Since the building was paid off last year, there were reduced expenditures this year because no payments were made.

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

The City of Coldwater's business-type activities consist of electricity, telecommunications, water supply, and wastewater (all classified as Major Funds), as well as rubbish services. Of the City's charges for service revenue of \$41,273,909, the majority is generated from charges passed on to residents. Charges for service are offset by operational expenses of \$39,785,462 as well as Payments in Lieu of Taxes (PILOT) in the amount of \$2,199,864. The PILOT payment is calculated based on 6.5% of the final operating revenues of the 2011 fiscal year. Total revenues exceeded expenditures by \$295,626.

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

In the preceding analysis, we have been discussing the Government-wide Financial Statements, which report the financial results of the City in aggregate. To fully understand the reasons behind significant changes in fund balance or fund net position, it is important to look at these funds on an individual basis. For this more detailed information about the City's most significant funds, we look at the Fund Financial Statements, which begin on page 16.

## CITY OF COLDWATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

#### Governmental Funds

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

In the General Fund, revenues exceeded expenditures by \$150,240. While General Fund revenues decreased by \$136,983, expenditures decreased by a greater amount, \$744,736, resulting in the increase in fund balance.

General Fund revenues are derived from two main sources. The largest source is property tax collections, which were \$3,365,984 this year, a decrease of \$142,276 over prior year. The second largest revenue source is state shared revenue, which increased modestly by \$49,864. This is the second year in a row we have received a small increase in state shared revenue, but this follows a decade of decreases resulting in over \$300,000 per year less revenue today than 2002 levels.

Other significant revenue sources include licenses and permits and federal grants. Building permit revenues declined by \$89,004 this year. Although the number of permits remained the same, the value of building projects decreased, resulting in lower revenues. Federal grant revenues were less than prior year because the Tibbits building restoration grant project saw less activity this year than last as the project nears completion.

Additional significant revenues include Payment in Lieu of Taxes (PILOT) payments, which increased slightly by \$40,776. The PILOT amount is based on utility revenues received in 2011. A payment of \$229,708 was received for payment on a loan to the Local District Financing Authority (LDFA) for the purchase of property. Finally, transfers were made from other funds in the net amount of \$34,241. This amount is comprised of a transfer received of \$99,241 from the retirement millage levied in the amount of 1/3 of a mill, offset by a transfer out of \$65,000 to the Major Road Fund to fund road repairs that were not covered by funds received from the State's Act 51 funding mechanism for street improvements and maintenance. The emergency Waterman Avenue project comprised the majority of the additional expenditures for roads.

General Fund expenditures decreased compared to last year in several significant areas: The first is in rental expenditures. Last year, an early pay off in the amount of \$596,138 was made on the Henry L. Brown Municipal Building. Since the building was paid off last year, there were no payments this year. The second area is in building repairs and capital projects. Building repair expense decreased \$188,615 from last year, when renovations were made to the public safety building. Although two fire vehicles, two public works vehicles, and a building inspector vehicle were purchased this year, capital outlay expense decreased \$173,019. Finally, as mentioned above, federal grant expenditures decreased by \$159,710 compared to last year's expenditures for the Tibbits building restoration grant project, which is nearing completion.

## **CITY OF COLDWATER**

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

Expenditures increased by \$59,068 for sidewalk projects throughout the city and by \$33,439 for renovations to the Heritage Pool parking lot and basketball courts. The City continues its program of acquisition and rehabilitating or demolishing properties to eliminate blight.

The majority of the remaining costs associated with the General Fund is directly tied to labor and fringe benefits and represent roughly 60 percent of expenses. Providing City services is very labor intensive, especially in the area of public safety where coverage is provided twenty-four hours a day to protect the safety and welfare of City residents. Still, labor costs increased only slightly over last year due to many cost-saving initiatives over the past years, including reduction of staff levels, health care cost caps, improvement and streamlining of work processes and greater use of technology to improve productivity and create efficiencies. While retirement rates have increased, the legacy costs experienced by many other municipalities are almost nonexistent in Coldwater; and salary expenditures, which increased slightly this year, remain about the same as 2007-08 levels due to the above cost-saving initiatives.

**Revolving Development Fund** – 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.

**Capital Improvement Fund** – 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 2013, there were no new projects undertaken by the Capital Improvement Fund.

**Aquatic and Recreation Centers Capital Fund** – This newly created fund was established for the purpose of recording revenues and expenditures related to construction of a new aquatic center and expansion of the existing recreation gymnasium facilities. This project, the result of a generous donation of \$14.1 million from Dr. and Mrs. Robert W. Browne, towards the total project cost of \$15.6 million will be a cooperative initiative between the City of Coldwater and Coldwater Public Schools where operation of the pool will eventually transition from the City to the Schools and where, likewise, revenues for pool fees and expenses of operation will transition to the school district. Expenditures in this initial year of the fund were \$828,911.

### **Proprietary Funds**

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

## CITY OF COLDWATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

**Electric** – The Electric Fund ended the fiscal year with a positive change in net position of \$595,453. Although there were no rate increases this year, electricity revenues increased by \$3,845,167 due to higher demand, particularly to commercial and industrial customers. Purchased power costs increased by \$5,036,536, partly to meet the higher demand and also to pay for our portion of a Michigan South Central Power Agency (MSCPA) turbine repair project. The City of Coldwater is a 40% owner of MSCPA. Remaining costs shown are for operational and labor costs, fuels and ordinary repairs and maintenance.

**Telecommunications** – The Telecommunications Fund experienced a \$294,200 loss. The slight rate increase in June of 2013 has little effect on this year's financials but will be seen next year. The City continues to be challenged to keep up with the ever changing technology in today's marketplace. Consumer usage of dial up internet service and traditional land line long distance continue to decrease. Management is looking at other business solutions, including offering fiber optic business services. Remaining revenue streams from the services of cable television, VOIP phone service and business fiber optic service all increased during the year. There were no significant changes in the expenditures during the year in comparison to prior years. The primary costs are programming charges, data line charges, depreciation and third party costs to administer the VOIP and long distance services.

**Water Fund** – The Water Fund saw net position increase by \$389,209, slightly less than last year's increase of \$426,879. Operating costs were primarily related to the cost to pump, treat and distribute water to residents and businesses. Other than normal maintenance and repairs, there were no other significant expenditures incurred during the year.

**Wastewater** – Net change in assets for the Wastewater Fund was a decrease of \$374,763. The timing of next year's debt payments of \$435,721 was accelerated and made on June 30 of this fiscal year, which resulted in the decrease in this year's assets. A planned rate increase was put into effect in March, 2013 to address operating losses.

**Rubbish** – The Rubbish Fund continues to operate at a breakeven level. This is the first full year that garbage collection services were contracted to a privately held refuse transfer station.

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

As shown in the required supplemental information, the City's final amended budget shows a planned budget deficit of \$74,971; however, actual operating resulted in an increase in fund balance of \$150,240, primarily because of curtailed expenditures. The significant budget-to-actual differences are as follows:

Revenues – There were no significant variances with final budget.

## **CITY OF COLDWATER**

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

#### Expenditures –

- Expenditures for General Government were under budget by \$47,856. Budget variance was comprised of multiple, insignificant variances, the largest of which was a variance of \$11,776 expense under budget for attorney fees.
- Expenditures for Public Safety were under budget by \$30,212, primarily because expenses for equipment and building repairs and utilities were less than budgeted.
- Public Work expenditures were under budget by \$36,268, primarily because several Engineering Department capital purchases were delayed.
- Recreation and cultural expenditures were under budget by \$81,107 due primarily to delayed capital purchases and the shortened season of Heritage Pool that resulted in decreased expenditures for seasonal labor and pool operating supplies.
- Transfers from other funds were under budget by \$25,252. A transfer of \$90,252 was planned from General Fund to Major Streets Fund to cover that portion of Waterman Street repairs that was not covered by State Act 51 funds. The amount required was less than projected.

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

The City has continued its efforts to improve the City's infrastructure. This fiscal year saw the reinvestment of \$2.9 million in capital assets for the City's Governmental and Enterprise Funds combined, \$1.3 million of which was reinvested in the City's aging utility infrastructure. In addition to the utility infrastructure, several equipment purchases were made for Public Works, including a shared portion for a patching machine that is used county-wide. In addition, a total of five vehicles were replaced for fire, public works, and building inspection departments, including one fire vehicle partially funded by a grant. The Planning Department continued its program for acquiring, demolishing and/or rehabilitating blighted properties. The City will continue its annual street maintenance programs based on available Act 51 transportation funds from the State.

Because capital equipment, vehicles, buildings, and infrastructure are central to providing high-level service to our citizens, it is imperative that we keep those items in good, serviceable condition. Emergency and service vehicles, underground utility pipes and systems, roads, sidewalks, parking lots and parks benefit our citizens and contribute to our safety, welfare and quality of life. Capital expenditures for these items are carefully planned. The City maintains a five-year capital project and replacement plan. A sequenced and prioritized set of projects and a replacement schedule for equipment and vehicles is incorporated into the master plan. Each year, purchases and projects are completed as planned, or delayed, based on availability of funds. Over the past five years, we have reduced and delayed projects and purchases in order to keep expenditures in line. At some point, delay of projects and purchases brings diminishing returns.

## **CITY OF COLDWATER**

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

With our aging infrastructure and fleet, plans for next fiscal year include obtaining financing for infrastructure projects and vehicle purchases.

The Standard & Poor's rating agency affirmed the City's A+ credit rating with a stable outlook.

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

The adopted budget for the fiscal year ending June 30, 2014 continues to reflect the current Michigan economy. City Council continues to maintain its policy of fiscal conservatism while providing the citizens of Coldwater quality services.

The City is budgeting for a deficit of \$187,909 at the close of next fiscal year on June 30, 2014. Even with the projected deficit, the City will remain in a financially strong position with an operating fund balance reserve of over 30% of revenues. The deficit is the result of investment in capital equipment and infrastructure, as indicated above, and not from operating or personnel costs. The availability of financing at historically low interest rates makes it a good time to invest in our need for infrastructure updates and capital equipment.

City revenues in the next fiscal year are budgeted to increase slightly. Our two primary sources of revenue, property taxes and state revenue sharing, each see modest increases. With the improved economy, we are cautiously encouraged by positive economic movement. We are cautious because the reduction and eventual elimination of personal property taxes over the next three years is expected to have a negative impact on property tax collections. We are encouraged because the state's economy is improving (as evidenced by a two year, slight increase in revenue sharing), and the City is seeing economic growth. There is new investment by large and other local businesses. Home prices are rising, and the number of foreclosures is decreasing. Issuance of building permits remains strong, foreshadowing future economic growth. Demand for utilities—electric, water, wastewater and telecommunication--continues to grow. The growth in utility demand ultimately results in strong revenues in the third primary source of revenue for General Fund, Payments in Lieu of Taxes (PILOT), from the utilities.

The generous donation from Dr. and Mrs. Browne will result in fresh, new, state-of-the-art aquatic and recreation centers for our citizens as well as provide opportunity for the City of Coldwater and Coldwater Community Schools to work cooperatively for the betterment of the community. The City intends to issue \$1.5 million in bonds to complete the project, which will be repaid over the next twenty-five years.

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

## **CITY OF COLDWATER**

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

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

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



**CITY OF COLDWATER**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Cash and investments	\$ 5,178,059	\$ 13,851,860	\$ 19,029,919	\$ 560,531
Accounts receivable	96,127	3,958,709	4,054,836	-
Special assessment receivable	32,534	-	32,534	-
Notes receivable	107,772	-	107,772	-
Inventories	-	145,773	145,773	-
Due from other governmental units	135,679	-	135,679	-
Prepaid expenses	50,217	519,811	570,028	-
Unamortized bond costs	-	755,467	755,467	-
Investment in Power Agency	-	18,754,509	18,754,509	-
Restricted assets	10,277,960	2,171,422	12,449,382	-
Capital assets, less accumulated depreciation	19,051,202	44,001,473	63,052,675	637,791
Total assets	34,929,550	84,159,024	119,088,574	1,198,322
<b>LIABILITIES</b>				
Accounts payable	682,412	2,653,607	3,336,019	1,323
Accrued expenditures	102,862	728,828	831,690	-
Deferred revenue	5,624	-	5,624	-
Due to others	-	-	-	381,537
Long term liabilities:				
Bonds payable, due within one year	16,000	1,561,309	1,577,309	-
Bonds and notes payable, due in more than one year	305,013	15,927,611	16,232,624	56,160
Compensated absences	648,730	452,355	1,101,085	-
Total liabilities	1,760,641	21,323,710	23,084,351	439,020
<b>NET POSITION</b>				
Investment in capital assets - net of related debt	18,730,189	26,512,553	45,242,742	632,867
Restricted	10,774,315	2,171,422	12,945,737	126,435
Unrestricted	3,664,405	34,151,339	37,815,744	-
Total net position	\$ 33,168,909	\$ 62,835,314	\$ 96,004,223	\$ 759,302

See Notes to Financial Statements

**CITY OF COLDWATER**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating / Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government	\$ 1,979,000	\$ 283,097	\$ -	\$ -
Public safety	3,789,182	260,166	394,263	-
Public works	2,794,248	349,142	61,278	16,022
Recreation and cultural	920,340	161,331	-	10,266,845
Economic development	568,044	325	-	15,000
Interest	8,704	-	-	-
Total governmental activities	10,059,518	1,054,061	455,541	10,297,867
<b>Business-type activities:</b>				
Electric	31,274,710	32,721,214	-	-
Telecommunications	3,360,097	3,147,236	-	-
Water	1,844,766	2,346,952	-	-
Waste water	2,856,822	2,629,667	-	-
Rubbish	449,067	428,840	-	-
Total business-type activities	39,785,462	41,273,909	-	-
Total primary government	\$ 49,844,980	\$ 42,327,970	\$ 455,541	\$ 10,297,867
<b>Component units:</b>				
Downtown Development Authority	\$ 88,397	\$ 9,000	\$ 67,140	\$ -
Local Development Authority	55,587	-	-	-
Total component units	\$ 143,984	\$ 9,000	\$ 67,140	\$ -

General revenues:

Property taxes  
State shared revenues  
Unrestricted investment earnings  
Gain (loss) on sale of assets  
Miscellaneous  
Payments in lieu of taxes

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

**Change in Net Position**

**Net Position - Beginning**

Contribution in aid of construction

**Net Postion - Ending**

**Net (Expense) Revenue and Changes in Net Position**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (1,695,903)	\$ -	\$ (1,695,903)	\$ -
(3,134,753)	-	(3,134,753)	-
(2,367,806)	-	(2,367,806)	-
9,507,836	-	9,507,836	-
(552,719)	-	(552,719)	-
(8,704)	-	(8,704)	-
<u>1,747,951</u>	<u>-</u>	<u>1,747,951</u>	<u>-</u>
-	1,446,504	1,446,504	-
-	(212,861)	(212,861)	-
-	502,186	502,186	-
-	(227,155)	(227,155)	-
-	(20,227)	(20,227)	-
<u>-</u>	<u>1,488,447</u>	<u>1,488,447</u>	<u>-</u>
<u>1,747,951</u>	<u>1,488,447</u>	<u>3,236,398</u>	<u>-</u>
-	-	-	(12,257)
-	-	-	(55,587)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(67,844)</u>
3,589,938	-	3,589,938	369,934
1,678,565	-	1,678,565	-
66,800	861,898	928,698	301
(5,981)	10,368	4,387	-
38,433	134,777	173,210	9,637
<u>2,199,864</u>	<u>(2,199,864)</u>	<u>-</u>	<u>-</u>
<u>7,567,619</u>	<u>(1,192,821)</u>	<u>6,374,798</u>	<u>379,872</u>
9,315,570	295,626	9,611,196	312,028
23,853,339	62,536,588	86,389,927	447,274
-	3,100	3,100	-
<u>\$ 33,168,909</u>	<u>\$ 62,835,314</u>	<u>\$ 96,004,223</u>	<u>\$ 759,302</u>

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2013**

	<b>General Fund</b>	<b>Revolving Development Fund</b>	<b>Capital Improvement Fund</b>	<b>Aquatic and Recreation Centers Capital Fund</b>
<b>ASSETS</b>				
Cash and investments	\$ 2,991,726	\$ 1,255,393	\$ 735,839	\$ -
Accounts receivable	85,565	-	-	-
Special assessment receivable	-	-	32,534	-
Notes receivable	4,924	102,848	-	-
Due from other governmental units	-	-	-	-
Due from other funds	128,935	-	-	-
Prepaid expenses	50,217	-	-	-
Restricted assets	-	-	-	9,827,960
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 3,261,367</u>	<u>\$ 1,358,241</u>	<u>\$ 768,373</u>	<u>\$ 9,827,960</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 290,510	\$ -	\$ -	\$ 386,759
Due to other funds	-	-	-	-
Accrued expenditures	101,237	-	-	-
Deferred revenue	10,548	95,355	32,534	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	402,295	95,355	32,534	386,759
<b>FUND BALANCE</b>				
Nonspendable	50,217	7,493	-	-
Restricted	-	1,255,393	-	9,441,201
Committed	-	-	-	-
Assigned	-	-	735,839	-
Unassigned	2,808,855	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>2,859,072</u>	<u>1,262,886</u>	<u>735,839</u>	<u>9,441,201</u>
Total liabilities and fund balance	<u>\$ 3,261,367</u>	<u>\$ 1,358,241</u>	<u>\$ 768,373</u>	<u>\$ 9,827,960</u>

See Notes to Financial Statements

<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
\$ 195,101	\$ 5,178,059
10,562	96,127
-	32,534
-	107,772
135,679	135,679
-	128,935
-	50,217
450,000	10,277,960
<u>\$ 791,342</u>	<u>\$ 16,007,283</u>
\$ 5,143	\$ 682,412
128,935	128,935
1,625	102,862
-	138,437
<u>135,703</u>	<u>1,052,646</u>
-	57,710
20,011	10,716,605
635,628	635,628
-	735,839
-	2,808,855
<u>655,639</u>	<u>14,954,637</u>
<u>\$ 791,342</u>	<u>\$ 16,007,283</u>

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO NET POSTION**  
**JUNE 30, 2013**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 14,954,637</b>
<p>Amounts reported for governmental activities in the statement of net postion 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	33,301,898
Accumulated depreciation	<u>(14,250,696)</u>
Total capital assets not reported in funds	19,051,202
<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>	
	132,813
<p>Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:</p>	
Bonds payable	(321,013)
Compensated absences	<u>(648,730)</u>
Total long-term liabilities not reported in funds	<u>(969,743)</u>
<b>Total Net Position - Governmental Activities</b>	<b><u><u>\$ 33,168,909</u></u></b>

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>General Fund</b>	<b>Revolving Development Fund</b>	<b>Capital Improvement Fund</b>	<b>Aquatic and Recreation Centers Capital Fund</b>
<b>REVENUES</b>				
Taxes	\$ 3,491,118	\$ -	\$ -	\$ -
Special assessments	-	-	7,593	-
Licenses and permits	177,323	-	-	-
Federal sources	205,380	-	-	-
State shared revenue	901,435	-	-	-
State sources	55,669	-	-	-
Charges for services	487,123	-	-	-
Rent	289,283	-	-	-
Interest income	56,219	5,963	1,126	3,267
Contributions	185,973	-	-	10,266,845
Other income	253,416	15,341	-	-
Total revenues	6,102,939	21,304	8,719	10,270,112
<b>EXPENDITURES</b>				
General government	1,364,565	-	-	-
Public safety	3,743,978	-	-	-
Public works	1,479,043	-	-	-
Recreation and cultural Planning	789,323 557,208	-	-	828,911
Economic development	-	20,562	-	-
Debt service	-	-	-	-
Other expenditures	267,765	-	-	-
Total expenditures	8,201,882	20,562	-	828,911
Excess (deficiency) of revenues over expenditures	(2,098,943)	742	8,719	9,441,201
<b>OTHER SOURCES (USES)</b>				
Sale of fixed assets	15,078	-	-	-
Payment in lieu of taxes	2,199,864	-	-	-
Transfers from (to) other funds	34,241	-	-	-
Total other sources (uses)	2,249,183	-	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	150,240	742	8,719	9,441,201
<b>FUND BALANCE - BEGINNING</b>	2,708,832	1,262,144	727,120	-
<b>FUND BALANCE - ENDING</b>	<b>\$ 2,859,072</b>	<b>\$ 1,262,886</b>	<b>\$ 735,839</b>	<b>\$ 9,441,201</b>

See Notes to Financial Statements

<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
\$ 98,820	\$ 3,589,938
41,001	48,594
-	177,323
16,022	221,402
777,130	1,678,565
61,278	116,947
5,260	492,383
-	289,283
224	66,799
435	10,453,253
432	269,189
1,000,602	17,403,676
-	1,364,565
-	3,743,978
1,164,671	2,643,714
11,016	1,629,250
-	557,208
-	20,562
23,904	23,904
-	267,765
1,199,591	10,250,946
(198,989)	7,152,730
-	15,078
-	2,199,864
(34,241)	-
(34,241)	2,214,942
(233,230)	9,367,672
888,869	5,586,965
\$ 655,639	\$ 14,954,637



**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, 2013**

<b>Net change in Fund Balance - Total Governmental Funds</b>	<b>\$ 9,367,672</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(1,301,435)
Loss on sale of asset	(5,981)
Capital outlay	<u>1,603,080</u>
Total	295,664
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	(7,593)
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	(229,956)
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	15,200
Increases in compensated absences are reported as a decrease to expenditures	<u>(125,417)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ 9,315,570</u></u></b>

**CITY OF COLDWATER**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and investments	\$ 11,523,849	\$ -	\$ 512,757
Accounts receivable	3,170,509	194,926	253,627
Inventories	21,964	-	123,809
Due from other funds	1,491,716	-	-
Prepaid and other assets	340,273	70,360	55,932
Total current assets	<u>16,548,311</u>	<u>265,286</u>	<u>946,125</u>
<b>Noncurrent assets:</b>			
Unamortized bond costs	183,317	15,798	320,665
Investment in Power Agency	18,754,509	-	-
Restricted assets	1,283,710	337,019	431,521
Capital assets, less accumulated depreciation	15,908,291	3,896,129	10,358,418
Total noncurrent assets	<u>36,129,827</u>	<u>4,248,946</u>	<u>11,110,604</u>
Total assets	<u>\$ 52,678,138</u>	<u>\$ 4,514,232</u>	<u>\$ 12,056,729</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 2,424,441	\$ 134,829	\$ 34,396
Accrued expenditures	582,803	56,453	69,205
Due to other funds	-	1,491,716	-
Bonds and notes payable, due within one year	670,000	330,000	445,000
Total current liabilities	<u>3,677,244</u>	<u>2,012,998</u>	<u>548,601</u>
<b>Noncurrent liabilities</b>			
Bonds and notes payable, due in more than one year	3,405,000	1,500,000	4,115,000
Compensated absences	243,396	76,555	70,787
Total noncurrent liabilities	<u>3,648,396</u>	<u>1,576,555</u>	<u>4,185,787</u>
Total liabilities	<u>7,325,640</u>	<u>3,589,553</u>	<u>4,734,388</u>
<b>NET POSITION</b>			
Investment in capital assets, net of related debt	11,833,291	2,066,129	5,798,418
Restricted	1,283,710	337,019	431,521
Unrestricted	32,235,497	(1,478,469)	1,092,402
Total net assets	<u>\$ 45,352,498</u>	<u>\$ 924,679</u>	<u>\$ 7,322,341</u>

See Notes to Financial Statements

<b>Waste Water Fund</b>	<b>Nonmajor Rubbish Fund</b>	<b>Totals</b>
\$ 1,417,904	\$ 397,350	\$ 13,851,860
312,603	27,044	3,958,709
-	-	145,773
-	-	1,491,716
53,104	142	519,811
<hr/> 1,783,611	<hr/> 424,536	<hr/> 19,967,869
235,687	-	755,467
-	-	18,754,509
119,172	-	2,171,422
<hr/> 13,838,635	<hr/> -	<hr/> 44,001,473
<hr/> 14,193,494	<hr/> -	<hr/> 65,682,871
<hr/> <b>\$ 15,977,105</b>	<hr/> <b>\$ 424,536</b>	<hr/> <b>\$ 85,650,740</b>
\$ 59,240	\$ 701	\$ 2,653,607
20,367	-	728,828
-	-	1,491,716
<hr/> 116,309	<hr/> -	<hr/> 1,561,309
195,916	701	6,435,460
6,907,611	-	15,927,611
60,174	1,443	452,355
<hr/> 6,967,785	<hr/> 1,443	<hr/> 16,379,966
7,163,701	2,144	22,815,426
6,814,715	-	26,512,553
119,172	-	2,171,422
1,879,517	422,392	34,151,339
<hr/> <b>\$ 8,813,404</b>	<hr/> <b>\$ 422,392</b>	<hr/> <b>\$ 62,835,314</b>

**CITY OF COLDWATER**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Electric Fund</b>	<b>Telecommunications Fund</b>	<b>Water Fund</b>
<b>REVENUES</b>			
Charges for services	\$ 32,721,214	\$ 3,147,236	\$ 2,346,952
<b>OPERATING EXPENSES</b>			
Purchased power	26,151,993	-	-
Power plant	246,686	-	-
Distribution	1,123,839	2,228,953	328,101
Substation	200,902	-	-
Sanitation	-	-	-
Metering and lighting	633,562	-	-
Wells	-	-	62,238
Treatment	-	-	389,315
Collection system	-	-	-
Customer service	189,220	241,367	-
Administration	1,652,342	330,615	424,304
Depreciation and amortization	895,135	457,045	455,541
Total operating expenditures	<u>31,093,679</u>	<u>3,257,980</u>	<u>1,659,499</u>
<b>OPERATING INCOME (LOSS)</b>	1,627,535	(110,744)	687,453
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	858,086	-	419
Interest expense	(181,031)	(102,117)	(185,267)
Gain (loss) on sale of fixed assets	16,913	474	9,753
Miscellaneous	89,262	16,911	20,311
Total nonoperating revenues (expenses)	<u>783,230</u>	<u>(84,732)</u>	<u>(154,784)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	2,410,765	(195,476)	532,669
<b>TRANSFERS</b>			
Payments in lieu of taxes	<u>(1,815,312)</u>	<u>(98,724)</u>	<u>(143,460)</u>
<b>CHANGE IN NET POSITION</b>	595,453	(294,200)	389,209
<b>NET POSITION - BEGINNING</b>	44,753,945	1,218,879	6,933,132
Contribution in aid of construction	<u>3,100</u>	<u>-</u>	<u>-</u>
<b>NET POSITION - ENDING</b>	<u><u>\$ 45,352,498</u></u>	<u><u>\$ 924,679</u></u>	<u><u>\$ 7,322,341</u></u>

See Notes to Financial Statements

<b>Waste Water Fund</b>	<b>Nonmajor Rubbish Fund</b>	<b>Totals</b>
\$ 2,629,667	\$ 428,840	\$ 41,273,909
-	-	26,151,993
-	-	246,686
-	-	3,680,893
-	-	200,902
-	449,067	449,067
-	-	633,562
-	-	62,238
969,448	-	1,358,763
145,436	-	145,436
-	-	430,587
665,305	-	3,072,566
819,845	-	2,627,566
<u>2,600,034</u>	<u>449,067</u>	<u>39,060,259</u>
29,633	(20,227)	2,213,650
3,239	154	861,898
(256,788)	-	(725,203)
(16,772)	-	10,368
8,293	-	134,777
<u>(262,028)</u>	<u>154</u>	<u>281,840</u>
(232,395)	(20,073)	2,495,490
<u>(142,368)</u>	<u>-</u>	<u>(2,199,864)</u>
(374,763)	(20,073)	295,626
9,188,167	442,465	62,536,588
-	-	3,100
<u>\$ 8,813,404</u>	<u>\$ 422,392</u>	<u>\$ 62,835,314</u>

**CITY OF COLDWATER**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 33,094,408	\$ 3,165,941	\$ 2,424,414
Payments made to suppliers	(30,961,689)	(2,076,257)	(919,243)
Payments made to employees	(1,252,758)	(600,975)	(447,919)
Net cash provided by (used in) operating activities	879,961	488,709	1,057,252
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal and interest paid on capital debt	(816,031)	(422,117)	(615,267)
Contribution in aid of construction	3,100	-	-
Purchase of capital assets	(390,690)	(66,592)	(302,820)
Net cash provided by (used in) capital and related financing activities	(1,203,621)	(488,709)	(918,087)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received on investments	858,086	-	419
Change in investments	(869,141)	-	(6,297)
Net cash provided by investing activities	(11,055)	-	(5,878)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(334,715)	-	133,287
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>11,858,564</u>	<u>337,019</u>	<u>379,470</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 11,523,849</u></u>	<u><u>\$ 337,019</u></u>	<u><u>\$ 512,757</u></u>

See Notes to Financial Statements

<b>Waste Water Fund</b>	<b>Nonmajor Sanitation Fund</b>	<b>Totals</b>
\$ 2,635,045	\$ 429,190	\$ 41,748,998
(1,558,777)	(411,266)	(35,927,232)
(446,457)	(36,791)	(2,784,900)
629,811	(18,867)	3,036,866
(1,033,124)	-	(2,886,539)
-	-	3,100
(352,805)	-	(1,112,907)
(1,385,929)	-	(3,996,346)
3,239	154	861,898
423,856	-	(451,582)
427,095	154	410,316
(329,023)	(18,713)	(549,164)
1,746,927	416,063	14,738,043
<u>\$ 1,417,904</u>	<u>\$ 397,350</u>	<u>\$ 14,188,879</u>

**CITY OF COLDWATER**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS - Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
<b>BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS</b>			
Cash and investments	\$ 11,523,849	\$ -	\$ 512,757
Restricted cash and investments	1,283,710	337,019	431,521
Less amounts classified as investments	<u>(1,283,710)</u>	<u>-</u>	<u>(431,521)</u>
Total cash and cash equivalents	<u><u>\$ 11,523,849</u></u>	<u><u>\$ 337,019</u></u>	<u><u>\$ 512,757</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating income (Loss)	\$ 1,627,535	\$ (110,744)	\$ 687,453
Adjustments to reconcile operating income to net cash from operating activities:			
Other income	89,262	16,911	20,311
Depreciation and amortization	895,135	457,045	455,541
Loss (Gain) on sale of assets	16,913	474	9,753
Payments in lieu of taxes	(1,815,312)	(98,724)	(143,460)
Changes in assets and liabilities:			
Receivables	267,019	1,320	47,398
Inventories	8,496	-	2,339
Prepays and other assets	33,250	61,307	(212)
Due from (to) other funds	(202,244)	202,244	-
Accounts payable	185,556	(53,254)	(26,863)
Accrued expenditures	(250,978)	(7,836)	(10,290)
Compensated absences	<u>25,329</u>	<u>19,966</u>	<u>15,282</u>
Net cash provided by (used in) operating activities	<u><u>\$ 879,961</u></u>	<u><u>\$ 488,709</u></u>	<u><u>\$ 1,057,252</u></u>

See Notes to Financial Statements



<b>Waste Water Fund</b>	<b>Nonmajor Rubbish Fund</b>	<b>Totals</b>
\$ 1,417,904	\$ 397,350	\$ 13,851,860
119,172	-	2,171,422
(119,172)	-	(1,834,403)
<u>\$ 1,417,904</u>	<u>\$ 397,350</u>	<u>\$ 14,188,879</u>
\$ 29,633	\$ (20,227)	\$ 2,213,650
8,293	-	134,777
819,845	-	2,627,566
(16,772)	-	10,368
(142,368)	-	(2,199,864)
13,857	350	329,944
-	-	10,835
1,499	(142)	95,702
-	-	-
(15,291)	(291)	89,857
(86,375)	-	(355,479)
17,490	1,443	79,510
<u>\$ 629,811</u>	<u>\$ (18,867)</u>	<u>\$ 3,036,866</u>

**CITY OF COLDWATER**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2013**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 13,684
<b>LIABILITIES</b>	
Accounts payable	\$ 11,317
Due to other governmental units	<u>2,367</u>
Total	<u>\$ 13,684</u>

**CITY OF COLDWATER**  
**COMPONENT UNITS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

	<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 178,994	\$ 381,537	\$ 560,531
Capital assets, less accumulated depreciation	637,791	-	637,791
 Total assets	 816,785	 381,537	 1,198,322
<b>LIABILITIES</b>			
Accounts payable	1,323	-	1,323
Due to others	-	381,537	381,537
Long term liabilities:			
Notes payable, due in more than one year	-	56,160	56,160
 Total liabilities	 1,323	 437,697	 439,020
<b>NET ASSETS (DEFICIT)</b>			
Investment in capital assets - net of related debt	637,791	(4,924)	632,867
Restricted (deficit)	177,671	(51,236)	126,435
 Total net position (deficit)	 \$ 815,462	 \$ (56,160)	 \$ 759,302

**CITY OF COLDWATER  
 COMPONENT UNITS  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2013**

<b>Functions/Programs</b>	<b>Program Revenues</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating / Grants and Contributions</b>
Downtown Development Authority	\$ 88,397	\$ 9,000	\$ 67,140
Local Development Finance Authority	55,587	-	-
Total component activities	\$ 143,984	\$ 9,000	\$ 67,140

General revenues:

- Property taxes
- Interest
- Miscellaneous

Total general revenues

**Change in Net Position**

**Net Position (Deficit) - Beginning**

**Net Position (Deficit) - Ending**

**Net (Expense) Revenue and Changes in Net Position**

<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Total</b>
\$ (12,257)	\$ -	\$ (12,257)
-	(55,587)	(55,587)
(12,257)	(55,587)	(67,844)
97,485	272,449	369,934
301	-	301
9,637	-	9,637
107,423	272,449	379,872
95,166	216,862	312,028
720,296	(273,022)	447,274
<u>\$ 815,462</u>	<u>\$ (56,160)</u>	<u>\$ 759,302</u>

**CITY OF COLDWATER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**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.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

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

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

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

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

The District first utilizes restricted resources to finance qualifying activities.

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

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

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

**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.

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

The City does not allocate indirect costs.

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

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

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



## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2013

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

##### **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.

**Capital Improvement and Aquatic and Recreation Centers Capital Funds** are used to account for the capital improvements in the City. The funds include payments 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.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2013**

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

##### **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.

##### **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 2012 tax is levied and collectible on August 1, 2012 and is recognized as revenue in the year ended June 30, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2012 taxable valuation of the City totaled \$304 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 \$3.5 million for general operating and approximately \$99,000 for retirement. These amounts are reported in the respective General and Retirement Funds in the financial statements.

##### **ASSETS, LIABILITIES AND NET POSITION:**

**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, 2013**

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

**ASSETS, LIABILITIES AND NET POSITION: - 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 position. Issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2013

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

##### ASSETS, LIABILITIES AND NET POSITION: – Continued

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

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

**Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation. The City’s Revolving Development fund and Aquatic and Recreation Centers Capital Fund balances are considered restricted.

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

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

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

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

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

**ASSETS, LIABILITIES AND NET POSITION: – Continued**

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

	<u>General Fund</u>	<u>Revolving Development Fund</u>	<u>Capital Improvement Fund</u>	<u>Aquatic and Recreation Centers Capital Fund</u>	<u>Other Nonmajor Governmental Funds</u>
Nonspendable:					
Prepaid expenses	\$ 50,217	\$ -	\$ -	\$ -	\$ -
Notes receivable	-	7,493	-	-	-
Restricted:					
Revolving development	-	1,255,393	-	-	-
Aquatic and Recreation Centers	-	-	-	9,441,201	-
Major streets	-	-	-	-	5,621
Local streets	-	-	-	-	14,390
Committed:					
Parking authority	-	-	-	-	38,102
Library Memorial	-	-	-	-	147,526
Cemetery	-	-	-	-	450,000
Assigned:	-	-	735,839	-	-
Unassigned:	2,808,855	-	-	-	-
<b>Total</b>	<u>\$ 2,859,072</u>	<u>\$ 1,262,886</u>	<u>\$ 735,839</u>	<u>\$ 9,441,201</u>	<u>\$ 655,639</u>

**BASIS OF BUDGETING:**

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

**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.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

**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 .30% to .55%.

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

Investment	Fair Value	Weighted Average Maturity (Years)
Bank investment pool (not 2a-7)	\$ 3,985,509	0.0027
U.S. government or agency bond or note	5,425,391	4

1 day maturity equals 0.0027, one year equals 1.00

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

Investment	Fair Value	Fitch Rating
Michigan CLASS pool	\$ 3,985,509	AAA

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

**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, 2013, \$29,691,723 of the City’s bank balance of \$31,876,556 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.

**NOTE C – DUE FROM (TO) OTHER FUNDS**

The due from (to) other funds, at June 30, 2013, for the City are as follows:

**ELECTRIC FUND**

Due from Telecommunications Fund

\$ 1,491,716

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

Transfers from (to) other funds, during the year ended June 30, 2013, for the City are as follows:

**GENERAL FUND**

Transfer to Major Streets Fund	\$ (65,000)
Transfer from Retirement Fund	99,241
	<hr/>
Total General Fund	\$ 34,241
	<hr/>

**OTHER NONMAJOR FUNDS**

Major Streets Fund	
Transfer from General Fund	\$ 65,000
Transfer to Local Streets Fund	(161,453)
	<hr/>
Total Major Streets Fund	(96,453)
Local Streets Fund	
Transfer from Major Streets Fund	161,453
Retirement Fund	
Transfer to General Fund	(99,241)
	<hr/>
Total other nonmajor governmental funds	\$ (34,241)
	<hr/>

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, 2013**

**NOTE E – CAPITAL ASSETS**

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

**GOVERNMENTAL ACTIVITIES**

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2013</u>
<b>GROUP:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,555,037	\$ 9,726	\$ -	\$ 1,564,763
Capital assets, being depreciated:				
Roads and sidewalks	13,402,106	581,713	133,632	13,850,187
Land improvements	737,263	3,370	-	740,633
Buildings and improvements	11,291,105	-	-	11,291,105
Vehicles	2,858,041	116,640	83,000	2,891,681
Other tools and equipment	2,071,898	55,245	-	2,127,143
Construction in progress	-	836,386	-	836,386
Total assets being depreciated	<u>30,360,413</u>	<u>1,593,354</u>	<u>216,632</u>	<u>31,737,135</u>
Total assets	31,915,450	1,603,080	216,632	33,301,898
<b>ACCUMULATED DEPRECIATION:</b>				
Roads and sidewalks	6,117,413	663,424	126,951	6,653,886
Land improvements	413,887	43,906	-	457,793
Building and improvements	3,415,180	272,668	-	3,687,848
Vehicles	1,902,494	170,823	83,000	1,990,317
Other tools and equipment	1,310,938	150,614	700	1,460,852
Total accumulated depreciation	<u>13,159,912</u>	<u>1,301,435</u>	<u>210,651</u>	<u>14,250,696</u>
Net capital assets	<u>\$ 18,755,538</u>	<u>\$ 301,645</u>	<u>\$ 5,981</u>	<u>\$ 19,051,202</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE E – CAPITAL ASSETS – Continued**

**BUSINESS-TYPE ACTIVITIES**

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2013</u>
<b>GROUP:</b>				
Capital assets, not being depreciated:				
Land	\$ 781,502	\$ -	\$ -	\$ 781,502
Capital assets, being depreciated:				
Work in progress	200,082	52,451	125,974	126,559
Utility systems	55,834,217	1,054,851	171,687	56,717,381
Buildings	19,018,697	23,850	-	19,042,547
Machinery and equipment	<u>6,993,575</u>	<u>171,061</u>	<u>170,601</u>	<u>6,994,035</u>
Total assets being depreciated	<u>82,046,571</u>	<u>1,302,213</u>	<u>468,262</u>	<u>82,880,522</u>
Total assets	82,828,073	1,302,213	468,262	83,662,024
<b>ACCUMULATED DEPRECIATION:</b>				
Electric	15,446,745	851,646	110,996	16,187,395
Telecommunications	5,201,550	453,176	52,663	5,602,063
Water	6,518,576	429,003	2,753	6,944,826
Waste water	<u>10,240,018</u>	<u>798,793</u>	<u>112,544</u>	<u>10,926,267</u>
Total accumulated depreciation	<u>37,406,889</u>	<u>2,532,618</u>	<u>278,956</u>	<u>39,660,551</u>
Net capital assets	<u><u>\$ 45,421,184</u></u>	<u><u>\$(1,230,405)</u></u>	<u><u>\$ 189,306</u></u>	<u><u>\$ 44,001,473</u></u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE E – CAPITAL ASSETS – Continued**

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

**GOVERNMENTAL ACTIVITIES:**

General government	\$ 240,678
Public safety	113,525
Public works	827,231
Recreation and culture	<u>120,001</u>
Total governmental activities	<u>\$ 1,301,435</u>

**BUSINESS -TYPE ACTIVITIES:**

Electric	\$ 851,646
Telecommunications	453,176
Water	429,003
Waste water	<u>798,793</u>
Total business-type activities	<u>\$ 2,532,618</u>

The component units capital assets at June 30, 2013 consist of the following:

**COMPONENT UNITS:**

Land	\$ 272,618
Building	226,221
Infrastructure	<u>301,819</u>
Total component units	800,658
Less, accumulated depreciation	<u>162,867</u>
Net capital assets of component units	<u>\$ 637,791</u>

All assets are held in the Downtown Development Authority. The component unit's depreciation expense for the year ended June 30, 2013 amounted to \$23,668.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE F – LONG-TERM DEBT**

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>Governmental Activities:</b>				
Revenue bonds	\$ 336,213	\$ -	\$ 15,200	\$ 321,013
Compensated absences	523,313	125,417	-	648,730
	<u>859,526</u>	<u>125,417</u>	<u>15,200</u>	<u>969,743</u>
Total governmental activities	<u>\$ 859,526</u>	<u>\$ 125,417</u>	<u>\$ 15,200</u>	<u>\$ 969,743</u>
<b>Business-type Activities:</b>				
Revenue bonds and Refunding bonds	\$ 9,837,756	\$ -	\$ 1,169,800	\$ 8,667,956
General obligation capital improvement bond	1,285,000	-	125,000	1,160,000
General obligation capital improvement and Refunding bonds	8,175,000	-	835,000	7,340,000
Equipment loan	352,500	-	31,536	320,964
Compensated absences	372,845	79,510	-	452,355
	<u>20,023,101</u>	<u>79,510</u>	<u>2,161,336</u>	<u>17,941,275</u>
Total business-type activities	<u>\$ 20,023,101</u>	<u>\$ 79,510</u>	<u>\$ 2,161,336</u>	<u>\$ 17,941,275</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

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

**GOVERNMENTAL ACTIVITIES**

Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$16,000 to \$22,400, due April 2030	\$ 321,013
Accumulated compensated absences	<u>648,730</u>
Total governmental activities debt	<u><u>\$ 969,743</u></u>

**BUSINESS-TYPE ACTIVITIES**

Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 3.6% to 4.9%, annual payments ranging from \$100,000 to \$180,000, due August 2024	\$ 1,640,000
Series 2006 Electric Utility System Revenue Refunding Bonds, interest rates varying from 4.125% to 4.5%, annual payments ranging from \$570,000 to \$650,000, due August 2016	2,435,000
Series 2002 Telecommunications System Revenue Refunding Bonds, at an interest rate of 5.5%, annual principal payments ranging from \$330,000 to \$390,000, due August 2017	1,830,000
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 \$275,000 to \$485,000, due September 2025	4,560,000

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

Series 2010 Waste Water Limited Tax General Obligation Refunding Bonds, interest rates varying from 1.3% to 4.1%, annual principal payments ranging from \$210,000 to \$315,000, due July 2024	2,780,000
Series 2005 Water Supply and Waste Water System General Obligation Capital Improvement Bonds, interest rates varying from 3.7% to 4.45%, annual payments ranging from \$70,000 to \$130,000, due July 2025	1,160,000
Series 2004 Water Supply and Waste Water System Revenue Bonds, interest rates varying from 3.5% to 4.6%, annual payments ranging from \$70,000 to \$115,000, due July 2024	1,005,000
Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$84,000 to \$132,556, due April 2030	1,757,956
Note payable to bank, interest rate of 2.45%, annual payments ranging from \$32,309 to \$39,212, due June 2022, secured by equipment	<u>320,964</u>
Total bonds and installment purchase agreements	17,488,920
Accumulated compensated absences	<u>452,355</u>
Total business-type activities debt	<u><u>\$ 17,941,275</u></u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2013**

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

**COMPONENT UNITS**

Local Development Finance Authority note payable, at an interest rate of 7.0%, due 2014

\$ 56,160

The annual requirements to service all debt outstanding as of June 30, 2013, including interest payments of \$3,927,712 for the debt service requirements are as follows:

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 16,000	\$ 8,316	\$ 24,316
2015	16,000	7,916	23,916
2016	16,800	7,516	24,316
2017	17,600	7,096	24,696
2018	17,600	6,656	24,256
2019-2023	95,200	26,419	121,619
2024-2028	108,000	13,899	121,899
2029-2030	33,813	1,421	35,234
	<u>\$ 321,013</u>	<u>\$ 79,239</u>	<u>\$ 400,252</u>
	<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 1,561,309	\$ 572,198	\$ 2,133,507
2015	1,982,100	589,158	2,571,258
2016	2,072,111	507,033	2,579,144
2017	2,027,142	423,681	2,450,823
2018	1,297,993	355,272	1,653,265
2019-2023	5,126,109	1,176,382	6,302,491
2024-2028	3,172,000	215,472	3,387,472
2029-2030	250,156	9,277	259,433
	<u>\$ 17,488,920</u>	<u>\$ 3,848,473</u>	<u>\$ 21,337,393</u>

Interest expense for the year ended June 30, 2013 was \$725,203 for Business-type Activities and \$8,705 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2013 amounted to \$55,587.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2013**

#### **NOTE G – RISK MANAGEMENT**

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

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

#### **NOTE H – RETIREMENT PROGRAM**

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, 2013, the City's required and actual pension cost was \$686,300. The annual required contribution percentage was determined as a part of an actuarial valuation, 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.



## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2013**

#### **NOTE H – RETIREMENT PROGRAM – Continued**

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, 2013, there were 74 plan members. Plan members are required to contribute 0% to 9% 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, 2013 was \$300,402. Plan provisions and contribution requirements are established and may be amended by the City Council.

#### **NOTE I – 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, 2013 is \$102,848.

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 \$95,355 at June 30, 2013. 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 J – JOINT VENTURES**

The City is a member of the Michigan South Central Power Agency, which provides electric services to the residents of its member communities. The participating communities provide annual funding for its operations. During the current year, the City paid \$26,151,993 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, 2013**

**NOTE K – CONSTRUCTION CODE FEES**

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

Shortfall at July 1, 2012	\$ (1,873,038)
Current year building permit revenue	23,988
Less related expenses - Direct costs	<u>(258,984)</u>
Shortfall at June 30, 2013	<u><u>\$ (2,108,034)</u></u>

**NOTE L – SUBSEQUENT EVENT**

The City will be entering into a contract to construct a new aquatic center and recreation facility for a total project cost of \$15.6 million. Dr. Robert W. Browne will be contributing \$14.1 million; the City intends to issue capital improvement bonds for the remainder of the \$1.5 million.

**NOTE M – CONTINGENCY**

The City of Coldwater is involved in a dispute with the Department of Environmental Quality. The outcome of the dispute cannot be determined at this time. It is the opinion of management that the outcome will have no material effect on the financial position of the City.

**CITY OF COLDWATER**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 3,488,807	\$ 3,489,585	\$ 3,491,118	\$ 1,533
Licenses and permits	150,800	161,800	177,323	15,523
Federal sources	-	204,747	205,380	633
State shared revenue	885,809	895,175	901,435	6,260
State sources	44,000	59,000	55,669	(3,331)
Charges for services	480,500	496,100	487,123	(8,977)
Rent	299,658	299,658	289,283	(10,375)
Interest earned	114,025	37,000	56,219	19,219
Contributions	1,500	184,974	185,973	999
Other	243,539	281,014	253,416	(27,598)
Total revenues	5,708,638	6,109,053	6,102,939	(6,114)
<b>EXPENDITURES</b>				
General government	1,342,166	1,412,421	1,364,565	(47,856)
Public safety	3,751,050	3,774,190	3,743,978	(30,212)
Public works	1,484,999	1,506,755	1,479,043	(27,712)
Recreation and cultural	1,027,275	870,430	789,323	(81,107)
Planning	128,275	555,091	557,208	2,117
Other	269,627	291,827	267,765	(24,062)
Total expenditures	8,003,392	8,410,714	8,201,882	(208,832)
Excess (deficiency) of revenues over expenditures	(2,294,754)	(2,301,661)	(2,098,943)	202,718
<b>OTHER SOURCES</b>				
Sale of fixed assets	-	15,078	15,078	-
Payment in lieu of taxes	2,199,864	2,199,864	2,199,864	-
Transfers from other funds	98,664	11,748	34,241	22,493
Total other sources	2,298,528	2,226,690	2,249,183	22,493
Excess (deficiency) of revenues and other sources over expenditures	3,774	(74,971)	150,240	225,211
<b>FUND BALANCE - BEGINNING</b>	2,347,835	2,708,832	2,708,832	-
<b>FUND BALANCE - ENDING</b>	<u>\$ 2,351,609</u>	<u>\$ 2,633,861</u>	<u>\$ 2,859,072</u>	<u>\$ 225,211</u>

**CITY OF COLDWATER**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**REVOLVING DEVELOPMENT FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest income	\$ 21,000	\$ 21,000	\$ 5,963	\$ (15,037)
Other	25,000	25,000	15,341	(9,659)
Total revenue	46,000	46,000	21,304	(24,696)
<b>EXPENDITURES</b>				
Economic development	700,000	700,000	20,562	(679,438)
Excess (deficiency) of revenues over expenditures	(654,000)	(654,000)	742	654,742
<b>FUND BALANCE - BEGINNING</b>	1,262,559	1,262,144	1,262,144	-
<b>FUND BALANCE - ENDING</b>	<u>\$ 608,559</u>	<u>\$ 608,144</u>	<u>\$ 1,262,886</u>	<u>\$ 654,742</u>

**CITY OF COLDWATER**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**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 is presented as Required Supplemental Information. The budget is adopted on the functional level.

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

General Fund	Final Budget	Actual
Planning	\$ 555,091	\$ 557,208

**CITY OF COLDWATER**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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>
2008	322,106	100%	-	21,228,432	24,695,681	3,467,249
2009	345,540	100%	-	20,736,364	25,353,044	4,616,680
2010	441,735	100%	-	20,451,738	25,659,658	5,207,920
2011	546,133	100%	-	20,255,548	26,258,719	6,003,171
2012	686,300	100%	-	19,981,036	26,715,368	6,734,332

\* 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
86%	2,703,461	128.25%
82%	2,600,872	177.51%
80%	2,393,508	217.59%
77%	2,439,638	246.07%
75%	2,253,464	298.84%

**CITY OF COLDWATER**  
**OTHER SUPPLEMENTAL INFORMATION**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**Nonmajor Special Revenue Funds**

	<b>Major Streets Fund</b>	<b>Local Streets Fund</b>	<b>Parking Authority Fund</b>	<b>Retirement Fund</b>
<b>ASSETS</b>				
Cash and investments	\$ 5,500	\$ 2,500	\$ 38,087	\$ -
Accounts receivable	10,547	-	15	-
Due from other governmental units	104,982	30,697	-	-
Restricted assets	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 121,029</u>	<u>\$ 33,197</u>	<u>\$ 38,102</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 2,590	\$ 1,065	\$ -	\$ -
Due to other funds	112,022	16,913	-	-
Accrued expenditures	796	829	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	115,408	18,807	-	-
<b>FUND BALANCE</b>				
Restricted	5,621	14,390	-	-
Committed	-	-	38,102	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>5,621</u>	<u>14,390</u>	<u>38,102</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 121,029</u>	<u>\$ 33,197</u>	<u>\$ 38,102</u>	<u>\$ -</u>



<b>Nonmajor Capital Project Funds</b>	<b>Nonmajor Permanent Fund</b>	<b>Cemetery Special and Perpetual Care Nonexpendable Trust Fund</b>	<b>Totals</b>
\$ 149,014	\$ -		\$ 195,101
-	-		10,562
-	-		135,679
-	450,000		450,000
<u>\$ 149,014</u>	<u>\$ 450,000</u>		<u>\$ 791,342</u>
\$ 1,488	\$ -		\$ 5,143
-	-		128,935
-	-		1,625
1,488	-		135,703
-	-		20,011
147,526	450,000		635,628
147,526	450,000		655,639
<u>\$ 149,014</u>	<u>\$ 450,000</u>		<u>\$ 791,342</u>

**CITY OF COLDWATER**  
**OTHER SUPPLEMENTAL INFORMATION**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**Nonmajor Special Revenue Funds**

	<b>Major Streets Fund</b>	<b>Local Streets Fund</b>	<b>Parking Authority Fund</b>	<b>Retirement Fund</b>
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ 98,820
Special assessments	-	-	41,001	-
State shared revenue	591,731	185,399	-	-
Federal sources	16,022	-	-	-
State sources	61,278	-	-	-
Charges for services	-	-	4,042	-
Interest income	102	31	-	19
Contributions	-	-	-	-
Other income	30	-	-	402
Total revenues	<u>669,163</u>	<u>185,430</u>	<u>45,043</u>	<u>99,241</u>
<b>EXPENDITURES</b>				
Public works	739,110	389,852	35,709	-
Recreation and cultural	-	-	-	-
Debt service	16,434	7,470	-	-
Total expenditures	<u>755,544</u>	<u>397,322</u>	<u>35,709</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(86,381)	(211,892)	9,334	99,241
<b>OTHER SOURCES (USES)</b>				
Transfers from (to) other funds	<u>(96,453)</u>	<u>161,453</u>	<u>-</u>	<u>(99,241)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(182,834)	(50,439)	9,334	-
<b>FUND BALANCE - BEGINNING</b>	<u>188,455</u>	<u>64,829</u>	<u>28,768</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 5,621</u>	<u>\$ 14,390</u>	<u>\$ 38,102</u>	<u>\$ -</u>

<b>Nonmajor Capital Project Fund</b>	<b>Nonmajor Permanent Fund</b>	<b>Cemetery Special and Perpetual Care Nonexpendable Trust Fund</b>	<b>Totals</b>
\$ -	\$ -		\$ 98,820
-	-		41,001
-	-		777,130
-	-		16,022
-	-		61,278
1,218	-		5,260
72	-		224
435	-		435
-	-		432
1,725	-		1,000,602
-	-		1,164,671
11,016	-		11,016
-	-		23,904
11,016	-		1,199,591
(9,291)	-		(198,989)
-	-		(34,241)
(9,291)	-		(233,230)
156,817	450,000		888,869
\$ 147,526	\$ 450,000		\$ 655,639

**CITY OF COLDWATER**  
**OTHER SUPPLEMENTAL INFORMATION**  
**FIDUCIARY FUNDS**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2013**

	<b>Health Insurance Fund</b>	<b>Tax Collection Fund</b>	<b>Totals</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,317	\$ 2,367	\$ 13,684
	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES</b>			
Accounts payable	\$ 11,317	\$ -	\$ 11,317
Due to other governmental units	-	2,367	2,367
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 11,317	\$ 2,367	\$ 13,684
	<u>          </u>	<u>          </u>	<u>          </u>



December 3, 2013

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

We have audited the financial statements of City of Coldwater as of and for the year ended June 30, 2013. 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 \$1,100,000.

### **Difficulties Encountered in Performing the Audit**

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

### **Audit Adjustments**

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

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management letter dated December 3, 2013.

### **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.

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

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