

**CITY OF COLDWATER
BRANCH COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

**City Council
City of Coldwater, Michigan**

November 1, 2016

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance 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 information, and retirement system information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Coldwater's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2016, on our consideration of the City of Coldwater, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Coldwater, Michigan's internal control over financial reporting and compliance.

Taylor, Plant & Watkins, P.C.

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Coldwater's financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the City's financial statements, which begin on page 17.

Financial Highlights

- The City's assets exceeded liabilities by \$84.8 million. Of this amount, \$60 million related to investment in capital assets (net of depreciation and related debt). \$6.2 million are restricted assets and \$18.7 million represents unrestricted net assets. Unrestricted net assets may be used to meet the City's ongoing obligations to residents and creditors, without legal restriction.
- Overall expenditures exceeded revenues by \$4.1 million primarily due to a \$7.7 million write off of the Electric Fund's investment in the former Endicott Power Plant. Without that noncash event revenues would have exceeded expenditures by \$3.7 million.
- Governmental revenues generated \$14.7 million compared to \$11.7 million in the prior year. \$2.2 million of the increase was due to a pass through grant from the State of Michigan related to the Clemens Food Group project. \$500,000 is a Storm water Asset management Wastewater (SAW) grant from the State. Another \$500,000 was community donations being used for the construction of new tennis courts and a splash park in Heritage Park. \$450,000 of a MDOT grant for work on the Fiske road extension was recognized. The first year of the taxpayer approved road millage resulted in \$600,000 of revenue used to pay the road bonds. Finally \$270,000 was received from the State to reimburse the City for losses due to changes in the personal property tax law. In the prior year the City had received \$300,000 of funds from Dr. Robert W. Browne and his wife to finalize construction of the new aquatic and recreation centers. The City also received \$900,000 of pass through grant funds related to the remodel of the downtown Kerr building and a \$600,000 contribution for the Upson plaza parking lot.
- Expenses totaled \$13.4 million. This is an increase of approximately \$2.5 million compared to the prior year total. Included in the current year is \$2.2 million of State grant money used for the Clemens Food Group project, \$500,000 of grant money used for sanitary and storm drain work, \$450,000 of Fiske road construction costs and \$350,000 of tennis and splash expenses. The prior year total included the \$900,000 of matching grant expenditures related to the Kerr building project.
- In the City's business-type activities, revenues generated \$33.8 million. That figure includes the above mentioned \$7.7 million loss taken when the Endicott Power Plant was closed. Without that non cash write down revenues would have been \$41.5 million which is consistent with the prior year. Expenses totaled \$39.1 million. This was a decrease of \$1.2 million from the prior year primarily due to lower electric power costs.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

- Governmental funds reported combined fund balances of \$9.3 million, a decrease of \$200,000 compared to the prior year. The decrease was due to \$2 million of road bond funds being spent on road project within the City. That figure is offset by \$1.8 million of surpluses in the other governmental funds. Included in the \$1.8 million is \$850,000 of bond revenues for the tennis and splash project. \$350,000 of those funds were spent during the fiscal year.
- Fund balance for the General fund was \$3.9 million, or approximately 46% of total General fund expenditures.

Using this Annual Report

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

Government-wide Financial Statements – Government-wide financial statements begin on page 17 and provide readers with a broad overview of the finances of the City of Coldwater as a whole, in a manner similar to a private sector business, distinguishing functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as “governmental activities”) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as “business-type activities”). These statements present a longer-term view using the accrual basis of accounting, which requires that revenues are reported when they are earned and expenses are reported when incurred. They measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services. The statements include a Statement of Net Position and Statement of Activities.

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

Fund Financial Statements – The fund financial statements begin on page 19 and present more detailed information about the City's most significant funds, not the City as a whole. The fund financial statements present a short-term view, using a modified accrual basis of accounting, and tell us how the taxpayers' resources were spent during the year as well as how much is available for future spending. Funds are accounting tools the City uses to keep track of specific sources of funding and spending for particular purposes. The City's major funds for 2016 include the General Fund and Grant Fund. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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

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

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The City as a Whole

Statement of Net Position – As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City's assets exceeded total liabilities by \$84.8 million at the close of June 30, 2016. The following table shows, in a condensed format, the net assets as of June 30, 2016 and 2015.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 11,843,482	\$ 10,120,222	\$ 31,786,513	\$ 38,375,123	\$ 43,629,995	\$ 48,495,345
Capital assets	36,343,228	33,813,783	43,640,731	43,997,588	79,983,959	77,811,371
Total assets	48,186,710	43,934,005	75,427,244	82,372,711	123,613,954	126,306,716
Deferred Outflows	1,246,086	373,633	1,150,456	344,231	2,396,542	717,864
Liabilities						
Long-term debt outstanding	12,236,799	10,356,124	17,064,325	17,942,553	29,301,124	28,298,677
Other liabilities	2,118,403	1,055,551	8,818,780	8,803,871	10,937,183	9,859,422
Total liabilities	14,355,202	11,411,675	25,883,105	26,746,424	40,238,307	38,158,099
Deferred Inflows	957,435	29,635	-	-	957,435	29,635
Net Assets						
Investment in capital assets- Net of related debt	29,205,015	26,988,770	30,656,542	29,009,538	59,861,557	55,998,308
Restricted	3,952,940	5,012,617	2,251,569	2,341,433	6,204,509	7,354,050
Unrestricted	962,204	864,941	17,786,484	24,619,547	18,748,688	25,484,488
Total net assets	\$ 34,120,159	\$ 32,866,328	\$ 50,694,595	\$ 55,970,518	\$ 84,814,754	\$ 88,836,846

Over 50% of the City's net assets reflect its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide a variety of services to our citizens. Accordingly, these assets are not available for future spending. An additional portion of the City's net position, 7%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$18.7 million, or 22% of the City's net position, is unrestricted and may be used to meet the City's ongoing obligations to its residents and creditors. Of the unrestricted funds, \$962,000 is available to the governmental funds.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Statement of Activities – The following table shows, in condensed format, the changes of net position as of June 30, 2016, compared to prior year:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 1,238,096	\$ 1,175,346	\$ 43,749,960	\$ 43,530,582	\$ 44,988,056	\$ 44,705,928
Operating grants and contributions	1,266,082	396,139	-	221,444	1,266,082	617,583
Capital grants and contributions	2,789,305	1,841,869	-	-	2,789,305	1,841,869
General revenues:						
Property taxes	4,630,938	4,003,342	-	-	4,630,938	4,003,342
State revenues	2,116,067	1,768,136	-	-	2,116,067	1,768,136
Unrestricted investment	61,853	56,710	93,563	58,219	155,416	114,929
Gain (loss) on investment	-	-	(7,735,058)	-	(7,735,058)	-
Gain (loss) on sale	19,505	-	(3,620)	8,093	15,885	8,093
Miscellaneous	43,576	100,371	160,891	138,479	204,467	238,850
Transfers - internal balances	(50,000)	(50,000)	50,000	50,000	-	-
Payments in lieu of taxes	2,543,184	2,450,964	(2,543,184)	(2,450,964)	-	-
Total revenues	14,658,606	11,742,877	33,772,552	41,555,853	48,431,158	53,298,730
Expenses						
General government	1,936,502	1,906,263	-	-	1,936,502	1,906,263
Public safety	4,631,714	3,926,538	-	-	4,631,714	3,926,538
Public works	2,544,306	2,630,358	-	-	2,544,306	2,630,358
Recreation and cultural	1,654,874	1,257,199	-	-	1,654,874	1,257,199
Economic development	2,477,862	1,083,026	-	-	2,477,862	1,083,026
Interest	159,517	82,377	-	-	159,517	82,377
Transfers	-	-	-	-	-	-
Electric	-	-	30,244,277	31,298,345	30,244,277	31,298,345
Telecommunications	-	-	3,369,476	3,571,552	3,369,476	3,571,552
Water	-	-	2,144,828	2,057,004	2,144,828	2,057,004
Waste water	-	-	2,728,333	2,639,033	2,728,333	2,639,033
Rubbish	-	-	456,449	443,437	456,449	443,437
GIS	-	-	146,027	317,998	146,027	317,998
Total expenses	13,404,775	10,885,761	39,089,390	40,327,369	52,494,165	51,213,130
Increase in Net Assets	\$ 1,253,831	\$ 857,116	\$ (5,316,838)	\$ 1,228,484	\$ (4,063,007)	\$ 2,085,600

During the current fiscal year, the net asset position for the City as a whole decreased \$4,063,007. Governmental activities increased its net position by \$1,253,831 and Business-type activities decreased by \$5,316,838.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Governmental Activities

Total Governmental revenue is reported at \$14,658,606, an increase of \$2,915,729 over the prior year. The increase is primarily attributable to the start of activity related to the Clemens Food Group facility. \$2,217,712 of a Community Development Block Grant was received by the City from the Michigan Economic Development Corporation. \$2 million of the grant was passed on to Clemens for use in construction with the majority of the remainder going to Kellogg Community College for training related to the Clemens project. Also related to the Clemens project was \$449,817 of funds received from a Michigan Department of Transportation grant used by the City to start construction on the Fiske road extension that will be used for Clemens traffic off I-69. \$559,933 is a Storm water Asset management Wastewater (SAW) grant from the State being used to televiser sections of the City's sanitary and storm drain system. This project will allow the City to determine where system repairs are needed. Another \$507,916 was contributions from the community that are being used for the construction of new tennis courts at Heritage Park as well as a splash park in the same area to be constructed in 2017. \$615,015 was received through a road millage approved by City residents in the prior year. The funds from the sale of the related bonds are being used for construction projects in the City. 2016 was the first year of that assessment. Finally \$271,252 was received from the State to reimburse the City for losses due to changes in the personal property tax law. This first payment covered multiple years.

Total Governmental expenses are reported at \$13,404,775, an increase of \$2,519,014 over the prior year. The main drivers behind the increase are expenditures related to the grant revenues described above. Included in the total is the \$2,217,712 of the pass through grant related to the Clemens project, \$449,817 of construction costs for the Fiske road extension, \$559,933 spent related to the SAW grant, and \$354,860 spent on the tennis and splash part project.

Business-type Activities

The City of Coldwater's business-type activities consist of electricity, telecommunications, water supply, and wastewater (all classified as Major Funds), as well as rubbish and GIS services. Charges to residents for utility services amounted to \$43,749,960. The majority of expenses relate to operational expenses to provide utility services in the amount of \$39,089,390. Additional significant costs relate to a payment in lieu of tax which is a 6.5% of revenue City charter provision transfer to the City's General Fund. Current year PILOT transfers were based on the 2014 fiscal operating results. Overall, total expenditures exceeded revenues by \$5,316,838 due to a \$7,735,058 loss on investment that resulted from the closing of the Endicott Power Plant of which the City was a part owner. Without this non cash loss revenues would have exceeded expenditures by \$2,418,220.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Financial Analysis of the City's Funds

In the preceding analysis, we have been discussing the Government-wide Financial Statements, which report the financial results of the City in aggregate. To fully understand the reasons behind significant changes in fund balance or fund net position, it is important to look at these funds on an individual basis. For this more detailed information about the City's most significant funds, we look at the Fund Financial Statements, which begin on page 18.

Governmental Funds

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

In the General Fund, revenues exceeded expenditures by \$803,615. General Fund revenues decreased \$378,133 from the prior year and expenditures decreased by \$725,493. These changes along with a \$234,497 increase in other sources of revenue resulted in the overall increase in fund balance.

General Fund revenues are derived from two main sources. The largest source is property tax collections, which were \$3,478,180 this year, an increase of \$25,910 from prior year. The second largest revenue source is state shared revenue, which decreased by \$9,948 to \$940,627. Prior to 2016 state shared revenue had been showing small increases in recent years following a decade of reduced funding from the State. The City received \$290,000 less revenue in 2016 than was received in 2002. Other significant revenues include charges for services which include fees generated by the recreation department and the cemeteries as well as contractual fire protection services charges paid by two local townships.

Other sources of revenues include PILOT payments, which increased by \$92,220 as well as transfers of \$411,316 from the retirement millage levied in the amount of one and one-third of a mill.

Overall General Fund expenditures decreased compared to last year. This decrease is due to the prior year including \$888,870 of federal grant expenditures related to the Kerr building project. That project was completed in 2015. The current year contained \$64,816 of final expenditures. In the prior year the City transferred \$150,000 to the street funds for road work. No transfer was made in the current year. Offsetting these decreases was \$75,850 of costs associated with the demolition of a large smoke stack and two homes. These costs were offset by a state grant.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The majority of the remaining costs associated with the General Fund are directly tied to labor and fringe benefits and represents over 60 percent of expenses. Providing City services is very labor intensive, especially in the area of public safety where coverage is provided twenty-four hours a day to protect the safety and welfare of City residents. Labor costs continue to hold steady. Due to many cost-saving initiatives over the past years, including reduction of staff levels, health care cost reductions, improvement and streamlining of work processes, and greater use of technology to improve productivity and create efficiencies, non-retirement related labor costs are roughly the same today as they were in 2009. The City continues to experience a significant increase in retirement costs related to our long closed defined benefit plans. Annual defined benefit retirement costs payments were roughly the same in 2016 compared to 2015, but are more than double what they were five years ago. The expectation until recently was that these costs would continue increasing rapidly over the next decade before dropping off, however the City is working with the Municipal Employees Retirement System (MERS) on a plan to spread out the payments evenly. While painful in the short term, for the long term Coldwater is positioned very well. By moving away from defined benefit pensions many years ago the City's long term legacy cost obligations are much less than those experienced by many other municipalities.

Major and Local Street Funds – The Major and Local Street Funds account for the maintenance of the City's street infrastructure. The majority of revenues are made up of Act 51 money received from the State of Michigan. Act 51 money is provided by the State to finance the construction and maintenance of major streets within the City of Coldwater. Other money is received from the State of Michigan to pay for the maintenance of Highway US-12 that runs through the City. In the current year grant money from the State was used to begin construction on the extension of Fiske road from Newton road to Jonesville road. This project is part of the overall Clemens infrastructure project. It will be completed in the 2017 fiscal year.

Grant Fund – The Grant fund was established in the current year to handle significant non routine grants activity. The activity running through this fund will vary significantly from year to year. In the current year this fund accounted for the \$2,217,712 Community Block Development Grant related to the Clemens project. It also accounted for the revenues and expenditures for the first year of the SAW grant as well as the contributions and beginning of construction activities related to the tennis and splash park construction projects.

Proprietary Funds

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Electric – The Electric Fund ended the fiscal year with a \$6,288,129 decrease in net position compared to the prior year when the fund experienced an increase of \$702,006. The current year included a \$7,735,058 write off of the City's share of the Endicott Power Plant which was closed in May, 2016. Without that noncash write off the Electric Fund would have had a \$1,446,929 increase in net position.

Electric revenues decreased by \$364,164 due to lower power costs in the current year. The lower revenue figure was in spite of higher demand by commercial and industrial customers. Overall demand increased by 9%. A significant portion of that increase was due to the addition of HC Stark as a customer at the end of the prior year as well as the new Pepperco greenhouse operation. Purchased power costs decreased \$1,721,469 due to lower power costs incurred by the Michigan South Central Power Association of which the City is a 43% owner. Remaining costs shown are for operational and labor costs, fuels and ordinary repairs and maintenance.

Telecommunications – The Telecommunications Fund experienced a \$166,525 increase in net position. The increase is associated with the rate increase that took effect in September, 2015. In the prior year the Fund required a \$69,000 contribution from the Electric Fund to break even. No transfers were made in the current year.

Revenue from cable television and internet services increased from the prior year due to the rate increase noted above. Revenues for phone service and internet business fiber saw slight decreases. The fund's primary costs are programming charges, data line charges, depreciation and third party costs to administer the telephone service. The City has been challenged with the increasing cost of cable programming. Significant cost increases were seen during the last couple years.

Water Fund – The Water Fund saw net position increase by \$402,136, which was very consistent with the prior year. Operating costs were primarily related to the cost to pump, treat and distribute water to residents and businesses. During the current year, \$683,000 of capital was invested back into the City's water system. This investment will continue in the next year as a number of street project were in progress at the end of the 2016 fiscal year. A rate increase went into effect in June, 2016, to build cash for future capital projects.

Wastewater – The Wastewater Fund experienced an increase in net position of \$363,354. This was an increase of \$246,811 over the prior year. Planned multi-step rate increases have occurred over the last number of years with the purpose of improving the financial health of the fund and for preparing for a significant upgrade to the City's wastewater treatment facility that will be underway during the 2017 fiscal year. During the current year, \$172,000 of capital was invested back into the City's sanitary system.

Rubbish – The Rubbish Fund saw a decrease in net assets of \$23,249. The prior year saw a decrease of \$10,416. Garbage collection services are billed by the City, but operated by a private contractor.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

GIS – The GIS Fund saw an increase in net assets of \$62,525 compared to a \$6,546 increase in its first year of operation. The City has partnered with Branch County as well as the City of Bronson, and Villages of Quincy and Union City to coordinate and consolidate GIS services within the county. Due to the collaborative endeavor the City applied for and received a \$406,645 grant from the State of Michigan. \$221,444 of the grant money was spent to collect, input and map various data into the system during the prior year. The remainder of the funds will be spent on updating aerial imagery in the Spring of 2017. In the current year the fund received \$106,000 of membership fees from its partners. Additionally the City's General and Electric Funds each transferred \$50,000 to the Fund to cover its operating costs. In 2017 the membership will increase as a number of the local townships are joining the group. The Fund also offers fee based services to individuals and outside organizations.

General Fund Budgetary Highlights

As shown in the required supplemental information, the City's final amended budget shows a planned budget increase of \$81,482; however, actual operating resulted in an increase in fund balance of \$803,615, primarily because of curtailed expenditures. The significant budget-to-actual differences are as follows:

Revenues –

- Revenues for State Sources were over budget by \$67,075. An additional payment of \$58,554 was received from the State of Michigan in June after final budget amendments were completed.

Expenditures –

- Expenditures for Public Works were under budget by \$283,464. Approximately half of the variance related to expected equipment purchases that didn't occur during the year in which they were budgeted for. The most significant being a \$130,000 JAWS truck that was budgeted for 2016, but due to delays by the manufacturer was not received until October, 2016. This item will be added to the 2017 budget. Other significant items included a decrease in the amount of sidewalk work paid for by the General Fund due to all the infrastructure projects already underway and continued lower fuel prices that reduced the cost of operating the City's fleet of trucks.
- Expenditures for Recreation were under budget by \$135,152. About one third of this difference was due to the retirement of a long term employee. The rest of the savings was split between slightly lower than expected costs associated with the first year of operations at the newly renovated recreation center and the early closing of the City's outdoor swimming pool.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Capital Asset and Debt Administration

The City has continued its efforts to improve infrastructure. This fiscal year saw the reinvestment of \$5.9 million in capital assets for the City's Governmental and Enterprise Funds combined, \$3.9 million of which was reinvested in the City's aging utility infrastructure. In addition to the utility infrastructure, various vehicles and equipment were replaced during the year.

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

The Citizens of Coldwater approved a \$5,055,000 road bond issue in 2015. Those funds are currently being utilized in a number of local projects including the Tibbits parking lot which was reopened in October, 2016.

In November, 2015 the State passed a \$1.2 billion road funding bill. Beginning 2017 the City will see additional ACT 51 road revenues. However the increase in funds is being phased in so the full impact of the increase won't be felt for a number of years.

Economic Factors, Next Year's Budgets and Rates

The adopted budget for the fiscal year ending June 30, 2017, reflects the current Michigan economy. City Council continues to maintain its policy of fiscal conservatism while providing the citizens of Coldwater quality services.

Primarily due to the planned replacement of delayed capital expenditures the City is budgeting a deficit of \$583,000 for the 2017 fiscal year. Even with the projected deficit, the City will remain in a financially strong position with an operating fund balance reserve of over 35% of revenues.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

City revenues in the next fiscal year are budgeted to decrease slightly. Our largest source of revenue, property taxes, is expected to see a decrease due to a change in state law that reduces the amount of personal property subject to taxes. Some of that loss will be made up by State via payments from the State's Local Community Stabilization Authority. The second largest source of revenue, PILOT, is, expected to increase slightly to \$2.62 million due to utility revenue increases. State revenue sharing, also a significant source of revenue for the City is currently expected to be flat after a small decrease in 2016.

The state economy continues to hold steady. The Michigan unemployment rate is currently under 5% after being as high as 15% at end of the great recession. Locally we continue to see an increase in economic development. The Clemens Food Group broke ground on a 550,000 sq. foot pork processing facility in the fall of 2015. Construction is ongoing with a September, 2017 opening planned. The facility is expected to employ over 800 people with a total facility investment of over \$200 million. During the upcoming year we will also see Schmitz Foam Products establishing their corporate headquarters in Coldwater and expansions in the operations of Sport Truck USA and Sekisui Voltek. Combined these three companies are planning to add approximately 200 jobs in our Community.

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

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

Concerns also continue to exist over aging infrastructure and the escalating costs to replace and repair underground pipes and roads. We continue to maximize our resources to strategically minimize the financial impact to our citizens and rate payers. In June the Local Development Finance Authority (LDFA) of the City issued \$6.25 million in water and wastewater bonds. This combined with \$5.5 million in grant money from the Michigan Economic Development Corporation is being used to run water infrastructure running to the new Clemens Food Group manufacturing plant and forced main wastewater infrastructure from the plant through the City to connect to the City's wastewater treatment facility. The path of the forced main was strategically chosen to allow the City to repair aging road and utility infrastructure.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The City is using funds from the road bond construction account as well as from the Water and Wastewater Funds to make needed infrastructure repairs along the route of the Clemens forced main wastewater line. The LDFA which is component unit of the City of Coldwater will pay back the water & wastewater bonds through tax capture revenues generated by the Clemens facility. The Clemens plant is located in a new LDFA district that was annexed into the City through a PA 425 agreement with Coldwater Township early in the 2016 fiscal year.

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

Contacting the City's Management

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

CITY OF COLDWATER
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 9,811,547	\$ 14,419,543	\$ 24,231,090	\$ 3,626,904
Accounts receivable	93,687	4,117,198	4,210,885	-
Special assessment receivable	22,072	-	22,072	-
Notes receivable	40,983	-	40,983	-
Inventories	-	116,754	116,754	-
Due from other governmental units	470,071	3,750	473,821	3,204,669
Internal balances	803,148	(803,148)	-	-
Prepaid expenses	151,974	336,296	488,270	-
Investment in Power Agency	-	11,413,622	11,413,622	-
Restricted assets	450,000	2,182,498	2,632,498	-
Capital assets, less accumulated depreciation	36,343,228	43,640,731	79,983,959	4,647,827
Total assets	48,186,710	75,427,244	123,613,954	11,479,400
DEFERRED OUTFLOWS OF RESOURCES				
	1,246,086	1,150,456	2,396,542	-
Total assets and deferred outflows of resources	49,432,796	76,577,700	126,010,496	11,479,400
LIABILITIES				
Accounts payable	1,319,460	5,732,635	7,052,095	1,074,014
Accrued expenditures	260,343	1,001,978	1,262,321	17,828
Due to others	-	-	-	391,905
Long term liabilities:				
Bonds payable, due within one year	538,600	2,084,167	2,622,767	-
Bonds and notes payable, due in more than one year	6,599,613	10,900,022	17,499,635	6,284,722
Premium on bonds	-	-	-	102,548
Net pension liability	5,078,600	5,782,635	10,861,235	-
Compensated absences	558,586	381,668	940,254	-
Total liabilities	14,355,202	25,883,105	40,238,307	7,871,017
DEFERRED INFLOWS OF RESOURCES				
Unearned revenue	957,435	-	957,435	-
Total liabilities and deferred inflows of resources	15,312,637	25,883,105	41,195,742	7,871,017
NET POSITION				
Investment in capital assets - net of related debt	29,205,015	30,656,542	59,861,557	(1,602,173)
Restricted	3,952,940	2,251,569	6,204,509	5,210,556
Unrestricted	962,204	17,786,484	18,748,688	-
Total net position	\$ 34,120,159	\$ 50,694,595	\$ 84,814,754	\$ 3,608,383

See Notes to Financial Statements

CITY OF COLDWATER

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating /	Capital	Primary Government			
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Governmental activities:								
General government	\$ 1,936,502	\$ 241,066	\$ 16,724	\$ -	\$ (1,678,712)	\$ -	\$ (1,678,712)	\$ -
Public safety	4,631,714	430,034	66,860	-	(4,134,820)	-	(4,134,820)	-
Public works	2,544,306	302,769	1,160,243	-	(1,081,294)	-	(1,081,294)	-
Recreation and cultural	1,654,874	264,227	22,255	505,916	(862,476)	-	(862,476)	-
Economic development	2,477,862	-	-	2,283,389	(194,473)	-	(194,473)	-
Interest	159,517	-	-	-	(159,517)	-	(159,517)	-
Total governmental activities	13,404,775	1,238,096	1,266,082	2,789,305	(8,111,292)	-	(8,111,292)	-
Business-type activities:								
Electric	30,244,277	33,639,361	-	-	-	3,395,084	3,395,084	-
Telecommunications	3,369,476	3,642,983	-	-	-	273,507	273,507	-
Water	2,144,828	2,679,045	-	-	-	534,217	534,217	-
Waste water	2,728,333	3,249,520	-	-	-	521,187	521,187	-
Rubbish	456,449	430,499	-	-	-	(25,950)	(25,950)	-
GIS	146,027	108,552	-	-	-	(37,475)	(37,475)	-
Total business-type activities	39,089,390	43,749,960	-	-	-	4,660,570	4,660,570	-
Total primary government	<u>\$ 52,494,165</u>	<u>\$ 44,988,056</u>	<u>\$ 1,266,082</u>	<u>\$ 2,789,305</u>	(8,111,292)	4,660,570	(3,450,722)	-
Component units:								
Downtown Development Authority	\$ 61,012	\$ -	\$ 2,000	\$ -	-	-	-	(59,012)
Local Development Authority	23,823	-	-	3,204,668	-	-	-	3,180,845
Total component units	<u>\$ 84,835</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ 3,204,668</u>	-	-	-	3,121,833
General revenues:								
Property taxes					4,630,938	-	4,630,938	93,178
State revenues					2,116,067	-	2,116,067	-
Unrestricted investment earnings					61,853	93,563	155,416	5,792
Gain (loss) on investments					-	(7,735,058)	(7,735,058)	-
Gain (loss) on sale of assets					19,505	(3,620)	15,885	9,470
Miscellaneous					43,576	160,891	204,467	-
Transfers - internal balances					(50,000)	50,000	-	-
Payments in lieu of taxes					2,543,184	(2,543,184)	-	-
Total general revenues, transfers, forgiveness of debt and payments in lieu of taxes					<u>9,365,123</u>	<u>(9,977,408)</u>	<u>(612,285)</u>	<u>108,440</u>
Change in Net Position					1,253,831	(5,316,838)	(4,063,007)	3,230,273
Net Position - Beginning					32,866,328	55,970,518	88,836,846	378,110
Contribution in aid of construction					-	40,915	40,915	-
Net Position - Ending					<u>\$ 34,120,159</u>	<u>\$ 50,694,595</u>	<u>\$ 84,814,754</u>	<u>\$ 3,608,383</u>

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Grant Fund	Other Nonmajor Governmental Funds	Totals
ASSETS				
Cash and investments	\$ 4,210,989	\$ 1,036,423	\$ 4,564,135	\$ 9,811,547
Accounts receivable	93,632	-	55	93,687
Special assessment receivable	-	-	22,072	22,072
Notes receivable	-	-	40,983	40,983
Due from other governmental units	51,559	231,436	187,076	470,071
Due from other funds	-	-	803,148	803,148
Prepaid expenses	81,670	-	70,304	151,974
Restricted assets	-	-	450,000	450,000
Total assets	\$ 4,437,850	\$ 1,267,859	\$ 6,137,773	\$ 11,843,482
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 260,112	\$ 284,782	\$ 774,566	\$ 1,319,460
Accrued expenditures	221,480	-	8,186	229,666
Unearned revenue	21,375	-	998,043	1,019,418
Total liabilities	502,967	284,782	1,780,795	2,568,544
FUND BALANCE				
Nonspendable	81,670	-	1,072	82,742
Restricted	-	983,077	2,969,863	3,952,940
Committed	-	-	642,534	642,534
Assigned	2,237,379	-	743,509	2,980,888
Unassigned	1,615,834	-	-	1,615,834
Total fund balance	3,934,883	983,077	4,356,978	9,274,938
Total liabilities and fund balance	\$ 4,437,850	\$ 1,267,859	\$ 6,137,773	\$ 11,843,482

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET POSITION
JUNE 30, 2016

Total Fund Balance - Governmental Funds	\$ 9,274,938
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in funds:	
The cost of the capital assets	52,959,679
Accumulated depreciation	<u>(16,616,451)</u>
Total capital assets not reported in funds	36,343,228
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	
	61,983
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid	
	(30,677)
Long-term liabilities and related deferred outflows are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable	(7,138,213)
Deferred outflows	1,246,086
Net pension liability	(5,078,600)
Compensated absences	<u>(558,586)</u>
Total long-term liabilities not reported in funds	<u>(11,529,313)</u>
Total Net Position - Governmental Activities	<u><u>\$ 34,120,159</u></u>

CITY OF COLDWATER

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Grant Fund	Other Nonmajor Governmental Funds	Totals
REVENUES				
Taxes	\$ 3,601,868	\$ -	\$ 1,029,070	\$ 4,630,938
Special assessments	-	-	56,508	56,508
Licenses and permits	341,048	-	-	341,048
Federal sources	65,676	2,217,712	-	2,283,388
State grants	-	534,529	449,817	984,346
State shared revenue	940,627	-	861,255	1,801,882
State sources	381,046	-	175,897	556,943
Charges for services	585,396	-	3,507	588,903
Rent	273,766	-	-	273,766
Interest income	36,744	21	25,088	61,853
Contributions	15,072	487,916	19,650	522,638
Other income	43,578	-	13,213	56,791
Total revenues	<u>6,284,821</u>	<u>3,240,178</u>	<u>2,634,005</u>	<u>12,159,004</u>
EXPENDITURES				
General government	1,400,430	-	-	1,400,430
Public safety	4,157,062	-	-	4,157,062
Public works	1,224,842	559,933	3,544,226	5,329,001
Recreation and cultural	958,093	354,860	107,939	1,420,892
Planning	266,278	2,217,712	-	2,483,990
Debt service	101,331	-	596,272	697,603
Other expenditures	296,897	-	-	296,897
Total expenditures	<u>8,404,933</u>	<u>3,132,505</u>	<u>4,248,437</u>	<u>15,785,875</u>
Excess (deficiency) of revenues over expenditures	(2,120,112)	107,673	(1,614,432)	(3,626,871)
OTHER SOURCES (USES)				
Sale of fixed assets	44,631	-	-	44,631
Payment in lieu of taxes	2,543,184	-	-	2,543,184
Debt proceeds	-	850,000	-	850,000
Return of grant to State	-	-	(14,735)	(14,735)
Transfers from (to) other funds	335,912	25,404	(411,316)	(50,000)
Total other sources (uses)	<u>2,923,727</u>	<u>875,404</u>	<u>(426,051)</u>	<u>3,373,080</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	803,615	983,077	(2,040,483)	(253,791)
FUND BALANCE - BEGINNING	<u>3,131,268</u>	<u>-</u>	<u>6,397,461</u>	<u>9,528,729</u>
FUND BALANCE - ENDING	<u><u>\$ 3,934,883</u></u>	<u><u>\$ 983,077</u></u>	<u><u>\$ 4,356,978</u></u>	<u><u>\$ 9,274,938</u></u>

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Net change in Fund Balance - Total Governmental Funds	\$ (253,791)
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(1,801,758)
Loss on sale of assets	(25,126)
Capital outlay	<u>4,356,329</u>
Total	2,529,445
Special assessment revenues are recorded in the statement of activities when the assessment is assessed; they are not reported in the funds until collected:	
Payments received	(1,591)
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	(11,496)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Decrease in accrued interest is reported as an increase to expenditures	1,286
Change in net pension liability and related deferred outflows	(805,024)
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	(850,000)
Principal repayment	536,800
Decrease in compensated absences are reported as an increase to expenditures	<u>108,202</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,253,831</u></u>

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2016

	Electric Fund	Telecom- munications Fund	Water Fund	Waste Water Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES							
ASSETS							
Current assets:							
Cash and investments	\$ 11,515,828	\$ -	\$ 310,590	\$ 2,153,524	\$ 371,137	\$ 68,464	\$ 14,419,543
Accounts receivable	3,049,869	233,373	350,456	452,068	31,360	72	4,117,198
Inventories	-	-	116,754	-	-	-	116,754
Due from other governmental units	-	-	-	-	-	3,750	3,750
Prepaid and other assets	228,208	19,309	47,430	39,815	-	1,534	336,296
Total current assets	<u>14,793,905</u>	<u>252,682</u>	<u>825,230</u>	<u>2,645,407</u>	<u>402,497</u>	<u>73,820</u>	<u>18,993,541</u>
Noncurrent assets:							
Investment in Power Agency	11,413,622	-	-	-	-	-	11,413,622
Restricted assets	1,090,844	231,732	334,815	525,107	-	-	2,182,498
Capital assets, less accumulated depreciation	15,605,288	3,139,103	11,206,320	13,690,020	-	-	43,640,731
Total noncurrent assets	<u>28,109,754</u>	<u>3,370,835</u>	<u>11,541,135</u>	<u>14,215,127</u>	<u>-</u>	<u>-</u>	<u>57,236,851</u>
Total assets	<u>42,903,659</u>	<u>3,623,517</u>	<u>12,366,365</u>	<u>16,860,534</u>	<u>402,497</u>	<u>73,820</u>	<u>76,230,392</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>582,401</u>	<u>98,002</u>	<u>235,063</u>	<u>234,990</u>	<u>-</u>	<u>-</u>	<u>1,150,456</u>
Total assets and deferred outflows of resources	<u>\$ 43,486,060</u>	<u>\$ 3,721,519</u>	<u>\$ 12,601,428</u>	<u>\$ 17,095,524</u>	<u>\$ 402,497</u>	<u>\$ 73,820</u>	<u>\$ 77,380,848</u>
LIABILITIES AND NET POSITION							
LIABILITIES							
Current liabilities:							
Accounts payable	\$ 5,283,805	\$ 148,180	\$ 103,663	\$ 196,987	\$ -	\$ -	\$ 5,732,635
Accrued expenditures	724,207	40,913	78,457	152,251	1,401	4,749	1,001,978
Due to other funds	-	-	636,187	166,961	-	-	803,148
Bonds and notes payable, due within one year	770,000	390,000	365,000	559,167	-	-	2,084,167
Total current liabilities	<u>6,778,012</u>	<u>579,093</u>	<u>1,183,307</u>	<u>1,075,366</u>	<u>1,401</u>	<u>4,749</u>	<u>9,621,928</u>
Noncurrent liabilities							
Bonds and notes payable, due in more than one year	1,205,000	390,000	2,800,000	6,505,022	-	-	10,900,022
Net pension liability	2,790,222	420,554	1,286,119	1,285,740	-	-	5,782,635
Compensated absences	185,475	55,187	74,433	65,226	1,347	-	381,668
Total noncurrent liabilities	<u>4,180,697</u>	<u>865,741</u>	<u>4,160,552</u>	<u>7,855,988</u>	<u>1,347</u>	<u>-</u>	<u>17,064,325</u>
Total liabilities	<u>10,958,709</u>	<u>1,444,834</u>	<u>5,343,859</u>	<u>8,931,354</u>	<u>2,748</u>	<u>4,749</u>	<u>26,686,253</u>
NET POSITION							
Investment in capital assets, net of related debt	13,630,288	2,359,103	8,041,320	6,625,831	-	-	30,656,542
Restricted	1,090,844	231,732	334,815	525,107	-	69,071	2,251,569
Unrestricted	17,806,219	(314,150)	(1,118,566)	1,013,232	399,749	-	17,786,484
Total net position	<u>\$ 32,527,351</u>	<u>\$ 2,276,685</u>	<u>\$ 7,257,569</u>	<u>\$ 8,164,170</u>	<u>\$ 399,749</u>	<u>\$ 69,071</u>	<u>\$ 50,694,595</u>

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2016

	Electric Fund	Telecom- munications Fund	Water Fund	Waste Water Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
REVENUES							
Charges for services	\$ 33,639,361	\$ 3,642,983	\$ 2,679,045	\$ 3,249,520	\$ 430,499	\$ 108,552	\$ 43,749,960
OPERATING EXPENSES							
Purchased power	24,724,164	-	-	-	-	-	24,724,164
Power plant	21,980	-	-	-	-	-	21,980
Natural gas plant	81,760	-	-	-	-	-	81,760
Distribution	1,311,624	2,388,318	420,005	-	-	-	4,119,947
Substation	162,004	-	-	-	-	-	162,004
Sanitation	-	-	-	-	456,449	-	456,449
Metering and lighting	777,105	-	-	-	-	-	777,105
Wells	-	-	60,693	-	-	-	60,693
Treatment	-	-	377,174	869,252	-	-	1,246,426
Collection system	-	-	-	163,509	-	-	163,509
Customer service	355,854	81,917	-	-	-	-	437,771
Administration	1,746,636	407,294	668,325	619,622	-	-	3,441,877
Public works	-	-	-	-	-	146,027	146,027
Depreciation	931,486	447,351	488,798	855,846	-	-	2,723,481
Total operating expenditures	30,112,613	3,324,880	2,014,995	2,508,229	456,449	146,027	38,563,193
OPERATING INCOME	3,526,748	318,103	664,050	741,291	(25,950)	(37,475)	5,186,767
NONOPERATING REVENUES (EXPENSES)							
Investment income	75,611	-	2,754	12,497	2,701	-	93,563
Interest expense	(131,664)	(44,596)	(129,833)	(220,104)	-	-	(526,197)
Gain (loss) on investments	(7,735,058)	-	-	-	-	-	(7,735,058)
Gain (loss) on sale of fixed assets	-	(2,466)	3,510	(4,664)	-	-	(3,620)
Miscellaneous income	123,702	20,716	11,259	5,214	-	-	160,891
Total nonoperating revenues (expenses)	(7,667,409)	(26,346)	(112,310)	(207,057)	2,701	-	(8,010,421)
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(4,140,661)	291,757	551,740	534,234	(23,249)	(37,475)	(2,823,654)
TRANSFERS							
Payments in lieu of taxes	(2,097,468)	(125,232)	(149,604)	(170,880)	-	-	(2,543,184)
Transfers from (to) other funds	(50,000)	-	-	-	-	100,000	50,000
Total transfers	(2,147,468)	(125,232)	(149,604)	(170,880)	-	100,000	(2,493,184)
CHANGE IN NET POSITION	(6,288,129)	166,525	402,136	363,354	(23,249)	62,525	(5,316,838)
NET POSITION - BEGINNING	38,776,065	2,108,660	6,855,433	7,800,816	422,998	6,546	55,970,518
Contribution in aid of construction	39,415	1,500	-	-	-	-	40,915
NET POSITION - ENDING	<u>\$ 32,527,351</u>	<u>\$ 2,276,685</u>	<u>\$ 7,257,569</u>	<u>\$ 8,164,170</u>	<u>\$ 399,749</u>	<u>\$ 69,071</u>	<u>\$ 50,694,595</u>

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2016

	Electric Fund	Telecom- munications Fund	Water Fund	Waste Water Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from customers	\$ 33,802,674	\$ 3,632,055	\$ 2,649,671	\$ 3,168,333	\$ 424,149	\$ 108,480	\$ 43,785,362
Payments made to suppliers	(29,421,847)	(2,512,775)	(360,573)	(1,086,465)	(416,973)	(53,468)	(33,852,101)
Payments made to employees	(1,600,280)	(465,856)	(519,931)	(509,178)	(39,122)	(86,548)	(3,220,915)
Net cash provided by operating activities	2,780,547	653,424	1,769,167	1,572,690	(31,946)	(31,536)	6,712,346
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers in (out)	(50,000)	-	-	-	-	100,000	50,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Principal and interest paid on capital debt	(861,664)	(414,596)	(614,833)	(1,542,157)	-	-	(3,433,250)
Proceeds on issuance of bonds	-	-	-	903,192	-	-	903,192
Contribution in aid of construction	39,415	1,500	-	-	-	-	40,915
Proceeds on sale of assets	-	-	-	-	-	-	-
Purchase of capital assets	(514,146)	(24,615)	(1,343,896)	(483,967)	-	-	(2,366,624)
Net cash provided by (used in) capital and related financing activities	(1,336,395)	(437,711)	(1,958,729)	(1,122,932)	-	-	(4,855,767)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received on investments	75,611	-	2,754	12,497	2,701	-	93,563
Change in investments	(190,238)	-	117,995	26,822	-	-	(45,421)
Net cash provided by (used in) investing activities	(114,627)	-	120,749	39,319	2,701	-	48,142
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS							
	1,279,525	215,713	(68,813)	489,077	(29,245)	68,464	1,954,721
CASH AND CASH EQUIVALENTS - BEGINNING							
	10,236,303	16,019	379,403	1,664,447	400,382	-	12,696,554
CASH AND CASH EQUIVALENTS - ENDING							
	<u>\$ 11,515,828</u>	<u>\$ 231,732</u>	<u>\$ 310,590</u>	<u>\$ 2,153,524</u>	<u>\$ 371,137</u>	<u>\$ 68,464</u>	<u>\$ 14,651,275</u>

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS - Continued FOR THE YEAR ENDED JUNE 30, 2016

	<u>Electric Fund</u>	<u>Telecom- munications Fund</u>	<u>Water Fund</u>	<u>Waste Water Fund</u>	<u>Nonmajor Rubbish Fund</u>	<u>Nonmajor GIS Fund</u>	<u>Totals</u>
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS							
Cash and investments	\$ 11,515,828	\$ -	\$ 310,590	\$ 2,153,524	\$ 371,137	\$ 68,464	\$ 14,419,543
Restricted cash and investments	1,090,844	231,732	334,815	525,107	-	-	2,182,498
Less amounts classified as investments	<u>(1,090,844)</u>	<u>-</u>	<u>(334,815)</u>	<u>(525,107)</u>	<u>-</u>	<u>-</u>	<u>(1,950,766)</u>
Total cash and cash equivalents	<u>\$ 11,515,828</u>	<u>\$ 231,732</u>	<u>\$ 310,590</u>	<u>\$ 2,153,524</u>	<u>\$ 371,137</u>	<u>\$ 68,464</u>	<u>\$ 14,651,275</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES							
Operating income (loss)	\$ 3,526,748	\$ 318,103	\$ 664,050	\$ 741,291	\$ (25,950)	\$ (37,475)	\$ 5,186,767
Adjustments to reconcile operating income to net cash from operating activities:							
Miscellaneous income (expenses)	123,702	20,716	11,259	5,214	-	-	160,891
Depreciation	931,486	447,351	488,798	855,846	-	-	2,723,481
Loss (Gain) on sale of assets	-	(2,466)	3,510	(4,664)	-	-	(3,620)
Payments in lieu of taxes	<u>(2,097,468)</u>	<u>(125,232)</u>	<u>(149,604)</u>	<u>(170,880)</u>	<u>-</u>	<u>-</u>	<u>(2,543,184)</u>
Changes in assets and liabilities:							
Receivables	39,611	(31,644)	(44,143)	(86,401)	(6,350)	(72)	(128,999)
Inventories	-	-	(2,136)	-	-	-	(2,136)
Due from other governmental units	-	-	-	-	-	13,195	13,195
Prepays and other assets	326,368	56,120	(5,768)	(2,718)	-	(1,269)	372,733
Deferred outflows	(415,036)	(72,184)	(159,539)	(159,466)	-	-	(806,225)
Due from (to) other funds	(169,453)	(9,521)	623,757	154,118	-	-	598,901
Accounts payable	(88,173)	(3,678)	70,755	(33,082)	-	(7,765)	(61,943)
Accrued expenditures	98,466	(5,523)	11,137	13,508	347	1,850	119,785
Net pension liability	539,494	73,362	270,468	270,089	-	-	1,153,413
Compensated absences	<u>(35,198)</u>	<u>(11,980)</u>	<u>(13,377)</u>	<u>(10,165)</u>	<u>7</u>	<u>-</u>	<u>(70,713)</u>
Net cash provided (used) by operating activities	<u>\$ 2,780,547</u>	<u>\$ 653,424</u>	<u>\$ 1,769,167</u>	<u>\$ 1,572,690</u>	<u>\$ (31,946)</u>	<u>\$ (31,536)</u>	<u>\$ 6,712,346</u>

See Notes to Financial Statements

CITY OF COLDWATER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 13,102</u>
LIABILITIES	
Accounts payable	\$ 11,317
Due to other governmental units	<u> 1,785</u>
Total	<u>\$ 13,102</u>

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Downtown Development Authority	Local Development Finance Authority	Total
ASSETS			
Cash and investments	\$ 243,710	\$ 3,383,194	\$ 3,626,904
Due from other governmental units	-	3,204,669	3,204,669
Capital assets, less accumulated depreciation	211,285	4,436,542	4,647,827
 Total assets	 454,995	 11,024,405	 11,479,400
LIABILITIES			
Accounts payable	39	1,073,975	1,074,014
Accrued expenditures	-	17,828	17,828
Due to others	-	391,905	391,905
Long term liabilities:			
Notes payable, due in more than one year	-	6,284,722	6,284,722
Premium on notes payable	-	102,548	102,548
 Total liabilities	 39	 7,870,978	 7,871,017
NET ASSETS			
Investment in capital assets - net of related debt	211,285	(1,813,458)	(1,602,173)
Restricted	243,671	4,966,885	5,210,556
 Total net position	 \$ 454,956	 \$ 3,153,427	 \$ 3,608,383

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating / Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Local Development Finance Authority	Total
Downtown Development Authority	\$ 61,012	\$ -	\$ 2,000	-	\$ (59,012)	\$ -	\$ (59,012)
Local Development Finance Authority	23,823	-	-	3,204,668	-	3,180,845	3,180,845
Total component activities	\$ 84,835	\$ -	\$ 2,000	\$ 3,204,668	(59,012)	3,180,845	3,121,833
General revenues:							
Property taxes					78,447	14,731	93,178
Interest					1,723	4,069	5,792
Other income					9,470	-	9,470
Total general revenues					89,640	18,800	108,440
Change in Net Position					30,628	3,199,645	3,230,273
Net Position (Deficit) - Beginning					424,328	(46,218)	378,110
Net Position - Ending					\$ 454,956	\$ 3,153,427	\$ 3,608,383

See Notes to Financial Statements

CITY OF COLDWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY:

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

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

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

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

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

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

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

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

The City first utilizes restricted resources to finance qualifying activities.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

The City does not allocate indirect costs.

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

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

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

BASIS OF PRESENTATION:

MAJOR GOVERNMENTAL FUNDS

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

Grant Fund is a capital improvement fund used to account for grants received and major projects done in the City as a result of those grants.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION: - Continued

MAJOR PROPRIETARY FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

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 2015 tax is levied and collectible on August 1, 2015 and is recognized as revenue in the year ended June 30, 2016, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2015 taxable valuation of the City totaled \$324 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, 1.3333 mills for the retirement system, and 1.98 mills for roadway construction. This resulted in almost \$3.4 million for general operating and approximately \$387,000 and \$574,000 for retirement and roadways. These amounts are reported in the respective General, Retirement and Road Debt Service Funds in the financial statements.

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

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

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

Inventory and Prepaid items – Inventory is valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category, which is the deferred outflows of resources related to pensions resulting from City contributions subsequent to June 30, 2016, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City only has one item that qualifies for reporting in this category, which is unearned revenue. The City collected sponsorship money for their recreation program for a four year period starting in fiscal year 2016. The City also received the full amount of a MDOT grant from the State for a major road project. For reporting purposes, revenue is limited to amount of the grant expended in fiscal year 2016. The remainder of the grant is deferred until fiscal year 2017, when the remainder of the expenditures are expected to occur.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

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

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

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Fund Balance – Continued

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

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

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Fund Balance – Continued

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

	<u>General Fund</u>	<u>Grant Fund</u>	<u>Other Nonmajor Governmental Funds</u>
Nonspendable:			
Prepaid expenses	\$ 81,670	\$ -	\$ -
Notes receivable	-	-	1,072
Restricted:			
Grant Fund		983,077	
Road Construction Bond	-	-	2,444,414
Major streets	-	-	188,344
Local streets	-	-	37,479
Road debt service	-	-	46,300
Retirement	-	-	(111)
Revolving development	-	-	253,437
Committed:			
Parking authority	-	-	55,161
Library Memorial	-	-	131,002
Brownfield redevelopment	-	-	6,371
Cemetery	-	-	450,000
Assigned:			
Fund balancing	2,237,379	-	743,509
Unassigned:	1,615,834	-	-
	<u>\$ 3,934,883</u>	<u>\$ 983,077</u>	<u>\$ 4,356,978</u>
Total	<u>\$ 3,934,883</u>	<u>\$ 983,077</u>	<u>\$ 4,356,978</u>

BASIS OF BUDGETING:

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ENCUMBRANCE ACCOUNTING:

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

USE OF ESTIMATES:

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

SUBSEQUENT EVENTS:

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

NOTE B – DEPOSITS AND INVESTMENTS

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

Investments consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost which approximates market value. The certificates of deposits are currently earning rates of .15% to .80%.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE B – DEPOSITS AND INVESTMENTS – Continued

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

Investment	Fair Value	Weighted Average Maturity (Years)
Bank investment pool (not 2a-7)	\$ 5,202,444	0.0027
U.S. government or agency bond or note	3,072,229	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	\$ 5,202,444	AAA

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

Custodial credit risk for deposits – In the case of deposits, this is the risk that in the event of a financial institution failure, the City’s deposits may not be recovered. As of June 30, 2016, \$27,698,626 of the City’s bank balance of \$29,401,977 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE C – DUE FROM OTHER FUNDS

The due from other funds, at June 30, 2016, for the City are as follows:

ROAD CONSTRUCTION BOND FUND

Due from Water Fund	\$ 636,187
Due from Wastewater Fund	<u>166,961</u>
Total Road Construction Bond Fund	<u><u>\$ 803,148</u></u>

NOTE D – TRANSFERS FROM (TO) OTHER FUNDS

Transfers from (to) other funds, during the year ended June 30, 2016, for the City are as follows:

GOVERNMENTAL FUNDS

GENERAL FUND

Transfer from Retirement Fund	\$ 411,316
Transfer to Grant Fund	(25,404)
Transfer to GIS Fund	<u>(50,000)</u>
Total General Fund	335,912

GRANT FUND

Transfer from General Fund	25,404
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RETIREMENT FUND

Transfer to General Fund	<u>(411,316)</u>
Total governmental funds	<u><u>\$ (50,000)</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

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

PROPRIETARY FUNDS

ELECTRIC FUND

Transfer to GIS Fund	(50,000)
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GIS FUND

Transfer from General Fund	50,000
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Transfer from Electric Fund	<u>50,000</u>
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Total GIS Fund	<u>100,000</u>
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Total proprietary funds	<u>\$ 50,000</u>
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The transfers from the Retirement Fund represent the distribution of retirement funds. The City and the BPU split non-grant costs for the GIS Fund. The Grant Fund is new this year. The General Fund is required to contribute to part of the storm water asset plan.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE E – CAPITAL ASSETS

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

GOVERNMENTAL ACTIVITIES

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
GROUP:				
Capital assets, not being depreciated:				
Land	\$ 1,536,564	\$ 20,863	\$ 9,726	\$ 1,547,701
Capital assets, being depreciated:				
Roads and sidewalks	14,155,730	1,348,544	619,653	14,884,621
Land improvements	1,396,372	733,785	-	2,130,157
Buildings and improvements	27,188,727	18,995	-	27,207,722
Vehicles	2,779,559	153,357	58,334	2,874,582
Other tools and equipment	1,622,676	81,629	-	1,704,305
Construction in progress	611,435	1,999,156	-	2,610,591
Total assets being depreciated	<u>47,754,499</u>	<u>4,335,466</u>	<u>677,987</u>	<u>51,411,978</u>
Total assets	49,291,063	4,356,329	687,713	52,959,679
ACCUMULATED DEPRECIATION:				
Roads and sidewalks	7,347,749	738,358	619,653	7,466,454
Land improvements	553,637	75,911	-	629,548
Building and improvements	4,537,032	724,380	-	5,261,412
Vehicles	1,931,240	149,787	42,934	2,038,093
Other tools and equipment	1,107,622	113,322	-	1,220,944
Total accumulated depreciation	<u>15,477,280</u>	<u>1,801,758</u>	<u>662,587</u>	<u>16,616,451</u>
Net capital assets	<u>\$ 33,813,783</u>	<u>\$ 2,554,571</u>	<u>\$ 25,126</u>	<u>\$ 36,343,228</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE E – CAPITAL ASSETS – Continued

BUSINESS-TYPE ACTIVITIES

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2016</u>
GROUP:				
Capital assets, not being depreciated:				
Land	\$ 881,932	\$ -	\$ -	\$ 881,932
Capital assets, being depreciated:				
Work in progress	31,898	1,086,220	8,798	1,109,320
Land improvements	535,882	-	-	535,882
Utility systems	59,188,695	2,147,756	1,590,454	59,745,997
Buildings	19,123,070	24,204	7,175	19,140,099
Machinery and equipment	4,331,767	79,145	47,446	4,363,466
Total assets being depreciated	<u>83,211,312</u>	<u>3,337,325</u>	<u>1,653,873</u>	<u>84,894,764</u>
Total assets	84,093,244	3,337,325	1,653,873	85,776,696
ACCUMULATED DEPRECIATION:				
Electric	13,422,953	931,486	60,320	14,294,119
Telecommunications	6,363,698	447,351	581,868	6,229,181
Water	7,826,101	488,798	34,608	8,280,291
Waste water	12,482,904	855,846	6,376	13,332,374
Total accumulated depreciation	<u>40,095,656</u>	<u>2,723,481</u>	<u>683,172</u>	<u>42,135,965</u>
Net capital assets	<u>\$ 43,997,588</u>	<u>\$ 613,844</u>	<u>\$ 970,701</u>	<u>\$ 43,640,731</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE E – CAPITAL ASSETS – Continued

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

GOVERNMENTAL ACTIVITIES:

General government	\$ 270,671
Public safety	113,319
Public works	876,233
Recreation and culture	<u>541,535</u>
Total governmental activities	<u>\$ 1,801,758</u>

BUSINESS -TYPE ACTIVITIES:

Electric	\$ 931,486
Telecommunications	447,351
Water	488,798
Waste water	<u>855,846</u>
Total business-type activities	<u>\$ 2,723,481</u>

The component units' capital assets at June 30, 2016 consist of the following:

COMPONENT UNITS:

Infrastructure	\$ 301,819
Construction in progress	4,436,542
Less, accumulated depreciation	<u>90,534</u>
Net capital assets of component units	<u>\$ 4,647,827</u>

Assets are held in the Downtown Development Authority and the Local Development Finance Authority. The component units' depreciation expense for the year ended June 30, 2016 amounted to \$15,091.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE F – LONG-TERM DEBT

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>
Governmental Activities:				
Revenue bonds	\$ 289,013	\$ -	\$ 16,800	\$ 272,213
General obligation capital improvement bond	1,481,000	-	45,000	1,436,000
Unlimited tax general obligation bond	5,055,000	-	475,000	4,580,000
General obligation capital improvement bond	-	850,000	-	850,000
Compensated absences	666,788	-	108,202	558,586
	<u>\$ 7,491,801</u>	<u>\$ 850,000</u>	<u>\$ 645,002</u>	<u>\$ 7,696,799</u>
Business-type Activities:				
Revenue bonds and Refunding bonds	\$ 6,379,956	\$ 763,000	\$ 2,043,200	\$ 5,099,756
General obligation capital improvement bond	75,000	-	75,000	-
General obligation capital improvement and Refunding bonds	7,253,000	-	700,000	6,553,000
Equipment loan	255,838	-	33,853	221,985
2014 Wastewater supply revenue bonds	1,024,256	140,192	55,000	1,109,448
Compensated absences	452,381	-	70,713	381,668
	<u>\$ 15,440,431</u>	<u>\$ 903,192</u>	<u>\$ 2,977,766</u>	<u>\$ 13,365,857</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE F – LONG-TERM DEBT – Continued

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

GOVERNMENTAL ACTIVITIES

Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$17,600 to \$22,400, due April 2030	\$ 272,213
Series 2013 Pool and Recreation Hall Limited Tax General Obligation Capital Improvement Bonds, interest rates varying from 1.15% to 4.65%, annual principal payments ranging from \$46,000 to \$98,000, due April 2038	1,436,000
Series 2015 Road Construction Unlimited Tax General Obligation Bonds, interest rates varying from 1.05% to 2.9%, annual principal payments ranging from \$475,000 to \$555,000, due May 2025	4,580,000
Series 2016 Tennis and Splash Limited Tax General Obligation Capital Improvement Bonds, interest rate of 1.5%, annual payments ranging from \$79,000 to \$91,000, due December 2026	850,000
Accumulated compensated absences	<u>558,586</u>
Total governmental activities debt	<u><u>\$ 7,696,799</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE F – LONG-TERM DEBT – Continued

BUSINESS-TYPE ACTIVITIES

Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 4.2% to 4.9%, annual payments ranging from \$120,000 to \$180,000, due August 2024	\$ 1,325,000
Series 2006 Electric Utility System Revenue Refunding Bonds, at an interest rate of 4.25%, annual principal payment of \$650,000, due August 2016	650,000
Series 2002 Telecommunications System Revenue Refunding Bonds, at an interest rate of 5.5%, annual principal payments of \$390,000, due August 2017	780,000
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 \$365,000, due September 2025	3,165,000
Series 2010 Waste Water Limited Tax General Obligation Refunding Bonds, interest rates varying from 2.45% to 4.1%, annual principal payments ranging from \$220,000 to \$315,000, due July 2024	2,355,000
Series 2004 Water Supply and Waste Water System Revenue Bonds, at an interest rate of 4.0%, annual payment of \$80,000, due July 2016	80,000
Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$92,400 to \$120,934, due April 2030	1,501,756
Note payable to bank, interest rate of 2.45%, annual payments of \$40,281, due June 2022, secured by equipment	221,985

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE F – LONG-TERM DEBT – Continued

Series 2016 Water Supply and Waste Water System Revenue Refunding Bonds, at an interest rate of 2.25%, annual principal payments ranging from \$84,000 to \$105,000, due July 2024 763,000

Series 2015 Water Supply and Waste Water System General Obligation Limited Tax Refunding Bonds, interest rates varying from 0.7% to 2.9%, annual principal payments ranging from \$87,000 to \$122,000, due July 2025 1,033,000

Series 2014 Wastewater supply revenue bonds, interest rate of 2.5%, annual principal payments ranging from \$45,000 to \$74,448, due October 2034 1,109,448

Total bonds and installment purchase agreements 12,984,189

Accumulated compensated absences 381,668

Total business-type activities debt \$ 13,365,857

COMPONENT UNITS

Local Development Finance Authority note payable, at an interest rate of 7.0%, due 2017 \$ 34,722

Local Development Finance Authority Series 2016A Limited Tax General Obligation Bonds, interest rates ranging from 2.0% to 5.0%, annual principal payments ranging from \$75,000 to \$170,000, due December 2040 2,710,000

Local Development Finance Authority Series 2016B Limited Tax General Obligation Bonds, interest rates ranging from 2.0% to 5.0%, annual principal payments ranging from \$95,000 to \$220,000, due December 2040 3,540,000

Total component units debt \$ 6,284,722

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE F – LONG-TERM DEBT – Continued

REFUNDING OF BONDS

In April, 2016, the City of Coldwater issued Water Supply and Wastewater System Revenue Refunding bonds of \$763,000 with an interest rate of 2.25% to advance \$780,000 of refund bonds with an interest rate ranging from 4.0% to 4.6%. The bonds mature in June 2025. The Water Supply and Wastewater System Revenue Refunding bonds were issued at par after paying issuance costs of \$18,303 which includes underwriters discount, the net proceeds were \$763,000. The net proceeds from the issuance of the Water Supply and Wastewater System Revenue 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 2004 Water Supply and Wastewater 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 \$96,067, which resulted in an economic gain, difference between present value of the debt services payments on the old and new debt of \$51,237.

The City has defeased Series 2004 Water Supply and Wastewater 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, 2016, \$780,000 of bonds outstanding is considered defeased, paid on April 6, 2016.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE F – LONG-TERM DEBT – Continued

The annual requirements to service all debt outstanding as of June 30, 2016, including interest payments of \$7,315,785 for the debt service requirements are as follows:

	Governmental Activities		
	Principal	Interest	Total
2017	\$ 538,600	\$ 169,415	\$ 708,015
2018	622,600	163,737	786,337
2019	636,400	155,063	791,463
2020	643,400	144,314	787,714
2021	656,200	132,283	788,483
2022-2026	2,942,400	425,383	3,367,783
2027-2031	496,613	186,272	682,885
2032-2036	410,000	98,724	508,724
2037-2038	192,000	11,253	203,253
Total	\$ 7,138,213	\$ 1,486,444	\$ 8,624,657

	Business-type Activities		
	Principal	Interest	Total
2017	\$ 2,084,167	\$ 425,203	\$ 2,509,370
2018	1,362,030	346,403	1,708,433
2019	1,003,116	305,192	1,308,308
2020	1,040,015	272,245	1,312,260
2021	1,086,152	236,713	1,322,865
2022-2026	5,333,905	586,759	5,920,664
2027-2031	795,356	84,705	880,061
2032-2035	279,448	14,327	293,775
Total	\$ 12,984,189	\$ 2,271,547	\$ 15,255,736

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE F – LONG-TERM DEBT – Continued

	Component Units		
	Principal	Interest	Total
2017	\$ -	\$ 222,960	\$ 222,960
2018	204,722	230,281	435,003
2019	175,000	226,831	401,831
2020	175,000	223,331	398,331
2021	185,000	218,806	403,806
2022-2026	995,000	999,731	1,994,731
2027-2031	1,240,000	754,756	1,994,756
2032-2036	1,500,000	500,135	2,000,135
2037-2041	1,810,000	180,963	1,990,963
Total	<u>\$ 6,284,722</u>	<u>\$ 3,557,794</u>	<u>\$ 9,842,516</u>

Interest expense for the year ended June 30, 2016 was \$526,197 for Business-type Activities and \$159,517 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2016 amounted to \$21,063.

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.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE H – RETIREMENT PROGRAM

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

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

Employees covered by benefit terms – At the December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	98
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>31</u>
Total	<u><u>144</u></u>

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

Net Pension Liability – The employer’s Net Pension Liability was measured as of December 31, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE H – RETIREMENT PROGRAM – Continued

Actuarial assumptions – The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.75% in the long-term
- Investment rate of return: 7.75%, net of investment and administrative expense including inflation. Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.
- Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.
- The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.
- The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount rate – The discount rate used to measure the total pension liability is 8.25% for 2015. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE H – RETIREMENT PROGRAM – Continued

Changes in Net Pension Liability –

Calculating Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 12/31/14	\$ 27,022,721	\$ 18,992,376	\$ 8,030,345
Changes for the Year			
Service Cost	201,065	-	201,065
Interest on Total Pension Liability	2,154,627	-	2,154,627
Changes in benefits	-	-	-
Difference between expected and actual experience	(204,284)	-	(204,284)
Changes in assumptions	1,340,439	-	1,340,439
Employer Contribution	-	919,890	(919,890)
Employee Contribution	-	56,904	(56,904)
Net investment income	-	(274,268)	274,268
Benefit payments, including employee refunds	(1,991,878)	(1,991,878)	-
Administrative expense	-	(40,691)	40,691
Other changes	876	-	876
	1,500,845	(1,330,043)	2,830,888
Net Changes			
Balances as of 12/31/15	\$ 28,523,566	\$ 17,662,333	\$ 10,861,233

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE H – RETIREMENT PROGRAM – Continued

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total Pension Liability (a)	\$ 31,236,930	\$ 28,523,566	\$ 26,183,266
Fiduciary Net Position (b)	<u>17,662,333</u>	<u>17,662,333</u>	<u>17,662,333</u>
Net Pension Liability (a-b)	<u><u>\$ 13,574,597</u></u>	<u><u>\$ 10,861,233</u></u>	<u><u>\$ 8,520,933</u></u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions – For the year ended June 30, 2016, the employer recognized pension expense of \$2,102,250. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ (7,295)	\$ -
Differences in assumptions	286,001	-
Excess (Deficit) Investment Returns	1,642,815	-
Contributions subsequent to the measurement date*	<u>475,021</u>	<u>-</u>
Total	<u><u>\$ 2,396,542</u></u>	<u><u>\$ -</u></u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending June 30, 2017.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE H – RETIREMENT PROGRAM – Continued

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

Year Ending <u>June 30</u>	
2017	\$ 706,472
2018	427,766
2019	427,766
2020	359,517

Defined Contribution Plan – The City also participates in the MERS defined contribution retirement plan that was established in 1997 to provide retirement benefits to employees not covered under the defined benefit plan. All employees hired after May, 2002 are covered by the defined contribution plan. At June 30, 2016, there were 92 plan members. Plan members are required to contribute 0% to 9% of covered payroll. The City is required to contribute 7% to 13.5% of annual covered payroll. The City’s contribution for the year ended June 30, 2016 was \$409,523. 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, 2016 is \$40,983.

The City recognizes collections of principal and interest on the federal portion of these loans as unearned revenue as the loans are repaid. Unearned revenue amounted to \$39,911 at June 30, 2016. Repayment of the local portion of these loans is recorded as a reduction of the loan receivable and interest income when received. Upon repayment of the balance of each loan, unearned revenue will either be recognized as revenue when deemed available by the granting agency or the funds will be returned to the granting agency.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

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 \$24,724,164 for purchased power and debt retirement. The City incurred a significant loss in the current year due to the MSCPA closing one of their plants. The City is unaware of any other 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 43% interest in the Michigan South Central Power Agency (MSCPA). The City records the investment using the equity method and calculates 43% 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 43% of the equity net of the City's assets.

NOTE K – CONSTRUCTION CODE FEES

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

Shortfall at July 1, 2015	\$ (2,450,138)
Current year building permit revenue	179,896
Less related expenses - Direct costs	<u>(342,593)</u>
Shortfall at June 30, 2016	<u><u>\$ (2,612,835)</u></u>

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE L – PURCHASED POWER CONTRACTS

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

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

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

The City's estimated share at June 30, 2014 of the impaired costs was \$5,278,847. The City received a credit related to their participation in the AMP Fremont Energy Center (AFEC) Project, leaving a net impaired cost estimate of \$3,370,074 which was expensed through the City's Electric Fund in the 2014 fiscal year. The City elected to finance their share of the impaired cost through AMP as part of their monthly power supply invoice from Michigan South Central Power Agency (MSCPA).

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

Since 2014, AMPGS has incurred additional costs and interest expense. The City's share of those costs is \$45,214 with additional interest expenses of \$76,030. The City has made payments to AMP totaling \$266,040 leaving a payable at June 30, 2016 of \$3,225,278.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE L – PURCHASED POWER CONTRACTS – Continued

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

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

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

AMP’s share of the total Project costs, including AMP’s share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1.697 billion of debt. These estimated costs include (i) AMP’s costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project. As of August 31, 2016 the outstanding obligation on Prairie State project is \$1,576,845,000.

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

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE L – PURCHASED POWER CONTRACTS – Continued

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

On January 21, 2012 the AMP Fremont Energy Center (“AFEC”) began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642. This amount included a development fee of \$35,535,448 paid by AFEC participants for the account of AMP Generating Station participants who are also AFEC participants. The amount was previously recorded as a noncurrent regulatory asset at December 31, 2011. In June 2012, AMP sold 26.419 MW or 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency (“MPPA”) and entered into a power sales contract with Central Virginia Electric Cooperative (“CVEC”) for the output of a 21.248 MW or 4.15% interest in AFEC. AMP has sold the output of the remaining 464.355 MW or 90.69% interest to the AFEC participants, which consist of 87 members, pursuant to a take-or-pay power sales contract. As of August 31, 2016 the outstanding obligation on the Fremont Energy Center (“AFEC”) on AMP’s books is \$520,620,000.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 17,615 kW or 3.79% of capacity and associated energy from the AFEC facility.

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE L – PURCHASED POWER CONTRACTS – Continued

The Cannelton Hydro Project (88MW), now in operation as of 2016, is located on the Kentucky shore of the Cannelton Locks and Dam on federal land. AMP has a FERC license for the project that expires May 31, 2041. The hydro project diverts water from the locks and dam through bulb turbines, which have a horizontal shaft and Kaplan-type turbines. The site includes an intake channel, a reinforced concrete powerhouse (to house turbine and 3 generator units), and a tailrace or downstream channel.

The Willow Island Hydro Project, 44MW, now in operation, diverts water from the existing Willow Island Locks and Dam through bulb turbines. The FERC license for the Willow Project expires August 31, 2030. Average gross annual output is 279 million kWh. The powerhouse houses two horizontal 29.3 MW bulb type turbines and generating units.

The Smithland Hydro Project (76MW) is located 62.5 miles upstream of the confluence of the Ohio and Mississippi Rivers. The Smithland project has a FERC license that expires May 31, 2038. The powerhouse houses three horizontal 29.3 MW bulb type turbines and generating units. Average gross annual output is 379 million kWh. AMP expects the three unit Smithland Hydro Project (76MW) to be in commercial operation by first quarter of 2017.

Please note that these projected commercial operation dates set forth above are, and the other information herein is, subject to change and are dependent on a number of factors affecting each Project's overall remaining construction schedule, including weather. As a result, the commercial operation dates may occur earlier or later than the time frames set forth above.

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE L – PURCHASED POWER CONTRACTS – Continued

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP has issued in seven series \$2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the “Combined Hydroelectric Bonds”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). As of August 31, 2016 the total outstanding Hydro Project debt on AMP’s books is approximately \$1,995,529,118. The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

AMP will issue the Combined Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) for \$194,500,000 on October 6, 2016. The bonds will finance final completion costs and also reimbursement to the AMP credit line, which provided interim financing for costs related to the construction of the three run-of the-river hydroelectric facilities (8 units) along the Ohio River, fund a deposit to the Parity Common Reserve Account, deposit to Escrow Account and pay the cost of issuance of the Series 2016A. The purpose of the “Green bonds” label is to allow investors to invest in an environmentally beneficial project.

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

Meldahl Hydroelectric Project - AMP constructed a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and of related equipment and associated transmission facilities (the “Meldahl Project”). Now that the Meldahl Project has entered commercial operation, it has a generating capacity of approximately 105 MW. The City of Hamilton, Ohio, a Member of AMP and a participant in the Meldahl Project, and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license to operate the Meldahl Project.

In June 2008, Hamilton received a FERC license to operate a hydroelectric generation facility to be constructed on the Captain Anthony Meldahl Locks Dam, an existing dam on the Ohio River (Meldahl Project”). In March 2009, AMP and Hamilton executed a series of agreements (the “AMP-Hamilton Agreements”) pursuant to which AMP committed to finance the development and the construction of Meldahl Project and to acquire within 60 days of the date on which Meldahl Project entered commercial operation, a 48.6% undivided ownership interest in the Greenup Facility (the “AMP Interest”).

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE L – PURCHASED POWER CONTRACTS – Continued

Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project is owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company (“Meldahl, LLC”). AMP is the sole member of Meldahl, LLC and appoints three members of its Board of Directors (the Meldahl Board). AMP, acting as agent of Meldahl LLC, has financed the development, acquisition, construction and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of its Meldahl Hydroelectric Project Revenue Bonds (the “Meldahl Bonds”) in the amount of \$685,100,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members. The Meldahl Project entered commercial operation on April 12, 2016.

By resolution adopted on June 23, 2016 the AMP Board of Trustees authorized the issuance and sale of the Series 2016A Bonds. AMP issued Meldahl Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the “Series 2016A Bonds”) in the amount of \$80,050,000 on July 27, 2016. The proceeds of which were utilized to make a deposit to the Construction Accounts to retire balances held for the costs and expenses associated with the Project on AMP’s line of credit, fund a deposit to the Parity Common Reserve Account and pay the cost of issuance of the Series 2016A. As of August 31, 2016, the outstanding debt for the Meldahl Hydroelectric Projects facility on AMP’s books was approximately \$702,370,000.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 1,794 kW or 1.71% of capacity and associated energy from the Meldahl hydro facility.

Greenup Hydroelectric Project – The Greenup Hydroelectric Facility (the “Greenup Facility”) is a 70.2 MW run-of-the river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River. The Greenup Facility entered commercial operation in 1982 and owned and operated by the City of Hamilton, Ohio (“Hamilton”) since 1988.

On May 11, 2016, in order to finance the acquisition of AMP’s Interest as well as AMP’s share of certain capital expenditures at the Greenup Facility and related costs, AMP issued its Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the “Greenup Bonds”) in the principal amount of \$125,630,000. The Greenup Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 47 of its Members.

AMP and Hamilton are responsible for an aliquot share, equal to their respective undivided ownership interest in the Greenup Facility (51.4% for Hamilton and 48.6% for AMP), of the operating and maintenance expenses of the Greenup Facility. In accordance with, and subject to the provisions of, the AMP-Hamilton Agreements, Hamilton continues to operate the Greenup Facility.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2016

NOTE L – PURCHASED POWER CONTRACTS – Continued

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

NOTE M – COMMITMENTS

The City of Coldwater has entered into contracts to complete various road construction and capital improvement projects. The amount committed to finish the projects at June 30, 2016 was approximately \$8 million. All of the committed funds will be paid for with bond proceeds received.

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,652,000	\$ 3,600,000	\$ 3,601,868	\$ 1,868
Licenses and permits	218,500	295,500	341,048	45,548
Federal sources	-	64,817	65,676	859
State shared revenue	978,000	938,000	940,627	2,627
State sources	39,000	313,971	381,046	67,075
Charges for services	523,000	515,550	585,396	69,846
Rent	296,439	296,439	273,766	(22,673)
Interest earned	40,000	30,000	36,744	6,744
Contributions	2,500	14,600	15,072	472
Other	33,000	33,000	43,578	10,578
	<u>5,782,439</u>	<u>6,101,877</u>	<u>6,284,821</u>	<u>182,944</u>
EXPENDITURES				
General government	1,465,370	1,451,670	1,400,430	(51,240)
Public safety	4,905,620	4,209,870	4,157,062	(52,808)
Public works	1,566,106	1,508,306	1,224,842	(283,464)
Recreation and cultural	1,141,683	1,093,245	958,093	(135,152)
Planning	216,647	281,464	266,278	(15,186)
Debt Service	217,877	101,331	101,331	-
Other	305,500	315,500	296,897	(18,603)
	<u>9,818,803</u>	<u>8,961,386</u>	<u>8,404,933</u>	<u>(556,453)</u>
Excess (deficiency) of revenues over expenditures	(4,036,364)	(2,859,509)	(2,120,112)	739,397
OTHER SOURCES				
Sale of fixed assets	3,000	43,600	44,631	1,031
Payment in lieu of taxes	2,543,191	2,543,191	2,543,184	(7)
Debt proceeds	945,000	-	-	-
Transfers from other funds	364,000	355,200	335,912	(19,288)
	<u>3,855,191</u>	<u>2,941,991</u>	<u>2,923,727</u>	<u>(18,264)</u>
Excess (deficiency) of revenues and other sources over expenditures	(181,173)	82,482	803,615	721,133
FUND BALANCE - BEGINNING	<u>2,730,688</u>	<u>3,131,268</u>	<u>3,131,268</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 2,549,515</u>	<u>\$ 3,213,750</u>	<u>\$ 3,934,883</u>	<u>\$ 721,133</u>

CITY OF COLDWATER

**REQUIRED SUPPLEMENTAL INFORMATION
RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

As of December 31	Fiscal Year Ended June 30,			Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Underfunded Actuarial Accrued Liability Percentage of Covered Payroll
	Annual Pension Cost*	Percentage of Annual Pension Contributed	Net Pension Obligation						
2011	546,133	100%	-	20,255,548	26,258,719	6,003,171	77%	2,439,638	246.07%
2012	686,300	100%	-	19,981,036	26,715,368	6,734,332	75%	2,253,464	298.84%
2013	834,200	100%	-	20,050,307	27,411,350	7,361,043	73%	2,291,257	321.27%
2014	889,500	100%	-	20,130,723	27,610,748	7,480,025	73%	1,998,959	374.20%
2015	950,040	100%	-	20,053,495	29,164,124	9,110,629	69%	1,994,277	456.84%

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

CITY OF COLDWATER

**REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
FOR THE YEAR ENDING JUNE 30, 2016**

Total Pension Liability	2016	2015
Service cost	\$ 201,065	\$ 200,716
Interest	2,154,627	2,124,546
Changes of benefit terms	-	-
Difference between expected and actual experience	(204,284)	-
Changes of assumptions	1,340,439	-
Benefit payments including employee refunds	(1,991,878)	(1,908,501)
Other	876	(2)
Net Change in Total Pension Liability	<u>1,500,845</u>	<u>416,759</u>
Total Pension Liability - beginning	27,022,721	26,605,962
Total Pension Liability - ending	<u><u>\$ 28,523,566</u></u>	<u><u>\$ 27,022,721</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 919,890	\$ 827,702
Contributions - employee	56,904	60,722
Net investment income	(274,268)	1,172,725
Benefit payments including employee refunds	(1,991,878)	(1,908,501)
Administrative expense	(40,691)	(42,877)
Net Change in Plan Fiduciary Net Position	<u>(1,330,043)</u>	<u>109,771</u>
Plan Fiduciary Net Position - beginning	18,992,376	18,882,605
Plan Fiduciary Net Position - ending	<u><u>\$ 17,662,333</u></u>	<u><u>\$ 18,992,376</u></u>
Employer Net Pension Liability	<u><u>\$ 10,861,233</u></u>	<u><u>\$ 8,030,345</u></u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	62%	70%
Covered Employee Payroll	1,994,277	1,998,959
Employer's Net Pension Liability as a percentage of covered employee payroll	545%	402%

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

CITY OF COLDWATER

**REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
FOR THE YEAR ENDING JUNE 30, 2016**

	2016	2015
Actuarial determined contributions*	\$ 847,229	\$ 796,640
Contributions in relation to the actuarially determined contribution	919,890	827,702
Contribution deficiency (excess)	<u>\$ (72,661)</u>	<u>\$ (31,062)</u>
 Covered Employee Payroll	 \$ 1,994,277	 \$ 1,998,959
 Contributions as a percentage of covered employee payroll	 46%	 41%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	4 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	60
Mortality	50% Female/50% Male RP-2014 Group Annual Mortality Table

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

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

CITY OF COLDWATER

OTHER SUPPLEMENTAL INFORMATION NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET FOR THE YEAR ENDED JUNE 30, 2016

	Nonmajor Special Revenue Funds					Nonmajor Debt Fund
	Major Streets Fund	Local Streets Fund	Parking Authority Fund	Retirement Fund	Revolving Development Fund	Road Debt Service Fund
ASSETS						
Cash and investments	\$ 9,839	\$ 1,131,850	\$ 55,398	\$ -	\$ 253,437	\$ 46,341
Accounts receivable	55	-	-	-	-	-
Special assessment receivable	-	-	-	-	-	-
Notes receivable	-	-	-	-	40,983	-
Due from other governmental units	153,226	33,850	-	-	-	-
Due from other funds	-	-	-	-	-	-
Prepaid expenses	70,304	-	-	-	-	-
Restricted assets	-	-	-	-	-	-
	<u>\$ 233,424</u>	<u>\$ 1,165,700</u>	<u>\$ 55,398</u>	<u>\$ -</u>	<u>\$ 294,420</u>	<u>\$ 46,341</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 39,303	\$ 189,944	\$ 45	\$ 111	\$ -	\$ 41
Accrued expenditures	5,777	2,217	192	-	-	-
Unearned revenue	-	936,060	-	-	39,911	-
	<u>45,080</u>	<u>1,128,221</u>	<u>237</u>	<u>111</u>	<u>39,911</u>	<u>41</u>
FUND BALANCE						
Nonspendable	-	-	-	-	1,072	-
Restricted	188,344	37,479	-	(111)	253,437	46,300
Committed	-	-	55,161	-	-	-
Assigned	-	-	-	-	-	-
	<u>188,344</u>	<u>37,479</u>	<u>55,161</u>	<u>(111)</u>	<u>254,509</u>	<u>46,300</u>
Total fund balance	<u>188,344</u>	<u>37,479</u>	<u>55,161</u>	<u>(111)</u>	<u>254,509</u>	<u>46,300</u>
Total liabilities and fund balance	<u>\$ 233,424</u>	<u>\$ 1,165,700</u>	<u>\$ 55,398</u>	<u>\$ -</u>	<u>\$ 294,420</u>	<u>\$ 46,341</u>

CITY OF COLDWATER

OTHER SUPPLEMENTAL INFORMATION NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET - CONTINUED FOR THE YEAR ENDED JUNE 30, 2016

	Nonmajor Capital Project Funds					Nonmajor Permanent Fund	Totals
	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Aquatic & Recreation Centers Capital Fund	Brownfield Redevelopment Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
ASSETS							
Cash and investments	\$ 131,002	\$ 743,509	\$ 2,186,388	\$ -	\$ 6,371	\$ -	\$ 4,564,135
Accounts receivable	-	-	-	-	-	-	55
Special assessment receivable	-	22,072	-	-	-	-	22,072
Notes receivable	-	-	-	-	-	-	40,983
Due from other governmental units	-	-	-	-	-	-	187,076
Due from other funds	-	-	803,148	-	-	-	803,148
Prepaid expenses	-	-	-	-	-	-	70,304
Restricted assets	-	-	-	-	-	450,000	450,000
Total assets	<u>\$ 131,002</u>	<u>\$ 765,581</u>	<u>\$ 2,989,536</u>	<u>\$ -</u>	<u>\$ 6,371</u>	<u>\$ 450,000</u>	<u>\$ 6,137,773</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ 545,122	\$ -	\$ -	\$ -	\$ 774,566
Accrued expenditures	-	-	-	-	-	-	8,186
Unearned revenue	-	22,072	-	-	-	-	998,043
Total liabilities	-	22,072	545,122	-	-	-	1,780,795
FUND BALANCE							
Nonspendable	-	-	-	-	-	-	1,072
Restricted	-	-	2,444,414	-	-	-	2,969,863
Committed	131,002	-	-	-	6,371	450,000	642,534
Assigned	-	743,509	-	-	-	-	743,509
Total fund balance	<u>131,002</u>	<u>743,509</u>	<u>2,444,414</u>	<u>-</u>	<u>6,371</u>	<u>450,000</u>	<u>4,356,978</u>
Total liabilities and fund balance	<u>\$ 131,002</u>	<u>\$ 765,581</u>	<u>\$ 2,989,536</u>	<u>\$ -</u>	<u>\$ 6,371</u>	<u>\$ 450,000</u>	<u>\$ 6,137,773</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, 2016

	Nonmajor Special Revenue Funds					Nonmajor Debt Fund
	Major Streets Fund	Local Streets Fund	Parking Authority Fund	Retirement Fund	Revolving Development Fund	Road Debt Service Fund
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ 408,948	\$ -	\$ 615,015
Special assessments	-	-	54,917	-	-	-
State grants	-	449,817	-	-	-	-
State shared revenue	655,423	205,832	-	-	-	-
State sources	175,897	-	-	-	-	-
Charges for services	-	-	3,063	-	-	-
Interest income	2,025	1,030	-	540	5,149	3,241
Contributions	-	-	-	-	-	-
Other income	-	-	-	1,717	11,496	-
Total revenues	833,345	656,679	57,980	411,205	16,645	618,256
EXPENDITURES						
Public works	438,360	1,039,242	36,409	-	-	-
Recreation and cultural	-	-	-	-	-	-
Economic development	-	-	-	-	-	-
Debt service						
Principal	11,550	5,250	-	-	-	475,000
Interest	5,167	2,349	-	-	-	96,956
Total expenditures	455,077	1,046,841	36,409	-	-	571,956
Excess (deficiency) of revenues over expenditures	378,268	(390,162)	21,571	411,205	16,645	46,300
OTHER SOURCES (USES)						
Return of grant to State	-	-	-	-	(14,735)	-
Transfers from (to) other funds	(390,000)	390,000	-	(411,316)	-	-
Total other sources (uses)	(390,000)	390,000	-	(411,316)	(14,735)	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(11,732)	(162)	21,571	(111)	1,910	46,300
FUND BALANCE - BEGINNING	200,076	37,641	33,590	-	252,599	-
FUND BALANCE - ENDING	\$ 188,344	\$ 37,479	\$ 55,161	\$ (111)	\$ 254,509	\$ 46,300

CITY OF COLDWATER

**OTHER SUPPLEMENTAL INFORMATION
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016**

	Nonmajor Capital Project Funds					Nonmajor Permanent Fund	Totals
	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Aquatic & Recreation Centers Capital Fund	Brownfield Redevelopment Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 5,107	\$ -	\$ 1,029,070
Special assessments	-	1,591	-	-	-	-	56,508
State grants	-	-	-	-	-	-	449,817
State shared revenue	-	-	-	-	-	-	861,255
State sources	-	-	-	-	-	-	175,897
Charges for services	444	-	-	-	-	-	3,507
Interest income	924	5,218	6,770	167	24	-	25,088
Contributions	1,650	-	-	18,000	-	-	19,650
Other income	-	-	-	-	-	-	13,213
Total revenues	3,018	6,809	6,770	18,167	5,131	-	2,634,005
EXPENDITURES							
Public works	-	22,824	2,007,391	-	-	-	3,544,226
Recreation and cultural	9,188	-	-	98,751	-	-	107,939
Economic development	-	-	-	-	-	-	-
Debt service							
Principal	-	-	-	-	-	-	491,800
Interest	-	-	-	-	-	-	104,472
Total expenditures	9,188	22,824	2,007,391	98,751	-	-	4,248,437
Excess (deficiency) of revenues over expenditures	(6,170)	(16,015)	(2,000,621)	(80,584)	5,131	-	(1,614,432)
OTHER SOURCES (USES)							
Return of grant to State	-	-	-	-	-	-	(14,735)
Transfers from (to) other funds	-	-	-	-	-	-	(411,316)
Total other sources (uses)	-	-	-	-	-	-	(426,051)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(6,170)	(16,015)	(2,000,621)	(80,584)	5,131	-	(2,040,483)
FUND BALANCE - BEGINNING	137,172	759,524	4,445,035	80,584	1,240	450,000	6,397,461
FUND BALANCE - ENDING	\$ 131,002	\$ 743,509	\$ 2,444,414	\$ -	\$ 6,371	\$ 450,000	\$ 4,356,978

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Health Insurance Fund	Tax Collection Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 11,317	\$ 1,785	\$ 13,102
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES			
Accounts payable	\$ 11,317	\$ -	\$ 11,317
Due to other governmental units	-	1,785	1,785
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 11,317</u>	<u>\$ 1,785</u>	<u>\$ 13,102</u>

CITY OF COLDWATER

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016**

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Program or or Award Amount</u>	<u>Accrued or (Deferred) Revenue at July 1, 2015</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2016</u>	<u>Prior Years Expenditures</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
Passed Through State of Michigan Housing Development Authority Planning and Development								
* Community Development Block Grant/ State's Program	14.228	214053-EDIG	\$ 12,555,000	\$ -	\$ 2,198,222	\$ 5,422,380	\$ 3,224,159	-
* Community Development Block Grant/ State's Program	14.228	130298-HO	<u>597,500</u>	<u>-</u>	<u>65,676</u>	<u>65,676</u>	<u>-</u>	-
Total Department of Housing and Urban Development			<u>\$ 13,152,500</u>	<u>\$ -</u>	<u>\$ 2,263,898</u>	<u>\$ 5,488,056</u>	<u>\$ 3,224,159</u>	

* Designates major program

CITY OF COLDWATER

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2016**

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

Total Federal Assistance received	\$ 2,263,898
Accrued revenue at June 30, 2016	<u>3,224,159</u>
Total Federal Assistance expenditures	<u>\$ 5,488,057</u>
Governmental Funds Federal Sources	\$ 2,283,388
Component Units Capital Grants and Contributions	<u>3,204,668</u>
Total Federal Sources per financial statements	<u>\$ 5,488,056</u>

ADDITIONAL COMMENTS

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

CITY OF COLDWATER

**NOTES TO INTERNAL CONTROL AND FEDERAL GRANT REPORT
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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



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

**City Council
City of Coldwater, Michigan**

November 1, 2016

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Coldwater, Michigan's basic financial statements, and have issued our report thereon dated November 1, 2016.

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

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

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

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

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

Taylor, Plant & Watkins, P.C.

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



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

**City Council
City of Coldwater, Michigan**

November 1, 2016

Report on Compliance for Each Major Federal Program: We have audited the City of Coldwater, Michigan's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City of Coldwater, Michigan's major federal programs for the year ended June 30, 2016. City of Coldwater, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility: Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility: Our responsibility is to express an opinion on compliance for each of the City of Coldwater, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Coldwater, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the City of Coldwater, Michigan's compliance.

Opinion on Each Major Federal Program: In our opinion, the City of Coldwater, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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

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

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

**City Council
City of Coldwater, Michigan**

November 1, 2016

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

Taylor, Plant & Watkins, P.C.

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

CITY OF COLDWATER

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

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

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

Any audit findings disclosed that are required to be reported accordance 2 CFR section 200.516(a)? Yes X No

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant/State's Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

FINDINGS - FINANCIAL STATEMENT AUDIT

None

MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

CITY OF COLDWATER
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings for the City of Coldwater in the prior year.