

**CITY OF COLDWATER  
BRANCH COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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## **INDEPENDENT AUDITOR'S REPORT**

**City Council  
City of Coldwater, Michigan**

**October 30, 2015**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan, as of and for the year ended June 30, 2015, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note M to the financial statements, the City of Coldwater implemented Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

### **Required Supplemental Information**

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

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Coldwater's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived for and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2015, on our consideration of the City of Coldwater, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Coldwater, Michigan's internal control over financial reporting and compliance.

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

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

## **CITY OF COLDWATER**

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

Our discussion and analysis of the City of Coldwater's financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the City's financial statements, which begin on page 16.

#### **Financial Highlights**

- The City's assets exceeded liabilities by \$88.8 million. Of this amount, \$56 million related to investment in capital assets (net of depreciation and related debt). \$7.4 million are restricted assets and \$25.4 million represents unrestricted net assets. Unrestricted net assets may be used to meet the City's ongoing obligations to residents and creditors, without legal restriction.
- Overall revenues exceeded expenditures by \$2.1 million, primarily due to decreases in Electric Fund expenditures.
- Governmental revenues generated \$11.7 million compared to \$12.9 million in the prior year. The decrease is primarily due to a \$3.8 million contribution from Dr. Robert W. Browne and his wife for the construction of new aquatic and recreation centers. The overall \$14.4 million contribution covered multiple years with the final \$300,000 received in the current year. Offsetting the above reduction was a \$900,000 pass through grant that was used for the remodel of the downtown Kerr building and a \$600,000 contribution for the Upson plaza parking lot. Expenses totaled \$10.9 million. This is an increase of approximately \$1 million compared to prior year amounts. It includes the matching \$900,000 of grant expenditures related to the Kerr building project.
- In the City's business-type activities, revenues generated \$41.6 million. This is an increase of approximately \$300,000 compared to prior year. Expenses totaled \$40.3 million. This was a decrease of \$3.9 million compared to the prior year. This decrease was primarily due to a \$3.4 million Electric Fund charge that was taken in the prior year.
- Governmental funds reported combined fund balances of \$9.5 million, a decrease of \$4.6 million compared to the prior year. The decrease resulted from the timing of receiving the contribution for the aquatic and recreation centers and actual construction. In addition, the City sold road bonds for \$5.1 million supported by a voted millage.
- Unassigned fund balance for the general fund was \$3.0 million, or approximately 32% 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 16 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 2015 include the General Fund, Road Construction Bond Fund, and the 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 \$88.8 million at the close of June 30, 2015. The following table shows, in a condensed format, the net assets as of June 30, 2015 and 2014.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Assets</b>						
Current and other assets	\$ 10,120,222	\$ 15,643,421	\$ 38,375,123	\$ 40,520,271	\$ 48,495,345	\$ 56,163,692
Capital assets	33,813,783	23,377,912	43,997,588	42,016,011	77,811,371	65,393,923
Total assets	43,934,005	39,021,333	82,372,711	82,536,282	126,306,716	121,557,615
<b>Deferred Outflows</b>	373,633	-	344,231	-	717,864	-
<b>Liabilities</b>						
Long-term debt outstanding	10,356,124	2,457,913	17,942,553	14,390,621	28,298,677	16,848,534
Other liabilities	1,055,551	1,509,179	8,803,871	9,250,200	9,859,422	10,759,379
Total liabilities	11,411,675	3,967,092	26,746,424	23,640,821	38,158,099	27,607,913
<b>Deferred Inflows</b>	29,635	-	-	-	29,635	-
<b>Net Assets</b>						
Investment in capital assets- Net of related debt	26,988,770	21,546,899	29,009,538	26,088,203	55,998,308	47,635,102
Restricted	5,012,617	9,858,384	2,341,433	2,640,676	7,354,050	12,499,060
Unrestricted	864,941	3,648,958	24,619,547	30,166,582	25,484,488	33,815,540
Total net assets	\$ 32,866,328	\$ 35,054,241	\$ 55,970,518	\$ 58,895,461	\$ 88,836,846	\$ 93,949,702

Over 50% of the City's net assets reflect its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide a variety of services to our citizens. Accordingly, these assets are not available for future spending. An additional portion of the City's net position, 8%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$25.4 million, or 29% 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, \$860,000 is available to the governmental funds.

# CITY OF COLDWATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

**Statement of Activities** – The following table shows, in condensed format, the changes of net position as of June 30, 2015, compared to prior year:

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,175,346	\$ 1,121,100	\$ 43,530,582	\$ 42,256,881	\$ 44,705,928	\$ 43,377,981
Operating grants and contributions	396,139	207,572	221,444	-	617,583	207,572
Capital grants and contributions	1,841,869	3,833,155	-	-	1,841,869	3,833,155
General revenues:						
Property taxes	4,003,342	3,724,181	-	-	4,003,342	3,724,181
State shared revenues	1,768,136	1,727,247	-	-	1,768,136	1,727,247
Unrestricted investment	56,710	72,744	58,219	1,189,985	114,929	1,262,729
Gain (loss) on sale	-	(98,130)	8,093	(137,098)	8,093	(235,228)
Miscellaneous	100,371	108,317	138,479	153,917	238,850	262,234
Transfers - internal balances	(50,000)	-	50,000	-	-	-
Payments in lieu of taxes	2,450,964	2,208,432	(2,450,964)	(2,208,432)	-	-
Total revenues	11,742,877	12,904,618	41,555,853	41,255,253	53,298,730	54,159,871
<b>Expenses</b>						
General government	1,906,263	1,926,973	-	-	1,906,263	1,926,973
Public safety	3,926,538	4,026,059	-	-	3,926,538	4,026,059
Public works	2,630,358	2,904,841	-	-	2,630,358	2,904,841
Recreation and cultural	1,257,199	900,588	-	-	1,257,199	900,588
Economic development	1,083,026	1,221,138	-	-	1,083,026	1,221,138
Interest	82,377	39,687	-	-	82,377	39,687
Transfers	-	-	-	-	-	-
Electric	-	-	31,298,345	35,954,548	31,298,345	35,954,548
Telecommunications	-	-	3,571,552	3,322,591	3,571,552	3,322,591
Water	-	-	2,057,004	1,910,291	2,057,004	1,910,291
Waste water	-	-	2,639,033	2,590,640	2,639,033	2,590,640
Rubbish	-	-	443,437	425,140	443,437	425,140
GIS	-	-	317,998	-	317,998	-
Total expenses	10,885,761	11,019,286	40,327,369	44,203,210	51,213,130	55,222,496
<b>Increase in Net Assets</b>	<u>\$ 857,116</u>	<u>\$ 1,885,332</u>	<u>\$ 1,228,484</u>	<u>\$ (2,947,957)</u>	<u>\$ 2,085,600</u>	<u>\$ (1,062,625)</u>

During the current fiscal year, the net asset position for the City as a whole increased \$2,085,600. Governmental activities increased its net position by \$857,116 and Business-type activities by \$1,228,484.

## **CITY OF COLDWATER**

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

#### **Governmental Activities**

Total Governmental revenue is reported at \$11,742,877, a decrease of \$1,161,740 over prior year. The decrease is primarily attributable to the timing of the \$14.4 million contribution from Dr. Robert W. Browne and his wife for the new aquatic and recreation centers. \$290,500 was received in the current year compared to \$3,833,155 that was received in the prior year. This decrease in revenue was offset by \$888,870 in Federal Grant money received to be spent on the Kerr building project, \$655,739 of contributions for the Upson Plaza, \$250,000 in State grant money for a project on Michigan Avenue, a \$279,161 increase in property tax revenue resulting from a one mill increase in retirement millage and an increase in payments in lieu of taxes of \$242,532.

Total Governmental expenses are reported at \$10,885,761, a decrease of \$163,524 over prior year. The decrease is attributable to the prior year when the City was required to return \$1,024,570 of Revolving Loan fund monies to the State of Michigan when the State regionalized their loan program. This was accounted for as an expense. Offsetting that decrease is the \$888,870 of Federal Grant money spent on the Kerr building project.

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

The City of Coldwater's business-type activities consist of electricity, telecommunications, water supply, and wastewater (all classified as Major Funds), as well as rubbish and GIS services. Charges to residents for utility services amounted to \$43,530,582. The majority of expenses relate to operational expenses to provide utility services in the amount of \$40,327,369. Additional significant costs relate to a payment in lieu of tax which is a 6.5% of revenue charter provision transfer to the City's General Fund. The PILOT is based on the 2013 fiscal operating results. Overall, total revenues exceeded expenditures by \$1,228,484. When comparing to the prior year you will see a \$3,370,074 expense relating to costs associated with the cancellation of a planned power plant project.

#### **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 18.

## **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 \$221,758. General Fund revenues increased \$915,504 over the prior year and expenditures increased by \$1,072,342. These changes along with a \$328,158 increase in other sources of revenue resulted in the overall increase in fund balance.

General Fund revenues are derived from two main sources. The largest source is property tax collections, which were \$3,452,270 this year, a decrease of \$47,964 from prior year. The second largest revenue source is state shared revenue, which increased by \$24,274 to \$950,575. This is the fourth year in a row we have received a small increase in state shared revenue, but this follows a decade of reduced funding from the State. The City received \$280,000 less revenue in 2015 than was received in 2002.

Other significant revenue sources include charges for services and federal grants. The largest was a federal grant of \$888,870 for the restoration of the downtown Kerr building.

Additional significant revenues include PILOT payments, which increased by \$242,532. A transfer of \$406,660 was made from the retirement millage levied in the amount of one and one-third of a mill. In prior years only a third of a mill was levied.

Overall General Fund expenditures increased compared to last year. The largest increase was the \$888,870 of Federal grant expenditures related to the Kerr building project discussed above. Debt service increased by \$84,503 as the City made its first principal payment on the debt issued to pay for the City's share of the new aquatic and recreation centers. Also, transfers to other funds increased as the City transferred \$150,000 to the Street funds for road work.

## **CITY OF COLDWATER**

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

The majority of the remaining costs associated with the General Fund is directly tied to labor and fringe benefits and represents over 60 percent of expenses. Providing City services is very labor intensive, especially in the area of public safety where coverage is provided twenty-four hours a day to protect the safety and welfare of City residents. Labor costs held steady compared to last year. Due to many cost-saving initiatives over the past years, including reduction of staff levels, health care cost reductions, improvement and streamlining of work processes, and greater use of technology to improve productivity and create efficiencies, non-retirement related labor costs are roughly the same today as they were in 2009. The City continues to experience a significant increase in retirement costs related to our long closed defined benefit plans. Annual retirement costs increased by \$66,471 from the prior year and are now more than double what they were five years ago. Unfortunately the expectation is for these costs to continue increasing rapidly over the next decade before dropping off. While painful in the short term, for the long term Coldwater is positioned very well. By moving away from defined benefit pensions many years ago the City's long term legacy cost obligations are much less than those experienced by many other municipalities.

**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 the current year, this fund accounted for the reconstruction of the Upson Plaza parking lot. Michigan Gas Utilities funded the reconstruction of this parking lot to remediate environmental concerns resulting from a buried century old gas plant. The \$655,739 paid by Michigan Gas Utilities related to the non-utility portion of the parking lot reconstruction and is recorded as both a revenue and capital expenditure in this fund.

**Aquatic and Recreation Centers Capital Fund** – This 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 \$14.4 million from Dr. Robert W. Browne and his wife, had a total project cost of \$15.6 million. Current year expenditures related to the project were \$9,653,930.

### **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 \$702,006 increase in net position compared to the prior year when the fund experienced a loss of \$4,812,591. This included a \$3,370,074 write off of the City's share of a power plant investment cancelled by American Municipal Power (AMP) of which the City is a member. Also in the prior year, the fund forgave a \$1,616,951 loan receivable with the Telecommunications Fund.

Electric revenues increased by \$581,224 due to higher demand by commercial and industrial customers. A significant portion of that increase was due to the start of phase two of the Mastronardi greenhouse operation. Even with the higher demand, purchased power costs decreased by \$1,405,617 due to lower power costs incurred by the Michigan South Central Power Association of which the City is a 40% owner. Remaining costs shown are for operational and labor costs, fuels and ordinary repairs and maintenance.

**Telecommunications** – The Telecommunications Fund experienced a \$1,468 increase in net position. The rate increase that took effect in November, 2014, helped the fund move closer to break even. Even with the rate increase the fund required a \$69,000 contribution from the Electric Fund to break even. Without the contribution the fund would have shown a decrease in net position of \$67,532.

Revenue from cable television and internet services increased from the prior year due to the rate increase noted above. Revenues for phone service and internet business fiber held steady. The fund's primary costs are programming charges, data line charges, depreciation and third party costs to administer the telephone service. The City has been challenged with the increasing cost of cable programming. Significant cost increases were seen during the second half of the 2014 fiscal year and continued in 2015.

**Water Fund** – The Water Fund saw net position increase by \$412,337, which was an increase of \$75,653 over the prior year. 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 operating expenditures incurred during the year. A rate increase went into effect in May, 2015, to build cash for future capital projects.

**Wastewater** – The Wastewater Fund experienced an increase in net position of \$116,543. This was an increase of \$113,012 over the prior year. Planned multi-step rate increases have occurred over the last three years with the purpose of improving the financial health of the fund. During the current year, \$1,739,267 of capital was invested back into the City's sanitary system. Part of that was made possible by a low interest loan from the State of Michigan's revolving loan fund. The loan was used to replace the State Street Pump Station and rehabilitate sanitary sewer pipes on Montgomery and Morse Streets. The other significant project was an improvement in the septic receiving station at the wastewater treatment facility.

## **CITY OF COLDWATER**

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

**Rubbish** – The Rubbish Fund saw a decrease in net assets of \$10,416 offsetting an \$11,022 increase in the prior year. This is the third full year that garbage collection services were privatized to a third party contractor.

**GIS** – The City partnered with Branch County as well as the City of Bronson, and Villages of Quincy and Union City to coordinate and consolidate GIS services within the county. Due to the collaborative endeavor the City applied for and received a \$406,645 grant from the State of Michigan. \$221,444 of the grant money was spent to collect, input and map various data into the system. The remainder of the funds will be spent on updating aerial imagery in the future. In the current year the fund received \$50,000 transfers from both the City's General and Electric Funds to cover its operating costs. Beginning with the 2016 fiscal year, each of the municipal partners will be contributing financially to the fund. The fund will also offer fee based services to individuals and outside organizations. In its first year the fund experienced an increase in net position of \$6,546.

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

As shown in the required supplemental information, the City's final amended budget shows a planned budget deficit of \$178,822; however, actual operating resulted in an increase in fund balance of \$221,758, primarily because of curtailed expenditures. The significant budget-to-actual differences are as follows:

Revenues – There were no significant variances with final budget.

Expenditures –

- Expenditures for General Government were under budget by \$88,171. Approximately one third of the budget variance related to the cemetery department. A long time cemetery employee retired early in the year and wasn't replaced on a full time basis until late in year. Another reason was the City increased the budget for expected attorney fees that did not occur until the following fiscal year. The remainder of the budget savings was spread among the various administrative departments.
- Expenditures for Public Safety were under budget by \$66,716. Two thirds of this difference was due to the staffing of the fire department. An originally budgeted position was not filled during the fiscal year. Most of the rest of the saving were due to lower fuel prices incurred by the police department.
- Public Works expenditures were under budget by \$91,206. Multiple situations contributed to this saving including reduction in outside engineering services, wage allocations and repair bills. Lower fuel costs also attributed to the reduced expenditures.

## **CITY OF COLDWATER**

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

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

The City has continued its efforts to improve infrastructure. This fiscal year saw the reinvestment of \$16.5 million in capital assets for the City's Governmental and Enterprise Funds combined, \$5.2 million of which was reinvested in the City's aging utility infrastructure. Also included in the total was \$9.7 million of capital costs associated with the construction of the aquatic center and recreation center expansion. In addition to the utility infrastructure, various vehicles and equipment were replaced during the year.

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

Because of the passage of a \$5,055,000 road bond by the citizens of Coldwater the City will see additional road work over a three year period that began in the spring of 2015. Additionally in November, 2015 the State passed a \$1.2 billion road funding bill. While the details of where some of the funding will come from are still unclear this should increase ACT 51 road revenues in the future.

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

The adopted budget for the fiscal year ending June 30, 2016, reflects the current Michigan economy. City Council continues to maintain its policy of fiscal conservatism while providing the citizens of Coldwater quality services.

The City is budgeting for a deficit of \$181,000 at the close of next fiscal year on June 30, 2016. Even with the projected deficit, the City will remain in a financially strong position with an operating fund balance reserve of 30% of revenues.

City revenues in the next fiscal year are budgeted to increase slightly. Our largest source of revenue, property taxes, is expected to see a slight increase due to increases in real property values. The second largest source of revenue, PILOT, is, also expected to increase slightly to \$2.54 million due to utility revenue increases. State revenue sharing, also a significant source of revenue for the City, will increase by approximately 3%.

## **CITY OF COLDWATER**

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

The state economy continues to steadily improve led by the automotive industry with the Michigan unemployment rate dropping significantly since the end of the great recession. Locally we have seen an increase in economic development in the area. The December, 2014 announcement by the Clemens Food Group that they will build a 550,000 square-foot pork processing facility is a game changer for the local community. When completed in 2017, the facility is expected to employ over 800 people with a total facility investment of over \$200 million. The Clemens announcement has spurred additional economic interest in the area with other companies currently exploring investment options in the local area.

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

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

Concerns also continue to exist over aging infrastructure and the escalating costs to replace and repair underground pipes and roads. We continue to maximize our resources to strategically minimize the impact to our citizens and rate payers. Citizens also voted for a millage to repay \$5.1 million in public infrastructure improvements.

After a year of anticipation the aquatic and recreation centers opened in early 2015. Since opening both projects have seen strong support from the local community. Foot traffic in the renovated recreation center has substantially increased especially in the colder months due to the doubling of the available courts, the addition of a walking/jogging track and many new programs that are available to all ages and abilities. The restored Kerr building and its 14 second and third floors apartments opened in the spring. Since that time three new restaurants have opened in the downtown giving local diners more options to eat. Reconstruction of the Upson Plaza parking lot was completed just in time for road work to begin in the area of the Tibbits Opera House. 2016 will bring continued road and parking lot construction in this area thanks to the road millage passed last year.

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, 2015**

	<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	\$ 8,933,611	\$ 12,680,535	\$ 21,614,146	\$ 590,347
Accounts receivable	92,490	3,988,199	4,080,689	-
Special assessment receivable	23,663	-	23,663	-
Notes receivable	54,725	-	54,725	-
Inventories	-	114,618	114,618	-
Due from other governmental units	203,607	16,945	220,552	-
Internal balances	204,247	(204,247)	-	-
Prepaid expenses	55,685	709,029	764,714	-
Investment in Power Agency	-	18,735,157	18,735,157	-
Restricted assets	552,194	2,334,887	2,887,081	-
Capital assets, less accumulated depreciation	33,813,783	43,997,588	77,811,371	226,376
Total assets	43,934,005	82,372,711	126,306,716	816,723
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	373,633	344,231	717,864	-
Total assets and deferred outflows of resources	44,307,638	82,716,942	127,024,580	816,723
<b>LIABILITIES</b>				
Accounts payable	331,800	5,794,578	6,126,378	3,251
Accrued expenditures	186,951	882,193	1,069,144	-
Due to others	-	-	-	389,144
Long term liabilities:				
Bonds payable, due within one year	536,800	2,127,100	2,663,900	-
Bonds and notes payable, due in more than one year	6,288,213	12,860,950	19,149,163	46,218
Net pension liability	3,401,123	4,629,222	8,030,345	-
Compensated absences	666,788	452,381	1,119,169	-
Total liabilities	11,411,675	26,746,424	38,158,099	438,613
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenue	29,635	-	29,635	-
Total liabilities and deferred inflows of resources	11,441,310	26,746,424	38,187,734	438,613
<b>NET POSITION</b>				
Investment in capital assets - net of related debt	26,988,770	29,009,538	55,998,308	226,376
Restricted	5,012,617	2,341,433	7,354,050	151,734
Unrestricted	864,941	24,619,547	25,484,488	-
Total net position	\$ 32,866,328	\$ 55,970,518	\$ 88,836,846	\$ 378,110

See Notes to Financial Statements

# CITY OF COLDWATER

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating /		Primary Government			
			Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
<b>Governmental activities:</b>								
General government	\$ 1,906,263	\$ 288,948	\$ 8,429	\$ -	\$ (1,608,886)	\$ -	\$ (1,608,886)	\$ -
Public safety	3,926,538	324,309	3,220	-	(3,599,009)	-	(3,599,009)	-
Public works	2,630,358	350,029	383,469	655,739	(1,241,121)	-	(1,241,121)	-
Recreation and cultural	1,257,199	212,060	1,021	290,500	(753,618)	-	(753,618)	-
Economic development	1,083,026	-	-	895,630	(187,396)	-	(187,396)	-
Interest	82,377	-	-	-	(82,377)	-	(82,377)	-
Total governmental activities	10,885,761	1,175,346	396,139	1,841,869	(7,472,407)	-	(7,472,407)	-
<b>Business-type activities:</b>								
Electric	31,298,345	34,003,497	-	-	-	2,705,152	2,705,152	-
Telecommunications	3,571,552	3,612,313	-	-	-	40,761	40,761	-
Water	2,057,004	2,590,268	-	-	-	533,264	533,264	-
Waste water	2,639,033	2,891,447	-	-	-	252,414	252,414	-
Rubbish	443,437	429,957	-	-	-	(13,480)	(13,480)	-
GIS	317,998	3,100	221,444	-	-	(93,454)	(93,454)	-
Total business-type activities	40,327,369	43,530,582	221,444	-	-	3,424,657	3,424,657	-
Total primary government	<u>\$ 51,213,130</u>	<u>\$ 44,705,928</u>	<u>\$ 617,583</u>	<u>\$ 1,841,869</u>	(7,472,407)	3,424,657	(4,047,750)	-
<b>Component units:</b>								
Downtown Development Authority	\$ 58,391	\$ -	\$ 2,000	\$ -	-	-	-	(56,391)
Local Development Authority	7,724	-	-	-	-	-	-	(7,724)
Total component units	<u>\$ 66,115</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	-	-	-	(64,115)
General revenues:								
Property taxes					4,003,342	-	4,003,342	115,588
State shared revenues					1,768,136	-	1,768,136	-
Unrestricted investment earnings					56,710	58,219	114,929	3,310
Gain (loss) on sale of assets					-	8,093	8,093	88
Miscellaneous					100,371	138,479	238,850	-
Transfers - internal balances					(50,000)	50,000	-	-
Payments in lieu of taxes					2,450,964	(2,450,964)	-	-
Total general revenues, transfers, forgiveness of debt and payments in lieu of taxes					8,329,523	(2,196,173)	6,133,350	118,986
<b>Change in Net Position</b>					857,116	1,228,484	2,085,600	54,871
<b>Change in accounting principle</b>					(3,045,029)	(4,295,305)	(7,340,334)	-
<b>Net Position - Beginning</b>					35,054,241	58,895,461	93,949,702	323,239
Contribution in aid of construction					-	141,878	141,878	-
<b>Net Position - Ending</b>					<u>\$ 32,866,328</u>	<u>\$ 55,970,518</u>	<u>\$ 88,836,846</u>	<u>\$ 378,110</u>

See Notes to Financial Statements

**CITY OF COLDWATER**

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

**JUNE 30, 2015**

	<b>General Fund</b>	<b>Road Construction Bond Fund</b>	<b>Aquatic and Recreation Centers Capital Fund</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
<b>ASSETS</b>					
Cash and investments	\$ 3,172,358	\$ 4,445,035	\$ -	\$ 1,316,218	\$ 8,933,611
Accounts receivable	88,871	-	2,488	1,131	92,490
Special assessment receivable	-	-	-	23,663	23,663
Notes receivable	-	-	-	54,725	54,725
Due from other governmental units	48,463	-	-	155,144	203,607
Due from other funds	204,247	-	-	-	204,247
Prepaid expenses	55,685	-	-	-	55,685
Restricted assets	-	-	102,194	450,000	552,194
	<u>3,569,624</u>	<u>4,445,035</u>	<u>104,682</u>	<u>2,000,881</u>	<u>10,120,222</u>
Total assets	\$ 3,569,624	\$ 4,445,035	\$ 104,682	\$ 2,000,881	\$ 10,120,222
<b>LIABILITIES AND FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 256,965	\$ -	\$ 24,098	\$ 50,737	\$ 331,800
Accrued expenditures	151,756	-	-	3,232	154,988
Unearned revenue	29,635	-	-	75,070	104,705
	<u>438,356</u>	<u>-</u>	<u>24,098</u>	<u>129,039</u>	<u>591,493</u>
Total liabilities	438,356	-	24,098	129,039	591,493
<b>FUND BALANCE</b>					
Nonspendable	55,685	-	-	3,318	59,003
Restricted	-	4,445,035	80,584	486,998	5,012,617
Committed	-	-	-	622,002	622,002
Assigned	181,173	-	-	759,524	940,697
Unassigned	2,894,410	-	-	-	2,894,410
	<u>3,131,268</u>	<u>4,445,035</u>	<u>80,584</u>	<u>1,871,842</u>	<u>9,528,729</u>
Total fund balance	3,131,268	4,445,035	80,584	1,871,842	9,528,729
Total liabilities and fund balance	\$ 3,569,624	\$ 4,445,035	\$ 104,682	\$ 2,000,881	\$ 10,120,222

See Notes to Financial Statements

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO NET POSITION**  
**JUNE 30, 2015**

**Total Fund Balance - Governmental Funds** \$ 9,528,729

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in funds:

The cost of the capital assets	49,291,063
Accumulated depreciation	(15,477,280)
	<u>33,813,783</u>

Total capital assets not reported in funds	33,813,783
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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

75,070

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid

(31,963)

Long-term liabilities and related deferred outflows are not due and payable in the current period and are not reported in the governmental funds:

Bonds payable	(6,825,013)
Deferred outflows	373,633
Net pension liability	(3,401,123)
Compensated absences	(666,788)
	<u>(10,519,291)</u>

Total long-term liabilities not reported in funds	<u>(10,519,291)</u>
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**Total Net Position - Governmental Activities** **\$ 32,866,328**

# CITY OF COLDWATER

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Road Construction Bond Fund	Aquatic and Recreation Centers Capital Fund	Other Nonmajor Governmental Funds	Totals
<b>REVENUES</b>					
Taxes	\$ 3,597,674	\$ -	\$ -	\$ 405,668	\$ 4,003,342
Special assessments	-	-	-	56,508	56,508
Licenses and permits	239,769	-	-	-	239,769
Federal sources	895,630	-	-	-	895,630
State shared revenue	950,575	-	-	817,561	1,768,136
State sources	35,547	-	-	383,469	419,016
Charges for services	545,402	-	-	4,285	549,687
Rent	284,647	-	-	-	284,647
Interest income	39,083	1,470	2,336	14,014	56,903
Contributions	5,712	-	290,500	658,456	954,668
Other income	68,915	-	40,163	36,310	145,388
Total revenues	6,662,954	1,470	332,999	2,376,271	9,373,694
<b>EXPENDITURES</b>					
General government	1,366,897	-	-	-	1,366,897
Public safety	3,908,557	-	-	-	3,908,557
Public works	1,425,754	611,435	-	1,942,920	3,980,109
Recreation and cultural	962,304	-	9,653,930	8,957	10,625,191
Planning	1,051,101	-	-	-	1,051,101
Economic development	-	-	-	22,000	22,000
Debt service	101,686	-	-	23,916	125,602
Other expenditures	314,127	-	-	-	314,127
Total expenditures	9,130,426	611,435	9,653,930	1,997,793	21,393,584
Excess (deficiency) of revenues over expenditures	(2,467,472)	(609,965)	(9,320,931)	378,478	(12,019,890)
<b>OTHER SOURCES (USES)</b>					
Sale of fixed assets	31,606	-	-	-	31,606
Payment in lieu of taxes	2,450,964	-	-	-	2,450,964
Debt proceeds	-	5,055,000	-	-	5,055,000
Return of grant to State	-	-	-	(9,925)	(9,925)
Transfers from (to) other funds	206,660	-	-	(256,660)	(50,000)
Total other sources (uses)	2,689,230	5,055,000	-	(266,585)	7,477,645
Excess (deficiency) of revenues and other sources over expenditures and other uses	221,758	4,445,035	(9,320,931)	111,893	(4,542,245)
<b>FUND BALANCE - BEGINNING</b>	2,909,510	-	9,401,515	1,759,949	14,070,974
<b>FUND BALANCE - ENDING</b>	\$ 3,131,268	\$ 4,445,035	\$ 80,584	\$ 1,871,842	\$ 9,528,729

See Notes to Financial Statements

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**Net change in Fund Balance - Total Governmental Funds** \$ (4,542,245)

Amounts reported for governmental activities in the statement of activities are different because:

Depreciation expense	(1,470,359)
Capital outlay	<u>11,906,230</u>
Total	10,435,871

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	(1,591)
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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	(61,795)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Increase in accrued interest is reported as a decrease to expenditures	(17,775)
Change in net pension liability and related deferred outflows	17,540

Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):

Debt proceeds	(5,055,000)
Principal repayment	61,000

Decrease in compensated absences are reported as an increase to expenditures

<u>21,112</u>
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**Change in Net Position of Governmental Activities** \$ 857,117

See Notes to Financial Statements

# CITY OF COLDWATER

## PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2015

	Electric Fund	Telecom- munications Fund	Water Fund	Waste Water Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>							
<b>ASSETS</b>							
<b>Current assets:</b>							
Cash and investments	\$ 10,236,303	\$ -	\$ 379,403	\$ 1,664,447	\$ 400,382	\$ -	\$ 12,680,535
Accounts receivable	3,089,480	201,729	306,313	365,667	25,010	-	3,988,199
Inventories	-	-	114,618	-	-	-	114,618
Due from other governmental units	-	-	-	-	-	16,945	16,945
Prepaid and other assets	554,576	75,429	41,662	37,097	-	265	709,029
Total current assets	13,880,359	277,158	841,996	2,067,211	425,392	17,210	17,509,326
<b>Noncurrent assets:</b>							
Investment in Power Agency	18,735,157	-	-	-	-	-	18,735,157
Restricted assets	1,314,129	16,019	452,810	551,929	-	-	2,334,887
Capital assets, less accumulated depreciation	16,022,628	3,561,839	10,351,222	14,061,899	-	-	43,997,588
Total noncurrent assets	36,071,914	3,577,858	10,804,032	14,613,828	-	-	65,067,632
Total assets	49,952,273	3,855,016	11,646,028	16,681,039	425,392	17,210	82,576,958
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	167,365	25,818	75,524	75,524	-	-	344,231
Total assets and deferred outflows of resources	\$ 50,119,638	\$ 3,880,834	\$ 11,721,552	\$ 16,756,563	\$ 425,392	\$ 17,210	\$ 82,921,189
<b>LIABILITIES AND NET POSITION</b>							
<b>LIABILITIES</b>							
<b>Current liabilities:</b>							
Accounts payable	\$ 5,371,978	\$ 151,858	\$ 32,908	\$ 230,069	\$ -	\$ 7,765	\$ 5,794,578
Accrued expenditures	625,741	46,436	67,320	138,743	1,054	2,899	882,193
Due to other funds	169,453	9,521	12,430	12,843	-	-	204,247
Bonds and notes payable, due within one year	730,000	370,000	485,000	542,100	-	-	-
Total current liabilities	6,897,172	577,815	597,658	923,755	1,054	10,664	9,008,118
<b>Noncurrent liabilities</b>							
Bonds and notes payable, due in more than one year	1,975,000	780,000	3,165,000	6,940,950	-	-	12,860,950
Net pension liability	2,250,728	347,192	1,015,651	1,015,651	-	-	4,629,222
Compensated absences	220,673	67,167	87,810	75,391	1,340	-	452,381
Total noncurrent liabilities	4,446,401	1,194,359	4,268,461	8,031,992	1,340	-	17,942,553
Total liabilities	11,343,573	1,772,174	4,866,119	8,955,747	2,394	10,664	26,950,671
<b>NET POSITION</b>							
Investment in capital assets, net of related debt	13,317,628	2,411,839	6,701,222	6,578,849	-	-	29,009,538
Restricted	1,314,129	16,019	452,810	551,929	-	6,546	2,341,433
Unrestricted	24,144,308	(319,198)	(298,599)	670,038	422,998	-	24,619,547
Total net position	\$ 38,776,065	\$ 2,108,660	\$ 6,855,433	\$ 7,800,816	\$ 422,998	\$ 6,546	\$ 55,970,518

See Notes to Financial Statements

# CITY OF COLDWATER

## PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2015

	Electric Fund	Telecom- munications Fund	Water Fund	Waste Water Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
<b>REVENUES</b>							
Charges for services	\$ 34,003,497	\$ 3,612,313	\$ 2,590,268	\$ 2,891,447	\$ 429,957	\$ 3,100	\$ 43,530,582
State grants	-	-	-	-	-	221,444	221,444
<b>Total revenues</b>	<b>34,003,497</b>	<b>3,612,313</b>	<b>2,590,268</b>	<b>2,891,447</b>	<b>429,957</b>	<b>224,544</b>	<b>43,752,026</b>
<b>OPERATING EXPENSES</b>							
Purchased power	26,445,633	-	-	-	-	-	26,445,633
Power plant	87,789	-	-	-	-	-	87,789
Natural gas plant	6,040	-	-	-	-	-	6,040
Distribution	1,106,636	2,399,974	424,318	-	-	-	3,930,928
Substation	147,125	-	-	-	-	-	147,125
Sanitation	-	-	-	-	443,437	-	443,437
Metering and lighting	805,609	-	-	-	-	-	805,609
Wells	-	-	57,638	-	-	-	57,638
Treatment	-	-	459,637	878,754	-	-	1,338,391
Collection system	-	-	-	197,002	-	-	197,002
Customer service	199,660	247,863	-	-	-	-	447,523
Administration	1,484,642	410,036	493,350	547,667	-	-	2,935,695
Public works	-	-	-	-	-	317,998	317,998
Depreciation	847,905	448,825	472,960	782,120	-	-	2,551,810
<b>Total operating expenditures</b>	<b>31,131,039</b>	<b>3,506,698</b>	<b>1,907,903</b>	<b>2,405,543</b>	<b>443,437</b>	<b>317,998</b>	<b>39,712,618</b>
<b>OPERATING INCOME</b>	<b>2,872,458</b>	<b>105,615</b>	<b>682,365</b>	<b>485,904</b>	<b>(13,480)</b>	<b>(93,454)</b>	<b>4,039,408</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Investment income	42,040	-	1,606	11,509	3,064	-	58,219
Interest expense	(167,306)	(64,854)	(149,101)	(233,490)	-	-	(614,751)
Gain (loss) on sale of fixed assets	11,961	(8,177)	2,879	1,430	-	-	8,093
Miscellaneous income	95,289	14,136	23,748	5,306	-	-	138,479
<b>Total nonoperating revenues (expenses)</b>	<b>(18,016)</b>	<b>(58,895)</b>	<b>(120,868)</b>	<b>(215,245)</b>	<b>3,064</b>	<b>-</b>	<b>(409,960)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	<b>2,854,442</b>	<b>46,720</b>	<b>561,497</b>	<b>270,659</b>	<b>(10,416)</b>	<b>(93,454)</b>	<b>3,629,448</b>
<b>TRANSFERS</b>							
Payments in lieu of taxes	(2,033,436)	(114,252)	(149,160)	(154,116)	-	-	(2,450,964)
Transfers from (to) other funds	(119,000)	69,000	-	-	-	100,000	50,000
<b>Total transfers</b>	<b>(2,152,436)</b>	<b>(45,252)</b>	<b>(149,160)</b>	<b>(154,116)</b>	<b>-</b>	<b>100,000</b>	<b>(2,400,964)</b>
<b>CHANGE IN NET POSITION</b>	<b>702,006</b>	<b>1,468</b>	<b>412,337</b>	<b>116,543</b>	<b>(10,416)</b>	<b>6,546</b>	<b>1,228,484</b>
<b>CHANGE IN ACCOUNTING PRINCIPLE</b>	<b>(2,088,377)</b>	<b>(322,148)</b>	<b>(942,390)</b>	<b>(942,390)</b>	<b>-</b>	<b>-</b>	<b>(4,295,305)</b>
<b>NET POSITION - BEGINNING</b>	<b>40,120,161</b>	<b>2,429,340</b>	<b>7,338,360</b>	<b>8,574,186</b>	<b>433,414</b>	<b>-</b>	<b>58,895,461</b>
Contribution in aid of construction	42,275	-	47,126	52,477	-	-	141,878
<b>NET POSITION - ENDING</b>	<b>\$ 38,776,065</b>	<b>\$ 2,108,660</b>	<b>\$ 6,855,433</b>	<b>\$ 7,800,816</b>	<b>\$ 422,998</b>	<b>\$ 6,546</b>	<b>\$ 55,970,518</b>

See Notes to Financial Statements

## CITY OF COLDWATER

### PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015

	<u>Electric Fund</u>	<u>Telecom- munications Fund</u>	<u>Water Fund</u>	<u>Waste Water Fund</u>	<u>Nonmajor Rubbish Fund</u>	<u>Nonmajor GIS Fund</u>	<u>Totals</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Cash received from customers	\$ 34,231,584	\$ 3,611,072	\$ 2,596,326	\$ 2,879,121	\$ 431,405	\$ 224,544	\$ 43,974,052
Payments made to suppliers	(31,568,871)	(2,552,738)	(1,236,581)	(1,105,384)	(405,020)	(245,410)	(37,114,004)
Payments made to employees	(1,404,671)	(576,690)	(512,586)	(506,097)	(37,940)	(79,134)	(3,117,118)
Net cash provided by operating activities	1,258,042	481,644	847,159	1,267,640	(11,555)	(100,000)	3,742,930
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Transfers in (out)	(119,000)	69,000	-	-	-	100,000	50,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Principal and interest paid on capital debt	(867,306)	(414,854)	(614,101)	(1,715,504)	-	-	(3,611,765)
Proceeds on issuance of bonds	-	-	-	2,057,256	-	-	2,057,256
Contribution in aid of construction	42,275	-	47,126	52,477	-	-	141,878
Proceeds on sale of assets	11,961	9,551	2,879	1,430	-	-	25,821
Purchase of capital assets	(2,286,381)	(466,341)	(124,221)	(1,682,265)	-	-	(4,559,208)
Net cash provided by (used in) capital and related financing activities	(3,099,451)	(871,644)	(688,317)	(1,286,606)	-	-	(5,946,018)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Interest received on investments	42,040	-	1,606	11,509	3,064	-	58,219
Change in investments	11,738	-	(10,119)	9,367	-	-	10,986
Net cash provided by (used in) investing activities	53,778	-	(8,513)	20,876	3,064	-	69,205
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,906,631)	(321,000)	150,329	1,910	(8,491)	-	(2,083,883)
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	12,142,934	337,019	229,074	1,662,537	408,873	-	14,780,437
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 10,236,303</u>	<u>\$ 16,019</u>	<u>\$ 379,403</u>	<u>\$ 1,664,447</u>	<u>\$ 400,382</u>	<u>\$ -</u>	<u>\$ 12,696,554</u>

See Notes to Financial Statements

# CITY OF COLDWATER

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS - Continued FOR THE YEAR ENDED JUNE 30, 2015

	<u>Electric Fund</u>	<u>Telecom- munications Fund</u>	<u>Water Fund</u>	<u>Waste Water Fund</u>	<u>Nonmajor Rubbish Fund</u>	<u>Nonmajor GIS Fund</u>	<u>Totals</u>
<b>BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS</b>							
Cash and investments	\$ 10,236,303	\$ -	\$ 379,403	\$ 1,664,447	\$ 400,382	\$ -	\$ 12,680,535
Restricted cash and investments	1,314,129	16,019	452,810	551,929	-	-	2,334,887
Less amounts classified as investments	(1,314,129)	-	(452,810)	(551,929)	-	-	(2,318,868)
Total cash and cash equivalents	<u>\$ 10,236,303</u>	<u>\$ 16,019</u>	<u>\$ 379,403</u>	<u>\$ 1,664,447</u>	<u>\$ 400,382</u>	<u>\$ -</u>	<u>\$ 12,696,554</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>							
Operating income	\$ 2,872,458	\$ 105,615	\$ 682,365	\$ 485,904	\$ (13,480)	\$ (93,454)	\$ 4,039,408
Adjustments to reconcile operating income to net cash from operating activities:							
Miscellaneous income (expenses)	95,289	14,136	23,748	5,306	-	-	138,479
Depreciation	847,905	448,825	472,960	782,120	-	-	2,551,810
Loss (Gain) on sale of assets	11,961	(8,177)	2,879	1,430	-	-	8,093
Payments in lieu of taxes	(2,033,436)	(114,252)	(149,160)	(154,116)	-	-	(2,450,964)
Changes in assets and liabilities:							
Receivables	120,837	(15,377)	(20,569)	(19,062)	1,448	(16,945)	50,332
Inventories	-	-	(1,931)	-	-	-	(1,931)
Prepays and other assets	(261,802)	44,812	6,099	8,621	166	(265)	(202,369)
Deferred outflows	(64,744)	(9,988)	(29,216)	(29,216)	-	-	-
Due from (to) other funds	169,453	9,521	12,430	12,843	-	-	204,247
Accounts payable	(610,147)	1,414	(183,425)	156,022	(888)	7,765	(629,259)
Accrued expenditures	61,420	(4,840)	(4,932)	(17,671)	1,054	2,899	37,930
Net pension liability	59,730	9,214	26,953	26,953	-	-	122,850
Compensated absences	(10,882)	741	8,958	8,506	145	-	7,468
Net cash provided by operating activities	<u>\$ 1,258,042</u>	<u>\$ 481,644</u>	<u>\$ 847,159</u>	<u>\$ 1,267,640</u>	<u>\$ (11,555)</u>	<u>\$ (100,000)</u>	<u>\$ 3,742,930</u>

See Notes to Financial Statements

**CITY OF COLDWATER**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2015**

	<u><b>Agency Funds</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 33,879
<b>LIABILITIES</b>	
Accounts payable	\$ 11,317
Due to other governmental units	<u>22,562</u>
Total	<u>\$ 33,879</u>

See Notes to Financial Statements

**CITY OF COLDWATER**  
**COMPONENT UNITS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 201,203	\$ 389,144	\$ 590,347
Capital assets, less accumulated depreciation	226,376	-	226,376
 Total assets	 427,579	 389,144	 816,723
<b>LIABILITIES</b>			
Accounts payable	3,251	-	3,251
Due to others	-	389,144	389,144
Long term liabilities:			
Notes payable, due in more than one year	-	46,218	46,218
 Total liabilities	 3,251	 435,362	 438,613
<b>NET ASSETS (DEFICIT)</b>			
Investment in capital assets - net of related debt	226,376	-	226,376
Restricted (deficit)	197,952	(46,218)	151,734
 Total net position (deficit)	 \$ 424,328	 \$ (46,218)	 \$ 378,110

See Notes to Financial Statements

**CITY OF COLDWATER**  
**COMPONENT UNITS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

<b>Functions/Programs</b>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating / Grants and Contributions</u>	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	<u>Total</u>
Downtown Development Authority	\$ 58,391	\$ -	\$ 2,000	\$ (56,391)	\$ -	\$ (56,391)
Local Development Finance Authority	7,724	-	-	-	(7,724)	(7,724)
Total component activities	<u>\$ 66,115</u>	<u>\$ -</u>	<u>\$ 2,000</u>	(56,391)	(7,724)	(64,115)
General revenues:						
Property taxes				74,676	40,912	115,588
Interest				186	3,124	3,310
Other income				-	88	88
Total general revenues				<u>74,862</u>	<u>44,124</u>	<u>118,986</u>
<b>Change in Net Position</b>				18,471	36,400	54,871
<b>Net Position (Deficit) - Beginning</b>				<u>405,857</u>	<u>(82,618)</u>	<u>323,239</u>
<b>Net Position (Deficit) - Ending</b>				<u>\$ 424,328</u>	<u>\$ (46,218)</u>	<u>\$ 378,110</u>

See Notes to Financial Statements

**CITY OF COLDWATER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

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

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

**REPORTING ENTITY:**

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

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

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

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

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

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

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

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

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

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

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

The City first utilizes restricted resources to finance qualifying activities.

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

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

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

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

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

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

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

The City does not allocate indirect costs.

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

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

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

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

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

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

**Road Construction Bond Fund** is used to account for major road projects in the City.

**Aquatic and Recreation Centers Capital Fund** is used to account for the capital improvements in the City.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015**

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

##### **BASIS OF PRESENTATION – Continued:**

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

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

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

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

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

##### **FIDUCIARY FUNDS**

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

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015**

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

##### **PROPERTY TAX REVENUE**

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

The City's 2014 tax is levied and collectible on August 1, 2014 and is recognized as revenue in the year ended June 30, 2015, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2014 taxable valuation of the City totaled \$297 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 1.3333 mills for the retirement system. This resulted in almost \$3.4 million for general operating and approximately \$396,000 for retirement. These amounts are reported in the respective General and Retirement Funds in the financial statements.

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

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

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

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

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

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

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

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

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

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

**Deferred Outflows/Inflows of Resources** – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category, which is the deferred outflows of resources related to pensions resulting from City contributions subsequent to June 30, 2015, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City only has one item that qualifies for reporting in this category, which is unearned revenue. The City collected sponsorship money for their recreation program for a four year period starting in fiscal year 2016. The City also received an over-reimbursement from the State for the Small Business Exemption, which is deferred until fiscal year 2016, when the reimbursement is corrected.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

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

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

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

**Long-term Obligations** – In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

**Net Pension Liability** – For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS’ fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

**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.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

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

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

**Fund Balance – Continued**

**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, 2015**

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

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

**Fund Balance – Continued**

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

	<u>General Fund</u>	<u>Road Construction Bond Fund</u>	<u>Aquatic and Recreation Centers Capital Fund</u>	<u>Other Nonmajor Governmental Funds</u>
Nonspendable:				
Prepaid expenses	\$ 55,685	\$ -	\$ -	\$ -
Notes receivable	-	-	-	3,318
Restricted:				
Road Construction Bond	-	4,445,035	-	-
Aquatic and Recreation Centers	-	-	80,584	-
Major streets	-	-	-	200,076
Local streets	-	-	-	37,641
Revolving development	-	-	-	249,281
Committed:				
Parking authority	-	-	-	33,590
Library Memorial	-	-	-	137,172
Brownfield redevelopment	-	-	-	1,240
Cemetery	-	-	-	450,000
Assigned:				
Fund balancing	181,173	-	-	759,524
Unassigned:	2,894,410	-	-	-
Total	<u>\$ 3,131,268</u>	<u>\$ 4,445,035</u>	<u>\$ 80,584</u>	<u>\$ 1,871,842</u>

**BASIS OF BUDGETING:**

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

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015**

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

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

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

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

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

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

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

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

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

Investments consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost which approximates market value. The certificates of deposits are currently earning rates of .15% to .50%.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

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

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

Investment	Fair Value	Weighted Average Maturity (Years)
Bank investment pool (not 2a-7)	\$ 2,328,901	0.0027
U.S. government or agency bond or note	4,612,507	3

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	\$ 2,328,901	AAA

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

**Custodial credit risk for deposits** – In the case of deposits, this is the risk that in the event of a financial institution failure, the City’s deposits may not be recovered. As of June 30, 2015, \$18,657,932 of the City’s bank balance of \$20,703,129 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

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

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE C – DUE FROM OTHER FUNDS**

The due from other funds, at June 30, 2015, for the City are as follows:

**GENERAL FUND**

Due from Electric Fund	\$ 169,453
Due from Telecommunications Fund	9,521
Due from Water Fund	12,430
Due from Wastewater Fund	<u>12,843</u>
Total General Fund	<u><u>\$ 204,247</u></u>

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

Transfers from (to) other funds, during the year ended June 30, 2015, for the City are as follows:

**GOVERNMENTAL FUNDS**

**GENERAL FUND**

Transfer from Retirement Fund	\$ 406,660
Transfer to Major Streets Fund	(150,000)
Transfer to GIS Fund	<u>(50,000)</u>
Total General Fund	206,660

**MAJOR STREETS FUND**

Transfer from General Fund	150,000
Transfer to Local Streets Fund	<u>(200,000)</u>
Total Major Streets Fund	(50,000)

**LOCAL STREETS FUND**

Transfer from Major Streets Fund	200,000
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**RETIREMENT FUND**

Transfer to General Fund	<u>(406,660)</u>
Total governmental funds	<u><u>\$ (50,000)</u></u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

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

**PROPRIETARY FUNDS**

**ELECTRIC FUND**

Transfer to GIS Fund	(50,000)
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**GIS FUND**

Transfer from General Fund	50,000
Transfer from Electric Fund	<u>50,000</u>

Total GIS Fund	<u>100,000</u>
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Total proprietary funds	<u><u>\$ 50,000</u></u>
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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. The GIS Fund is new this year. All 2015 nonwage costs are covered by a State grant. The City and the BPU split non-grant costs.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**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, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2015</u>
<b>GROUP:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,536,564	\$ -	\$ -	\$ 1,536,564
Capital assets, being depreciated:				
Roads and sidewalks	13,819,264	800,484	464,018	14,155,730
Land improvements	740,633	655,739	-	1,396,372
Buildings and improvements	11,303,543	15,885,184	-	27,188,727
Vehicles	2,711,304	68,255	-	2,779,559
Other tools and equipment	1,504,612	118,064	-	1,622,676
Construction in progress	6,232,931	611,435	6,232,931	611,435
Total assets being depreciated	<u>36,312,287</u>	<u>18,139,161</u>	<u>6,696,949</u>	<u>47,754,499</u>
Total assets	37,848,851	18,139,161	6,696,949	49,291,063
<b>ACCUMULATED DEPRECIATION:</b>				
Roads and sidewalks	7,120,804	690,963	464,018	7,347,749
Land improvements	500,257	53,380	-	553,637
Building and improvements	4,079,442	457,590	-	4,537,032
Vehicles	1,781,375	149,865	-	1,931,240
Other tools and equipment	989,061	118,561	-	1,107,622
Total accumulated depreciation	<u>14,470,939</u>	<u>1,470,359</u>	<u>464,018</u>	<u>15,477,280</u>
Net capital assets	<u>\$ 23,377,912</u>	<u>\$ 16,668,802</u>	<u>\$ 6,232,931</u>	<u>\$ 33,813,783</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE E – CAPITAL ASSETS – Continued**

**BUSINESS-TYPE ACTIVITIES**

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2015</b>
<b>GROUP:</b>				
Capital assets, not being depreciated:				
Land	\$ 781,502	\$ 100,430	\$ -	\$ 881,932
Capital assets, being depreciated:				
Work in progress	364,224	31,898	364,224	31,898
Land improvements	-	535,882	-	535,882
Utility systems	55,417,399	4,011,600	240,304	59,188,695
Buildings	19,043,926	79,144	-	19,123,070
Machinery and equipment	4,234,636	148,209	51,078	4,331,767
Total assets being depreciated	<u>79,060,185</u>	<u>4,806,733</u>	<u>655,606</u>	<u>83,211,312</u>
Total assets	79,841,687	4,907,163	655,606	84,093,244
<b>ACCUMULATED DEPRECIATION:</b>				
Electric	12,780,807	847,905	205,759	13,422,953
Telecommunications	5,980,307	448,825	65,434	6,363,698
Water	7,360,293	472,960	7,152	7,826,101
Waste water	11,704,269	782,120	3,485	12,482,904
Total accumulated depreciation	<u>37,825,676</u>	<u>2,551,810</u>	<u>281,830</u>	<u>40,095,656</u>
Net capital assets	<u>\$ 42,016,011</u>	<u>\$ 2,355,353</u>	<u>\$ 373,776</u>	<u>\$ 43,997,588</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE E – CAPITAL ASSETS – Continued**

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

**GOVERNMENTAL ACTIVITIES:**

General government	\$ 244,253
Public safety	102,312
Public works	837,167
Recreation and culture	286,627
	<hr/>
Total governmental activities	<u>\$ 1,470,359</u>

**BUSINESS -TYPE ACTIVITIES:**

Electric	\$ 847,905
Telecommunications	448,825
Water	472,960
Waste water	782,120
	<hr/>
Total business-type activities	<u>\$ 2,551,810</u>

The component units capital assets at June 30, 2015 consist of the following:

**COMPONENT UNITS:**

Infrastructure	\$ 301,819
Less, accumulated depreciation	<hr/> 75,443
Net capital assets of component units	<u>\$ 226,376</u>

All assets are held in the Downtown Development Authority. The component unit's depreciation expense for the year ended June 30, 2015 amounted to \$15,125.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE F – LONG-TERM DEBT**

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>Governmental Activities:</b>				
Revenue bonds	\$ 305,013	\$ -	\$ 16,000	\$ 289,013
General obligation capital improvement bond	1,526,000	-	45,000	1,481,000
Unlimited tax general obligation bond	-	5,055,000	-	5,055,000
Compensated absences	687,900	-	21,112	666,788
	<u>\$ 2,518,913</u>	<u>\$ 5,055,000</u>	<u>\$ 82,112</u>	<u>\$ 7,491,801</u>
<b>Business-type Activities:</b>				
Revenue bonds and Refunding bonds	\$ 7,583,956	\$ -	\$ 1,204,000	\$ 6,379,956
General obligation capital improvement bond	1,160,000	-	1,085,000	75,000
General obligation capital improvement and Refunding bonds	6,895,000	1,033,000	675,000	7,253,000
Equipment loan	288,852	-	33,014	255,838
2014 Wastewater supply revenue bonds	-	1,024,256	-	1,024,256
Compensated absences	444,913	7,468	-	452,381
	<u>\$ 16,372,721</u>	<u>\$ 2,064,724</u>	<u>\$ 2,997,014</u>	<u>\$ 15,440,431</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**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 \$16,800 to \$22,400, due April 2030	\$ 289,013
Series 2013 Pool and Recreation Hall Limited Tax General Obligation Capital Improvement Bonds, interest rates varying from 0.85% to 4.65%, annual principal payments ranging from \$45,000 to \$98,000, due April 2038	1,481,000
Series 2015 Road Construction Unlimited Tax General Obligation Bonds, interest rates varying from 0.70% to 2.9%, annual principal payments ranging from \$475,000 to \$555,000, due May 2025	5,055,000
Accumulated compensated absences	<u>666,788</u>
Total governmental activities debt	<u><u>\$ 7,491,801</u></u>

**BUSINESS-TYPE ACTIVITIES**

Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 4.05% to 4.9%, annual payments ranging from \$110,000 to \$180,000, due August 2024	\$ 1,435,000
Series 2006 Electric Utility System Revenue Refunding Bonds, interest rates varying from 4.125% to 4.25%, annual payments ranging from \$620,000 to \$650,000, due August 2016	1,270,000
Series 2002 Telecommunications System Revenue Refunding Bonds, at an interest rate of 5.5%, annual principal payments ranging from \$370,000 to \$390,000, due August 2017	1,150,000
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	3,650,000

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

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

Series 2010 Waste Water Limited Tax General Obligation Refunding Bonds, interest rates varying from 2.15% to 4.1%, annual principal payments ranging from \$215,000 to \$315,000, due July 2024	2,570,000
Series 2005 Water Supply and Waste Water System General Obligation Capital Improvement Bonds, at an interest rate of 3.9%, annual payment of \$75,000, due July 2015	75,000
Series 2004 Water Supply and Waste Water System Revenue Bonds, interest rates varying from 4.0% to 4.6%, annual payments ranging from \$75,000 to \$115,000, due July 2024	935,000
Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$88,200 to \$132,556, due April 2030	1,589,956
Note payable to bank, interest rate of 2.45%, annual payments ranging from \$33,911 to \$39,495, due June 2022, secured by equipment	255,838
Series 2015 Water Supply and Waste Water System General Obligation Limited Tax Refunding Bonds, interest rates varying from 0.7% to 2.9%, annual principal payments ranging from \$87,000 to \$122,000, due July 2025	1,033,000
Series 2014 Wastewater supply revenue bonds, interest rate of 2.5%, annual principal payments ranging from \$55,000 to \$75,000, due October 2031	<u>1,024,256</u>
Total bonds and installment purchase agreements	14,988,050
Accumulated compensated absences	<u>452,381</u>
Total business-type activities debt	<u><u>\$ 15,440,431</u></u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

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

**COMPONENT UNITS**

Local Development Finance Authority note payable, at an interest rate of 7.0%, due 2016

\$ 46,218

**REFUNDING OF BONDS**

In May, 2015, the City of Coldwater issued Water Supply and Wastewater System General Obligation Limited Tax Refunding bonds of \$1,033,000 with an interest rate ranging from 0.70% to 2.90% to advance \$1,015,000 of refund bonds with an interest rate ranging from 4.0% to 4.45%. The bonds mature in July 2025. The Water Supply and Wastewater System General Obligation Limited Tax Refunding bonds were issued at par after paying issuance costs of \$17,857 which includes underwriters discount, the net proceeds were \$1,033,000. The net proceeds from the issuance of the Water Supply and Wastewater System General Obligation Limited Tax Refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the Series 2005 Water Supply and Wastewater System General Obligation Capital Improvement bonds were removed from the City's government-wide financial statements.

As a result of the advance refunding, the City reduced its total debt service requirements by \$105,327, which resulted in an economic gain, difference between present value of the debt services payments on the old and new debt of \$93,565.

The City has defeased Series 2005 Water Supply and Wastewater System General Obligation Capital Improvement bonds by placing the proceeds of new bond in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and liability for the defeased bond is not included in the City's financial statements. At June 30, 2015, \$1,015,000 of bonds outstanding is considered defeased, paid on May 28, 2015.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

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

The annual requirements to service all debt outstanding as of June 30, 2015, including interest payments of \$4,266,025 for the debt service requirements are as follows:

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 536,800	\$ 160,802	\$ 697,602
2017	538,600	157,656	696,256
2018	543,600	151,579	695,179
2019	555,400	144,105	699,505
2020	561,400	134,580	695,980
2021-2025	3,002,000	479,500	3,481,500
2026-2030	414,213	201,607	615,820
2031-2035	392,000	117,052	509,052
2036-2040	281,000	23,297	304,297
<b>Total</b>	<b>\$ 6,825,013</b>	<b>\$ 1,570,178</b>	<b>\$ 8,395,191</b>

  

	<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 2,127,100	\$ 497,197	\$ 2,624,297
2017	2,094,142	421,251	2,515,393
2018	1,362,993	353,810	1,716,803
2019	1,005,065	311,123	1,316,188
2020	1,048,958	276,462	1,325,420
2021-2025	5,834,769	770,297	6,605,066
2026-2030	1,445,756	65,707	1,511,463
2031-2035	69,267	-	69,267
<b>Total</b>	<b>\$ 14,988,050</b>	<b>\$ 2,695,847</b>	<b>\$ 17,683,897</b>

Interest expense for the year ended June 30, 2015 was \$614,751 for Business-type Activities and \$82,377 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2015 amounted to \$4,512.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

#### 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's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

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

Employees covered by benefit terms – At the December 31, 2014 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	98
Inactive employees entitled to but not yet receiving benefits	19
Active employees	32
Total	<u>149</u>

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

#### NOTE H – RETIREMENT PROGRAM – Continued

Contributions – The City is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City may establish contribution rates to be paid by its covered employees. All divisions are closed to new employees.

Net Pension Liability – The employer's Net Pension Liability was measured as of December 31, 2014, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 3%-4%
- Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively)
- Investment rate of return: 8.0%, net of investment expense, including inflation. Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.
- Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.
- The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE H – RETIREMENT PROGRAM – Continued**

- The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount rate – The discount rate used to measure the total pension liability is 8.25% for 2014. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE H – RETIREMENT PROGRAM – Continued**

Changes in Net Pension Liability –

Calculating Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/13	\$ 26,605,962	\$ 18,882,605	\$ 7,723,357
Changes for the Year			
Service Cost	200,716	-	200,716
Interest on Total Pension Liability	2,124,546	-	2,124,546
Changes in benefits	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer Contribution	-	827,702	(827,702)
Employee Contribution	-	60,722	(60,722)
Net investment income	-	1,172,725	(1,172,725)
Benefit payments, including employee refunds	(1,908,501)	(1,908,501)	-
Administrative expense	-	(42,877)	42,877
Other changes	(2)	-	(2)
	416,759	109,771	306,988
Net Changes	416,759	109,771	306,988
Balances as of 12/31/14	\$ 27,022,721	\$ 18,992,376	\$ 8,030,345

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE H – RETIREMENT PROGRAM – Continued**

Sensitivity of the Net Pension Liability to changes in the discount rate – The following presents the Net Pension Liability of the City, calculated using the discount rate of 8.25%, as well as what the City’s Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total Pension Liability (a)	\$ 29,511,190	\$ 27,022,721	\$ 24,869,830
Fiduciary Net Position (b)	<u>18,992,376</u>	<u>18,992,376</u>	<u>18,992,376</u>
Net Pension Liability (a-b)	<u><u>\$ 10,518,814</u></u>	<u><u>\$ 8,030,345</u></u>	<u><u>\$ 5,877,454</u></u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions – For the year ended June 30, 2015, the employer recognized pension expense of \$861,696. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$ -
Differences in assumptions	-	-
Excess (Deficit) Investment Returns	341,245	-
Contributions subsequent to the measurement date*	<u>376,619</u>	<u>-</u>
Total	<u><u>\$ 717,864</u></u>	<u><u>\$ -</u></u>

\*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2016.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE H – RETIREMENT PROGRAM – Continued**

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

Year Ending <u>June 30</u>	
2016	\$ 68,249
2017	68,249
2018	68,249
2019	68,249
2020	68,249

Defined Contribution Plan – The City also participates in the MERS defined contribution retirement plan that was established in 1997 to provide retirement benefits to employees not covered under the defined benefit plan. All employees hired after May, 2002 are covered by the defined contribution plan. At June 30, 2015, there were 86 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, 2015 was \$366,520. 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, 2015 is \$54,725.

The City recognizes collections of principal and interest on the federal portion of these loans as unearned revenue as the loans are repaid. Unearned revenue amounted to \$51,407 at June 30, 2015. Repayment of the local portion of these loans is recorded as a reduction of the loan receivable and interest income when received. Upon repayment of the balance of each loan, unearned revenue will either be recognized as revenue when deemed available by the granting agency or the funds will be returned to the granting agency.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

#### 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 \$26,445,633 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.

#### 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, 2014	\$ (2,272,352)
Current year building permit revenue	77,166
Less related expenses - Direct costs	<u>(254,952)</u>
Shortfall at June 30, 2015	<u>\$ (2,450,138)</u>

#### NOTE L – 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

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

#### NOTE M – CHANGE IN ACCOUNTING PRINCIPLE

The City adopted GASB Statement No. 68 effective July 1, 2014. The cumulative impact of implementation is reflected as a change in net position as follows:

	Governmental Activities	Business-type Activities	Total
Net pension liability July 1, 2014	\$ 3,216,985	\$ 4,506,372	\$ 7,723,357
Deferred outflows July 1, 2014	<u>(171,956)</u>	<u>(211,067)</u>	<u>(383,023)</u>
Cumulative Effect of a Change in Accounting Principle	<u>\$ 3,045,029</u>	<u>\$ 4,295,305</u>	<u>\$ 7,340,334</u>

Additional information required for retroactive implementation was not provided by the pension plan.

#### NOTE N – PURCHASED POWER CONTRACTS

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

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

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

The City's estimated share at June 30, 2014 of the impaired costs is \$5,278,847. The City received a credit of \$1,892,945 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$1,374,836 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of \$2,011,066.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

#### NOTE N – PURCHASED POWER CONTRACTS – Continued

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

Since March 31, 2014, AMPGS has incurred additional costs and interest expense. The City's share of those costs is \$31,749 and additional interest expense of \$17,242. The City has made payments to AMP totaling \$133,020 leaving a net impaired cost estimate at June 30, 2015 of \$1,911,209.

The impaired costs have been included in the business-type activities and the electric enterprise fund as an expense. The City elected to finance this amount through AMP as part of their monthly power supply invoice from Michigan South Central Power Agency (MSCPA).

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

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

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

AMP's share of the total Project costs, including AMP's share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1.697 billion of debt of which as of June 30, 2015, the City of Coldwater's share is approximately \$43,015,252. These estimated costs include (i) AMP's costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

#### NOTE N – PURCHASED POWER CONTRACTS – Continued

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

**AMP Fremont Energy Center (AFEC)** - On February 3, 2011 American Municipal Power, Inc. (AMP) entered into a non-binding memorandum of understanding (MOU) with FirstEnergy Corp. regarding the Fremont Energy Center (“AFEC”). AFEC is a 707 MW natural gas fired combined cycle generation plant with a Base Capacity of 512 MW, located near the city of Fremont, Ohio. The closing date to purchase was July 28, 2011. AMP's acquisition of the plant was financed with draws on an additional line of credit for \$600,000,000 secured solely for the purpose of purchasing the plant.

To provide permanent financing for the AFEC Project on June 29, 2012 AMP issued in two series \$546,085,000 of its AMP Fremont Center Project Revenue Bonds consisting of taxable and tax-exempt obligations to (i) with other available funds, to repay the \$600,000,000 principal amount of an interim loan that financed the acquisition of the AMP Fremont Energy Center (“AFEC”) and development costs and completion of construction and commissioning of AFEC; (ii) to make deposits to the Construction Accounts under the Indenture to finance additional capital expenditures allocable to AMP's 90.69% undivided ownership interest in AFEC; (iii) to fund deposits to certain reserve accounts; and (iv) to pay the costs of issuance of the Series 2012 Bonds.

On January 21, 2012 the AMP Fremont Energy Center ("AFEC") began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642.

This amount included a development fee of \$35,535,448 paid by AFEC participants for the account of AMP Generating Station participants who are also AFEC participants. The amount was previously recorded as a noncurrent regulatory asset at December 31, 2011. In June 2012, AMP sold 26.419 MW or 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency ("MPPA") and entered into a power sales contract with Central Virginia Electric Cooperative ("CVEC") for the output of a 21.248 MW or 4.15% interest in AFEC. AMP has sold the output of the remaining 464.355 MW or 90.69% interest to the AFEC participants, which consist of 87 of its members, pursuant to a take-or-pay power sales contract.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 17,615 kW or 3.79% of capacity and associated energy from the AFEC facility. The City's share of the permanent financing as of June 30, 2015, is approximately \$20,075,801.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

#### NOTE N – PURCHASED POWER CONTRACTS – Continued

**Combined Hydroelectric Projects (79 Members).** - AMP is currently developing three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the “Combined Hydroelectric Projects”), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects entails the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers’ dams and includes associated transmission facilities. The Combined Hydroelectric Projects, including associated transmission facilities, will be constructed and operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects. AMP received the last of the material permits needed to begin construction on the Cannelton hydroelectric facility and Smithland hydroelectric facility, respectively in 2009. Ground breaking ceremonies were held for Cannelton on August 25, 2009 and for Smithland on September 1, 2010. AMP received the last of the material permits for the Willow Island hydroelectric facility in the last quarter of 2010 and ground breaking ceremonies took place on July 21, 2011.

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

All major contracts for the projects which include the turbines, the powerhouse construction, the powerhouse gates, the powerhouse cranes, and the transformers have been awarded for the Cannelton, Smithland, and Willow Island facilities. And property right-of-way acquisitions for the transmission lines have been completed for all three projects.

On February 12, 2015, AMP reached agreement with Barnard Construction Company, Inc. (“Barnard”) to serve as the replacement powerhouse contractor on AMP’s Smithland Hydroelectric Project (“Smithland Project”), which is one of the three projects constituting the Combined Hydroelectric Projects replacing C.J. Mahan whose contract was terminated by mutual agreement between AMP and C.J. Mahan. Barnard is a highly experienced hydropower construction contractor. AMP and Barnard are working together to achieve an orderly transition of the Smithland Project from the prior powerhouse contractor. Nearly all of the subcontractors currently working on the Smithland Project have been retained. The Project Engineer, MWH Americas, Inc., all owner furnished equipment suppliers and all other prime contractors remain in place.

The Smithland Project’s First and Second Units are expected to enter into commercial operation in the Third Quarter of 2016 and the Third Unit is expected to enter into commercial operation in the Fourth Quarter of 2016; this could be affected by this transition, but at this point, AMP management believes that there will be no negative effect. AMP will supplement this notice when and if AMP expects a materially different commercial operation date for the Smithland Project.

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015

#### NOTE N – PURCHASED POWER CONTRACTS – Continued

AMP is projecting that the two remaining Combined Hydroelectric Projects are expected to enter into commercial operation as follows: Cannelton Project in the Fourth Quarter of 2015; Willow Island Project Fourth Quarter of 2015.

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP has issued in seven series \$2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the “Combined Hydroelectric Bonds”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds) of which as of June 30, 2015, the City of Coldwater’s share is approximately \$63,056,554. The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

**Meldahl Hydroelectric Project (48 Members) and Greenup (47 Members)** - AMP is currently constructing a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and of related equipment and associated transmission facilities (the “Meldahl Project”). When the Meldahl Project enters commercial operation, it is projected to have a generating capacity of approximately 105 MW. The City of Hamilton, Ohio, a Member of AMP and a participant in the Meldahl Project, and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license necessary to construct and operate the Meldahl Project. Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project will be owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company (“Meldahl, LLC”), and will be operated by Hamilton. AMP, acting as agent of Meldahl LLC, is financing the development, acquisition, construction and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of its Meldahl Hydroelectric Project Revenue Bonds (the “Meldahl Bonds”) in the amount of \$685,100,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 1,794 kW or 1.71% of capacity and associated energy from the hydro facility. The City’s share of the debt as of June 30, 2015, is approximately \$11,836,756.

All major contracts for the project which include the turbine, the powerhouse construction, the powerhouse gate, the powerhouse crane, and the transformer have been awarded for the Meldahl facility. And the property right-of-way acquisitions for the transmission line have been completed for this project.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2015**

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

AMP now projects that all the project's three units will be in service in the Fourth Quarter of 2015; which means the commercial operation date of the Meldahl Project is expected to remain the fourth quarter of 2015.

The referenced agreements with Hamilton respecting the Meldahl Project also provided that Hamilton would sell to AMP a 48.6% undivided ownership interest in the Greenup Hydroelectric Facility ("Greenup"), a 70.2 MW run-of-the river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River, in commercial operation since 1988. The sale is contingent upon the placement of the Meldahl Project into commercial operation. Based on the estimated commercial operation date for the Meldahl Project, AMP currently estimates that it will issue bonds to finance its undivided ownership interest in Greenup in the second or third quarter of 2014. AMP's Greenup bonds will be secured by a separate power sales contract that has been executed by the same Members (all except Hamilton which will retain title to the remaining 51.4% ownership interest in Greenup) that executed the Meldahl power sales contract. Hamilton will continue to operate Greenup.

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

#### **NOTE O – COMMITMENTS**

The City of Coldwater has entered into contracts to complete various road construction projects. The amount committed to finish the projects at June 30, 2015 was approximately \$3 million. All of the committed funds will be paid for with proceeds from the Road Bond.

**CITY OF COLDWATER**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 3,489,000	\$ 3,597,000	\$ 3,597,674	\$ 674
Licenses and permits	159,000	218,000	239,769	21,769
Federal sources	900,500	900,500	895,630	(4,870)
State shared revenue	959,000	959,000	950,575	(8,425)
State sources	41,000	41,000	35,547	(5,453)
Charges for services	466,450	518,450	545,402	26,952
Rent	296,594	266,594	284,647	18,053
Interest earned	32,000	32,000	39,083	7,083
Contributions	2,500	2,500	5,712	3,212
Other	28,000	61,000	68,915	7,915
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	6,374,044	6,596,044	6,662,954	66,910
<b>EXPENDITURES</b>				
General government	1,467,516	1,455,068	1,366,897	(88,171)
Public safety	3,895,372	3,975,273	3,908,557	(66,716)
Public works	1,427,150	1,516,960	1,425,754	(91,206)
Recreation and cultural	997,251	1,019,251	962,304	(56,947)
Planning	1,068,945	1,068,945	1,051,101	(17,844)
Debt Service	101,686	101,686	101,686	-
Other	282,140	321,140	314,127	(7,013)
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	9,240,060	9,458,323	9,130,426	(327,897)
Excess (deficiency) of revenues over expenditures	(2,866,016)	(2,862,279)	(2,467,472)	394,807
<b>OTHER SOURCES</b>				
Sale of fixed assets	2,000	31,000	31,606	606
Payment in lieu of taxes	2,450,957	2,450,957	2,450,964	7
Transfers from other funds	101,500	201,500	206,660	5,160
	<hr/>	<hr/>	<hr/>	<hr/>
Total other sources	2,554,457	2,683,457	2,689,230	5,773
Excess (deficiency) of revenues and other sources over expenditures	(311,559)	(178,822)	221,758	400,580
<b>FUND BALANCE - BEGINNING</b>	2,216,441	2,909,510	2,909,510	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>FUND BALANCE - ENDING</b>	\$ 1,904,882	\$ 2,730,688	\$ 3,131,268	\$ 400,580
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**CITY OF COLDWATER**

**REQUIRED SUPPLEMENTAL INFORMATION  
RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2015**

As of December 31	Fiscal Year Ended June 30,			Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Underfunded Actuarial Accrued Liability Percentage of Covered Payroll
	Annual Pension Cost*	Percentage of Annual Pension Contributed	Net Pension Obligation						
2010	441,735	100%	-	20,451,738	25,659,658	5,207,920	80%	2,393,508	217.59%
2011	546,133	100%	-	20,255,548	26,258,719	6,003,171	77%	2,439,638	246.07%
2012	686,300	100%	-	19,981,036	26,715,368	6,734,332	75%	2,253,464	298.84%
2013	834,200	100%	-	20,050,307	27,411,350	7,361,043	73%	2,291,257	321.27%
2014	889,500	100%	-	20,130,723	27,610,748	7,480,025	73%	1,998,959	374.20%

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

**CITY OF COLDWATER**

**REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
FOR THE YEAR ENDING JUNE 30, 2015**

<b>Total Pension Liability</b>	
Service cost	\$ 200,716
Interest	2,124,546
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments including employee refunds	(1,908,501)
Other	(2)
<b>Net Change in Total Pension Liability</b>	416,759
<b>Total Pension Liability - beginning</b>	26,605,962
<b>Total Pension Liability - ending</b>	\$ 27,022,721
 <b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 827,702
Contributions - employee	60,722
Net investment income	1,172,725
Benefit payments including employee refunds	(1,908,501)
Administrative expense	(42,877)
<b>Net Change in Plan Fiduciary Net Position</b>	109,771
<b>Plan Fiduciary Net Position - beginning</b>	18,882,605
<b>Plan Fiduciary Net Position - ending</b>	\$ 18,992,376
 <b>Employer Net Pension Liability</b>	 \$ 8,030,345
 <b>Plan Fiduciary Net Position as a percentage of the Total Pension Liability</b>	70%
 <b>Covered Employee Payroll</b>	1,998,959
 <b>Employer's Net Pension Liability as a percentage of covered employee payroll</b>	402%

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

**CITY OF COLDWATER**

**REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS  
FOR THE YEAR ENDING JUNE 30, 2015**

Actuarial determined contributions*	\$	796,640
Contributions in relation to the actuarially determined contribution		827,702
Contribution deficiency (excess)	\$	<u>(31,062)</u>
 Covered Employee Payroll	 \$	 1,998,959
 Contributions as a percentage of covered employee payroll		 41%

**Notes to Schedule**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary increases	4.5%
Investment rate of return	8.0%
Retirement age	60
Mortality	50% Female/50% Male 1994 Group Annual Mortality Table

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

\*Actuarially Determined Contribution is found in the actuarial valuation in Table 5.

**CITY OF COLDWATER**

**OTHER SUPPLEMENTAL INFORMATION  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Nonmajor Special Revenue Funds</u>					<u>Nonmajor Capital Project Funds</u>	<u>Nonmajor Permanent Fund</u>	<u>Cemetery Special and Perpetual Care Nonexpendable Trust Fund</u>	<u>Totals</u>	
	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Parking Authority Fund</u>	<u>Retirement Fund</u>	<u>Revolving Development Fund</u>	<u>Library Memorial Fund</u>	<u>Capital Improvement Fund</u>			<u>Brownfield Redevelopment Fund</u>
<b>ASSETS</b>										
Cash and investments	\$ 112,355	\$ 18,174	\$ 39,603	\$ -	\$ 249,281	\$ 136,041	\$ 759,524	\$ 1,240	\$ -	\$ 1,316,218
Accounts receivable	-	-	-	-	-	1,131	-	-	-	1,131
Special assessment receivable	-	-	-	-	-	-	23,663	-	-	23,663
Notes receivable	-	-	-	-	54,725	-	-	-	-	54,725
Due from other governmental units	123,840	31,304	-	-	-	-	-	-	-	155,144
Restricted assets	-	-	-	-	-	-	-	-	450,000	450,000
Total assets	<u>\$ 236,195</u>	<u>\$ 49,478</u>	<u>\$ 39,603</u>	<u>\$ -</u>	<u>\$ 304,006</u>	<u>\$ 137,172</u>	<u>\$ 783,187</u>	<u>\$ 1,240</u>	<u>\$ 450,000</u>	<u>\$ 2,000,881</u>
<b>LIABILITIES AND FUND BALANCE</b>										
<b>LIABILITIES</b>										
Accounts payable	\$ 34,503	\$ 10,311	\$ 5,923	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,737
Accrued expenditures	1,616	1,526	90	-	-	-	-	-	-	3,232
Unearned revenue	-	-	-	-	51,407	-	23,663	-	-	75,070
Total liabilities	36,119	11,837	6,013	-	51,407	-	23,663	-	-	129,039
<b>FUND BALANCE</b>										
Nonspendable	-	-	-	-	3,318	-	-	-	-	3,318
Restricted	200,076	37,641	-	-	249,281	-	-	-	-	486,998
Committed	-	-	33,590	-	-	137,172	-	1,240	450,000	622,002
Assigned	-	-	-	-	-	-	759,524	-	-	759,524
Total fund balance	<u>200,076</u>	<u>37,641</u>	<u>33,590</u>	<u>-</u>	<u>252,599</u>	<u>137,172</u>	<u>759,524</u>	<u>1,240</u>	<u>450,000</u>	<u>1,871,842</u>
Total liabilities and fund balance	<u>\$ 236,195</u>	<u>\$ 49,478</u>	<u>\$ 39,603</u>	<u>\$ -</u>	<u>\$ 304,006</u>	<u>\$ 137,172</u>	<u>\$ 783,187</u>	<u>\$ 1,240</u>	<u>\$ 450,000</u>	<u>\$ 2,000,881</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, 2015**

	Nonmajor Special Revenue Funds						Nonmajor Capital Project Fund	Nonmajor Permanent Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	Totals
	Major Streets Fund	Local Streets Fund	Parking Authority Fund	Retirement Fund	Revolving Development Fund	Library Memorial Fund	Capital Improvement Fund	Brownfield Redevelopment Fund		
<b>REVENUES</b>										
Taxes	\$ -	\$ -	\$ -	\$ 404,431	\$ -	\$ -	\$ -	\$ 1,237	\$ -	\$ 405,668
Special assessments	-	-	54,917	-	-	-	1,591	-	-	56,508
State shared revenue	622,261	195,300	-	-	-	-	-	-	-	817,561
State sources	383,469	-	-	-	-	-	-	-	-	383,469
Charges for services	-	-	3,284	-	-	1,001	-	-	-	4,285
Interest income	817	27	-	379	5,848	1,045	5,895	3	-	14,014
Contributions	-	-	-	-	-	2,717	655,739	-	-	658,456
Other income	6,302	-	-	1,850	28,158	-	-	-	-	36,310
Total revenues	1,012,849	195,327	58,201	406,660	34,006	4,763	663,225	1,240	-	2,376,271
<b>EXPENDITURES</b>										
Public works	857,276	382,464	47,441	-	-	-	655,739	-	-	1,942,920
Recreation and cultural	-	-	-	-	-	8,957	-	-	-	8,957
Economic development	-	-	-	-	22,000	-	-	-	-	22,000
Debt service	16,442	7,474	-	-	-	-	-	-	-	23,916
Total expenditures	873,718	389,938	47,441	-	22,000	8,957	655,739	-	-	1,997,793
Excess (deficiency) of revenues over expenditures	139,131	(194,611)	10,760	406,660	12,006	(4,194)	7,486	1,240	-	378,478
<b>OTHER SOURCES (USES)</b>										
Return of grant to State	-	-	-	-	(9,925)	-	-	-	-	(9,925)
Transfers from (to) other funds	(50,000)	200,000	-	(406,660)	-	-	-	-	-	(256,660)
Total other sources (uses)	(50,000)	200,000	-	(406,660)	(9,925)	-	-	-	-	(266,585)
Excess (deficiency) of revenues and other sources over expenditures and other uses	89,131	5,389	10,760	-	2,081	(4,194)	7,486	1,240	-	111,893
<b>FUND BALANCE - BEGINNING</b>	110,945	32,252	22,830	-	250,518	141,366	752,038	-	450,000	1,759,949
<b>FUND BALANCE - ENDING</b>	\$ 200,076	\$ 37,641	\$ 33,590	\$ -	\$ 252,599	\$ 137,172	\$ 759,524	\$ 1,240	\$ 450,000	\$ 1,871,842

**CITY OF COLDWATER**  
**OTHER SUPPLEMENTAL INFORMATION**  
**FIDUCIARY FUNDS**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2015**

	<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	\$ 22,562	\$ 33,879
	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES</b>			
Accounts payable	\$ 11,317	\$ -	\$ 11,317
Due to other governmental units	-	22,562	22,562
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 11,317	\$ 22,562	\$ 33,879
	<u>          </u>	<u>          </u>	<u>          </u>

**CITY OF COLDWATER**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2015**

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Program or or Award Amount</u>	<u>Accrued or (Deferred) Revenue at July 1, 2014</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2015</u>	<u>Prior Years Expenditures</u>
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>								
Passed Through State of Michigan Housing Development Authority Planning and Development								
* Community Development Block Grant/ State's Program	14.228	130298-HO	\$ 597,500	\$ -	\$ 485,870	\$ 485,870	\$ -	-
* Community Development Block Grant/ State's Program	14.228	213018	<u>\$ 403,000</u>		<u>\$ 403,000</u>	<u>\$ 403,000</u>		
Total Department of Housing and Urban Development			1,000,500	-	888,870	888,870	-	
<b>DEPARTMENT OF JUSTICE</b>								
Bulletproof Vest Partnership Program	16.607		2,772	-	755	755	-	-
<b>ENVIRONMENTAL PROTECTION AGENCY</b>								
Passed Through State of Michigan Michigan Department of Environmental Quality								
* Capitalization Grants for Clean Water State Revolving Funds	66.458	5585-01	664,185	-	664,185	664,185	-	-
<b>DEPARTMENT OF HOMELAND SECURITY</b>								
Direct assistance:								
Regional Homeland Security	97.067		<u>6,005</u>	<u>-</u>	<u>6,005</u>	<u>6,005</u>	<u>-</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 1,673,462</u>	<u>\$ -</u>	<u>\$ 1,559,815</u>	<u>\$ 1,559,815</u>	<u>\$ -</u>	

**CITY OF COLDWATER**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued  
FOR THE YEAR ENDED JUNE 30, 2015**

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

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Total Federal Assistance received	\$ 1,559,815
Proprietary Funds shown as loan proceeds	<u>664,185</u>
Total Federal Assistance expenditures	<u>\$ 895,630</u>
Governmental Funds Federal Sources	<u>895,630</u>
Total Federal Sources per financial statements	<u>\$ 895,630</u>

**ADDITIONAL COMMENTS**

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

**CITY OF COLDWATER**

**NOTES TO INTERNAL CONTROL AND FEDERAL GRANT REPORT  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FEDERAL LOANS**

The federal grant money in amount of \$664,185 is a loan shown in City of Coldwater's proprietary financials statements. The loan is to be repaid at an interest rate of 2.5%. The complete loan schedule and payments have not been provided by the Federal Loan administrators due to timing of closing of loan.



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

**City Council  
City of Coldwater, Michigan**

**October 30, 2015**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Coldwater, Michigan’s basic financial statements, and have issued our report thereon dated October 30, 2015.

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

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

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

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

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

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

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



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**City Council  
City of Coldwater, Michigan**

**October 30, 2015**

**Report on Compliance for Each Major Federal Program:** We have audited the City of Coldwater, Michigan’s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Coldwater, Michigan’s major federal programs for the year ended June 30, 2015. City of Coldwater, Michigan’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s Responsibility:** Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor’s Responsibility:** Our responsibility is to express an opinion on compliance for each of the City of Coldwater, Michigan’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Coldwater, Michigan’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the City of Coldwater, Michigan’s compliance.

**Opinion on Each Major Federal Program:** In our opinion, the City of Coldwater, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Report on Internal Control over Compliance:** Management of the City of Coldwater, Michigan, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Coldwater, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Coldwater, Michigan's internal control over compliance.

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

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

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133:**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Coldwater, Michigan's basic financial statements. We issued our report thereon dated October 30, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

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

**CITY OF COLDWATER**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015**

**SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X No

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

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_ X No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ X No

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

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

Any audit findings disclosed that are required to be reported with Section 510(a) of OMB Circular A-133? \_\_\_\_\_ Yes \_\_\_\_\_ X No

**Identification of major programs**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants For Clean Water State Revolving Funds
14.228	Community Development Block Grant/State's Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes \_\_\_\_\_ X No

**FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**CITY OF COLDWATER**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

There were no Single Audits performed for the City of Coldwater in either of the prior two years.