

**CITY OF COLDWATER
BRANCH COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2009

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INDEPENDENT AUDITOR'S REPORT

**City Council
City of Coldwater, Michigan**

October 29, 2009

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, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Coldwater's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan as of June 30, 2009 and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The management's discussion and analysis, budgetary comparison schedules, and pension system schedule of funding progress pages 3 through 16 and 50 through 53 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Combining Financial Statements and Other Supplemental Information

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



RUMSEY & WATKINS, P.C.

CITY OF COLDWATER
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Coldwater's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2009:

- The City saw total assets increase by \$1.4 million or 1.6%, while liabilities declined by \$2.4 million or 8.0% under the modified accrual basis of accounting. This resulted in total fund equity increasing by \$3.8 million or 6.9%. These positive operating results were directly related to the City's Enterprise Funds. The Electric Fund saw a bottom line increase of \$4.2 million of which \$2.5 million is attributed to an increase in the equity of the Michigan South Central Power Agency which the City is a 40% owner.
- While all the major Enterprise Funds ended the year with positive bottom lines, the City's General Fund experienced an expected deficit of \$411,934. In aggregate, the City's Governmental Funds experienced a decline in Fund equity of \$817,652 or 13.2%.
- A review of the City's balance sheet under the full accrual basis method of accounting, which provides more of a longer term view of the City's finances, also reflects increases in total assets primarily attributed to the Enterprise Funds, but shows only a small decrease in Total Fund Equity of the City's Governmental Activities. This difference reflects the significant amount of capital investment made in the City's infrastructure and capital equipment needs.
- Reviewing the City's change in fund equity you will find the increases in both total income and expenditures with an overall change in fund equity of \$3.8 million.
- In reviewing the Governmental Funds you find a decrease in revenue of \$339,975 or 4.2%. This reduction is largely attributed to decreased earnings on investments as a result of lower interest rates on declining investable cash balances. Rental income has also decreased as a result of an accounting policy change to no longer charge equipment rental between departments. This reduced both revenue and expenses with no affect to the bottom line.
- Property tax revenues increased by \$193,804 resulting from increased tax base and inflation rate multiplier set by the State of Michigan.
- Expenditures increased by \$294,245 or 2.9%. The majority of the increase was due to the reinvestment of over \$1.5 million in capital improvements compared to only \$1 million in the prior year.
- Road improvements, park improvements such as sidewalks, linear trail and parking lots, along with the purchase of a new City street sweeper were the most significant of the capital reinvestment.
- Excluding the capital investments the various departments experienced modest increases primarily the result of increased costs of wages and benefits associated with providing labor intensive services.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

- Revenue from other sources decreased by \$14,868. Other sources of income are primarily payments in lieu of taxes the General Fund receives from the various Enterprise funds. The City Charter requires the Enterprise funds to pay 6.5% of gross revenue into the City's General Fund. Gross Electric Fund revenues decreased due to overall drop in power supply costs in prior year.
- Overall, the Governmental Funds experienced an expected deficit of \$817,652.
- The City's Enterprise Funds saw total income increase by \$1.6 million or 4.3%. The increase is directly attributable to the Electric Fund and is based on increased power supply costs being passed on to the rate payers. The remaining utility funds saw stable or modest revenue increases.
- Interest income decreased for the year, but amount is tied to the recording of the City's 40% share of the Michigan South Central Power Agency on the equity method. Interest earned on marketable investments declined as interest rates were lower on the year.
- Operating costs for the various utilities increased by \$102,469 or 2.3%. The increase varied from fund to fund, but primarily there were no significant operational changes.
- Overall, the Enterprise Funds saw an increase in net assets of \$4.6 million which is almost exclusively a result of the operating results of the Electric Fund.

Using this Annual Report

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

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

CITY OF COLDWATER

MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued

The City as a Whole

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

	Governmental Funds		Enterprise Funds		Total	
	2009	2008	2009	2008	2009	2008
Assets	\$ 6,549,870	\$ 7,582,557	\$ 80,936,807	\$ 78,512,292	\$ 87,486,677	\$ 86,094,849
Liabilities	1,150,466	1,365,501	26,985,289	29,200,336	28,135,755	30,565,837
Fund Equity						
Investment in capital - Net of related debt	-	-	20,870,111	18,265,673	20,870,111	18,265,673
Retained earnings:						
Restricted	-	-	3,404,245	5,592,234	3,404,245	5,592,234
Unreserved	-	-	29,677,162	25,454,049	29,677,162	25,454,049
Fund balances:						
Reserved	-	-	-	-	-	-
Designated	450,000	450,000	-	-	450,000	450,000
Undesignated	4,949,404	5,767,056	-	-	4,949,404	5,767,056
Total fund equity	\$ 5,399,404	\$ 6,217,056	\$ 53,951,518	\$ 49,311,956	\$ 59,350,922	\$ 55,529,012

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets						
Current and other assets	\$ 6,549,870	\$ 7,582,557	\$ 36,364,989	\$ 35,004,588	\$ 42,914,859	\$ 42,587,145
Capital assets	19,215,164	18,832,954	44,080,111	42,725,673	63,295,275	61,558,627
Total assets	25,765,034	26,415,511	80,445,100	77,730,261	106,210,134	104,145,772
Liabilities						
Long-term debt outstanding	1,876,829	2,205,844	22,024,279	23,610,677	23,901,108	25,816,521
Other liabilities	635,990	928,023	4,469,303	4,807,628	5,105,293	5,735,651
Total liabilities	2,512,819	3,133,867	26,493,582	28,418,305	29,006,401	31,552,172
Net Assets						
Investment in capital assets- Net of related debt	17,625,164	16,632,942	20,870,111	18,265,673	38,495,275	34,898,615
Restricted	-	-	3,404,245	5,592,234	3,404,245	5,592,234
Unrestricted	5,627,051	6,648,702	29,677,162	25,454,049	35,304,213	32,102,751
Total net assets	\$ 23,252,215	\$ 23,281,644	\$ 53,951,518	\$ 49,311,956	\$ 77,203,733	\$ 72,593,600

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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

	Governmental Funds		Enterprise Funds		Total	
	2009	2008	2009	2008	2009	2008
Revenue						
Taxes	\$ 4,158,130	\$ 3,964,326	\$ -	\$ -	\$ 4,158,130	\$ 3,964,326
Special assessments	193,215	261,716	-	-	193,215	261,716
Licenses and permits	163,685	180,700	-	-	163,685	180,700
Federal sources	5,914	1,549	-	-	5,914	1,549
State shared revenue	1,740,456	1,780,604	-	-	1,740,456	1,780,604
State sources	137,409	158,656	-	-	137,409	158,656
Charges for services	520,614	520,986	36,119,781	34,234,499	36,640,395	34,755,485
Rent	557,603	776,723	-	-	557,603	776,723
Interest income	272,227	433,722	2,968,798	3,233,297	3,241,025	3,667,019
Contributions	1,702	4,713	-	-	1,702	4,713
Other income	64,692	74,839	101,679	114,913	166,371	189,752
Sale of fixed assets	6,582	3,670	18,402	752	24,984	4,422
Total income	7,822,229	8,162,204	39,208,660	37,583,461	47,030,889	45,745,665
Program expenses						
General government	1,313,751	1,305,017	-	-	1,313,751	1,305,017
Public safety	3,546,295	3,438,677	-	-	3,546,295	3,438,677
Public works	3,163,288	2,492,833	-	-	3,163,288	2,492,833
Recreation and cultural	1,190,715	1,335,668	-	-	1,190,715	1,335,668
Planning	135,134	120,284	-	-	135,134	120,284
Economic development	44,508	57,030	-	-	44,508	57,030
Debt service	714,530	844,550	-	-	714,530	844,550
Other expenditures	429,844	649,761	-	-	429,844	649,761
Purchased power	-	-	20,828,416	19,573,735	20,828,416	19,573,735
Power plant	-	-	304,116	326,009	304,116	326,009
Distribution	-	-	3,004,157	2,934,245	3,004,157	2,934,245
Substation	-	-	161,913	135,127	161,913	135,127
Sanitation	-	-	432,977	426,547	432,977	426,547
Metering and lighting	-	-	415,292	378,764	415,292	378,764
Wells	-	-	56,362	54,614	56,362	54,614
Treatment	-	-	1,179,397	1,167,712	1,179,397	1,167,712
Collection system	-	-	173,575	133,797	173,575	133,797
Customer service	-	-	340,393	339,027	340,393	339,027
Administration	-	-	2,273,636	2,430,173	2,273,636	2,430,173
Depreciation and amortization	-	-	2,460,398	2,373,467	2,460,398	2,373,467
Interest expense	-	-	1,040,282	1,106,606	1,040,282	1,106,606
Total expenses	10,538,065	10,243,820	32,670,914	31,379,823	43,208,979	41,623,643
Excess (deficit) of revenues over expenditures	(2,715,836)	(2,081,616)	6,537,746	6,203,638	3,821,910	4,122,022
Other Sources (Uses)	1,898,184	1,913,052	(1,898,184)	(1,666,545)	-	246,507
Change in fund equity	\$ (817,652)	\$ (168,564)	\$ 4,639,562	\$ 4,537,093	\$ 3,821,910	\$ 4,368,529

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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

	Governmental Activities		Business-type Activities	
	2009	2008	2009	2008
Revenues				
Program revenues:				
Charges for services	\$ 1,114,608	\$ 1,351,329	\$ 36,119,781	\$ 34,234,499
Operating grants and contributions	94,926	101,774	-	-
Capital grants and contributions	10,000	20,800	-	-
General revenues:				
Property taxes	4,158,130	3,964,326	-	-
State shared revenues	1,740,456	1,780,604	-	-
Unrestricted investment earnings	272,227	433,722	2,968,798	3,233,297
Miscellaneous	26,177	22,835	101,679	114,913
Capital contributions	-	-	-	246,507
Payments in lieu of taxes	1,898,184	1,913,052	(1,898,184)	(1,913,052)
Total revenues	9,314,708	9,588,442	37,292,074	35,916,164
Expenses				
General government	2,263,241	2,443,870	-	-
Public safety	3,576,666	3,467,999	-	-
Public works	2,355,687	1,979,459	-	-
Recreation and cultural	864,383	1,179,861	-	-
Economic development	179,642	177,314	-	-
Interest	104,518	137,742	-	-
Transfers	-	-	-	-
Electric	-	-	25,117,983	23,727,543
Telecommunications	-	-	2,894,397	2,901,397
Water	-	-	1,847,732	1,832,834
Waste water	-	-	2,345,797	2,477,125
Rubbish	-	-	446,603	440,172
Total expenses	9,344,137	9,386,245	32,652,512	31,379,071
Increase in Net Assets	\$ (29,429)	\$ 202,197	\$ 4,639,562	\$ 4,537,093

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The City's overall financial position improved over the prior year under both the full accrual (long-term view) and modified accrual (short-term view) perspectives. Balance sheet assets have grown by \$4.6 and \$3.8 million respectively reflecting the overall improvement of the financial condition of the City when viewing the operating results in aggregate.

While these results would indicate a very strong financial condition, it is somewhat misleading unless you examine the individual funds and their respective results. The City's Electric Fund is the main reason behind the improved balance sheet position. Reporting the increased equity in the City's 40% share in the Michigan South Central Power Agency (MSCPA) resulted in a \$2.5 million charge in interest income. These investments earnings are the result of a noncash transaction and the MSCPA is not a readily marketable security. So on paper the operating results appear significant, but in reality the financial condition did improve, but marginally.

However, the City does remain in stable financial condition. As detailed below the Enterprise funds have remained viable even during this time of economic uncertainty in Michigan. These same uncertain times will cause future budget constraints of the Governmental Funds to constrict and force tough decisions between the level of service the City can provide to its residents in the years to come.

City Council has remained steadfast in its conservative approach to managing the City's finances. Capital investment of \$1.5 million was made to existing infrastructure and capital improvements in the Governmental Funds alone, with another \$3.7 million in the City's Enterprise Funds. All of these improvements were funded from reserves continuing to emphasize the policy of funding projects on a pay as you go basis.

The overall financial condition of the City remains stable in aggregate. As detailed below, the City's Governmental Funds face challenges for an unknown number of years with declining revenues and the likelihood of increased inflation. The same is true with the Enterprise Funds. Rate increases are never popular and less so when households are struggling. The City's utility infrastructure is aging, reinvestment is a necessity and adequate revenue and cash reserves are critical to the process of repair and replacement of the system.

Governmental Funds

A review of the City's Governmental Funds confirms an expected deficit of \$817,652 for the fiscal year short-term and a \$29,429 deficit long-term. The principal reason for the decreases are the capital assets put into service during the year including, \$1.5 million of improvements to parks, roads and equipment. No debt was issued for these investments.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The City has three main sources of revenue for the Governmental Funds-property taxes, state shared revenue and payments in lieu of taxes from the utility funds. This fiscal year property taxes increased by \$193,804 primarily the result of an expansion of a local manufacturer and a 2.3% inflation rate multiplier as calculated by the State of Michigan to all existing tax base. In contrast, state shared revenue was cut \$40,148 by the legislature. Revenue sharing cuts have occurred annually and are anticipated to accelerate in 2010 and 2011. Payment in lieu of taxes is \$1.9 million, identified as other sources calculated from the city charter provision requiring 6.5% of utility revenues to be transferred to the City's Governmental Funds for the benefit received from the use of the streets, services and facilities.

Interest income, equipment rental and special assessments all saw declines in revenue. With interest rates falling and less cash invested, the City saw a decrease of \$161,495. As expected special assessments decreased by \$68,501 as outstanding balances on special assessment districts decline. Decreasing equipment rental revenue resulted from a change in accounting policy eliminating internal accounting for equipment rental within the same Governmental Funds. This change offset revenues and expenditures equally and has no effect to the City's bottom line results.

Overall revenues declined by \$339,975 or 4.2%. Of this amount approximately \$220,000 was related to the change in accounting policy for equipment rental.

While revenues dropped, expenditures increased by \$294,245 or 2.9%. As previously stated the main reason for the increase was the purchase of capital expenditures and the reinvestment in the City's infrastructure.

The reinvestment in infrastructure and equipment is clearly evident in the increased public works expenditures. This included \$669,000 spent improving local streets, \$201,000 for repairing and installing new sidewalk and \$192,400 invested in a new street sweeper in addition to other miscellaneous equipment purchases.

The City park system also saw capital investment. These improvements included expansion to the popular linear trail system, paving soccer field and boat ramp parking lots, playground equipment and fencing for construction of a dog park.

Public Safety expenditures increased in proportion to increases in salaries and benefits. The City did purchase two patrol cars as part of a scheduled replacement program.

The City was able to extinguish existing debt for the North Shore Park two years earlier than planned. This will result in interest expense savings to the City. However, this is also part of the reason for the City's operating deficit, as approximately \$130,000 was paid off early.

The final operating deficit for the City's Governmental Funds was \$817,652 under the modified accrual basis of accounting. This deficit was part of a planned and budgeted reduction in City reserves to pay for the various capital reinvestments for the City.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Enterprise Funds

The Enterprise Funds as whole saw unrestricted net assets increase by \$4,639,562 or 9.4%. Of this amount \$4,277,031 or 92% is attributed to the Electric Fund.

Revenues increased by \$1.6 million or 4.3%. These increases are directly the result of the first full year of operations for Asama Manufacturing Company. The company increased its electrical load by 17% resulting in additional gross revenues of nearly \$2.3 million. These increases offset the losses experienced from reduced electric load to city business and industry impacted by the collapse of the domestic auto industry.

As previously stated the City's investment income includes the recording of the City's equity investment in the MSCPA, \$2.5 million of the total. Overall, interest revenue is down related to decreased interest rates and investable balances.

Expenditures increased in aggregate by \$1.3 million or 4.1%. The increase is a direct correlation to the increased electrical load.

Overall, the Enterprise Funds are financially stable. The need for utility rate increases will continue to be evaluated. It is imperative the City continue to build reserves for the future infrastructure replacement, while continuing to charge economical rates to our customers.

When reviewing the operating results of Enterprise funds, it is important to review each fund on an individual case basis. Please review the individual fund discussions in the following sections.

Component Units

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

Financial Analysis of the City's Funds

In the proceeding analysis we have been discussing the financial results of the City in aggregate. To fully understand the reasons behind significant changes in fund balance or fund net assets, it is important to look at these funds on an individual basis as well as in the aggregate.

Our presentation of the City's major funds begins on page 19, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended June 30, 2009 include the General Fund, Revolving Development Fund and Capital Improvement Fund.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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.

The 2009 fiscal year saw a planned deficit reduction in the General Fund balance of \$411,934. This deficit reduced the Fund Balance to \$2.1 million, 26.1% of revenues. The City's General Fund remains in a very stable financial condition even with the significant operating deficit.

As discussed earlier the City has three main revenue streams. The largest is property taxes that increased by \$187,830 as a result of the increased tax base and State inflation multiplier of 2.3%. Secondly, are payments in lieu of taxes received from the Enterprise Funds as a requirement of the City Charter to transfer 6.5% of gross revenues to the General Fund. This is calculated at \$1.9 million and was equivalent to the amount received in the prior year. The final significant component is State Shared Revenue in the amount of \$942,751, which is \$8,991 less than the prior year. Revenue sharing was cut for the sixth consecutive year by the legislature and is now less than what was received during the 1997 fiscal year twelve years ago.

With the fall of the national economy, the City also experienced a significant drop in the earnings on cash balances. Interest rates have decreased significantly from the prior year and this year's earnings were \$90,240 less than the prior year.

The City Council is fiscally conservative. As a result, the City had adequate reserves to fund the operations of the General Fund and to continue the policy of reinvesting in the capital needs of the City. This year was no exception with \$842,479 of capital expenditures being paid from the City's General Fund as will be detailed in the following section on capital assets.

The majority of the remaining costs associated with the General Fund are directly tied to labor and fringe benefits. Providing City services is very labor intensive, especially in the area of public safety where twenty-four hour shifts are required to protect the safety and welfare of City residents.

Other than the payment for supplies and normal operational costs, the only other significant change from prior years was the prepayment of the outstanding debt on the land purchase for the park near Northshore Drive. Declining interest rates provided the City savings by extinguishing the debt two years early. The outstanding debt is tied to the building authority bonds for the Henry L. Brown Municipal Building.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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

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 2009 there was no other significant activity involving this fund.

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

The Electric Fund experienced increased revenue primarily as a result of the increased electrical load from Asama Manufacturing Company expanding its manufacturing facility in early 2008. In addition, increased power costs caused gross revenues to increase although gross energy received decreased from the prior year by 6%. The current economy also impacted local manufacturing companies' electrical loads. In mid February the City experienced the bankruptcy and shutdown of the 4th and 5th largest electric customers negatively affecting electrical demand.

Cost of power supply continued to increase as the City is tied to market price power contracts for power acquired in excess of the power generated by the MSCPA. These increased costs are passed on to the City's customers through a power cost adjustment when the cost of power exceeds \$.063 per kilowatt hour on a monthly basis.

Administrative costs of the Electric Fund ended the fiscal year significantly higher than the prior year as a result of the aforementioned bankruptcy. A bad debt allowance of \$185,000 was charged against earnings as the possibility of collection through bankruptcy proceedings that was deemed remote.

The City did make an investment towards future development by purchasing land at auction at a discounted price reflecting current land values. This land was purchased through Electric Fund reserves for a future research and technology park.

As previously stated the investment in the MSCPA attributed \$2.5 million to the bottom line of the Electric Fund. Taking this into account, the Electric Fund contributed \$1.7 million to the increase in net assets. This is a planned increase in reserves to reduce the future impact of increased power costs, to avoid borrowing costs and to provide for the replacement of infrastructure.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The Telecommunications Fund saw decreased gross revenue as technology and consumer usage continues to decrease the demand for dial up internet service and traditional land line long distance. Demand for these services continue to decline as technology in wireless internet service, cell phone usage and voice over internet protocol (VOIP) render these services obsolete.

Revenues from cable television and traditional cable internet connections remained stable. In addition, demand for the City's VOIP services has continued to increase and is offsetting the loss in revenue mentioned above.

Costs associated with the Telecommunications Fund have been kept in check although cable television programming costs continue to increase. Programmers continue to pass on costs to the service providers attributed to advertising for sports programming. To combat increasing costs, the City continues to seek out lower cost alternatives and has reduced staffing through attrition.

The Water Fund saw revenues increase as the direct result of a water rate increase implemented to move the costs to be more in line with the cost of service. This resulted in \$101,828 in additional revenues. Revenues would have been higher, except for a decline in business revenue associated with the economic downturn.

Overall, the Water Fund's net assets increased by \$224,782. This was accomplished by minimizing operating costs which increased only 1% over the prior year.

During the year a new water tower, booster station and pressure relief valve were being constructed and were placed in service subsequent to the end of the fiscal year. These improvements were constructed to improve water pressure on the east side of the City to keep up with recent development in the area and to prepare for future development.

In the preceding fiscal year, the Wastewater Fund received a State of Michigan grant to evaluate the wastewater system. The study revealed a high level of ground water infiltration and at the same time the treatment plant was mandated to reduce ammonia levels. To correct these issues the City applied for and was awarded a loan through the State of Michigan's Revolving Loan Fund through the Department of Environment Quality for the \$4.2 million project cost. Subsequent to the loan approval, the Federal Government released its' economic stimulus plan resulting in the City receiving a 40% grant towards the project cost of \$1.6 million.

The improvements to the wastewater system were started in early January 2009, with engineering and financing costs being incurred. Actual construction on the project started late June 2009, and will continue over the next fiscal year. Federal revenues in the amount of \$287,770 were recorded as of the end of the fiscal year.

In addition to the federal revenues, the City also increased wastewater rates by 2%.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Reviewing the operating costs reveals increased costs for chemicals and repairs to equipment. However, the largest difference lies in the reduction in administration costs. This was due to the costs associated with the State of Michigan study of the wastewater system performed primarily in the prior fiscal year.

Adjusting for the federal grant proceeds, the Wastewater Fund would have reflected an operating deficit of \$221,707. This reduction, coupled with the construction of a new lift station at a cost of \$269,024 without issuing debt, caused a significant decrease in the Fund's cash reserves. The City continues to monitor this situation and the impact on the reserves of the Fund.

The Sanitation Fund is essentially operating at a breakeven level. However, the Fund has significant cash reserves to offset nominal deficits and to finance the future garbage truck replacement. Rate increases may need to be adopted in future years.

General Fund Budgetary Highlights

As shown in the required supplemental information, the City's final amended budget shows a planned budgeted deficit of \$490,859. Actual operating resulted in a deficit of \$411,934, a difference of \$78,925. The significant budget-to-actual differences are as follows:

Revenues -

- Property tax revenue was under budget by \$12,238 as final collections of delinquent personal property taxes were overestimated.
- Licenses and permits revenue was over budget by \$15,085 as final franchise fee payment was greater than estimated.
- Charges for Services were over budget by \$20,432 as final pool revenues and custom work exceeded expectations.
- Interest income was over budget by \$19,568 as final interest earnings exceeded estimates.

Expenditures –

- Public Safety expenditures were over budget due to incorrect estimates of final wage and employee benefits costs.
- Final Public Works costs for wages and benefits were under estimated.
- The Recreation and Cultural budget was under budget primarily due to capital expenditures for the pool and service building being delayed until a future date.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Capital Asset and Debt Administration

As previously stated, the City has continued its efforts to improve the City's infrastructure. This fiscal year saw the reinvestment of \$5.2 million in capital assets for the City's Governmental and Enterprise Funds combined.

The majority of these improvements were improvements made to the City's utility infrastructure. A new water tower, booster station, pressure relief valve and wastewater lift station were constructed during the year and commissioned subsequent to the close of the fiscal year. Additionally, land was purchased for the future benefit of the community at auction.

Looking ahead the City has entered into a construction contracts for \$4.2 million of improvements to the wastewater system. These improvements are being funded by a 40% grant through the Federal Government and a low interest rate loan from the State of Michigan's Revolving Loan Fund.

The Governmental Funds added another \$1.5 million in improvements as well. Roads and sidewalks were the most significant of the improvements. Capital improvements were also made to the City's popular park systems and linear trails. A street sweeper was the most significant piece of equipment purchased during the year. All of these improvements were purchased without incurring debt.

Subsequent to year end the City will be looking to purchase a new fire truck for a budgeted amount of \$450,000. This vehicle will be financed through the United States Department of Agriculture Rural Development Program and will consist of a low interest rate loan accompanied with a \$25,000 grant.

At present the City does not have any intention to issue future debt, except as mentioned. However, the City did receive a ratings upgrade on their existing debt to A+ from Standard & Poor's rating agency.

Economic Factors, Next Year's Budgets and Rates

The City is entering a time of uncertainty in terms of revenues. Property values have been decreasing, building permits are scarce, interest rates are essentially nonexistent, and business is still lagging behind the national economy as manufacturing jobs continue to dry up. To top it off the State of Michigan has budgeted another 11% cut to revenue sharing which will cost the City an additional \$100,000 in lost revenue.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Michigan continues to lead the nation in unemployment and this is now working its way to Coldwater. The City is experiencing more residents unable to pay their mortgages, walking away from their homes and allowing them to go into foreclosure. Properties are being sold for a fraction of assessed value. This will create a situation where future property taxes will decrease as opposed to the historic increase that has allowed the City to maintain high quality services and provide for community reinvestment. The long range forecast for the City would indicate lower property taxes, revenue sharing and revenues in general, thus creating a challenge to continue to provide services at the current level.

Fortunately, the City Council has continued its multi-year policy of fiscal conservatism. This has allowed the City to remain on a strong financial footing notwithstanding the looming financial crisis. A balanced budget has been adopted for the 2009 - 2010 fiscal year, with numerous concessions to capital improvements.

As the local economy continues to worsen, the City is being diligent in monitoring utility rates and financial results. Plant closings and shutdowns can have significant impacts on power costs. Fortunately, the City has a diverse manufacturing base and is not entirely dependent on the auto industry and its suppliers. From an electrical load perspective the City hopes to have seen the bottom of the economy.

The overall financial condition of the City's Governmental and Enterprise Funds is presently stable, a marked contrast to other municipalities in Michigan experiencing layoffs and a reduction in services. The City will have to contend with many of these challenges in the very near future. Fund balance will help but is not a long term solution to diminished financial resources.

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 ASSETS
JUNE 30, 2009

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 5,124,434	\$ 12,957,929	\$ 18,082,363	\$ 508,101
Accounts receivable	80,766	3,755,306	3,836,072	-
Special assessment receivable	177,712	-	177,712	-
Notes receivable	572,673	-	572,673	8,246
Inventory	-	91,706	91,706	-
Due from other governmental units	144,420	287,770	432,190	-
Prepaid expenses	-	46,872	46,872	-
Unamortized bond costs	-	1,104,406	1,104,406	-
Investment in Power Agency	-	14,716,755	14,716,755	-
Restricted assets	450,000	3,404,245	3,854,245	-
Capital assets, less accumulated depreciation	19,215,164	44,080,111	63,295,275	857,190
Total assets	25,765,169	80,445,100	106,210,269	1,373,537
LIABILITIES				
Accounts payable	194,385	1,981,339	2,175,724	2,804
Accrued expenditures	216,740	937,964	1,154,704	-
Due to others	-	-	-	367,482
Long term liabilities:				
Bonds payable, due within one year	225,000	1,550,000	1,775,000	-
Bonds payable, due in more than one year	1,365,000	21,660,000	23,025,000	443,040
Compensated absences	511,829	364,279	876,108	-
Total liabilities	2,512,954	26,493,582	29,006,536	813,326
NET ASSETS				
Investment in capital assets - net of related debt	17,625,164	20,870,111	38,495,275	500,177
Restricted	-	3,404,245	3,404,245	-
Unrestricted	5,627,051	29,677,162	35,304,213	60,034
Total net assets	<u>\$ 23,252,215</u>	<u>\$ 53,951,518</u>	<u>\$ 77,203,733</u>	<u>\$ 560,211</u>

See Notes to Financial Statements

CITY OF COLDWATER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating / Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,263,241	\$ 286,619	\$ -	\$ -
Public safety	3,576,666	259,908	10,741	-
Public works	2,355,687	368,958	84,185	-
Recreation and cultural	864,383	175,197	-	-
Economic development	179,642	23,926	-	10,000
Interest	104,518	-	-	-
Total governmental activities	9,344,137	1,114,608	94,926	10,000
Business-type activities:				
Electric	25,117,983	28,063,220	-	-
Telecommunications	2,894,397	3,041,467	-	-
Water	1,847,732	2,116,761	-	-
Waste water	2,345,797	2,455,034	-	-
Rubbish	446,603	443,299	-	-
Total business-type activities	32,652,512	36,119,781	-	-
Total primary government	<u>\$ 41,996,649</u>	<u>\$ 37,234,389</u>	<u>\$ 94,926</u>	<u>\$ 10,000</u>
Component units:				
Downtown Development Authority	\$ 113,956	\$ 9,750	\$ 10,000	\$ -
Local Development Authority	34,284	-	-	-
Total component units	<u>\$ 148,240</u>	<u>\$ 9,750</u>	<u>\$ 10,000</u>	<u>\$ -</u>

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

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

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,976,622)	\$ -	\$ (1,976,622)	\$ -
(3,306,017)	-	(3,306,017)	-
(1,902,544)	-	(1,902,544)	-
(689,186)	-	(689,186)	-
(145,716)	-	(145,716)	-
(104,518)	-	(104,518)	-
(8,124,603)	-	(8,124,603)	-
-	2,945,237	2,945,237	-
-	147,070	147,070	-
-	269,029	269,029	-
-	109,237	109,237	-
-	(3,304)	(3,304)	-
-	3,467,269	3,467,269	-
(8,124,603)	3,467,269	(4,657,334)	-
-	-	-	(94,206)
-	-	-	(34,284)
-	-	-	(128,490)
4,158,130	-	4,158,130	181,094
1,740,456	-	1,740,456	-
272,227	2,968,798	3,241,025	14,448
26,177	101,679	127,856	-
1,898,184	(1,898,184)	-	-
8,095,174	1,172,293	9,267,467	195,542
(29,429)	4,639,562	4,610,133	67,052
23,281,644	49,311,956	72,593,600	493,159
<u>\$ 23,252,215</u>	<u>\$ 53,951,518</u>	<u>\$ 77,203,733</u>	<u>\$ 560,211</u>

CITY OF COLDWATER
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009

	<u>General Fund</u>	<u>Revolving Development Fund</u>	<u>Capital Improvement Fund</u>
ASSETS			
Cash and investments	\$ 2,451,168	\$ 1,419,936	\$ 782,254
Accounts receivable	80,301	-	-
Special assessment receivable	-	-	166,241
Notes receivable	357,013	215,660	-
Due from other governmental units	-	-	-
Restricted assets	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 2,888,482</u></u>	<u><u>\$ 1,635,596</u></u>	<u><u>\$ 948,495</u></u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 185,303	\$ -	\$ -
Accrued expenditures	207,674	-	-
Deferred revenue	357,013	204,751	166,241
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	749,990	204,751	166,241
FUND BALANCE			
Designated	-	-	-
Undesignated	2,138,492	1,430,845	782,254
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>2,138,492</u>	<u>1,430,845</u>	<u>782,254</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u><u>\$ 2,888,482</u></u>	<u><u>\$ 1,635,596</u></u>	<u><u>\$ 948,495</u></u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Totals
\$ 471,076	\$ 5,124,434
465	80,766
11,471	177,712
-	572,673
144,420	144,420
450,000	450,000
<u>\$ 1,077,432</u>	<u>\$ 6,550,005</u>
\$ 9,082	\$ 194,385
9,066	216,740
11,471	739,476
<u>29,619</u>	<u>1,150,601</u>
450,000	450,000
597,813	4,949,404
<u>1,047,813</u>	<u>5,399,404</u>
<u>\$ 1,077,432</u>	<u>\$ 6,550,005</u>

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2009

Total Fund Balance - Governmental Funds	\$ 5,399,404
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in funds:</p>	
The cost of the capital assets	29,903,064
Accumulated depreciation	<u>(10,687,900)</u>
Total capital assets not reported in funds	19,215,164
<p>Special assessment receivables and loans and related interest receivable are expected to be collected over several years, and are not available to pay for current year expenditures</p>	
	739,476
<p>Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:</p>	
Bonds payable	(1,590,000)
Compensated absences	<u>(511,829)</u>
Total long-term liabilities not reported in funds	<u>(2,101,829)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 23,252,215</u></u>

CITY OF COLDWATER
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Revolving Development Fund	Capital Improvement Fund
REVENUES			
Taxes	\$ 4,043,029	\$ -	\$ -
Special assessments	-	-	144,367
Licenses and permits	163,685	-	-
Federal sources	5,914	-	-
State shared revenue	942,751	-	-
State sources	53,224	-	-
Charges for services	516,232	-	-
Rent	333,237	-	-
Interest income	159,568	52,815	41,529
Contributions	1,010	-	-
Other income	33,827	28,383	-
Total revenues	<u>6,252,477</u>	<u>81,198</u>	<u>185,896</u>
EXPENDITURES			
General government	1,313,751	-	-
Public safety	3,546,295	-	-
Public works	1,861,902	-	-
Recreation and cultural	1,159,165	-	-
Planning	135,134	-	-
Economic development	-	44,508	-
Debt service	242,794	-	247,370
Other expenditures	429,749	-	-
Total expenditures	<u>8,688,790</u>	<u>44,508</u>	<u>247,370</u>
Excess (deficiency) of revenues over expenditures	(2,436,313)	36,690	(61,474)
OTHER SOURCES (USES)			
Sale of fixed assets	6,582	-	-
Payment in lieu of taxes	1,898,184	-	-
Transfers from (to) other funds	119,613	-	-
Total other sources (uses)	<u>2,024,379</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(411,934)	36,690	(61,474)
FUND BALANCE - BEGINNING	<u>2,550,426</u>	<u>1,394,155</u>	<u>843,728</u>
FUND BALANCE - ENDING	<u><u>\$ 2,138,492</u></u>	<u><u>\$ 1,430,845</u></u>	<u><u>\$ 782,254</u></u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds		Totals
\$ 115,101	\$ 4,158,130	
48,848	193,215	
-	163,685	
-	5,914	
797,705	1,740,456	
84,185	137,409	
4,382	520,614	
224,366	557,603	
18,315	272,227	
692	1,702	
2,482	64,692	
<hr/>	<hr/>	
1,296,076	7,815,647	
-	1,313,751	
-	3,546,295	
1,301,386	3,163,288	
31,550	1,190,715	
-	135,134	
-	44,508	
224,366	714,530	
95	429,844	
<hr/>	<hr/>	
1,557,397	10,538,065	
(261,321)	(2,722,418)	
-	6,582	
-	1,898,184	
(119,613)	-	
<hr/>	<hr/>	
(119,613)	1,904,766	
(380,934)	(817,652)	
1,428,747	6,217,056	
<hr/>	<hr/>	
\$ 1,047,813	\$ 5,399,404	
<hr/> <hr/>	<hr/> <hr/>	

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net change in Fund Balance - Total Governmental Funds	\$ (817,652)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(1,129,339)
Capital outlay	<u>1,511,549</u>
Total	382,210
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	(152,956)
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	(28,383)
Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Principal repayment	610,012
Increases in compensated absences are reported as an increase to expenditures	<u>(22,660)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (29,429)</u></u>

CITY OF COLDWATER
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
ASSETS			
Current assets:			
Cash and investments	\$ 10,317,875	\$ -	\$ 433,190
Accounts receivable	3,108,291	149,083	232,663
Inventories	19,530	-	72,176
Due from other governmental units	-	-	-
Due from other funds	491,707	-	-
Prepaid and other assets	10,410	29,811	3,792
Total current assets	<u>13,947,813</u>	<u>178,894</u>	<u>741,821</u>
Noncurrent assets:			
Unamortized bond costs	399,262	31,273	426,817
Investment in Power Agency	14,716,755	-	-
Restricted assets	1,598,554	330,293	918,078
Capital assets, less accumulated depreciation	16,401,770	4,955,619	10,268,962
Total noncurrent assets	<u>33,116,341</u>	<u>5,317,185</u>	<u>11,613,857</u>
Total assets	<u><u>\$ 47,064,154</u></u>	<u><u>\$ 5,496,079</u></u>	<u><u>\$ 12,355,678</u></u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,775,208	\$ 99,359	\$ 34,338
Accrued expenditures	574,072	96,021	104,825
Due to other funds	-	491,707	-
Notes payable, due within one year	640,000	270,000	385,000
Total current liabilities	<u>2,989,280</u>	<u>957,087</u>	<u>524,163</u>
Noncurrent liabilities			
Notes payable, due in more than one year	7,005,000	2,730,000	5,810,000
Compensated absences	183,671	55,201	53,227
Total noncurrent liabilities	<u>7,188,671</u>	<u>2,785,201</u>	<u>5,863,227</u>
Total liabilities	<u>10,177,951</u>	<u>3,742,288</u>	<u>6,387,390</u>
NET ASSETS			
Investment in capital assets, net of related debt	8,756,770	1,955,619	4,073,962
Restricted	1,598,554	330,293	918,078
Unrestricted	26,530,879	(532,121)	976,248
Total net assets	<u><u>\$ 36,886,203</u></u>	<u><u>\$ 1,753,791</u></u>	<u><u>\$ 5,968,288</u></u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 1,784,986	\$ 421,878	\$ 12,957,929
241,264	24,005	3,755,306
-	-	91,706
287,770	-	287,770
-	-	491,707
2,859	-	46,872
<hr/> 2,316,879	<hr/> 445,883	<hr/> 17,631,290
247,054	-	1,104,406
-	-	14,716,755
557,320	-	3,404,245
<hr/> 12,419,275	<hr/> 34,485	<hr/> 44,080,111
<hr/> 13,223,649	<hr/> 34,485	<hr/> 63,305,517
<hr/> \$ 15,540,528	<hr/> \$ 480,368	<hr/> \$ 80,936,807
\$ 53,646	\$ 18,788	\$ 1,981,339
159,198	3,848	937,964
-	-	491,707
255,000	-	1,550,000
<hr/> 467,844	<hr/> 22,636	<hr/> 4,961,010
6,115,000	-	21,660,000
72,180	-	364,279
<hr/> 6,187,180	<hr/> -	<hr/> 22,024,279
6,655,024	22,636	26,985,289
6,049,275	34,485	20,870,111
557,320	-	3,404,245
2,278,909	423,247	29,677,162
<hr/> \$ 8,885,504	<hr/> \$ 457,732	<hr/> \$ 53,951,518

CITY OF COLDWATER
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	Electric Fund	Telecommunications Fund	Water Fund
REVENUES			
Charges for services	\$ 28,063,220	\$ 3,041,467	\$ 2,116,761
OPERATING EXPENSES			
Purchased power	20,828,416	-	-
Power plant	304,116	-	-
Distribution	920,732	1,706,363	377,062
Substation	161,913	-	-
Sanitation	-	-	-
Metering and lighting	415,292	-	-
Wells	-	-	56,362
Treatment	-	-	353,972
Collection system	-	-	-
Customer service	122,505	217,888	-
Administration	1,096,062	328,580	413,571
Depreciation and amortization	936,073	476,118	399,671
Total operating expenditures	<u>24,785,109</u>	<u>2,728,949</u>	<u>1,600,638</u>
OPERATING INCOME	3,278,111	312,518	516,123
NONOPERATING REVENUES (EXPENSES)			
Investment income	2,826,553	3,608	62,683
Interest expense	(348,080)	(166,192)	(248,700)
Gain (loss) on sale of fixed assets	15,206	744	1,606
Miscellaneous	63,153	21,872	9,386
Total nonoperating revenues (expenses)	<u>2,556,832</u>	<u>(139,968)</u>	<u>(175,025)</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	5,834,943	172,550	341,098
TRANSFERS			
Payments in lieu of taxes	<u>(1,557,912)</u>	<u>(97,560)</u>	<u>(116,316)</u>
CHANGE IN NET ASSETS	4,277,031	74,990	224,782
NET ASSETS - BEGINNING	<u>32,609,172</u>	<u>1,678,801</u>	<u>5,743,506</u>
NET ASSETS - ENDING	<u><u>\$ 36,886,203</u></u>	<u><u>\$ 1,753,791</u></u>	<u><u>\$ 5,968,288</u></u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 2,455,034	\$ 443,299	\$ 36,119,781
-	-	20,828,416
-	-	304,116
-	-	3,004,157
-	-	161,913
-	432,977	432,977
-	-	415,292
-	-	56,362
825,425	-	1,179,397
173,575	-	173,575
-	-	340,393
435,423	-	2,273,636
634,910	13,626	2,460,398
<u>2,069,333</u>	<u>446,603</u>	<u>31,630,632</u>
385,701	(3,304)	4,489,149
75,954	-	2,968,798
(277,310)	-	(1,040,282)
846	-	18,402
7,268	-	101,679
<u>(193,242)</u>	<u>-</u>	<u>2,048,597</u>
192,459	(3,304)	6,537,746
<u>(126,396)</u>	<u>-</u>	<u>(1,898,184)</u>
66,063	(3,304)	4,639,562
<u>8,819,441</u>	<u>461,036</u>	<u>49,311,956</u>
<u>\$ 8,885,504</u>	<u>\$ 457,732</u>	<u>\$ 53,951,518</u>

CITY OF COLDWATER
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 28,995,741	\$ 3,094,721	\$ 2,155,654
Payments made to suppliers	(24,573,427)	(2,078,873)	(871,004)
Payments made to employees	(1,042,004)	(558,532)	(476,605)
Net cash provided by (used in) operating activities	3,380,310	457,316	808,045
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	(963,080)	(426,192)	(383,700)
Purchase of capital assets	(716,629)	(137,464)	(2,163,913)
Net cash provided by (used in) capital and related financing activities	(1,679,709)	(563,656)	(2,547,613)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	2,826,553	3,608	62,683
Change in investments	(2,572,477)	-	1,991,121
Net cash provided by investing activities	254,076	3,608	2,053,804
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,954,677	(102,732)	314,236
CASH AND CASH EQUIVALENTS - BEGINNING	8,363,198	433,025	118,954
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 10,317,875</u>	<u>\$ 330,293</u>	<u>\$ 433,190</u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 2,480,086	\$ 443,627	\$ 37,169,829
(1,499,469)	(367,055)	(29,389,828)
(430,519)	(83,222)	(2,590,882)
550,098	(6,650)	5,189,119
(517,310)	-	(2,290,282)
(702,573)	-	(3,720,579)
(1,219,883)	-	(6,010,861)
75,954	-	2,968,798
119,307	-	(462,049)
195,261	-	2,506,749
(474,524)	(6,650)	1,685,007
2,259,510	428,528	11,603,215
<u>\$ 1,784,986</u>	<u>\$ 421,878</u>	<u>\$ 13,288,222</u>

CITY OF COLDWATER

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS			
Cash and investments	\$ 10,317,875	\$ -	\$ 433,190
Restricted cash and investments	1,598,554	330,293	918,078
Less amounts classified as investments	<u>(1,598,554)</u>	<u>-</u>	<u>(918,078)</u>
Total cash and cash equivalents	<u>\$ 10,317,875</u>	<u>\$ 330,293</u>	<u>\$ 433,190</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income	\$ 3,278,111	\$ 312,518	\$ 516,123
Adjustments to reconcile operating income to net cash from operating activities:			
Other income (expense)	63,153	21,872	9,386
Depreciation and amortization	936,073	476,118	399,671
Loss (Gain) on sale of assets	15,206	744	1,606
Payments in lieu of taxes	(1,557,912)	(97,560)	(116,316)
Changes in assets and liabilities:			
Receivables	854,162	30,638	27,902
Inventories	36,905	-	(12,734)
Prepays and other assets	3,219	22,291	(276)
Due from (to) other funds	290,324	(290,324)	-
Accounts payable	(635,412)	4,516	(24,358)
Accrued expenditures	123,340	(6,982)	265
Compensated absences	<u>(26,859)</u>	<u>(16,515)</u>	<u>6,776</u>
Net cash provided by operating activities	<u>\$ 3,380,310</u>	<u>\$ 457,316</u>	<u>\$ 808,045</u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 1,784,986	\$ 421,878	\$ 12,957,929
557,320	-	3,404,245
(557,320)	-	(3,073,952)
<u>\$ 1,784,986</u>	<u>\$ 421,878</u>	<u>\$ 13,288,222</u>
\$ 385,701	\$ (3,304)	\$ 4,489,149
7,268	-	101,679
634,910	13,626	2,460,398
846	-	18,402
(126,396)	-	(1,898,184)
16,937	328	929,967
-	-	24,171
796	-	26,030
(287,770)	-	(287,770)
(68,008)	(18,299)	(741,561)
(14,386)	999	103,236
200	-	(36,398)
<u>\$ 550,098</u>	<u>\$ (6,650)</u>	<u>\$ 5,189,119</u>

CITY OF COLDWATER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2009

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 51,627
LIABILITIES	
Accounts payable	\$ 32,408
Due to other funds	14
Due to other governmental units	<u>19,205</u>
Total liabilities	<u>\$ 51,627</u>

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Downtown Development Authority	Local Development Finance Authority	Total
ASSETS			
Cash and investments	\$ 140,619	\$ 367,482	\$ 508,101
Notes receivable	8,246	-	8,246
Capital assets, less accumulated depreciation	414,287	442,903	857,190
 Total assets	 563,152	 810,385	 1,373,537
LIABILITIES			
Accounts payable	2,804	-	2,804
Due to others	-	367,482	367,482
Long term liabilities:			
Notes payable, due in more than one year	-	443,040	443,040
 Total liabilities	 2,804	 810,522	 813,326
NET ASSETS (DEFICIT)			
Investment in capital assets - net of related debt	414,287	85,890	500,177
Unrestricted (deficit)	146,061	(86,027)	60,034
 Total net assets (deficit)	 \$ 560,348	 \$ (137)	 \$ 560,211

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating / Grants and Contributions
Downtown Development Authority	\$ 113,956	\$ 9,750	\$ 10,000
Local Development Finance Authority	34,284	-	-
Total component activities	\$ 148,240	\$ 9,750	\$ 10,000

General revenues:

Property taxes

Interest

Total general revenues

Change in Net Assets

Net Assets (Deficit) - Beginning

Net Assets (Deficit) - Ending

Net (Expense) Revenue and Changes in Net Assets

Downtown Development Authority	Local Development Finance Authority	Total
\$ (94,206)	\$ -	\$ (94,206)
-	(34,284)	(34,284)
(94,206)	(34,284)	(128,490)
141,872	39,222	181,094
1,820	12,628	14,448
143,692	51,850	195,542
49,486	17,566	67,052
510,862	(17,703)	493,159
<u>\$ 560,348</u>	<u>\$ (137)</u>	<u>\$ 560,211</u>

CITY OF COLDWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY:

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

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

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

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

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

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

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

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

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

BASIS OF PRESENTATION:

MAJOR GOVERNMENTAL FUNDS

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

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION: - Continued

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

MAJOR PROPRIETARY FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2009

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 2008 tax is levied and collectible on August 1, 2008 and is recognized as revenue in the year ended June 30, 2009, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2008 taxable valuation of the City totaled \$336.4 million, a portion of which is abated and a portion of which is captured by the LDFA and DDA. Taxes levied consisted of 11.5978 mills for operating purposes and .3333 mills for the retirement system. This resulted in almost \$3.9 million for general operating and approximately \$115,000 for retirement. These amounts are reported in the respective General and Retirement Funds in the financial statements.

ASSETS, LIABILITIES AND NET ASSETS:

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

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES AND NET ASSETS: - Continued

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

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

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

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

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

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF BUDGETING:

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

USE OF ESTIMATES:

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

NOTE B – DEPOSITS AND INVESTMENTS

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

Investments consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost which approximates market value. The certificates of deposits are currently earning rates of 1.10% to 2.13%.

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE B – DEPOSITS AND INVESTMENTS – Continued

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Bank investment pool (not 2a-7)	\$ 6,647,618	0.0027
U.S. government or agency bond or note	8,415,604	1.5

1 day maturity equals 0.0027, one year equals 1.00

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

<u>Investment</u>	<u>Fair Value</u>	<u>Fitch Rating</u>
Michigan CLASS pool	\$ 6,647,618	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, 2009, \$20,402,328 the City’s bank balance of \$22,342,837 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, 2009**

NOTE C – DUE FROM (TO) OTHER FUNDS

The due from (to) other funds, at June 30, 2009, for the City are as follows:

ELECTRIC FUND

Due from Telecommunications Fund	<u>\$ 491,707</u>
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NOTE D – TRANSFERS FROM (TO) OTHER FUNDS

Transfers from (to) other funds, during the year ended June 30, 2009, for the City are as follows:

GENERAL FUND

Transfer to Parking Authority	\$ (3,888)
Transfer to Retirement Fund	<u>(115,725)</u>
Total General Fund	<u>\$ (119,613)</u>

OTHER NONMAJOR FUNDS

Major Streets Fund	
Transfer to Local Streets Fund	\$ (151,816)
Local Streets Fund	
Transfer from Major Streets Fund	151,816
Parking Authority	
Transfer from General Fund	3,888
Retirement Fund	
Transfer from General Fund	<u>115,725</u>
Total other nonmajor governmental funds	<u>\$ 119,613</u>

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE E – CAPITAL ASSETS

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

GOVERNMENTAL ACTIVITIES

GROUP:	Balance July 1, 2008	Additions	Disposals	Balance June 30, 2009
Land	\$ 1,065,381	\$ 9,257	\$ -	\$ 1,074,638
Roads and sidewalks	11,721,204	853,480	-	12,574,684
Land improvements	897,029	191,445	-	1,088,474
Buildings and improvements	11,221,843	-	-	11,221,843
Vehicles	1,969,790	141,678	-	2,111,468
Other tools and equipment	1,516,268	315,689	-	1,831,957
Subtotal	28,391,515	1,511,549	-	29,903,064
ACCUMULATED DEPRECIATION:				
Roads and sidewalks	4,688,067	552,470	-	5,240,537
Land improvements	247,802	35,853	-	283,655
Building and improvements	2,335,087	269,446	-	2,604,533
Vehicles	1,279,253	147,922	-	1,427,175
Other tools and equipment	1,008,352	123,648	-	1,132,000
Total accumulated depreciation	9,558,561	1,129,339	-	10,687,900
Net capital assets	<u>\$ 18,832,954</u>	<u>\$ 382,210</u>	<u>\$ -</u>	<u>\$ 19,215,164</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE E – CAPITAL ASSETS – Continued

BUSINESS-TYPE ACTIVITIES

GROUP:	Balance July 1, 2008	Additions	Disposals	Balance June 30, 2009
Land	\$ 127,497	\$ 557,658	\$ -	\$ 685,155
Work in progress	202,205	2,326,584	-	2,528,789
Utility systems	45,754,913	726,106	135,953	46,345,066
Buildings	18,973,690	-	-	18,973,690
Machinery and equipment	7,105,476	126,230	18,000	7,213,706
Subtotal	72,163,781	3,736,578	153,953	75,746,406
ACCUMULATED DEPRECIATION:				
Electric	13,068,509	888,419	120,066	13,836,862
Telecommunications	3,669,030	472,249	2,586	4,138,693
Water	5,009,540	373,133	12,055	5,370,618
Waste water	7,565,940	518,714	3,247	8,081,407
Sanitation	125,089	13,626	-	138,715
Total accumulated depreciation	29,438,108	2,266,141	137,954	31,566,295
Net capital assets	<u>\$ 42,725,673</u>	<u>\$ 1,470,437</u>	<u>\$ 15,999</u>	<u>\$ 44,180,111</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE E – CAPITAL ASSETS – Continued

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

GOVERNMENTAL ACTIVITIES:

General government	\$ 783,509
Public safety	104,746
Public works	129,944
Recreation and culture	111,140
	<hr/>
Total governmental activities	\$ 1,129,339
	<hr/> <hr/>

BUSINESS -TYPE ACTIVITIES:

Electric	\$ 888,419
Telecommunications	472,249
Water	373,133
Waste water	518,714
Sanitation	13,626
	<hr/>
Total business-type activities	\$ 2,266,141
	<hr/> <hr/>

The component units capital assets at June 30, 2009 consist of the following:

COMPONENT UNITS:

Land	\$ 715,521
Building	226,096
	<hr/>
Total component units	941,617
	<hr/>
Less, accumulated depreciation	84,427
	<hr/>
Net capital assets of component units	\$ 857,190
	<hr/> <hr/>

All assets are held in the Downtown Development Authority, except for land of approximately \$442,903 held in the Local Development Finance Authority. The component units depreciation expense for the year ended June 30, 2009 amounted to \$7,786.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE F – LONG-TERM DEBT

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
Governmental Activities:				
General obligation bonds	\$ 45,000	\$ -	\$ 45,000	\$ -
Building authority bonds	1,595,000	-	145,000	1,450,000
Installment purchase agreements	190,012	-	190,012	-
Special assessment bonds	370,000	-	230,000	140,000
Compensated absences	489,169	22,660	-	511,829
	<u>\$ 2,689,181</u>	<u>\$ 22,660</u>	<u>\$ 610,012</u>	<u>\$ 2,101,829</u>
Business-type Activities:				
Revenue bonds	\$ 16,630,000	\$ -	\$ 1,065,000	\$ 15,565,000
General obligation capital improvement bond	1,500,000	-	50,000	1,450,000
General obligation capital improvement and Refunding Bonds	6,330,000	-	135,000	6,195,000
Compensated absences	400,677	-	36,398	364,279
	<u>\$ 24,860,677</u>	<u>\$ -</u>	<u>\$ 1,286,398</u>	<u>\$ 23,574,279</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE F – LONG-TERM DEBT – Continued

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

GOVERNMENTAL ACTIVITIES

2001 special assessment bonds payable at an interest rate of 3.95%, annual principal payments of \$70,000, due February 2011	\$ 140,000
1999 Building Authority Bonds payable at interest rates of 4.75% to 5.375%, semiannually principal payments of \$95,000 to \$155,000, due October 2019	1,325,000
2000 Building Authority Bonds payable at interest rates of 5.20% to 5.25%, semiannual principal payments of \$60,000 to \$65,000, due October 2010	<u>125,000</u>
Total bonds and installment purchase agreements	1,590,000
Accumulated compensated absences	<u>511,829</u>
Total governmental activities debt	<u><u>\$ 2,101,829</u></u>

BUSINESS-TYPE ACTIVITIES

Series 2000 Electric Revenue Bonds interest rates varying from 5.7% to 6.0%, annual principal payments ranging from \$80,000 to \$140,000, due August 2019	\$ 1,175,000
Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 2.9% to 4.9%, annual payments ranging from \$85,000 to \$180,000, due August 2024	2,005,000
Series 2006 Electric Utility System Revenue Refunding Bonds, interest rates varying from 4.0% to 4.5%, annual payments ranging from \$475,000 to \$650,000, due August 2016	4,465,000
Series 2002 Telecommunications System Revenue Refunding Bonds, at an interest rate of 5.5%, annual principal payments ranging from \$270,000 to \$390,000, due August 2017	3,000,000

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE F – LONG-TERM DEBT – Continued

Series 2007 Water Supply and Waste Water System General Obligation Capital Improvement and Refunding Bonds at an interest rate of 4.0%, annual principal payments ranging from \$310,000 to \$485,000, due September 2025 6,195,000

Series 1999 Waste Water System Revenue Bonds, interest rates varying from 4.5% to 4.6%, annual principal payments ranging from \$145,000 to \$330,000, due July 2024 3,600,000

Series 2005 Water Supply and Waste Water System General Obligation Capital Improvement Bonds, interest rates varying from 3.4% to 4.45%, annual payments ranging from \$50,000 to \$130,000, due July 2025 1,450,000

Series 2004 Water Supply and Waste Water System Revenue Bonds, interest rates varying from 3.0% to 4.6%, annual payments ranging from \$60,000 to \$115,000, due July 2024 1,320,000

Total bonds and installment purchase agreements 23,210,000

Accumulated compensated absences 364,279

Total business-type activities debt \$ 23,574,279

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

COMPONENT UNITS

Local Development Finance Authority note payable, at an interest rate of 7.0%, due 2010 \$ 443,040

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE F – LONG-TERM DEBT – Continued

The annual requirements to service all debt outstanding as of June 30, 2009, including interest payments of \$7,910,722 for the debt service requirements are as follows:

	Governmental Activities		
	Principal	Interest	Total
2010	\$ 225,000	\$ 76,914	\$ 301,914
2011	230,000	66,275	296,275
2012	100,000	67,383	167,383
2013	105,000	51,851	156,851
2014	115,000	46,351	161,351
2015-2019	660,000	133,673	793,673
2020	155,000	4,166	159,166
Total	\$ 1,590,000	\$ 446,613	\$ 2,036,613
	Business-type Activities		
	Principal	Interest	Total
2010	\$ 1,550,000	\$ 1,002,978	\$ 2,552,978
2011	1,620,000	934,930	2,554,930
2012	1,695,000	862,051	2,557,051
2013	1,775,000	784,054	2,559,054
2014	1,860,000	701,881	2,561,881
2015-2019	8,240,000	2,235,391	10,475,391
2020-2024	5,975,000	932,631	6,907,631
2025-2026	495,000	10,193	505,193
Total	\$ 23,210,000	\$ 7,464,109	\$ 30,674,109

Interest expense for the year ended June 30, 2009 was \$1,040,282 for Business-type Activities and \$104,518 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2009 amounted to \$21,656.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

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

The City has reserved, designated and restricted fund balances and retained earnings, as of June 30, 2009, as follows:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Reserved and designated:		
Cemetery maintenance	<u>\$ 450,000</u>	
Restricted		
Bond reserve		<u>\$ 3,404,245</u>

NOTE H – RISK MANAGEMENT

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

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2009

NOTE I – RETIREMENT PROGRAM – Continued

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

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

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

Annual Pension Cost – For the year ended June 30, 2009, the City’s required and actual pension cost was \$322,106. The annual required contribution percentage was determined as a part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include: a rate of return on investment of present and future assets of 8% per year compounded annually, projected salary increases of 4.5% per year compounded annually, attributable to inflation, additional projected salary increases ranging from 0% to 4.2% per year, depending on age, attributable to seniority/merit and the assumption that benefits will increase 2.5 percent year (annually) after retirement for persons with selected benefits.

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

Defined Contribution Plan – The City also participates in the ICMA retirement plan, a division of MERS, which is a defined contribution pension plan established in 1997 to provide retirement benefits to employees not covered under the defined benefit plan. All employees hired after May, 2002 are covered by the defined contribution plan. At June 30, 2009, there were 81 plan members. Plan members are required to contribute 0% to 7.5% of covered payroll. The City is required to contribute 6% to 13.5% of annual covered payroll. The City’s contribution for the year ended June 30, 2009 was \$263,985. Plan provisions and contribution requirements are established and may be amended by the City Council.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2009

NOTE J – REVOLVING DEVELOPMENT FUND LOANS RECEIVABLE

During the last several years, the City has loaned funds to several local companies. The balance of these loans receivable at June 30, 2009 is \$215,660.

The City recognizes collections of principal and interest on the federal portion of these loans as deferred revenue as the loans are repaid. Deferred revenue amounted to \$204,751 at June 30, 2009. Repayment of the local portion of these loans is recorded as a reduction of the loan receivable and interest income when received. Upon repayment of the balance of each loan, deferred revenue will either be recognized as revenue when deemed available by the granting agency or the funds will be returned to the granting agency.

NOTE K – JOINT VENTURES

The City is a member of the Michigan South Central Power Agency, which provides electric services to the residents of its member communities. The participating communities provide annual funding for its operations. During the current year, the City paid \$20,828,416 for purchased power and debt retirement. The City is unaware of any circumstances that would cause any additional benefit or burden to participating governments in the near future. Complete financial statements for the Michigan South Central Power Agency can be obtained from the administrative offices at 720 Herring Road, Litchfield, Michigan 49252.

The City's Board of Public Utilities owns an approximate 40% interest in the Michigan South Central Power Agency (MSCPA). The City records the investment using the equity method and calculates 40% of the MSCPA's equity at year end. The MSCPA also holds assets of the City, which have been included in the MSCPA's equity over the years. The calculation of the investment includes 100% of the City's assets held at the MSCPA plus 40% of the equity net of the City's assets.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE L – CONSTRUCTION CODE FEES

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

Shortfall at July 1, 2008	\$ (1,182,706)
Current year building permit revenue	37,012
Less related expenses - Direct costs	<u>(261,534)</u>
Shortfall at June 30, 2009	<u><u>\$ (1,407,228)</u></u>

NOTE M – COMMITMENTS

The City of Coldwater has entered into contracts with various firms for construction and renovation to wastewater plant and water tower. The water tower was nearly completed at year end with only approximately 500,000 estimated for costs to complete the construction. The wastewater improvements are expected to continue for two more years with estimated cost to complete of \$4.6 million. The City is receiving federal funding for a portion of the project.

NOTE N – SUBSEQUENT EVENT

Subsequent to year end, the City of Coldwater completed the issuance of \$1,046,000 in refunding of bonds. The bonds carry interest rates varying from 3.4% to 4.25% and have annual payments ranging from \$133,000 to \$168,000. The bonds mature in August 2016. The City of Coldwater will save approximately \$187,616 in interest with the refinancing of the bonds.

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 4,063,309	\$ 4,055,267	\$ 4,043,029	\$ (12,238)
Licenses and permits	173,800	148,600	163,685	15,085
Federal sources	-	5,900	5,914	14
State shared revenue	952,011	934,418	942,751	8,333
State sources	42,000	52,000	53,224	1,224
Charges for services	499,700	495,800	516,232	20,432
Rent	469,000	322,500	333,237	10,737
Interest earned	180,000	140,000	159,568	19,568
Contributions	1,500	1,500	1,010	(490)
Other	37,500	31,280	33,827	2,547
	<u>6,418,820</u>	<u>6,187,265</u>	<u>6,252,477</u>	<u>65,212</u>
EXPENDITURES				
General government	1,398,191	1,305,641	1,313,751	8,110
Public safety	3,544,725	3,490,925	3,546,295	55,370
Public works	1,806,050	1,886,525	1,861,902	(24,623)
Recreation and cultural	1,203,650	1,199,350	1,159,165	(40,185)
Planning	110,700	133,200	135,134	1,934
Debt service	146,138	242,813	242,794	(19)
Other	459,684	434,484	429,749	(4,735)
	<u>8,669,138</u>	<u>8,692,938</u>	<u>8,688,790</u>	<u>(4,148)</u>
Excess (deficiency) of revenues over expenditures	(2,250,318)	(2,505,673)	(2,436,313)	69,360
OTHER SOURCES				
Sale of fixed assets	-	6,582	6,582	-
Payment in lieu of taxes	1,898,168	1,898,168	1,898,184	16
Transfers from other funds	114,714	110,064	119,613	9,549
	<u>2,012,882</u>	<u>2,014,814</u>	<u>2,024,379</u>	<u>9,565</u>
Excess (deficiency) of revenues and other sources over expenditures	(237,436)	(490,859)	(411,934)	78,925
FUND BALANCE - BEGINNING	<u>2,550,426</u>	<u>2,550,426</u>	<u>2,550,426</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 2,312,990</u>	<u>\$ 2,059,567</u>	<u>\$ 2,138,492</u>	<u>\$ 78,925</u>

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
REVOLVING DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest income	\$ 75,000	\$ 75,000	\$ 52,815	\$ (22,185)
Other	-	-	28,383	28,383
	<u>75,000</u>	<u>75,000</u>	<u>81,198</u>	<u>6,198</u>
EXPENDITURES				
Economic development	<u>75,000</u>	<u>75,000</u>	<u>44,508</u>	<u>(30,492)</u>
Excess of revenues over expenditures	-	-	36,690	36,690
FUND BALANCE - BEGINNING	<u>1,394,155</u>	<u>1,394,155</u>	<u>1,394,155</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 1,394,155</u></u>	<u><u>\$ 1,394,155</u></u>	<u><u>\$ 1,430,845</u></u>	<u><u>\$ 36,690</u></u>

CITY OF COLDWATER
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009

NOTE A - COMPLIANCE WITH STATE REGULATIONS

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

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

	Final Budget	Actual
General Fund		
General government	\$ 1,305,641	\$ 1,313,751
Public safety	\$ 3,490,925	\$ 3,546,295
Planning	\$ 133,200	\$ 135,134

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2009

Fiscal Year Ended June 30,

<u>As of December 31</u>	<u>Annual Pension Cost*</u>	<u>Percentage of Annual Pension Contributed</u>	<u>Net Pension Obligation</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>
2004	306,086	100%	-	19,822,285	22,636,615	2,814,330
2005	377,196	100%	-	20,024,113	22,863,080	2,838,967
2006	451,514	100%	-	20,702,863	23,267,283	2,564,420
2007	337,640	100%	-	21,433,474	24,026,708	2,593,234
2008	322,106	100%	-	21,228,432	24,695,681	3,467,249

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

Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll
2,814,330	88%	2,903,461
2,838,967	88%	2,796,620
2,564,420	89%	2,798,056
2,593,234	89%	2,809,097
3,467,249	86%	2,703,461

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2009

Nonmajor Special Revenue Funds

	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Parking Authority Fund</u>	<u>Retirement Fund</u>
ASSETS				
Cash and investments	\$ 148,398	\$ 111,095	\$ 135	\$ -
Accounts receivable	465	-	-	-
Special assessment receivable	11,471	-	-	-
Due from other governmental units	113,667	30,753	-	-
Restricted assets	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 274,001</u>	<u>\$ 141,848</u>	<u>\$ 135</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 3,231	\$ 1,693	\$ -	\$ -
Accrued expenditures	5,999	2,932	135	-
Deferred revenue	11,471	-	-	-
	<u>20,701</u>	<u>4,625</u>	<u>135</u>	<u>-</u>
Total liabilities	20,701	4,625	135	-
FUND BALANCE				
Designated	-	-	-	-
Unreserved	253,300	137,223	-	-
	<u>253,300</u>	<u>137,223</u>	<u>-</u>	<u>-</u>
Total fund balance	253,300	137,223	-	-
Total liabilities and fund balance	<u>\$ 274,001</u>	<u>\$ 141,848</u>	<u>\$ 135</u>	<u>\$ -</u>

<u>Nonmajor Capital Project Funds</u>		<u>Nonmajor Permanent Fund</u>		
<u>Library Memorial Fund</u>	<u>Coldwater Municipal Building Authority Fund</u>	<u>Cemetery Special and Perpetual Care Nonexpendable Trust Fund</u>		<u>Totals</u>
\$ 211,448	\$ -	\$ -	\$ -	\$ 471,076
-	-	-	-	465
-	-	-	-	11,471
-	-	-	-	144,420
-	-	450,000	-	450,000
<u>\$ 211,448</u>	<u>\$ -</u>	<u>\$ 450,000</u>		<u>\$ 1,077,432</u>
\$ 4,158	\$ -	\$ -	\$ -	\$ 9,082
-	-	-	-	9,066
-	-	-	-	11,471
4,158	-	-	-	29,619
-	-	450,000	-	450,000
207,290	-	-	-	597,813
<u>207,290</u>	<u>-</u>	<u>450,000</u>		<u>1,047,813</u>
<u>\$ 211,448</u>	<u>\$ -</u>	<u>\$ 450,000</u>		<u>\$ 1,077,432</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, 2009

Nonmajor Special Revenue Funds

	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Parking Authority Fund</u>	<u>Retirement Fund</u>
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 115,101
Special assessments	8,589	-	40,259	-
State shared revenue	607,265	190,440	-	-
State sources	84,185	-	-	-
Charges for services	-	-	3,678	-
Rent and royalties	-	-	-	-
Interest income	8,132	2,792	-	100
Contributions	-	-	-	-
Other income	1,863	-	-	619
Total revenues	<u>710,034</u>	<u>193,232</u>	<u>43,937</u>	<u>115,820</u>
EXPENDITURES				
Public works	755,281	506,056	40,049	-
Recreation and cultural	-	-	-	-
Debt service	-	-	-	-
Other	-	-	-	95
Total expenditures	<u>755,281</u>	<u>506,056</u>	<u>40,049</u>	<u>95</u>
Excess (deficiency) of revenues over expenditures	(45,247)	(312,824)	3,888	115,725
OTHER SOURCES (USES)				
Transfers from (to) other funds	<u>(151,816)</u>	<u>151,816</u>	<u>(3,888)</u>	<u>(115,725)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(197,063)	(161,008)	-	-
FUND BALANCE - BEGINNING	<u>450,363</u>	<u>298,231</u>	<u>-</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 253,300</u>	<u>\$ 137,223</u>	<u>\$ -</u>	<u>\$ -</u>

Nonmajor Capital Project Funds		Nonmajor Permanent Fund		
Library Memorial Fund	Coldwater Municipal Building Authority Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	Totals	
\$ -	\$ -	\$ -	\$	115,101
-	-	-		48,848
-	-	-		797,705
-	-	-		84,185
704	-	-		4,382
-	224,366	-		224,366
7,291	-	-		18,315
692	-	-		692
-	-	-		2,482
8,687	224,366	-		1,296,076
-	-	-		1,301,386
31,550	-	-		31,550
-	224,366	-		224,366
-	-	-		95
31,550	224,366	-		1,557,397
(22,863)	-	-		(261,321)
-	-	-		(119,613)
(22,863)	-	-		(380,934)
230,153	-	450,000		1,428,747
\$ 207,290	\$ -	\$ 450,000	\$	1,047,813

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2009

	Agency Funds		
	Health Insurance Fund	Tax Collection Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 32,408	\$ 19,219	\$ 51,627
 LIABILITIES			
Accounts payable	\$ 32,408	\$ -	\$ 32,408
Due to other funds	-	14	14
Due to others	-	19,205	19,205
Total liabilities	\$ 32,408	\$ 19,219	\$ 51,627

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

20 Tibbits Plaza * Coldwater, Michigan 49036

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

October 29, 2009

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

We have audited the financial statements of City of Coldwater as of and for the year ended June 30, 2009. Professional standards require that we provide you with the following information related to our audit.

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

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

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

As part of obtaining reasonable assurance about whether City of Coldwater's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

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

Significant Accounting Policies

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

Accounting Estimates

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

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$876,000.

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management letter dated October 29, 2009.

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

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

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

Difficulties Encountered in Performing the Audit

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

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



RUMSEY & WATKINS, P.C.