

**CITY OF COLDWATER
BRANCH COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2011

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Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

20 Tibbits Plaza * Coldwater, Michigan 49036

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

INDEPENDENT AUDITOR'S REPORT

**City Council
City of Coldwater, Michigan**

November 14, 2011

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, 2011, 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.

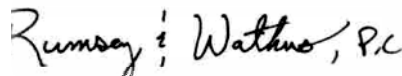
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan as of June 30, 2011 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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison schedules, and pension system schedule of funding progress pages 3 through 15 and 51 through 54 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management, about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on them.



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, 2011. 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, 2011:

- The City's overall fund equity increased by \$2.2 million (3.4%). Of this amount \$471,000 was contributed from the City's Governmental Funds and \$1.75 million from the Enterprise Funds under the modified accrual basis of accounting. An overall increase of \$2 million is shown using the full accrual basis.
- Main driver of increased fund equity is the Electric Fund with a change in net assets of \$1.9 million. This increase is primarily attributable to the operational income in addition to \$400,000 of investment income as a result of an increase in the equity of the Michigan South Central Power Agency (MSCPA) which the City is a 40% owner.
- Enterprise Funds ended the year with an increase in net assets of \$1.7 million or 2.9%.
- The City's Governmental Funds ended the year with an increase of \$470,775, primarily resulting from decreased expenditures in the City's General Fund and proceeds from an industrial land sale for new development in the amount of \$137,474.
- 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 a \$1.9 million increase in total net assets primarily attributed to the Enterprise Funds. The City's Governmental Activities show an increase in net assets of \$226,984.
- This year the City saw an overall change in fund equity of \$2.2 million, which is a decrease of \$3 million from the prior year. Prior year increase was due to large interest income relating to investment in the MSCPA.
- Governmental Funds saw a change in equity of \$470,775, even though total revenues after adjusting for debt proceeds decreased by \$495,099 (6.2%).
- Property taxes decreased by \$182,043 (4.4%) as residential and commercial property values declined as a result of faltering national economy.
- Federal revenue decreased \$1.4 million between governmental funds and proprietary funds compared to the prior year which saw the completion of federally funded road and wastewater improvements.
- State revenue sharing actually increased by \$34,176 due to a final adjustment resulting from the 2010 census. State revenue sharing was expected to see no increase for the year.
- State sources decreased by \$122,341 as the prior year received State grant to rehabilitate Michigan Avenue.
- Charges for services increased by \$814,920 (2%) as demand for electricity improved over the prior year.
- Decrease in interest income of \$2.4 million is due to the recording of the investment in the MSCPA. This year the MSCPA's fund equity did not increase as much as prior year.
- Other income increased by \$319,482 due to the sale of industrial land and insurance proceeds on damaged equipment amongst other items.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Financial Highlights – Continued

- Debt proceeds of \$431,000 in 2011 were for the purchase of a new fire engine.
- Program expenditures for the Governmental Funds decreased as staffing was reduced through terminations and attrition. Only Public Safety shows an increase in expenditures due to the purchase of the fire truck.
- Debt service increased as the City paid off the loan for the fire truck early.
- In March, 2011 the MSCPA retired all of their outstanding debt. The City's share of that debt was included in the cost to purchase power from the MSCPA. This resulted in purchase power not increasing in relation to increased electrical revenues.
- Administration costs increased by \$309,235; however the majority of the increase was the result of administering the renewable energy program and engineering costs related to the construction of a substation for the new commercial greenhouse operation at the owner's expense.

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	
	2011	2010	2011	2010	2011	2010
Assets	\$ 7,070,566	\$ 6,822,243	\$ 86,505,408	\$ 86,865,842	\$ 93,575,974	\$ 93,688,085
Liabilities	955,598	1,178,050	25,597,875	27,707,318	26,553,473	28,885,368
Fund Equity						
Investment in capital - Net of related debt	-	-	23,780,276	22,847,880	23,780,276	22,847,880
Retained earnings:						
Restricted	-	-	2,545,479	2,896,638	2,545,479	2,896,638
Unreserved	-	-	34,581,778	33,414,006	34,581,778	33,414,006
Fund balances:						
Nonspendable	50,308	482,490	-	-	50,308	482,490
Restricted	1,605,715	1,523,616	-	-	1,605,715	1,523,616
Committed	623,454	636,996	-	-	623,454	636,996
Assigned	709,037	786,604	-	-	709,037	786,604
Unassigned	3,126,454	2,214,487	-	-	3,126,454	2,214,487
Total fund equity	\$ 6,114,968	\$ 5,644,193	\$ 60,907,533	\$ 59,158,524	\$ 67,022,501	\$ 64,802,717

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	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	\$ 7,070,566	\$ 6,822,243	\$ 40,841,692	\$ 40,102,107	\$ 47,912,258	\$ 46,924,350
Capital assets	19,365,971	19,639,274	44,706,646	45,761,542	64,072,617	65,400,816
Total assets	26,436,537	26,461,517	85,548,338	85,863,649	111,984,875	112,325,166
Liabilities						
Long-term debt outstanding	1,874,730	1,997,549	19,606,258	21,539,271	21,480,988	23,536,820
Other liabilities	677,971	807,116	5,034,547	5,165,854	5,712,518	5,972,970
Total liabilities	2,552,701	2,804,665	24,640,805	26,705,125	27,193,506	29,509,790
Net Assets						
Investment in capital assets- Net of related debt	17,878,758	17,900,905	23,780,276	22,847,880	41,659,034	40,748,785
Restricted	2,279,477	3,149,723	2,545,479	2,896,638	4,824,956	6,046,361
Unrestricted	3,725,601	2,606,224	34,581,778	33,414,006	38,307,379	36,020,230
Total net assets	\$ 23,883,836	\$ 23,656,852	\$ 60,907,533	\$ 59,158,524	\$ 84,791,369	\$ 82,815,376

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	
	2011	2010	2011	2010	2011	2010
Revenue						
Taxes	\$ 3,988,299	\$ 4,170,342	\$ -	\$ -	\$ 3,988,299	\$ 4,170,342
Special assessments	101,021	110,229	-	-	101,021	110,229
Licenses and permits	143,298	151,817	-	-	143,298	151,817
Federal sources	29,217	326,482	-	1,113,317	29,217	1,439,799
State shared revenue	1,634,961	1,600,785	-	-	1,634,961	1,600,785
State sources	145,607	267,948	-	-	145,607	267,948
Charges for services	542,777	512,705	36,582,864	35,798,016	37,125,641	36,310,721
Rent	531,513	538,067	-	-	531,513	538,067
Interest income	112,638	129,938	572,660	2,894,827	685,298	3,024,765
Contributions	3,796	27,156	-	-	3,796	27,156
Other income	197,879	89,581	295,824	84,640	493,703	174,221
Proceeds from debt	431,000	373,369	-	-	431,000	373,369
Sale of fixed assets	893	1,948	23,717	166,660	24,610	168,608
Total income	7,862,899	8,300,367	37,475,065	40,057,460	45,337,964	48,357,827
Program expenses						
General government	1,275,832	1,296,477	-	-	1,275,832	1,296,477
Public safety	3,857,232	3,508,362	-	-	3,857,232	3,508,362
Public works	2,137,511	3,155,791	-	-	2,137,511	3,155,791
Recreation and cultural	877,668	961,693	-	-	877,668	961,693
Planning	125,531	152,494	-	-	125,531	152,494
Economic development	26,508	277,622	-	-	26,508	277,622
Debt service	764,531	302,739	-	-	764,531	302,739
Other expenditures	473,499	431,388	-	-	473,499	431,388
Purchased power	-	-	21,316,267	21,237,466	21,316,267	21,237,466
Power plant	-	-	327,795	313,089	327,795	313,089
Distribution	-	-	3,158,649	2,955,755	3,158,649	2,955,755
Substation	-	-	212,929	101,154	212,929	101,154
Sanitation	-	-	441,335	411,831	441,335	411,831
Metering and lighting	-	-	480,555	437,621	480,555	437,621
Wells	-	-	53,745	87,613	53,745	87,613
Treatment	-	-	1,195,797	1,221,911	1,195,797	1,221,911
Collection system	-	-	187,065	195,573	187,065	195,573
Customer service	-	-	382,612	361,988	382,612	361,988
Administration	-	-	2,408,699	2,099,464	2,408,699	2,099,464
Depreciation and amortization	-	-	2,543,743	2,437,213	2,543,743	2,437,213
Interest expense	-	-	870,677	958,788	870,677	958,788
Total expenses	9,538,312	10,086,566	33,579,868	32,819,466	43,118,180	42,906,032
Excess (deficit) of revenues over expenditures	(1,675,413)	(1,786,199)	3,895,197	7,237,994	2,219,784	5,451,795
Other Sources (Uses)	2,146,188	2,030,988	(2,146,188)	(2,030,988)	-	-
Change in fund equity	\$ 470,775	\$ 244,789	\$ 1,749,009	\$ 5,207,006	\$ 2,219,784	\$ 5,451,795

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	
	2011	2010	2011	2010
Revenues				
Program revenues:				
Charges for services	\$ 1,076,967	\$ 1,061,138	\$ 36,582,864	\$ 35,798,016
Operating grants and contributions	132,028	331,518	-	-
Capital grants and contributions	8,350	248,913	-	1,113,317
General revenues:				
Property taxes	3,988,299	4,170,342	-	-
State shared revenues	1,634,961	1,600,785	-	-
Unrestricted investment earnings	112,639	129,938	572,660	2,894,827
Gain (loss) on sale of assets	(5,093)	-	23,717	166,660
Miscellaneous	32,377	40,020	295,824	84,640
Capital contributions	-	-	-	-
Payments in lieu of taxes	2,146,188	2,030,988	(2,146,188)	(2,030,988)
Total revenues	9,126,716	9,613,642	35,328,877	38,026,472
Expenses				
General government	1,689,899	2,234,599	-	-
Public safety	3,464,486	3,532,213	-	-
Public works	2,543,018	1,871,295	-	-
Recreation and cultural	991,670	1,063,043	-	-
Economic development	128,284	430,116	-	-
Interest	82,375	77,739	-	-
Transfers	-	-	-	-
Electric	-	-	25,881,405	25,238,533
Telecommunications	-	-	2,997,277	2,965,636
Water	-	-	1,836,168	1,870,257
Waste water	-	-	2,410,917	2,320,551
Rubbish	-	-	454,101	424,489
Total expenses	8,899,732	9,209,005	33,579,868	32,819,466
Increase in Net Assets	<u>\$ 226,984</u>	<u>\$ 404,637</u>	<u>\$ 1,749,009</u>	<u>\$ 5,207,006</u>

The City has remained in a very stable financial condition, considering the overall state of the economy and decline in revenue. The combined fund equity increased approximately 3.4% under the modified accrual basis (short-term view), from \$64,802,717 to \$67,022,501. Governmental funds increased 8.3% and Enterprise funds 3.0%. In looking at the financial results under the full accrual basis (long-term view), total net assets increased by \$2 million (2.3%) from \$82,815,376 to \$84,791,369.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

These financial results reflect the proactive and conservative approach of the City Council to keep a balanced budget, minimize long term debt and to pay obligations on a pay as you go basis. In addition, difficult decisions were made to reduce staffing and minimize expenditures in advance of the downturn in the economy. This forward thinking approach has allowed the City to weather the recent economic downturn without having to cut services to residents.

The same can be said of the financial results of the City's Enterprise Funds. By applying prudent fiscal approaches the Council weighs the cost of future capital improvements along with maintaining the current cost of operations. While rate increases are never popular, they are needed to protect the long-term investment in infrastructure. With this approach the Enterprise funds continue to be in a very stable financial position.

City Council felt it was imperative to maintain their strong financial position during this time of economic uncertainty. State budget issues, declining property tax values and a stagnant national economy add to the uncertainty facing local governments today. The City of Coldwater has been able to avoid many of the pitfalls afflicting other municipalities by avoiding personnel legacy costs, conservative principles and avoiding long-term debt. Budgets are adopted in an effort to make sure costs are not passed on to future generations. Most importantly, the City had the courage to make difficult personnel decisions that led to reduced employment costs in advance of the dramatic drop in revenues. Additional details will be discussed in the following discussions of the Governmental and Enterprise Funds that follow.

Even with the City's strong financial position there remain several caveats for the future. It appears property values will continue to decline and future State funding cuts remain a distinct possibility. The City also needs to be cautious in planning for the repair and replacement of aging utility infrastructure.

Looking forward, the City does have several encouraging signs of improved local economic activity. Three local manufacturing plants have started construction on plant expansions and a Canadian based company selected Coldwater for a major commercial tomato greenhouse that will employ over a hundred people and be a significant source of utility revenues. Each of these projects will increase tax base and improve the local employment.

Governmental Funds

As previously discussed the City's Governmental Funds net assets increased \$471,000 (8.3%) under the modified accrual basis and by \$227,000 (1.0%) under the full accrual basis of accounting. Given the current economy and the State budget woes these operating results prove the City Council made the correct choices in reducing expenditures in advance of the economic downturn.

The City has 3 main revenue sources; property taxes, state shared revenue and payments in lieu of taxes which are based on a City Charter required 6.5% of all utility fund revenue transferred to the City's General Fund. As discussed in more detail below, total revenues dropped \$495,099 (6.2%) from the prior year.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Property tax revenue decreased by \$182,000 (4.4%) from prior year. The main driver behind this decrease was a significant decline in both residential and commercial property tax values. Tax foreclosures and mortgage defaults spurred on by local unemployment were the main reasons behind the significant drop in revenue. Property taxes are expected to drop another \$220,000 in the next fiscal year.

State Revenue Sharing saw a nominal increase of \$34,176. This increase was the result of the adjustment for the 2010 census being received in June. The City expected revenue sharing to be flat with the State Legislature budgeting no increase or decrease for the year. Going forward it is expected Revenue Sharing will remain flat.

Payments in lieu of taxes (PILOT) increased by \$115,200. This is based on the operating results of the utility funds for the 2009 fiscal year. Increase was partly due to rate increases in revenue as growth in the utility was nominal and was also impacted by the state of the economy. Since the 2009 fiscal year local companies have increased their utility demand primarily electric. For 2012 it is expected to see another nominal increase that will gradually start to increase in the 2013 fiscal year.

The other main decreases in revenue were a decline of \$297,265 in Federal revenue and \$122,341 drop in revenue from State sources. Federal revenue dropped compared to the prior year as the City completed a street and wastewater rehabilitation project in the 2010 fiscal year. Same is true of the State sources where a road project that was funded by a small urban grant was completed in 2010.

One surprise revenue source was the sale of land to a Canadian based company for a commercial tomato growing facility. This was one-time revenue received in the amount of \$137,000.

With the impending decline in revenue, Council took action to minimize expenditures and reduce staffing levels in the February, 2010. These proactive actions led to reduced expenditures in the 2011 fiscal year. Overall expenditures decreased by \$548,254 (5.4%) from the prior year.

General Government expenditures dropped by \$20,645 (1.6%) as the Finance Director was not replaced when he became the City Manager. Other significant changes were a reduction in the worker's compensation insurance and attorney fees as no labor contracts were negotiated during the year.

Public Safety expenditures did increase by \$348,870, however; when adjusting for the purchase of the fire engine for \$454,411, expenditures actually decreased by \$105,541 (3.0%). A police officer and a building inspector positions were not replaced during the year and a change to the health insurance for firefighters resulted in another savings of \$36,000 were the main reasons for the drop in expenditures.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Public Works decreased by \$1 million compared to the prior year. The decrease was due to significant road work being constructed in the prior year. The other significant decrease was the result of three full time street worker positions remaining open at the end of the year, significantly reducing salary and benefit costs.

Debt service increased by \$461,792 as the City opted to pay off the debt on the new fire engine early.

Overall, the City is continuing to look at ways to improve efficiencies and control costs. No further staff reductions are planned unless the City is forced to reduce services due to financial considerations.

Enterprise Funds

The Enterprise Funds as a whole saw net assets increase by \$1,749,009 or 2.96%. Of this amount \$1,873,078 is attributed to the Electric Fund. The Water Fund also contributed \$295,636. The Telecommunications and Wastewater Funds saw net assets decrease by \$201,932 and \$199,457 respectively.

Overall operating revenues of the utility funds decreased by \$328,469, or .9%. This decrease is the net results from an increase in Electric Fund revenue of \$800,463 being offset by one time Federal revenue from fiscal year 2010 of \$1,113,317 to the Wastewater fund.

Purchased power increased by \$78,801, or 0.37%. Included in the cost of purchased power is the debt owed on the generating station operated by the Michigan South Central Power Agency, of which the City is a 40% owner. The generating station became entirely debt free in March, 2011.

Expenditures as a whole increased by \$848,513, or 2.7%. The City makes every effort to minimize costs and to utilize best practices to continue to provide high quality services at the lowest cost possible to all utility customers.

PILOT expenditures increased by \$115,200, or 5.7%. The PILOT is calculated based on the final operating revenues of the 2009 fiscal year.

Overall, the City's Enterprise Funds continue to be financially stable. Annually, utility rates are analyzed to determine the cost of providing these services and rates are adjusted as required. During this economic decline, raising utility rates are never popular. But, in order to maintain reserves and to protect against the decline of the aging water and wastewater infrastructure, rates must be adjusted to maintain the financial stability of all the utility funds.

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.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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 18, 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, 2011 include the General Fund, Revolving Development Fund and Capital Improvement Fund.

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

Financial results for the General Fund saw an increase in fund balance of \$480,277. This surplus is primarily the result of a land sale for the commercial greenhouse operation, reductions to personnel and capital projects being delayed to future years.

General Fund revenues are derived from two main sources. The largest of which are property taxes. As previously discussed, property taxes were down compared to the prior year as taxable values were affected by the downturn in the residential housing market. Property taxes decreased by \$177,091 or 4.4%, for a total amount of \$3.8 million.

The second largest revenue is state shared revenue which increased by \$22,737. This increase was only due to an adjustment for the 2010 census that was received in June. Otherwise the difference to prior year would be negligible. Revenue sharing has been cut numerous times over the past decade dropping from a high of \$1,235,176 in 2002 to current level. The City is optimistic that revenue sharing going forward will remain neutral.

As previously discussed, the City did see an increase in the PILOT. The PILOT increased by \$115,200 and is based on the utility revenues received in 2009.

Transfers from other funds are from the retirement millage levied in the amount of 1/3rd of a mill as well as a transfer from the Parking Authority Fund to reimburse the General Fund for prior year transfers.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The City Council is fiscally conservative. As a result, the City has 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 the City invested \$1,004,069 into capital expenditures without issuing any additional debt.

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.

Financially, the City's General Fund is in a very strong financial position. This will help offset the declining revenues predicted for the near future without adversely affecting the services provided to the citizens of the City.

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 2011 the Capital Improvement Fund was used to resurface parking lanes in the central business district as part of a larger State project to rehabilitate US-12.

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

The City's Electric Fund ended the fiscal year with a positive change in net assets of \$1,873,078. During the year there were no significant repairs or unexpected expenditures. Primarily the costs shown are operational costs, labor costs, fuels and ordinary repairs and maintenance.

The Telecommunications Fund experienced a \$201,932 operating loss. The City continues to be challenged to keep up with the ever changing technology in today's market place. Consumer usage of dial up internet service and traditional land line long distance continue to decrease. Management is looking at other business solutions including offering fiber optic business services. Remaining revenue streams from the services of cable television, VOIP phone service and business fiber optic service all increased during the year. There were no significant changes in the expenditures during the year in comparison to prior years. The primary costs are programming charges, data line charges, depreciation and 3rd party costs to administer the VOIP and long distance services.

The Water Fund saw net assets increase by \$295,636. Operating costs were primarily related to the cost to pump, treat and distribute water to residents and businesses. Other than normal maintenance and repairs there were no other significant expenditures incurred during the year.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Net change in assets for the Wastewater Fund was a decrease of \$199,457 attributed directly to receiving \$1.1 million in federal assistance for the wastewater main reconstruction and wastewater treatment plant improvements. Regulatory considerations continue to mandate significant investment in infrastructure.

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 \$21,088. Actual operating resulted in a surplus of \$480,277, a difference of \$501,365. The significant budget-to-actual differences are as follows:

Revenues -

- Property tax revenue was over budget by \$10,760 as final collections of delinquent personal property taxes were underestimated.
- State shared revenue was over budget by \$29,976 as final state revenue check was adjusted for increase in population due to the 2010 census information.
- Charges for Services were over budget by \$25,592 as the City was reimbursed for assisting the City of Battle Creek with storm damage.
- Rent revenue was over budget by \$29,170 as final equipment rental charged to Major and Local Street Funds was higher than expected.
- Interest earned was over budget by \$33,904 due to interest earned from the Local Development Finance Authority not being included in the final budget amendments.
- Other revenue was over budget by \$152,922 due to the sale of City owned land to the commercial greenhouse operation.

Expenditures –

- General Government expenditures were under budget by \$55,629 primarily resulting from reduction of operating costs, including personnel.
- Public Safety expenditures were under budget by \$79,740 due to staffing reductions and change to employee benefits.
- Recreation and Cultural expenditures were under budget by \$130,281 primarily due to capital expenditures being postponed and operating costs were overestimated.
- Planning expenditures were over budget by \$22,331 related to a property purchase.
- Other expenditures were over budget by \$17,838 due to the cost of charging the City-wide trash pickup to the General Fund versus the Sanitation Fund.

Other Sources -

- Other Sources was over budget by \$5,874 due to the reimbursement from the Parking Authority which was not determined until after the end of the fiscal year.

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 \$4.8 million in capital assets for the City's Governmental and Enterprise Funds combined, \$3.8 million of which was reinvested in the City's aging utility infrastructure.

In addition to the utility infrastructure, various equipment was also purchased for the normal course of operation. Most significant would include the replacement of a backhoe, digital patrol car video cameras and a crack filling machine. Several other planned capital expenditures were delayed until future years.

Looking ahead to the 2012 fiscal year, there are several planned capital expenditures for the upcoming fiscal year that include replacement of a dump truck and loader, replacement of two patrol cars and continued investment in utility infrastructure.

The City will also be continuing with their annual street maintenance programs based on available transportation funds from the State.

At present, there are no plans to issue any debt. Historically, the City has taken a pay as you go approach to improving the City's infrastructure, except in the case of major utility improvements where bonding is the preferred method.

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

Economic Factors, Next Year's Budgets and Rates

The adopted budget for the fiscal year ending June 30, 2012 continues to reflect the current Michigan economy. City Council continues to maintain its policy of fiscal conservatism while providing the citizens of Coldwater quality services.

A budget deficit of \$198,651 is projected for the June 30, 2012 fiscal year. Revenues are expected to continue to decrease as property tax values decline. Currently, future budgeting projections are indicating small operating fund losses for the next two years. However, these losses are manageable given the size of the City's reserves. Again, proving the previous difficult personnel decisions and other cost cutting measures were necessary for the long-term benefit of the City.

The City continues to proactively take steps to reduce operating costs and continually looks for ways to improve efficiency. Staffing reductions are not popular, but at times are unavoidable. While no further staffing cuts are currently being considered, if revenues continue to decrease the City will continue to analyze staffing and service levels.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Currently, the State of Michigan economy appears to be trending upwards. A newly elected Governor has balanced the budget, enacted a new tax structure and changed the business environment. The current State Legislature understands local government cannot continue to sustain additional revenue cuts without having to sacrifice services to the community. This is a welcome change from the previous nine straight years of cuts to revenue sharing.

The City of Coldwater is very fortunate to own and operate its own municipal electric utility. The additional PILOT revenues have allowed Coldwater to overcome this current economic downturn without cuts to services. Other municipalities do not have this luxury and have been forced with difficult decisions that have had to impact services to their residents.

Even though our Enterprise Funds are in a strong financial position, there is still reason to be concerned. Aging infrastructure will continue to need improvements and maintenance. These costs are capital and labor intensive and will require the City to monitor utility rates annually. While, never popular, these rate increases are needed to ensure the safety and reliability of these services.

Coldwater is working to reinvent the way traditional government services are provided. We understand it is not business as usual. Creative thinking and strategic planning is needed to avoid financial issues associated with today's declining revenues. Fortunately, thanks to the Council's historical fiscal conservative approach, Coldwater is in a better position to handle this economic downturn and will continue to provide quality services to residents.

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, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 5,906,688	\$ 15,305,042	\$ 21,211,730	\$ 411,820
Accounts receivable	123,286	3,940,642	4,063,928	-
Special assessment receivable	47,722	-	47,722	-
Notes receivable	362,592	-	362,592	-
Inventory	-	170,702	170,702	-
Due from other governmental units	140,387	-	140,387	-
Prepaid expenses	39,891	120,199	160,090	-
Unamortized bond costs	-	945,365	945,365	-
Investment in Power Agency	-	17,814,263	17,814,263	-
Restricted assets	450,000	2,545,479	2,995,479	-
Capital assets, less accumulated depreciation	19,365,971	44,706,646	64,072,617	685,127
Total assets	26,436,537	85,548,338	111,984,875	1,096,947
LIABILITIES				
Accounts payable	294,068	2,008,284	2,302,352	21,748
Accrued expenditures	261,633	1,328,533	1,590,166	-
Due to others	-	-	-	378,131
Long term liabilities:				
Bonds payable, due within one year	122,270	1,697,730	1,820,000	-
Bonds and notes payable, due in more than one year	1,364,943	19,228,640	20,593,583	275,720
Compensated absences	509,787	377,618	887,405	-
Total liabilities	2,552,701	24,640,805	27,193,506	675,599
NET ASSETS				
Investment in capital assets - net of related debt	17,878,758	23,780,276	41,659,034	465,588
Restricted	2,279,477	2,545,479	4,824,956	(44,240)
Unrestricted	3,725,601	34,581,778	38,307,379	-
Total net assets	<u>\$ 23,883,836</u>	<u>\$ 60,907,533</u>	<u>\$ 84,791,369</u>	<u>\$ 421,348</u>

See Notes to Financial Statements

CITY OF COLDWATER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating / Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,689,899	\$ 270,715	\$ -	\$ -
Public safety	3,464,486	236,672	35,340	-
Public works	2,543,018	383,447	96,688	-
Recreation and cultural	991,670	176,800	-	-
Economic development	128,284	9,333	-	8,350
Interest	82,375	-	-	-
Total governmental activities	8,899,732	1,076,967	132,028	8,350
Business-type activities:				
Electric	25,881,405	28,797,709	-	-
Telecommunications	2,997,277	2,871,257	-	-
Water	1,836,168	2,242,859	-	-
Waste water	2,410,917	2,239,826	-	-
Rubbish	454,101	431,213	-	-
Total business-type activities	33,579,868	36,582,864	-	-
Total primary government	<u>\$ 42,479,600</u>	<u>\$ 37,659,831</u>	<u>\$ 132,028</u>	<u>\$ 8,350</u>
Component units:				
Downtown Development Authority	\$ 159,836	\$ 9,000	\$ -	\$ -
Local Development Authority	31,963	-	-	-
Total component units	<u>\$ 191,799</u>	<u>\$ 9,000</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

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

Payments in lieu of taxes

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

Change in Net 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
\$ (1,419,184)	\$ -	\$ (1,419,184)	\$ -
(3,192,474)	-	(3,192,474)	-
(2,062,883)	-	(2,062,883)	-
(814,870)	-	(814,870)	-
(110,601)	-	(110,601)	-
(82,375)	-	(82,375)	-
(7,682,387)	-	(7,682,387)	-
-	2,916,304	2,916,304	-
-	(126,020)	(126,020)	-
-	406,691	406,691	-
-	(171,091)	(171,091)	-
-	(22,888)	(22,888)	-
-	3,002,996	3,002,996	-
(7,682,387)	3,002,996	(4,679,391)	-
-	-	-	(150,836)
-	-	-	(31,963)
-	-	-	(182,799)
3,988,299	-	3,988,299	159,810
1,634,961	-	1,634,961	-
112,639	572,660	685,299	5,227
(5,093)	23,717	18,624	(297,550)
32,377	295,824	328,201	271
2,146,188	(2,146,188)	-	-
7,909,371	(1,253,987)	6,655,384	(132,242)
226,984	1,749,009	1,975,993	(315,041)
23,656,852	59,158,524	82,815,376	736,389
<u>\$ 23,883,836</u>	<u>\$ 60,907,533</u>	<u>\$ 84,791,369</u>	<u>\$ 421,348</u>

CITY OF COLDWATER
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

	<u>General Fund</u>	<u>Revolving Development Fund</u>	<u>Capital Improvement Fund</u>
ASSETS			
Cash and investments	\$ 3,426,697	\$ 1,241,142	\$ 783,498
Accounts receivable	112,693	-	-
Special assessment receivable	-	-	47,722
Notes receivable	219,539	143,053	-
Due from other governmental units	-	-	-
Prepaid expenses	39,891	-	-
Restricted assets	-	-	-
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 3,798,820</u>	<u>\$ 1,384,195</u>	<u>\$ 831,220</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 158,787	\$ -	\$ 74,461
Due to other funds	-	-	-
Accrued expenditures	254,149	-	-
Deferred revenue	219,539	132,636	47,722
	<hr/>	<hr/>	<hr/>
Total liabilities	632,475	132,636	122,183
FUND BALANCE			
Nonspendable	39,891	10,417	-
Restricted	-	1,241,142	-
Committed	-	-	-
Assigned	-	-	709,037
Unassigned	3,126,454	-	-
	<hr/>	<hr/>	<hr/>
Total fund balance	<u>3,166,345</u>	<u>1,251,559</u>	<u>709,037</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	<u>\$ 3,798,820</u>	<u>\$ 1,384,195</u>	<u>\$ 831,220</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Totals
\$ 455,351	\$ 5,906,688
10,593	123,286
-	47,722
-	362,592
140,387	140,387
-	39,891
450,000	450,000
<u>\$ 1,056,331</u>	<u>\$ 7,070,566</u>
\$ 28,485	\$ 261,733
32,335	32,335
7,484	261,633
-	399,897
<u>68,304</u>	<u>955,598</u>
-	50,308
364,573	1,605,715
623,454	623,454
-	709,037
-	3,126,454
<u>988,027</u>	<u>6,114,968</u>
<u>\$ 1,056,331</u>	<u>\$ 7,070,566</u>

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2011

Total Fund Balance - Governmental Funds	\$ 6,114,968
<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	31,641,932
Accumulated depreciation	<u>(12,275,961)</u>
Total capital assets not reported in funds	19,365,971
<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>	
	399,897
<p>Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:</p>	
Bonds payable	(1,487,213)
Compensated absences	<u>(509,787)</u>
Total long-term liabilities not reported in funds	<u>(1,997,000)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 23,883,836</u></u>

CITY OF COLDWATER

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Revolving Development Fund	Capital Improvement Fund
REVENUES			
Taxes	\$ 3,878,166	\$ -	\$ -
Special assessments	-	-	57,139
Licenses and permits	143,298	-	-
Federal sources	29,217	-	-
State shared revenue	838,787	-	-
State sources	48,919	-	-
Charges for services	538,292	-	-
Rent	307,428	-	-
Interest income	73,904	20,970	13,020
Contributions	2,725	-	-
Other income	171,422	24,699	-
Total revenues	<u>6,032,158</u>	<u>45,669</u>	<u>70,159</u>
EXPENDITURES			
General government	1,275,832	-	-
Public safety	3,857,232	-	-
Public works	1,300,913	-	-
Recreation and cultural Planning	851,819	-	-
Economic development	125,531	-	-
Debt service	-	26,508	-
Other expenditures	435,346	-	72,765
	398,538	-	74,961
Total expenditures	<u>8,245,211</u>	<u>26,508</u>	<u>147,726</u>
Excess (deficiency) of revenues over expenditures	(2,213,053)	19,161	(77,567)
OTHER SOURCES (USES)			
Sale of fixed assets	893	-	-
Payment in lieu of taxes	2,146,188	-	-
Debt proceeds	431,000	-	-
Transfers from (to) other funds	115,249	-	-
Total other sources (uses)	<u>2,693,330</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	480,277	19,161	(77,567)
FUND BALANCE - BEGINNING	<u>2,686,068</u>	<u>1,232,398</u>	<u>786,604</u>
FUND BALANCE - ENDING	<u>\$ 3,166,345</u>	<u>\$ 1,251,559</u>	<u>\$ 709,037</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Totals
\$ 110,133	\$ 3,988,299
43,882	101,021
-	143,298
-	29,217
796,174	1,634,961
96,688	145,607
4,485	542,777
224,085	531,513
4,744	112,638
1,071	3,796
1,758	197,879
1,283,020	7,431,006
-	1,275,832
-	3,857,232
836,598	2,137,511
25,849	877,668
-	125,531
-	26,508
256,420	764,531
-	473,499
1,118,867	9,538,312
164,153	(2,107,306)
-	893
-	2,146,188
-	431,000
(115,249)	-
(115,249)	2,578,081
48,904	470,775
939,123	5,644,193
\$ 988,027	\$ 6,114,968

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, 2011

Net change in Fund Balance - Total Governmental Funds	\$ 470,775
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(1,272,279)
Loss on sale of asset	(5,093)
Capital outlay	<u>1,004,069</u>
Total	(273,303)
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	(60,020)
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	(162,173)
Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Debt proceeds	(431,000)
Principal repayment	682,156
Decreases in compensated absences are reported as an increase to expenditures	<u>549</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 226,984</u></u>

CITY OF COLDWATER
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
ASSETS			
Current assets:			
Cash and investments	\$ 12,357,187	\$ -	\$ 566,424
Accounts receivable	3,131,787	234,379	254,056
Inventories	37,646	-	133,056
Due from other funds	957,070	-	-
Prepaid and other assets	10,069	103,431	3,760
Total current assets	<u>16,493,759</u>	<u>337,810</u>	<u>957,296</u>
Noncurrent assets:			
Unamortized bond costs	270,297	23,535	373,741
Investment in Power Agency	17,814,263	-	-
Restricted assets	1,252,535	336,074	423,924
Capital assets, less accumulated depreciation	15,207,684	4,478,383	10,439,625
Total noncurrent assets	<u>34,544,779</u>	<u>4,837,992</u>	<u>11,237,290</u>
Total assets	<u>\$ 51,038,538</u>	<u>\$ 5,175,802</u>	<u>\$ 12,194,586</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,606,778	\$ 149,824	\$ 125,569
Accrued expenditures	983,950	89,142	103,301
Due to other funds	-	957,070	-
Bonds and notes payable, due within one year	610,000	300,000	420,000
Total current liabilities	<u>3,200,728</u>	<u>1,496,036</u>	<u>648,870</u>
Noncurrent liabilities			
Bonds and notes payable, due in more than one year	4,710,000	2,150,000	4,990,000
Compensated absences	208,405	56,989	49,463
Total noncurrent liabilities	<u>4,918,405</u>	<u>2,206,989</u>	<u>5,039,463</u>
Total liabilities	<u>8,119,133</u>	<u>3,703,025</u>	<u>5,688,333</u>
NET ASSETS			
Investment in capital assets, net of related debt	9,887,684	2,028,383	5,029,625
Restricted	1,252,535	336,074	423,924
Unrestricted	31,779,186	(891,680)	1,052,704
Total net assets	<u>\$ 42,919,405</u>	<u>\$ 1,472,777</u>	<u>\$ 6,506,253</u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 1,955,521	\$ 425,910	\$ 15,305,042
256,824	31,261	3,908,307
-	-	170,702
32,335	-	989,405
2,939	-	120,199
<u>2,247,619</u>	<u>457,171</u>	<u>20,493,655</u>
277,792	-	945,365
-	-	17,814,263
532,946	-	2,545,479
<u>14,565,538</u>	<u>15,416</u>	<u>44,706,646</u>
<u>15,376,276</u>	<u>15,416</u>	<u>66,011,753</u>
<u>\$ 17,623,895</u>	<u>\$ 472,587</u>	<u>\$ 86,505,408</u>
\$ 113,131	\$ 12,982	\$ 2,008,284
145,006	7,134	1,328,533
-	-	957,070
<u>367,730</u>	<u>-</u>	<u>1,697,730</u>
625,867	20,116	5,991,617
7,378,640	-	19,228,640
62,761	-	377,618
<u>7,441,401</u>	<u>-</u>	<u>19,606,258</u>
8,067,268	20,116	25,597,875
6,819,168	15,416	23,780,276
532,946	-	2,545,479
2,204,513	437,055	34,581,778
<u>\$ 9,556,627</u>	<u>\$ 452,471</u>	<u>\$ 60,907,533</u>

CITY OF COLDWATER
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	Electric Fund	Telecommunications Fund	Water Fund
REVENUES			
Charges for services	\$ 28,797,709	\$ 2,871,257	\$ 2,242,859
OPERATING EXPENSES			
Purchased power	21,316,267	-	-
Power plant	327,795	-	-
Distribution	925,557	1,855,510	377,582
Substation	212,929	-	-
Sanitation	-	-	-
Metering and lighting	480,555	-	-
Wells	-	-	53,745
Treatment	-	-	358,292
Collection system	-	-	-
Customer service	147,516	235,096	-
Administration	1,299,101	316,523	379,905
Depreciation and amortization	933,619	454,115	447,577
Total operating expenditures	<u>25,643,339</u>	<u>2,861,244</u>	<u>1,617,101</u>
OPERATING INCOME	3,154,370	10,013	625,758
NONOPERATING REVENUES (EXPENSES)			
Investment income	538,938	2,943	5,779
Interest expense	(238,066)	(136,033)	(219,067)
Gain (loss) on sale of fixed assets	20,248	29	58
Miscellaneous	175,712	19,456	16,752
Total nonoperating revenues (expenses)	<u>496,832</u>	<u>(113,605)</u>	<u>(196,478)</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	3,651,202	(103,592)	429,280
TRANSFERS			
Payments in lieu of taxes	<u>(1,778,124)</u>	<u>(98,340)</u>	<u>(133,644)</u>
CHANGE IN NET ASSETS	1,873,078	(201,932)	295,636
NET ASSETS - BEGINNING	<u>41,046,327</u>	<u>1,674,709</u>	<u>6,210,617</u>
NET ASSETS - ENDING	<u><u>\$ 42,919,405</u></u>	<u><u>\$ 1,472,777</u></u>	<u><u>\$ 6,506,253</u></u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 2,239,826	\$ 431,213	\$ 36,582,864
-	-	21,316,267
-	-	327,795
-	-	3,158,649
-	-	212,929
-	441,335	441,335
-	-	480,555
-	-	53,745
837,505	-	1,195,797
187,065	-	187,065
-	-	382,612
413,170	-	2,408,699
695,666	12,766	2,543,743
<u>2,133,406</u>	<u>454,101</u>	<u>32,709,191</u>
106,420	(22,888)	3,873,673
20,428	4,572	572,660
(277,511)	-	(870,677)
3,382	-	23,717
83,904	-	295,824
<u>(169,797)</u>	<u>4,572</u>	<u>21,524</u>
(63,377)	(18,316)	3,895,197
<u>(136,080)</u>	<u>-</u>	<u>(2,146,188)</u>
(199,457)	(18,316)	1,749,009
<u>9,756,084</u>	<u>470,787</u>	<u>59,158,524</u>
<u>\$ 9,556,627</u>	<u>\$ 452,471</u>	<u>\$ 60,907,533</u>

CITY OF COLDWATER
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 29,156,305	\$ 2,900,526	\$ 2,272,005
Payments made to suppliers	(25,786,466)	(1,682,704)	(1,130,217)
Payments made to employees	(1,196,981)	(574,519)	(419,840)
Net cash provided by (used in) operating activities	2,172,858	643,303	721,948
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	(1,874,066)	(416,033)	(619,067)
Proceeds of issuance of bonds	-	-	-
Payment of bond issuance costs	-	-	-
Purchase of capital assets	(298,619)	(227,270)	(124,989)
Net cash provided by (used in) capital and related financing activities	(2,172,685)	(643,303)	(744,056)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received on investments	538,938	2,943	5,779
Change in investments	(100,560)	-	49,282
Net cash provided by investing activities	438,378	2,943	55,061
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	438,551	2,943	32,953
CASH AND CASH EQUIVALENTS - BEGINNING	11,918,636	333,131	533,471
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 12,357,187</u>	<u>\$ 336,074</u>	<u>\$ 566,424</u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 2,343,917	\$ 431,253	\$ 37,104,006
(786,955)	(341,927)	(29,728,269)
(432,909)	(98,139)	(2,722,388)
1,124,053	(8,813)	4,653,349
(3,921,355)	-	(6,830,521)
3,972,552	-	3,972,552
(65,558)	-	(65,558)
(692,717)	-	(1,343,595)
(707,078)	-	(4,267,122)
20,428	4,572	572,660
2,524	-	(48,754)
22,952	4,572	523,906
439,927	(4,241)	910,133
1,515,594	430,151	14,730,983
<u>\$ 1,955,521</u>	<u>\$ 425,910</u>	<u>\$ 15,641,116</u>

CITY OF COLDWATER

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS - Continued
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS			
Cash and investments	\$ 12,357,187	\$ -	\$ 566,424
Restricted cash and investments	1,252,535	336,074	423,924
Less amounts classified as investments	<u>(1,252,535)</u>	<u>-</u>	<u>(423,924)</u>
Total cash and cash equivalents	<u>\$ 12,357,187</u>	<u>\$ 336,074</u>	<u>\$ 566,424</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income	\$ 3,154,370	\$ 10,013	\$ 625,758
Adjustments to reconcile operating income to net cash from operating activities:			
Other income	175,712	19,456	16,752
Depreciation and amortization	933,619	454,115	447,577
Loss (Gain) on sale of assets	20,248	29	58
Payments in lieu of taxes	(1,778,124)	(98,340)	(133,644)
Changes in assets and liabilities:			
Receivables	162,636	9,784	12,336
Inventories	(12,692)	-	(7,189)
Prepays and other assets	3,661	(88,016)	3,360
Due from (to) other funds	(286,941)	286,941	(332,064)
Accounts payable	(320,255)	53,180	91,072
Accrued expenditures	112,065	(3,859)	3,429
Compensated absences	8,559	-	(5,497)
Net cash provided by (used in) operating activities	<u>\$ 2,172,858</u>	<u>\$ 643,303</u>	<u>\$ 721,948</u>

See Notes to Financial Statements

Waste Water Fund	Nonmajor Sanitation Fund	Totals
\$ 1,955,521	\$ 425,910	\$ 15,305,042
532,946	-	2,545,479
(532,946)	-	(2,209,405)
<u>\$ 1,955,521</u>	<u>\$ 425,910</u>	<u>\$ 15,641,116</u>
\$ 106,420	\$ (22,888)	\$ 3,873,673
83,904	-	295,824
695,666	12,766	2,543,743
3,382	-	23,717
(136,080)	-	(2,146,188)
16,805	40	201,601
-	-	(19,881)
3,540	-	(77,455)
367,407	-	35,343
(4,470)	(1,731)	(182,204)
(14,625)	3,000	100,010
2,104	-	5,166
<u>\$ 1,124,053</u>	<u>\$ (8,813)</u>	<u>\$ 4,653,349</u>

CITY OF COLDWATER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 32,439
LIABILITIES	
Due to other governmental units	\$ 32,439

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Downtown Development Authority	Local Development Finance Authority	Total
ASSETS			
Cash and investments	\$ 30,389	\$ 381,431	\$ 411,820
Capital assets, less accumulated depreciation	685,127	-	685,127
 Total assets	 715,516	 381,431	 1,096,947
LIABILITIES			
Accounts payable	18,448	3,300	21,748
Due to others	-	378,131	378,131
Long term liabilities:			
Notes payable, due in more than one year	-	275,720	275,720
 Total liabilities	 18,448	 657,151	 675,599
NET ASSETS (DEFICIT)			
Investment in capital assets - net of related debt	685,127	(219,539)	465,588
Restricted (deficit)	11,941	(56,181)	(44,240)
 Total net assets (deficit)	 \$ 697,068	 \$ (275,720)	 \$ 421,348

**CITY OF COLDWATER
 COMPONENT UNITS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating / Grants and Contributions
Downtown Development Authority	\$ 159,836	\$ 9,000	\$ -
Local Development Finance Authority	31,963	-	-
Total component activities	\$ 191,799	\$ 9,000	\$ -

General revenues:

Property taxes

Interest

Gain (loss) on sale of assets

Miscellaneous

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
\$ (150,836)	\$ -	\$ (150,836)
-	(31,963)	(31,963)
(150,836)	(31,963)	(182,799)
128,390	31,420	159,810
605	4,622	5,227
-	(297,550)	(297,550)
271	-	271
129,266	(261,508)	(132,242)
(21,570)	(293,471)	(315,041)
718,638	17,751	736,389
<u>\$ 697,068</u>	<u>\$ (275,720)</u>	<u>\$ 421,348</u>

CITY OF COLDWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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, 2011

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, 2011

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, 2011

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, 2011

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 2010 tax is levied and collectible on August 1, 2010 and is recognized as revenue in the year ended June 30, 2011, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2010 taxable valuation of the City totaled \$323 million, a portion of which is abated and a portion of which is captured by the LDFA and DDA. Taxes levied consisted of 11.5978 mills for operating purposes and .3333 mills for the retirement system. This resulted in almost \$3.7 million for general operating and approximately \$111,000 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, 2011**

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.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES AND NET ASSETS: – Continued

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

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

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

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

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

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

The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the City’s Board through adoption or amendment of the budget as intended for specific purpose.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES AND NET ASSETS: – Continued

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

	<u>General Fund</u>	<u>Revolving Development Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Nonmajor Governmental Funds</u>
Nonspendable:				
Prepaid expenses	\$ 39,891	\$ -	\$ -	\$ -
Notes receivable	-	10,417	-	-
Restricted:				
Revolving development	-	1,241,142	-	-
Capital improvement	-	-	-	-
Major streets	-	-	-	304,195
Local streets	-	-	-	60,378
Committed:				
Parking authority	-	-	-	8,386
Library Memorial	-	-	-	165,068
Cemetery	-	-	-	450,000
Assigned:	-	-	709,037	-
Unassigned:	3,126,454	-	-	-
 Total	 <u>\$ 3,166,345</u>	 <u>\$ 1,251,559</u>	 <u>\$ 709,037</u>	 <u>\$ 988,027</u>

BASIS OF BUDGETING:

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

USE OF ESTIMATES:

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

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 .75% 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.

Investment	Fair Value	Weighted Average Maturity (Years)
Bank investment pool (not 2a-7)	\$ 1,892,262	0.0027
U.S. government or agency bond or note	8,660,418	4.2

1 day maturity equals 0.0027, one year equals 1.00

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

Investment	Fair Value	Fitch Rating
Michigan CLASS pool	\$ 1,892,262	AAA

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE B – DEPOSITS AND INVESTMENTS – Continued

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

Custodial credit risk for deposits – In the case of deposits, this is the risk that in the event of a financial institution failure, the City’s deposits may not be recovered. As of June 30, 2011, \$22,295,540 of the City’s bank balance of \$24,747,755 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

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

NOTE C – DUE FROM (TO) OTHER FUNDS

The due from (to) other funds, at June 30, 2011, for the City are as follows:

<u>ELECTRIC FUND</u>	
Due from Telecommunications Fund	\$ 957,070
<u>WASTEWATER FUND</u>	
Due from Other Nonmajor	
Major Streets Fund	21,988
Local Streets Fund	<u>10,347</u>
Total WasteWater Fund	<u>32,335</u>
Total due from other funds	<u><u>\$ 989,405</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE D – TRANSFERS FROM (TO) OTHER FUNDS

Transfers from (to) other funds, during the year ended June 30, 2011, for the City are as follows:

GENERAL FUND

Transfer from Parking Authority	\$ 4,348
Transfer from Retirement Fund	110,901
	<hr/>
Total General Fund	\$ 115,249

OTHER NONMAJOR FUNDS

Major Streets Fund	
Transfer to Local Streets Fund	\$ (226,559)
Local Streets Fund	
Transfer from Major Streets Fund	226,559
Parking Authority	
Transfer to General Fund	(4,348)
Retirement Fund	
Transfer to General Fund	<u>(110,901)</u>
Total other nonmajor governmental funds	<u>\$ (115,249)</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, 2011**

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, 2010	Additions	Disposals	Balance June 30, 2011
Land	\$ 1,510,201	\$ 32,214	\$ -	\$ 1,542,415
Roads and sidewalks	13,196,229	246,052	200,734	13,241,547
Land improvements	737,263	-	-	737,263
Buildings and improvements	11,224,043	5,194	-	11,229,237
Vehicles	2,242,974	485,767	-	2,728,741
Other tools and equipment	1,931,798	234,842	3,911	2,162,729
Subtotal	30,842,508	1,004,069	204,645	31,641,932
ACCUMULATED DEPRECIATION:				
Roads and sidewalks	5,166,373	649,775	195,641	5,620,507
Land improvements	326,137	43,875	-	370,012
Building and improvements	2,874,090	269,908	-	3,143,998
Vehicles	1,581,868	172,265	-	1,754,133
Other tools and equipment	1,254,766	136,456	3,911	1,387,311
Total accumulated depreciation	11,203,234	1,272,279	199,552	12,275,961
Net capital assets	<u>\$ 19,639,274</u>	<u>\$ (268,210)</u>	<u>\$ 5,093</u>	<u>\$ 19,365,971</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE E – CAPITAL ASSETS – Continued

BUSINESS-TYPE ACTIVITIES

GROUP:	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Land	\$ 685,155	\$ 28,604	\$ -	\$ 713,759
Work in progress	2,041,220	506,598	2,461,751	86,067
Utility systems	50,467,367	3,179,829	182,877	53,464,319
Buildings	18,992,390	26,307	-	19,018,697
Machinery and equipment	6,839,906	64,007	41,338	6,862,575
Subtotal	79,026,038	3,805,345	2,685,966	80,145,417
ACCUMULATED DEPRECIATION:				
Electric	14,129,724	837,398	102,505	14,864,617
Telecommunications	4,495,673	450,246	104,889	4,841,030
Water	5,698,141	421,039	3,861	6,115,319
Waste water	8,789,585	677,042	12,961	9,453,666
Sanitation	151,373	12,766	-	164,139
Total accumulated depreciation	33,264,496	2,398,491	224,216	35,438,771
Net capital assets	<u>\$ 45,761,542</u>	<u>\$ 1,406,854</u>	<u>\$ 2,461,750</u>	<u>\$ 44,706,646</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE E – CAPITAL ASSETS – Continued

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

GOVERNMENTAL ACTIVITIES:

General government	\$ 237,259
Public safety	109,948
Public works	805,876
Recreation and culture	<u>119,196</u>
Total governmental activities	<u><u>\$ 1,272,279</u></u>

BUSINESS -TYPE ACTIVITIES:

Electric	\$ 837,398
Telecommunications	450,246
Water	421,039
Waste water	677,042
Sanitation	<u>12,766</u>
Total business-type activities	<u><u>\$ 2,398,491</u></u>

The component units capital assets at June 30, 2011 consist of the following:

COMPONENT UNITS:

Land	\$ 272,618
Building	226,221
Infrastructure	<u>301,819</u>
Total component units	800,658
Less, accumulated depreciation	<u>115,531</u>
Net capital assets of component units	<u><u>\$ 685,127</u></u>

All assets are held in the Downtown Development Authority. The component unit's depreciation expense for the year ended June 30, 2011 amounted to \$23,656.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE F – LONG-TERM DEBT

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>
Governmental Activities:				
Revenue bonds	\$ 373,369	\$ -	\$ 21,156	\$ 352,213
Building authority bonds	1,295,000	-	160,000	1,135,000
Special assessment bonds	70,000	-	70,000	-
Federal Fire Truck loan	-	431,000	431,000	-
Compensated absences	510,336	-	549	509,787
	<u>510,336</u>	<u>-</u>	<u>549</u>	<u>509,787</u>
Total governmental activities	<u>\$ 2,248,705</u>	<u>\$ 431,000</u>	<u>\$ 682,705</u>	<u>\$ 1,997,000</u>
Business-type Activities:				
Revenue bonds and Refunding bonds	\$ 15,703,662	\$ 617,552	\$ 5,504,844	\$ 10,816,370
General obligation capital improvement bond	1,400,000	-	55,000	1,345,000
General obligation capital improvement and Refunding bonds	5,810,000	3,355,000	400,000	8,765,000
Compensated absences	372,452	5,166	-	377,618
	<u>372,452</u>	<u>5,166</u>	<u>-</u>	<u>377,618</u>
Total business-type activities	<u>\$ 23,286,114</u>	<u>\$ 3,977,718</u>	<u>\$ 5,959,844</u>	<u>\$ 21,303,988</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE F – LONG-TERM DEBT – Continued

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

GOVERNMENTAL ACTIVITIES

1999 Building Authority Bonds payable at interest rates of 4.90% to 5.375%, semiannually principal payments of \$100,000 to \$155,000, due October 2019	\$ 1,135,000
Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$22,270 to \$30,065, due April 2030	<u>352,213</u>
Total bonds and installment purchase agreements	1,487,213
Accumulated compensated absences	<u>509,787</u>
Total governmental activities debt	<u><u>\$ 1,997,000</u></u>

BUSINESS-TYPE ACTIVITIES

Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 3.2% to 4.9%, annual payments ranging from \$95,000 to \$180,000, due August 2024	\$ 1,830,000
Series 2006 Electric Utility System Revenue Refunding Bonds, interest rates varying from 4.125% to 4.5%, annual payments ranging from \$515,000 to \$650,000, due August 2016	3,490,000

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE F – LONG-TERM DEBT – Continued

Series 2002 Telecommunications System Revenue Refunding Bonds, at an interest rate of 5.5%, annual principal payments ranging from \$300,000 to \$390,000, due August 2017	2,450,000
Series 2007 Water Supply and Waste Water System General Obligation Capital Improvement and Refunding Bonds at an interest rate of 4.0%, annual principal payments ranging from \$265,000 to \$485,000, due September 2025	5,410,000
Series 2010 Waste Water Limited Tax General Obligation Refunding Bonds, interest rates varying from 1.1% to 4.1%, annual principal payments ranging from \$170,000 to \$315,000, due July 2024	3,355,000
Series 2005 Water Supply and Waste Water System General Obligation Capital Improvement Bonds, interest rates varying from 3.6% to 4.45%, annual payments ranging from \$60,000 to \$130,000, due July 2025	1,345,000
Series 2004 Water Supply and Waste Water System Revenue Bonds, interest rates varying from 3.5% to 4.6%, annual payments ranging from \$60,000 to \$115,000, due July 2024	1,200,000
Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$77,730 to \$124,935, due April 2030	<u>1,846,370</u>
Total bonds and installment purchase agreements	20,926,370
Accumulated compensated absences	<u>377,618</u>
Total business-type activities debt	<u><u>\$ 21,303,988</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE F – LONG-TERM DEBT – Continued

COMPONENT UNITS

Local Development Finance Authority note payable, at an interest rate
of 7.0%, due 2012

\$ 275,720

REFUNDING OF BONDS

In December 2010, City of Coldwater issued Limited Tax General Obligation Refunding bonds of \$3,355,000 with an interest rate of ranging from 1.1% to 4.1% to advance \$3,300,000 of refund bonds with an interest rate ranging from 4.5% to 4.6%. The bonds mature in July 2024. The Limited Tax General Obligation Refunding bonds were issued at par after paying issuance costs of \$63,884 which includes underwriters discount, the net proceeds were \$3,355,000. The net proceeds from the issuance of the Limited Tax General Obligation Refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the Series 1999 Waste Water System Revenue bonds were removed from the City's government – wide financial statements.

As a result of the advance refunding, the City reduced its total debt service requirements by \$237,597, which resulted in an economic gain, difference between present value of the debt service payments on the old and new debt of \$187,253.

The City has defeased Series 1999 Waste Water System Revenue bonds by placing the proceeds of new bond in an irrevocable trust to provide for all future debt service payments on the old bond. Accordingly, the trust account assets and liability for the defeased bond is not included in the City's financial statements. At June 30, 2011, \$3,300,000 of bonds outstanding is considered defeased, paid on January 1, 2011.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE F – LONG-TERM DEBT – Continued

The annual requirements to service all debt outstanding as of June 30, 2011, including interest payments of \$5,759,567 for the debt service requirements are as follows:

	Governmental Activities		
	Principal	Interest	Total
2012	\$ 122,270	\$ 69,217	\$ 191,487
2013	127,270	63,535	190,805
2014	138,384	57,478	195,862
2015	143,384	50,958	194,342
2016	149,496	43,343	192,839
2017-2021	702,506	100,355	802,861
2022-2025	103,903	16,753	120,656
Total	\$ 1,487,213	\$ 401,639	\$ 1,888,852

	Business-type Activities		
	Principal	Interest	Total
2012	\$ 1,697,730	\$ 806,417	\$ 2,504,147
2013	1,787,730	728,782	2,516,512
2014	1,866,617	655,235	2,521,852
2015	1,946,617	577,325	2,523,942
2016	2,035,503	493,933	2,529,436
2017-2021	6,087,493	1,552,395	7,639,888
2022-2026	5,086,097	523,991	5,610,088
2027-2029	418,583	19,850	438,433
Total	\$ 20,926,370	\$ 5,357,928	\$ 26,284,298

Interest expense for the year ended June 30, 2011 was \$870,677 for Business-type Activities and \$77,454 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2011 amounted to \$31,963.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2011

NOTE G – RISK MANAGEMENT

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

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

NOTE H – RETIREMENT PROGRAM

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

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

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

Annual Pension Cost – For the year ended June 30, 2011, the City's required and actual pension cost was \$441,735. The annual required contribution percentage was determined as a part of an actuarial valuation at December 31, 2007, using the entry age normal cost method. Significant actuarial assumptions used include: a rate of return on investment of present and future assets of 8% per year compounded annually, projected salary increases of 4.5% per year compounded annually, attributable to inflation, additional projected salary increases ranging from 0% to 4.2% per year, depending on age, attributable to seniority/merit and the assumption that benefits will increase 2.5 percent year (annually) after retirement for persons with selected benefits.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2011

NOTE H – RETIREMENT PROGRAM – Continued

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

Defined Contribution Plan – The City also participates in the ICMA retirement plan, a division of MERS, which is a defined contribution pension plan established in 1997 to provide retirement benefits to employees not covered under the defined benefit plan. All employees hired after May, 2002 are covered by the defined contribution plan. At June 30, 2010, there were 83 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, 2011 was \$482,272. Plan provisions and contribution requirements are established and may be amended by the City Council.

NOTE I – REVOLVING DEVELOPMENT FUND LOANS RECEIVABLE

During the last several years, the City has loaned funds to several local companies. The balance of these loans receivable at June 30, 2011 is \$143,053.

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 \$132,636 at June 30, 2011. Repayment of the local portion of these loans is recorded as a reduction of the loan receivable and interest income when received. Upon repayment of the balance of each loan, deferred revenue will either be recognized as revenue when deemed available by the granting agency or the funds will be returned to the granting agency.

NOTE J – JOINT VENTURES

The City is a member of the Michigan South Central Power Agency, which provides electric services to the residents of its member communities. The participating communities provide annual funding for its operations. During the current year, the City paid \$21,316,267 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, 2011**

NOTE K – CONSTRUCTION CODE FEES

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

Shortfall at July 1, 2010	\$ (1,613,307)
Current year building permit revenue	14,860
Less related expenses - Direct costs	<u>(185,435)</u>
Shortfall at June 30, 2011	<u>\$ (1,783,882)</u>

NOTE L – COMMITMENTS

The City of Coldwater has entered into contracts with various firms for construction and renovation. There were three projects in progress and were just getting started at year end with approximately \$1,775,500 estimated for costs to complete the construction projects.

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,865,472	\$ 3,867,406	\$ 3,878,166	\$ 10,760
Licenses and permits	152,800	147,500	143,298	(4,202)
Federal sources	-	30,000	29,217	(783)
State shared revenue	798,140	808,811	838,787	29,976
State sources	42,000	51,950	48,919	(3,031)
Charges for services	489,700	512,700	538,292	25,592
Rent	290,740	278,258	307,428	29,170
Interest earned	80,000	40,000	73,904	33,904
Contributions	1,500	2,725	2,725	-
Other	32,000	18,500	171,422	152,922
	<u>5,752,352</u>	<u>5,757,850</u>	<u>6,032,158</u>	<u>274,308</u>
EXPENDITURES				
General government	1,512,591	1,331,461	1,275,832	(55,629)
Public safety	3,494,561	3,936,972	3,857,232	(79,740)
Public works	1,277,300	1,295,733	1,300,913	5,180
Recreation and cultural	1,035,100	982,100	851,819	(130,281)
Planning	116,200	103,200	125,531	22,331
Debt service	42,500	435,346	435,346	-
Other	426,900	380,700	398,538	17,838
	<u>7,905,152</u>	<u>8,465,512</u>	<u>8,245,211</u>	<u>(220,301)</u>
Excess (deficiency) of revenues over expenditures	(2,152,800)	(2,707,662)	(2,213,053)	494,609
OTHER SOURCES				
Sale of fixed assets	-	-	893	893
Payment in lieu of taxes	2,146,199	2,146,199	2,146,188	(11)
Debt proceeds	-	431,000	431,000	-
Transfers from other funds	106,110	109,375	115,249	5,874
	<u>2,252,309</u>	<u>2,686,574</u>	<u>2,693,330</u>	<u>6,756</u>
Excess (deficiency) of revenues and other sources over expenditures	99,509	(21,088)	480,277	501,365
FUND BALANCE - BEGINNING	<u>2,142,469</u>	<u>2,686,068</u>	<u>2,686,068</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 2,241,978</u>	<u>\$ 2,664,980</u>	<u>\$ 3,166,345</u>	<u>\$ 501,365</u>

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
REVOLVING DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest income	\$ 62,000	\$ 62,000	\$ 20,970	\$ (41,030)
Other	30,000	30,000	24,699	(5,301)
Total revenue	92,000	92,000	45,669	(46,331)
EXPENDITURES				
Economic development	65,000	65,000	26,508	(38,492)
Excess of revenues over expenditures	27,000	27,000	19,161	(7,839)
FUND BALANCE - BEGINNING	<u>1,457,845</u>	<u>1,232,398</u>	<u>1,232,398</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,484,845</u>	<u>\$ 1,259,398</u>	<u>\$ 1,251,559</u>	<u>\$ (7,839)</u>

CITY OF COLDWATER
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

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 are presented as Required Supplemental Information. The budgets are adopted on the department level.

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

	<u>Final Budget</u>	<u>Actual</u>
General Fund		
Public works	\$ 1,295,733	\$ 1,300,913
Planning	\$ 103,200	\$ 125,531
Other	\$ 380,700	\$ 398,538

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011

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>
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
2009	345,540	100%	-	20,736,364	25,353,044	4,616,680
2010	441,735	100%	-	20,451,738	25,659,658	5,207,920

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

Funded Ratio	Covered Payroll	Underfunded Actuarial Accrued Liability Percentage of Covered Payroll
89%	2,798,056	91.65%
89%	2,809,097	92.32%
86%	2,703,461	128.25%
82%	2,600,872	177.51%
80%	2,393,508	217.59%

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2011

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	\$ 230,939	\$ 48,971	\$ 8,480	\$ -
Accounts receivable	10,593	-	-	-
Due from other governmental units	109,559	30,828	-	-
Restricted assets	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 351,091</u>	<u>\$ 79,799</u>	<u>\$ 8,480</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 22,152	\$ 4,440	\$ -	\$ -
Due to other funds	21,988	10,347	-	-
Accrued expenditures	2,756	4,634	94	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	46,896	19,421	94	-
FUND BALANCE				
Restricted	304,195	60,378	-	-
Committed	-	-	8,386	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>304,195</u>	<u>60,378</u>	<u>8,386</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 351,091</u>	<u>\$ 79,799</u>	<u>\$ 8,480</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>
\$ 166,961	\$ -	\$ -	\$ -	\$ 455,351
-	-	-	-	10,593
-	-	-	-	140,387
-	-	450,000	-	450,000
<u>\$ 166,961</u>	<u>\$ -</u>	<u>\$ 450,000</u>		<u>\$ 1,056,331</u>
\$ 1,893	\$ -	\$ -	\$ -	\$ 28,485
-	-	-	-	32,335
-	-	-	-	7,484
1,893	-	-	-	68,304
-	-	-	-	364,573
<u>165,068</u>	<u>-</u>	<u>450,000</u>		<u>623,454</u>
<u>165,068</u>	<u>-</u>	<u>450,000</u>		<u>988,027</u>
<u>\$ 166,961</u>	<u>\$ -</u>	<u>\$ 450,000</u>		<u>\$ 1,056,331</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, 2011

Nonmajor Special Revenue Funds

	Major Streets Fund	Local Streets Fund	Parking Authority Fund	Retirement Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 110,133
Special assessments	2,881	-	41,001	-
State shared revenue	605,109	191,065	-	-
State sources	96,688	-	-	-
Charges for services	-	-	3,640	-
Rent	-	-	-	-
Interest income	2,560	152	-	27
Contributions	-	-	-	-
Other income	1,017	-	-	741
Total revenues	708,255	191,217	44,641	110,901
EXPENDITURES				
Public works	424,002	380,689	31,907	-
Recreation and cultural	-	-	-	-
Debt service	21,988	10,347	-	-
Total expenditures	445,990	391,036	31,907	-
Excess (deficiency) of revenues over expenditures	262,265	(199,819)	12,734	110,901
OTHER SOURCES (USES)				
Transfers from (to) other funds	(226,559)	226,559	(4,348)	(110,901)
Excess (deficiency) of revenues and other sources over expenditures and other uses	35,706	26,740	8,386	-
FUND BALANCE - BEGINNING	268,489	33,638	-	-
FUND BALANCE - ENDING	\$ 304,195	\$ 60,378	\$ 8,386	\$ -

Nonmajor Capital Project Funds		Nonmajor Permanent Fund	
Library Memorial Fund	Coldwater Municipal Building Authority Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	Totals
\$ -	\$ -	\$ -	\$ 110,133
-	-	-	43,882
-	-	-	796,174
-	-	-	96,688
845	-	-	4,485
-	224,085	-	224,085
2,005	-	-	4,744
1,071	-	-	1,071
-	-	-	1,758
3,921	224,085	-	1,283,020
-	-	-	836,598
25,849	-	-	25,849
-	224,085	-	256,420
25,849	224,085	-	1,118,867
(21,928)	-	-	164,153
-	-	-	(115,249)
(21,928)	-	-	48,904
186,996	-	450,000	939,123
<u>\$ 165,068</u>	<u>\$ -</u>	<u>\$ 450,000</u>	<u>\$ 988,027</u>

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011

	Health Insurance Fund	Tax Collection Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 11,317	\$ 21,122	\$ 32,439
 LIABILITIES			
Accounts payable	\$ 11,317	\$ -	\$ 11,317
Due to other governmental units	-	21,122	21,122
	\$ 11,317	\$ 21,122	\$ 32,439

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

20 Tibbits Plaza * Coldwater, Michigan 49036

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

November 14, 2011

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

We have audited the financial statements of City of Coldwater as of and for the year ended June 30, 2011. 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 \$887,000.

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management letter dated November 14, 2011.

Consultations with Other Independent Accountants

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

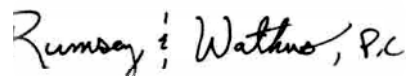
Issues Discussed Prior to Retention of Independent Auditors

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

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

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

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



RUMSEY & WATKINS, P.C.