

**CITY OF COLDWATER
BRANCH COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

**City Council
City of Coldwater, Michigan**

October 15, 2020

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, 2020, 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, 2020, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2020, 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 ending June 30, 2020. Please read it in conjunction with the City's financial statements, which begin on page 16.

Financial Highlights

- The City's assets exceeded liabilities by \$116 million. Of this amount, \$81.2 million relate to investment in capital assets (net of depreciation and related debt). \$6.9 million are restricted assets and \$27.9 million represent unrestricted net assets. Unrestricted net assets may be used to meet the City's ongoing obligations to residents and creditors, without legal restriction.
- Overall revenues exceeded expenditures by \$3.1 million. \$932,000 of this was an increase in the equity share of the Michigan South Central Power Agency.
- Governmental revenues generated \$13.1 million compared to \$12.8 million in the prior year. Included in the current year is \$261,000 of Small Urban Development (SUD) road grants, \$169,000 state transportation road grants, and \$180,000 of MSHDA housing grants. In the prior year, revenues included \$100,000 of State Storm Water Asset Management and Wastewater (SAW) grant funds, \$195,000 of Federal Emergency Management Agency grants and \$255,000 of Small Urban Development (SUD) grants.
- Governmental expenses totaled \$12.4 million compared to \$11.6 million in the prior year. Included in the current year is \$750,000 for the Jefferson Street rebuild project, \$292,000 for the Allen Avenue expansion project, \$456,000 for the Thompson Boulevard extension project, and \$187,000 for the MSHDA house project. The prior year included \$500,000 for the Grand and Marshall Street projects, \$800,000 to rebuild the youth baseball fields and \$700,000 on the Chandler Plaza parking lot project.
- In the City's business-type activities, revenues generated \$49.2 million. This includes the \$932,000 increase in the equity share of the Michigan South Central Power Agency. Overall, utility fund charges for services decreased \$3.7 million. Expenses totaled \$46.8 million. This was a decrease of \$2.7 million from the prior year.
- Governmental funds reported combined fund balances of \$7.6 million, the same total as the year before.
- Fund balance for the General fund was \$5.05 million, or approximately 52% of total General Fund expenditures.

Using this Annual Report

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

CITY OF COLDWATER MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued

Government-wide Financial Statements – Government-wide financial statements begin on page 16 and provide readers with a broad overview of the finances of the City of Coldwater as a whole, in a manner similar to a private sector business, distinguishing functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as “governmental activities”) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as “business-type activities”). These statements present a longer-term view using the accrual basis of accounting, which requires that revenues are reported when they are earned and expenses are reported when incurred. They measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services. The statements include a Statement of Net Position and Statement of Activities.

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

Fund Financial Statements – The fund financial statements begin on page 18 and present more detailed information about the City’s most significant funds, not the City as a whole. The fund financial statements present a short-term view, using a modified accrual basis of accounting, and tell us how the taxpayers’ resources were spent during the year as well as how much is available for future spending. Funds are accounting tools the City uses to keep track of specific sources of funding and spending for particular purposes. The City’s major funds for 2020 include the General Fund and three of the proprietary funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

**CITY OF COLDWATER
MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued**

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

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

The City as a Whole

Statement of Net Position – As noted earlier, changes in net assets may serve as a useful indicator of a government’s financial position. The City’s assets exceeded total liabilities by \$116 million at the close of June 30, 2020. The following table shows, in a condensed format, the net assets as of June 30, 2020 and 2019.

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets						
Current and other assets	8,983,520	\$ 8,843,459	\$ 44,416,272	\$ 42,085,791	\$ 53,399,792	\$ 50,929,250
Capital assets	41,451,161	41,177,873	87,902,335	71,592,665	129,353,496	112,770,538
Total assets	50,434,681	50,021,332	132,318,607	113,678,456	182,753,288	163,699,788
Deferred Outflows	402,883	1,220,687	519,273	900,328	922,156	2,121,015
Liabilities						
Long-term debt outstanding	5,196,068	6,007,263	40,678,709	25,775,064	45,874,777	31,782,327
Other liabilities	6,319,328	6,621,642	15,017,867	14,281,651	21,337,195	20,903,293
Total liabilities	11,515,396	12,628,905	55,696,576	40,056,715	67,211,972	52,685,620
Deferred Inflows	470,933	420,818	-	-	470,933	420,818
Net Assets						
Investment in capital assets- Net of related debt	35,900,711	34,862,132	45,312,131	44,632,862	81,212,842	79,494,994
Restricted	1,747,332	1,658,192	5,113,813	1,941,217	6,861,145	3,599,409
Unrestricted	1,203,192	1,671,972	26,715,360	27,947,990	27,918,552	29,619,962
Total net assets	\$ 38,851,235	\$ 38,192,296	\$ 77,141,304	\$ 74,522,069	\$ 115,992,539	\$ 112,714,365

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, 6%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$27.9 million, or 24% 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, \$1.7 million 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, 2020, compared to prior year:

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues:						
Charges for services	\$ 1,050,846	\$ 1,242,950	\$ 50,885,681	\$ 54,597,641	\$ 51,936,527	\$ 55,840,591
Operating grants and contributions	641,587	658,466	-	-	641,587	658,466
Capital grants and contributions	208,581	217,834	-	-	208,581	217,834
General revenues:						
Property taxes	4,591,684	4,754,126	-	-	4,591,684	4,754,126
State revenues	3,181,012	3,056,975	-	-	3,181,012	3,056,975
Unrestricted investment	155,987	203,062	422,669	542,212	578,656	745,274
Gain (loss) on investment	-	-	932,270	865,269	932,270	865,269
Gain (loss) on sale	(12,340)	(165,289)	(32,414)	(146,145)	(44,754)	(311,434)
Miscellaneous	130,775	71,718	122,480	176,560	253,255	248,278
Transfers - internal balances	(50,000)	(50,000)	50,000	50,000	-	-
Payments in lieu of taxes	3,183,492	2,822,820	(3,183,492)	(2,822,820)	-	-
Total revenues	13,081,624	12,812,662	49,197,194	53,262,717	62,278,818	66,075,379
Expenses						
General government	3,010,430	2,810,235	-	-	3,010,430	2,810,235
Public safety	4,722,123	4,484,483	-	-	4,722,123	4,484,483
Public works	2,800,247	3,115,331	-	-	2,800,247	3,115,331
Recreation and cultural	1,515,522	850,773	-	-	1,515,522	850,773
Economic development	210,782	168,315	-	-	210,782	168,315
Interest	163,581	177,434	-	-	163,581	177,434
Transfers	-	-	-	-	-	-
Electric	-	-	35,935,233	38,936,821	35,935,233	38,936,821
Telecommunications	-	-	2,523,634	2,860,544	2,523,634	2,860,544
Water	-	-	3,061,577	2,694,823	3,061,577	2,694,823
Waste water	-	-	4,528,103	4,313,358	4,528,103	4,313,358
Rubbish	-	-	553,121	490,104	553,121	490,104
GIS	-	-	164,824	162,039	164,824	162,039
Total expenses	12,422,685	11,606,571	46,766,492	49,457,689	59,189,177	61,064,260
Change in Net Position	\$ 658,939	\$ 1,206,091	\$ 2,430,702	\$ 3,805,028	\$ 3,089,641	\$ 5,011,119

During the current fiscal year, the net asset position for the City as a whole increased \$3,089,642. Governmental activities increased its net position by \$658,940 and Business-type activities increased by \$2,430,702.

CITY OF COLDWATER MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Governmental Activities

Total Governmental revenue is reported at \$13,081,624, a small increase from the \$12,812,662 reported for the prior year. The current year included \$261,347 of Small Urban Grant monies from the federal government that were used for the Jefferson Street reconstruction project. Also included was \$169,101 which was received from the Michigan Department of Transportation (MDOT) for the expansion of Allen Avenue in the City's industrial park and \$179,581 from the Michigan State Housing Development Authority (MDSHA) for a housing construction grant. \$602,059 was received through a road millage previously approved by City residents. The funds from the sale of the related bonds are being used for construction projects in the City. 2020 was the fifth year of that assessment.

Total Governmental expenses are reported at \$12,422,685, an increase of \$816,114 from the prior year. Included in the current year is \$749,465 spent on the Jefferson Street reconstruction project, \$291,542 spent on the Allen Avenue project, \$455,583 spent on the Thompson Boulevard extension project, and \$187,046 spent on the MDSHA house project.

Business-type Activities

The City of Coldwater's business-type activities consist of electricity, water supply, and wastewater (all classified as Major Funds), as well as telecommunications, rubbish and GIS services. Charges to residents for utility services amounted to \$50,885,681. The majority of the \$46,766,492 of expenditures relate to operational expenses to provide utility services. 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 2018 fiscal operating results. Overall, total revenues exceeded expenditures by \$2,430,702.

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.

CITY OF COLDWATER MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

In the General Fund, revenues exceeded expenditures by \$367,993. General Fund revenues decreased \$2,181 from the prior year and expenditures increased by \$71,199. These changes along with an \$87,047 decrease in other sources of revenue resulted in the overall increase in fund balance.

General Fund revenues are derived from three main sources. The largest source is property tax collections, which were \$3,589,240 this year, a decrease of \$71,655 from the prior year. The second largest revenue source is PILOT payments which increased \$360,672 to \$3,183,492. Rounding out the top three is state shared revenue, which increased by \$33,072 to \$1,096,449. State shared revenue continues to trend up roughly 3% annually in recent years, following a decade of reduced funding from the State. Even with the recent increases the amount of state shared revenue received by the City was \$140,000 less than it was 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. Also, state sources which include funds distributed by the state to compensate local governments for losses caused by changes in Michigan's personal property tax laws.

Other sources of revenues include transfers of \$408,343 from the retirement millage levied in the amount of one and one-third of a mill.

Overall, General Fund expenditures were very similar to the prior year. Current year capital spending included \$243,000 in the municipal services department for a new backhoe and other vehicles and equipment, \$67,000 for two police patrol vehicles, \$25,000 for fire equipment, and \$40,000 for security upgrades at the Public Safety building. Additionally, \$185,817 of General Fund dollars were spent on a sidewalk maintenance project focused on the 1st and 2nd wards of the City.

The majority of costs associated with the General Fund are directly tied to labor and fringe benefits and represent over 60 percent of non-debt financed 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. Outside of retirement costs, labor spending continues to hold steady with minimal increases. 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 have risen less than 6% in the last five years. The City continues to experience a significant increase in retirement costs related to our long closed defined benefit plans. Annual defined benefit retirement payments have risen from \$103,000 in 2010 to \$660,000 in 2020. While we unfortunately see continued increases in the cost of payments into the defined benefit plan the City is working with the Municipal Employees Retirement System (MERS) to spread out the payments over time. While painful in the short term, for the long term Coldwater remains 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.

CITY OF COLDWATER MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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 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 the City received Small Urban Grant money that was used on the Jefferson Street road and infrastructure project that was completed in the fall of 2019. Separate State grant money was used on the Allen Avenue project that was completed in the Spring of 2020.

Proprietary Funds

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

Electric – The Electric Fund ended the fiscal year with a \$1,510,534 increase in net position compared to the prior year when the fund experienced an increase of \$2,812,892. The current year included \$932,270 of gain related to the City's 53% ownership of the Michigan South Central Power Agency (MSCPA). Electric revenues decreased by \$3,917,829 due to lower industrial and commercial usage compared to the prior year. Roughly \$2 million of this was during March - May when many operations were shut down because of COVID-19. The most significant cost of the Electric Fund is the cost of power. Power is purchased through the MSCPA. During the current year power costs totaled \$28,545,710. Remaining costs shown are for operational and labor costs, fuels and ordinary repairs and maintenance.

Telecommunications – The Telecommunications Fund experienced an \$114,409 decrease in net position. Most of the revenue decrease is due to a decrease in the number of television customers. Costs have increased significantly industry wide as television content has increased. As a result of the corresponding price increases more and more consumers have switched to streaming services. Revenue from internet services dropped to a lesser degree as some former cable customers switched internet providers as well. The fund's primary costs are programming charges, data line charges and depreciation. The City has been challenged with the increasing cost of programming, however while this fund has lost money it continues to produce positive cash flow.

Water Fund – The Water Fund saw net position increase by \$206,776. This was lower than the prior year when the Fund had an increase of \$697,264. Operating costs are primarily related to the cost to pump, treat and distribute water to residents and businesses. During the current year \$522,000 of capital was invested back into the system. Of this, \$373,000 was the installation of new water lines as part of the Jefferson Street reconstruction project.

CITY OF COLDWATER MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Wastewater – The Wastewater Fund had a \$774,445 increase in net position compared to the prior year when net position increased by \$556,981. Operating costs are primarily related to the cost to transport the wastewater from residences and businesses and treat it at the City's wastewater resource recovery facility (WRRF). In 2018, the City completed a \$13.4 million investment into the WRRF. To prepare for these upgrades at the WRRF the City began multi-step annual rate increases. The latest rate increase went into effect in August, 2019. These increases will continue into the future. In the current year, \$628,000 of system capital was invested back into the City's sanitary system. A majority of that was spent installing new sanitary lines as part of the Jefferson Street infrastructure project and in various wastewater pipe relining projects. Relining has become a cost-effective mechanism to extend life and restore structural integrity of wastewater infrastructure by lining it with a cured in place liner to eliminate cracks in the piping. The relining is done in part to reduce groundwater infiltration into the sanitary system. This reduces the volume of water that requires treatment at the WRRF.

Rubbish – The Rubbish Fund saw an increase in net assets of \$2,008 compared to an increase of \$22,350 in the prior year. As in the prior year the City increased its one totter rate by \$1 per month due to continuing contractual cost increases. Garbage collection services are billed by the City, but operated by a private contractor.

GIS – The GIS Fund saw an increase in net assets of \$51,348 compared to a \$62,634 increase in the prior year. The City has partnered with Branch County as well as the City of Bronson and a number of local townships 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. A portion of the grant money was spent to collect, input and map various data into the system. In 2018, the remainder of the grant funds were spent on updating aerial imagery. In the current year the fund received \$107,500 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. 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 showed a planned budget deficit of \$374,000; however, actual operations resulted in an increase in fund balance of \$367,993. The City continues to budget conservatively. In the current year, revenues came in roughly 1% higher than budgeted with expenditures coming in at 6.5% under budget. The significant budget-to-actual differences are as follows:

Revenues –

- Contributions from State Sources were under budgeted by \$73,000. The City received an excess funding distribution from the State of Michigan's Local Community Stabilization Authority (LCSA) after the final budget amendment was complete. The fact that the distribution was going to happen was known, but the amount was not so we did not budget for it.

CITY OF COLDWATER MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Expenditures –

- Expenditures for Public Safety were under budget by \$295,000. \$80,000 of this was wages and benefits for the Police department. There was a significant staff turnover during the year and there were many times when the department wasn't fully staffed. \$75,000 of the under-budget amount were operational items with the Police department. This was partially the result of the staffing changes, but also due to the change in focus of the department during the COVID-19 crisis. \$57,000 of the savings was the result of purchasing one less police vehicle during the year and having the two vehicles that were purchased come in less than the original estimate. Finally, fuel costs remained low and resulted in a savings of \$18,000 from the budget.
- Expenditures for Public Works were under budget by \$83,000. The most significant difference was in capital spending where the department was \$60,000 under budget as a result of not having to replace a tractor. They were able to find a lower priced piece of equipment to handle the work needed.
- Expenditures for Recreation were \$202,000 under budget. The City was forced to temporarily shut down the Recreation building beginning in mid-March. This closure lasted through the end of the fiscal year. During this time, three full-time staff were laid off. Most recreation programs were halted so regular part-time staff and contractual workers were not needed. With the facility closed, supply costs were significantly reduced and even utility costs were lower. Park maintenance cost reductions were \$93,000 of the total. Much of this reduction was due to not needing to maintain the outside facilities to the same level during the spring when most recreation programs were not operating due to COVID-19 restrictions.

Capital Asset and Debt Administration

The City has continued its efforts to improve infrastructure. This fiscal year saw the reinvestment of \$22.9 million in capital assets for the City's Governmental and Enterprise Funds combined, \$17.6 million of which was reinvested in the City's 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.

CITY OF COLDWATER MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Over the last four years, improvements at the water resource and recovery facility (WRRF) have been done. The investment in overhauling the facilities' three trickling filters totaled nearly \$3.4 million and the construction of the one-million-gallon EQ basin cost \$10 million. The work at the WRRF was paid using funds from the \$15.7 million water and wastewater system bonds issued in 2017. The WRRF is near the upper end of its capacity. The City is currently studying options for future expansion. During the current year the City's Electric Fund issued \$11.8 million in debt to purchase the Project IV natural gas peaking facility in Coldwater from the Michigan South Central Power Agency (MSCPA). Coldwater was already the 100% user of the facility, but will now fully operate the plant vs. paying MSCPA to do so. The Electric Fund also issued \$5.3 million in debt to construct a new substation on Butters Avenue in the City's industrial park. Construction began in the spring of 2020 and will conclude in the 2021 fiscal year. Once completed, the new substation will reduce the number of customers on each circuit resulting in less risk of outages and increased available capacity. It also allows for increased redundancy to connect and back feed circuits throughout the entire electrical system. This project was made necessary by a new electric transmission feed coming into the City from the north. The additional transmission feed has been long awaited and will give our local electric system needed redundancy with separate feeds coming into the City from the north and south. Additionally, in the current year the City completed phase one of a fiber project at a cost of \$1.1 million which connected all City and CBPU internal utility infrastructure. Phase two of this fiber to the premise (FTTX) project is budgeted at \$2.8 million and will allow all residential and business customers to connect at symmetric broadband speeds ranging from 1gbps to 10gbps. Phase two construction began in February, 2020 and is anticipated to be complete in the fourth quarter of 2021.

In November, 2015 the State passed a \$1.2 billion road funding bill. The City began seeing additional Act 51 road revenues during 2017 and that trend continued into the current fiscal year. The increase in funds is being phased in so the full impact of the increase will not be felt until 2021. During the summer of 2019 the City undertook a major road reconstruction project on Jefferson Street. This project also included replacement of aging storm, water and wastewater infrastructure. In the fall of 2019, the City completed the Thompson Boulevard extension project connecting Thompson Boulevard with Michael Drive. Also included in this project was an extension of the wastewater infrastructure. Other road projects using Act 51 funds were Allen Avenue in the City's industrial park that was completed in the spring of 2020 and a portion of Smith Street that was completed in the fall of 2020. The Smith Street project was driven by failing underground utilities. As with Jefferson, it included the replacement of aging storm, water, and wastewater infrastructure.

Economic Factors, Next Year's Budgets and Rates

The adopted budget for the fiscal year ending June 30, 2021, reflects the current funding assumptions of the City. City Council continues to maintain its policy of fiscal conservatism while providing the citizens of Coldwater quality services.

CITY OF COLDWATER MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

The City's initial budget projects a deficit of \$247,000 for the 2021 fiscal year. That figure will be evaluated by staff and the Council as the year progresses. Even with the projected deficit, the City will remain in a financially strong position with an operating fund balance reserve of over 45% of expenditures.

City revenues in the next fiscal year are expected to be flat. Our largest source of revenue is property taxes. Based on 2020 valuations we expect to see a 5% increase in collections as opposed to the small decrease that was seen in the current year. Most of the increase will come from real property growth. This year, that is a combination of new development as well as increase due to the inflation factor used by the State. 2021 will bring a small increase in personal property taxes due to growth in nonindustrial personal property. However, overall, the last five years we have seen decreases in personal property revenues due to a change in state law that reduces the amount of personal property subject to taxes. Most of that loss will be made up by the State via payments from the State's Local Community Stabilization Authority. So far, those payments have come in above projections, however, it is expected that those increases will end and we are budgeting the reimbursement to be lower in 2021. The second largest source of revenue, PILOT, is expected to increase to \$3.33 million due to increases in utility revenues from new industrial development. State revenue sharing, also a significant source of revenue for the City, is currently budgeted to decrease by 10% to \$975,000 however the State has recently forecast the reduction to be lower.

The state economy was solid for most of the 2020 fiscal year, however the COVID-19 shutdowns in the spring caused a significant slowdown both statewide and nationally. This caused unemployment rates to spike significantly in the spring when many manufacturing facilities were temporarily shuttered. Manufacturing employment has improved as lockdowns were eased, but unemployment in the service industry is still high. An uptick in the virus in the fall of 2020 lends uncertainty to state revenue projections as well as future property tax revenues.

Locally, Branch County saw its share of businesses that endured shutdown, but with a significant number of local companies involved in essential operations the overall mid-term effect to the local economy may have been less than in other parts of the nation. A number of large local employers were still looking to fill positions as we moved into the 2021 fiscal year.

The local housing market is strong with a need for mid-range priced housing. The City purchased 15 lots on Thompson Boulevard early in 2019 and, as noted, extended Thompson past Michael Drive. Through a program with the Michigan State Housing Development Authority (MSHDA), the City developed one property and, in the fall of 2020, began to develop a second. The first home was sold during the summer of 2020. The remaining lots will be able to be offered for sale. In July, 2019 construction of a four story, 50-unit apartment complex began on the Milnes Plaza downtown. That project is currently in its final stages with apartments expected to be available before the end of the 2020 calendar year.

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.

CITY OF COLDWATER MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Even with a solid local economy there are still 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. Growth in funding from State sources is hard to predict due to economic slow downs caused by the effects of the corona virus.

Concerns also continue to exist over aging infrastructure and the escalating costs to repair and replace underground pipes and roads. We continue to maximize our resources to strategically minimize the financial impact to our citizens and rate payers. In recent years the City has invested substantial resources in our local infrastructure. These projects have been paid from a variety of funding sources including debt issued through the City's Local Development Finance Authority (LDFA), grant funding from the Michigan Economic Development Corporation and the Michigan Department of Transportation, the issuance of local road bonds, and our Act 51 road funding from the State. The reconstruction of the Chandler Plaza parking lot was completed during the 2019 fiscal year. That project, like the Tibbits Plaza parking lot project, also included the reconstruction of the local utility infrastructure that runs under the parking lot. Early in the fiscal year, a major road construction project on S. Jefferson Street addressed water and wastewater infrastructure issues and during the summer of 2020 a smaller project on Smith Street did the same.

Continuing with the ongoing effort to cost effectively maintain wastewater infrastructure, the City relined various sections of underground sanitary sewer piping in 2020 and in summer, 2020 began rebuilding a wastewater lift station that operates in the commercial area east of downtown. More and more projects like these are necessary to maintain our aging infrastructure system. As we look forward, we also see the need to expand our water resource recovery facility (WRRF). As our industrial base continues to expand, we will need to expand capacity at the WRRF. We are currently in the early stages of planning for this project which will require a large capital contribution funded with bond proceeds. Also on the horizon is the construction of a new water tower to serve industrial areas in the northern part of the system. The timing of that project is dependent upon industrial growth in that area.

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, 2020

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 7,593,038	\$ 18,702,932	\$ 26,295,970	\$ 621,585
Accounts receivable	105,221	5,173,256	5,278,477	-
Special assessment receivable	21,879	-	21,879	-
Notes receivable	-	-	-	-
Inventories	-	118,579	118,579	-
Due from other governmental units	209,317	-	209,317	-
Internal balances	415,971	-	415,971	-
Prepaid expenses	188,094	130,400	318,494	-
Investment in Power Agency	-	15,462,442	15,462,442	-
Restricted assets	450,000	4,828,663	5,278,663	-
Capital assets, less accumulated depreciation	41,451,161	87,902,335	129,353,496	624,957
Total assets	50,434,681	132,318,607	182,753,288	1,246,542
DEFERRED OUTFLOWS OF RESOURCES	402,883	519,273	922,156	-
Total assets and deferred outflows of resources	50,837,564	132,837,880	183,675,444	1,246,542
LIABILITIES				
Accounts payable	576,751	4,838,526	5,415,277	713
Accrued expenditures	314,454	1,544,580	1,859,034	18,465
Long term liabilities:				
Bonds payable, due within one year	778,091	2,322,801	3,100,892	185,000
Bonds and notes payable, due in more than one year	4,772,359	40,267,403	45,039,762	5,545,000
Internal balances	-	-	-	415,971
Premium on bonds	-	802,468	802,468	86,086
Net pension liability	4,650,032	5,509,492	10,159,524	-
Compensated absences	423,709	411,306	835,015	-
Total liabilities	11,515,396	55,696,576	67,211,972	6,251,235
DEFERRED INFLOWS OF RESOURCES	470,933	-	470,933	-
Total liabilities and deferred inflows of resources	11,986,329	55,696,576	67,682,905	6,251,235
NET POSITION				
Investment in capital assets - net of related debt	35,900,711	45,312,131	81,212,842	(5,105,043)
Restricted	1,747,332	5,113,813	6,861,145	100,350
Unrestricted	1,203,192	26,715,360	27,918,552	-
Total net position	\$ 38,851,235	\$ 77,141,304	\$ 115,992,539	\$ (5,004,693)

See Notes to Financial Statements

CITY OF COLDWATER

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Operating /		Capital	Primary Government			Component Units
		Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities:								
General government	\$ 3,010,430	\$ 274,822	\$ 20,200	\$ -	\$ (2,715,408)	\$ -	\$ (2,715,408)	\$ -
Public safety	4,722,123	316,382	124,037	179,581	(4,102,123)	-	(4,102,123)	-
Public works	2,800,247	277,036	481,536	-	(2,041,675)	-	(2,041,675)	-
Recreation and cultural	1,515,522	182,606	15,814	29,000	(1,288,102)	-	(1,288,102)	-
Economic development	210,782	-	-	-	(210,782)	-	(210,782)	-
Interest	163,581	-	-	-	(163,581)	-	(163,581)	-
Total governmental activities	12,422,685	1,050,846	641,587	208,581	(10,521,671)	-	(10,521,671)	-
Business-type activities:								
Electric	35,935,233	38,746,142	-	-	-	2,810,909	2,810,909	-
Telecommunications	2,523,634	2,521,095	-	-	-	(2,539)	(2,539)	-
Water	3,061,577	3,455,071	-	-	-	393,494	393,494	-
Waste water	4,528,103	5,503,427	-	-	-	975,324	975,324	-
Rubbish	553,121	550,071	-	-	-	(3,050)	(3,050)	-
GIS	164,824	109,875	-	-	-	(54,949)	(54,949)	-
Total business-type activities	46,766,492	50,885,681	-	-	-	4,119,189	4,119,189	-
Total primary government	<u>\$ 59,189,177</u>	<u>\$ 51,936,527</u>	<u>\$ 641,587</u>	<u>\$ 208,581</u>	(10,521,671)	4,119,189	(6,402,482)	-
Component units:								
Downtown Development Authority	\$ 93,344	\$ -	\$ 2,000	\$ -	-	-	-	(91,344)
Local Development Authority	350,826	-	-	-	-	-	-	(350,826)
Total component units	<u>\$ 444,170</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	-	-	-	(442,170)
General revenues:								
Property taxes					4,591,684	-	4,591,684	871,332
State revenues					3,181,012	-	3,181,012	-
Unrestricted investment earnings					155,987	422,669	578,656	16,072
Gain (loss) on investments					-	932,270	932,270	-
Gain (loss) on sale of assets					(12,340)	(32,414)	(44,754)	-
Miscellaneous					130,775	122,480	253,255	2,719
Transfers - internal balances					(50,000)	50,000	-	-
Payments in lieu of taxes					3,183,492	(3,183,492)	-	-
Total general revenues, transfers, forgiveness of debt and payments in lieu of taxes					11,180,610	(1,688,487)	9,492,123	890,123
Change in Net Position					658,939	2,430,702	3,089,641	447,953
Net Position - Beginning					38,192,296	74,522,069	112,714,365	(5,452,646)
Contribution in aid of construction					-	188,533	188,533	-
Net Position - Ending					<u>\$ 38,851,235</u>	<u>\$ 77,141,304</u>	<u>\$ 115,992,539</u>	<u>\$ (5,004,693)</u>

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2020

	General Fund	Other Nonmajor Governmental Funds	Totals
ASSETS			
Cash and investments	\$ 5,692,415	\$ 1,900,623	\$ 7,593,038
Accounts receivable	105,221	-	105,221
Special assessment receivable	-	21,879	21,879
Due from other governmental units	9,696	199,621	209,317
Due from other funds	-	415,971	415,971
Prepaid expenses	94,584	93,510	188,094
Restricted assets	-	450,000	450,000
Total assets	<u>\$ 5,901,916</u>	<u>\$ 3,081,604</u>	<u>\$ 8,983,520</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 515,975	\$ 60,776	\$ 576,751
Accrued expenditures	279,380	3,671	283,051
Unearned revenue	54,965	437,850	492,815
Total liabilities	850,320	502,297	1,352,617
 FUND BALANCE			
Nonspendable	94,584	93,480	188,064
Restricted	-	1,747,332	1,747,332
Committed	-	658,868	658,868
Assigned	2,330,438	79,627	2,410,065
Unassigned	2,626,574	-	2,626,574
Total fund balance	<u>5,051,596</u>	<u>2,579,307</u>	<u>7,630,903</u>
Total liabilities and fund balance	<u>\$ 5,901,916</u>	<u>\$ 3,081,604</u>	<u>\$ 8,983,520</u>

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET POSITION
JUNE 30, 2020

Total Fund Balance - Governmental Funds	\$ 7,630,903
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	61,698,496
Accumulated depreciation	<u>(20,247,335)</u>
Total capital assets not reported in funds	41,451,161
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	21,882
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid	(31,403)
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	(5,550,450)
Deferred outflows	402,883
Net pension liability	(4,650,032)
Compensated absences	<u>(423,709)</u>
Total long-term liabilities not reported in funds	<u>(10,221,308)</u>
Total Net Position - Governmental Activities	<u><u>\$ 38,851,235</u></u>

CITY OF COLDWATER

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020**

	General Fund	Other Nonmajor Governmental Funds	Totals
REVENUES			
Taxes	\$ 3,589,240	\$ 1,002,444	\$ 4,591,684
Payment in lieu of taxes	3,183,492	-	3,183,492
Special assessments	-	58,442	58,442
Licenses and permits	264,148	-	264,148
Federal sources	-	261,347	261,347
State grants	-	179,581	179,581
State shared revenue	1,096,449	1,319,832	2,416,281
State sources	695,897	433,061	1,128,958
Charges for services	473,190	2,890	476,080
Rent	265,972	-	265,972
Interest income	120,692	35,295	155,987
Contributions	200	29,000	29,200
Other income	130,775	2,017	132,792
Total revenues	<u>9,820,055</u>	<u>3,323,909</u>	<u>13,143,964</u>
EXPENDITURES			
General government	1,597,660	-	1,597,660
Public safety	4,359,861	-	4,359,861
Public works	1,606,140	2,697,876	4,304,016
Recreation and cultural	893,219	-	893,219
Planning	193,413	-	193,413
Debt service	245,334	686,298	931,632
Other expenditures	784,968	-	784,968
Total expenditures	<u>9,680,595</u>	<u>3,384,174</u>	<u>13,064,769</u>
Excess (deficiency) of revenues over expenditures	139,460	(60,265)	79,195
OTHER SOURCES (USES)			
Sale of fixed assets	9,170	-	9,170
Return of grant to State	-	(17,369)	(17,369)
Transfers from (to) other funds	219,363	(269,363)	(50,000)
Total other sources (uses)	<u>228,533</u>	<u>(286,732)</u>	<u>(58,199)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	367,993	(346,997)	20,996
FUND BALANCE - BEGINNING	<u>4,683,603</u>	<u>2,926,304</u>	<u>7,609,907</u>
FUND BALANCE - ENDING	<u><u>\$ 5,051,596</u></u>	<u><u>\$ 2,579,307</u></u>	<u><u>\$ 7,630,903</u></u>

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, 2020

Net change in Fund Balance - Total Governmental Funds	\$ 20,996
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(2,220,762)
Loss on sale of assets	(21,510)
Capital outlay	<u>2,515,560</u>
Total	273,288
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	-
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 a increase to expenditures	2,760
Change in net pension liability and related deferred outflows	(436,500)
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	-
Principal repayment	765,291
Decrease in compensated absences are reported as an increase to expenditures	<u>33,104</u>
Change in Net Position of Governmental Activities	<u><u>\$ 658,939</u></u>

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2020

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Waste Water Fund</u>	<u>Nonmajor Telecom- munications Fund</u>	<u>Nonmajor Rubbish Fund</u>	<u>Nonmajor GIS Fund</u>	<u>Totals</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES							
ASSETS							
Current assets:							
Cash and investments	\$ 11,196,309	\$ 2,209,396	\$ 4,726,823	\$ -	\$ 201,873	\$ 368,531	\$ 18,702,932
Accounts receivable	4,048,493	355,778	587,321	149,252	32,412	-	5,173,256
Inventories	-	118,579	-	-	-	-	118,579
Due from other funds	67,202	-	-	-	-	-	67,202
Prepaid and other assets	45,093	24,197	16,572	43,976	-	562	130,400
Total current assets	<u>15,357,097</u>	<u>2,707,950</u>	<u>5,330,716</u>	<u>193,228</u>	<u>234,285</u>	<u>369,093</u>	<u>24,192,369</u>
Noncurrent assets:							
Investment in Power Agency	15,462,442	-	-	-	-	-	15,462,442
Restricted assets	3,259,193	99,184	1,470,286	-	-	-	4,828,663
Capital assets, less accumulated depreciation	39,404,504	16,278,034	29,878,394	2,153,917	187,486	-	87,902,335
Total noncurrent assets	<u>58,126,139</u>	<u>16,377,218</u>	<u>31,348,680</u>	<u>2,153,917</u>	<u>187,486</u>	<u>-</u>	<u>108,193,440</u>
Total assets	<u>73,483,236</u>	<u>19,085,168</u>	<u>36,679,396</u>	<u>2,347,145</u>	<u>421,771</u>	<u>369,093</u>	<u>132,385,809</u>
DEFERRED OUTFLOWS OF RESOURCES							
	<u>252,451</u>	<u>113,938</u>	<u>113,939</u>	<u>38,945</u>	<u>-</u>	<u>-</u>	<u>519,273</u>
Total assets and deferred outflows of resources	<u>\$ 73,735,687</u>	<u>\$ 19,199,106</u>	<u>\$ 36,793,335</u>	<u>\$ 2,386,090</u>	<u>\$ 421,771</u>	<u>\$ 369,093</u>	<u>\$ 132,905,082</u>
LIABILITIES AND NET POSITION							
LIABILITIES							
Current liabilities:							
Accounts payable	\$ 4,479,843	\$ 83,824	\$ 120,384	\$ 80,317	\$ -	\$ 74,158	\$ 4,838,526
Accrued expenditures	1,103,319	70,035	324,479	41,600	437	4,710	1,544,580
Bonds and notes payable, due within one year	990,000	354,952	977,849	-	-	-	2,322,801
Total current liabilities	<u>6,573,162</u>	<u>508,811</u>	<u>1,422,712</u>	<u>121,917</u>	<u>437</u>	<u>78,868</u>	<u>8,705,907</u>
Noncurrent liabilities							
Bonds and notes payable, due in more than one year	20,290,000	2,928,206	17,049,197	-	-	-	40,267,403
Advance to other funds	-	-	-	67,202	-	-	67,202
Premium on bonds payable	401,464	48,121	352,883	-	-	-	802,468
Net pension liability	2,633,608	1,243,419	1,243,114	389,351	-	-	5,509,492
Compensated absences	189,804	95,918	69,463	50,841	205	5,075	411,306
Total noncurrent liabilities	<u>23,514,876</u>	<u>4,315,664</u>	<u>18,714,657</u>	<u>507,394</u>	<u>205</u>	<u>5,075</u>	<u>47,057,871</u>
Total liabilities	<u>30,088,038</u>	<u>4,824,475</u>	<u>20,137,369</u>	<u>629,311</u>	<u>642</u>	<u>83,943</u>	<u>55,763,778</u>
NET POSITION							
Investment in capital assets, net of related debt	18,124,504	12,994,876	11,851,348	2,153,917	187,486	-	45,312,131
Restricted	3,259,193	99,184	1,470,286	-	-	285,150	5,113,813
Unrestricted	22,263,952	1,280,571	3,334,332	(397,138)	233,643	-	26,715,360
Total net position	<u>\$ 43,647,649</u>	<u>\$ 14,374,631</u>	<u>\$ 16,655,966</u>	<u>\$ 1,756,779</u>	<u>\$ 421,129</u>	<u>\$ 285,150</u>	<u>\$ 77,141,304</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, 2020

	Electric Fund	Water Fund	Waste Water Fund	Nonmajor Telecom- munications Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
REVENUES							
Charges for services	\$ 38,746,142	\$ 3,455,071	\$ 5,503,427	\$ 2,521,095	\$ 550,071	\$ 109,875	\$ 50,885,681
OPERATING EXPENSES							
Purchased power	28,545,710	-	-	-	-	-	28,545,710
Power plant	18,571	-	-	-	-	-	18,571
Natural gas plant	106,929	-	-	-	-	-	106,929
Distribution	1,530,578	499,899	-	1,526,891	-	-	3,557,368
Substation	80,370	-	-	-	-	-	80,370
Sanitation	-	-	-	-	540,607	-	540,607
Metering and lighting	920,102	-	-	-	-	-	920,102
Wells	-	59,879	-	-	-	-	59,879
Treatment	-	712,738	1,139,682	-	-	-	1,852,420
Collection system	-	-	184,033	-	-	-	184,033
Customer service	417,330	-	-	70,153	-	-	487,483
Administration	2,675,614	916,445	975,144	490,691	-	-	5,057,894
Public works	-	-	-	-	-	164,824	164,824
Payments in lieu of taxes	2,544,036	214,188	295,332	129,936	-	-	3,183,492
Depreciation	1,371,722	779,868	1,525,495	435,899	12,514	-	4,125,498
Total operating expenditures	38,210,962	3,183,017	4,119,686	2,653,570	553,121	164,824	48,885,180
OPERATING INCOME	535,180	272,054	1,383,741	(132,475)	(3,050)	(54,949)	2,000,501
NONOPERATING REVENUES (EXPENSES)							
Investment income	295,441	22,677	93,196	-	5,058	6,297	422,669
Interest expense	(268,307)	(92,748)	(703,749)	-	-	-	(1,064,804)
Gain (loss) on investments	932,270	-	-	-	-	-	932,270
Gain (loss) on sale of fixed assets	(13,565)	(10,636)	(8,213)	-	-	-	(32,414)
Miscellaneous income	79,515	15,429	9,470	18,066	-	-	122,480
Total nonoperating revenues (expenses)	1,025,354	(65,278)	(609,296)	18,066	5,058	6,297	380,201
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	1,560,534	206,776	774,445	(114,409)	2,008	(48,652)	2,380,702
TRANSFERS							
Transfers from (to) other funds	(50,000)	-	-	-	-	100,000	50,000
CHANGE IN NET POSITION	1,510,534	206,776	774,445	(114,409)	2,008	51,348	2,430,702
NET POSITION - BEGINNING	42,102,313	14,101,015	15,794,630	1,871,188	419,121	233,802	74,522,069
Contribution in aid of construction	34,802	66,840	86,891	-	-	-	188,533
NET POSITION - ENDING	\$ 43,647,649	\$ 14,374,631	\$ 16,655,966	\$ 1,756,779	\$ 421,129	\$ 285,150	\$ 77,141,304

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2020

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Waste Water Fund</u>	<u>Nonmajor Telecom- munications Fund</u>	<u>Nonmajor Rubbish Fund</u>	<u>Nonmajor GIS Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from customers	\$ 38,127,380	\$ 3,466,242	\$ 5,486,778	\$ 2,559,101	\$ 550,561	\$ 109,875	\$ 50,299,937
Payments made to suppliers	(33,194,198)	(1,010,485)	(1,268,931)	(1,673,243)	(529,650)	(33,622)	(37,710,129)
Payments made to employees	<u>(3,350,798)</u>	<u>(1,307,915)</u>	<u>(1,245,860)</u>	<u>(799,372)</u>	<u>(14,470)</u>	<u>(124,856)</u>	<u>(6,843,271)</u>
Net cash provided by operating activities	1,582,384	1,147,842	2,971,987	86,486	6,441	(48,603)	5,746,537
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	(438,307)	(443,734)	(1,637,362)	-	-	-	(2,519,403)
Proceeds on bonds	17,085,000	-	-	-	-	-	17,085,000
Premium on bonds	185,212	-	-	-	-	-	185,212
Contribution in aid of construction	34,802	66,840	86,891	-	-	-	188,533
Proceeds on sale of assets	92,276	-	-	-	-	-	92,276
Purchase of capital assets	<u>(19,253,131)</u>	<u>(616,066)</u>	<u>(404,175)</u>	<u>(86,486)</u>	<u>(200,000)</u>	<u>-</u>	<u>(20,559,858)</u>
Net cash provided by (used in) capital and related financing activities	(2,294,148)	(992,960)	(1,954,646)	(86,486)	(200,000)	-	(5,528,240)
CASH FLOWS FROM INVESTING ACTIVITIES							
Interest received on investments	295,441	22,677	93,196	-	5,058	6,297	422,669
Change in investments	<u>(80,074)</u>	<u>(23,462)</u>	<u>24,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(78,895)</u>
Net cash provided by investing activities	<u>215,367</u>	<u>(785)</u>	<u>117,837</u>	<u>-</u>	<u>5,058</u>	<u>6,297</u>	<u>343,774</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(546,397)	154,097	1,135,178	-	(188,501)	57,694	612,071
CASH AND CASH EQUIVALENTS - BEGINNING	<u>11,742,706</u>	<u>2,055,299</u>	<u>3,591,645</u>	<u>-</u>	<u>390,374</u>	<u>310,837</u>	<u>18,090,861</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 11,196,309</u>	<u>\$ 2,209,396</u>	<u>\$ 4,726,823</u>	<u>\$ -</u>	<u>\$ 201,873</u>	<u>\$ 368,531</u>	<u>\$ 18,702,932</u>

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS - Continued FOR THE YEAR ENDED JUNE 30, 2020

	Electric Fund	Water Fund	Waste Water Fund	Nonmajor Telecom- munications Fund	Nonmajor Rubbish Fund	Nonmajor GIS Fund	Totals
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS							
Cash and investments	\$ 11,196,309	\$ 2,209,396	\$ 4,726,823	\$ -	\$ 201,873	\$ 368,531	\$ 18,702,932
Restricted cash and investments	3,259,193	99,184	1,470,286	-	-	-	4,828,663
Less amounts classified as investments	(3,259,193)	(99,184)	(1,470,286)	-	-	-	(4,828,663)
Total cash and cash equivalents	<u>\$ 11,196,309</u>	<u>\$ 2,209,396</u>	<u>\$ 4,726,823</u>	<u>\$ -</u>	<u>\$ 201,873</u>	<u>\$ 368,531</u>	<u>\$ 18,702,932</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES							
Operating income (loss)	\$ 535,180	\$ 272,054	\$ 1,383,741	\$ (132,475)	\$ (3,050)	\$ (54,949)	\$ 2,000,501
Adjustments to reconcile operating income to net cash from operating activities:							
Miscellaneous income	79,515	15,429	9,470	18,066	-	-	122,480
Depreciation	1,371,722	779,868	1,525,495	435,899	12,514	-	4,125,498
Amortization	(14,638)	(2,282)	(16,738)	-	-	-	(33,658)
Changes in assets and liabilities:							
Receivables	(698,277)	(4,258)	(26,119)	19,940	490	-	(708,224)
Inventories	-	249	-	-	-	-	249
Prepays and other assets	31,314	2,021	5,182	(37,225)	-	(562)	730
Deferred outflows	185,286	83,595	83,595	28,579	-	-	381,055
Due from other governmental units	-	-	-	-	-	-	-
Due from (to) other funds	236,873	-	-	(236,873)	-	-	-
Accounts payable	(115,965)	23,460	27,859	(21,353)	(3,581)	268	(89,312)
Accrued expenditures	(32,313)	(26,556)	(17,490)	12,194	16	1,565	(62,584)
Net pension liability	(64,764)	(29,003)	(29,003)	(8,873)	-	-	(131,643)
Compensated absences	68,451	33,265	25,995	8,607	52	5,075	141,445
Net cash provided by operating activities	<u>\$ 1,582,384</u>	<u>\$ 1,147,842</u>	<u>\$ 2,971,987</u>	<u>\$ 86,486</u>	<u>\$ 6,441</u>	<u>\$ (48,603)</u>	<u>\$ 5,746,537</u>

See Notes to Financial Statements

CITY OF COLDWATER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 12,012
LIABILITIES	
Due to other governmental units	\$ 695
Accounts payable	11,317
	<hr/>
Total	\$ 12,012
	<hr/> <hr/>

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF NET POSITION
JUNE 30, 2020

	Downtown Development Authority	Local Development Finance Authority	Total
ASSETS			
Cash and investments	\$ 89,275	\$ 532,310	\$ 621,585
Capital assets, less accumulated depreciation	258,906	366,051	624,957
Total assets	348,181	898,361	1,246,542
LIABILITIES			
Accounts payable	713	-	713
Accrued expenditures	-	18,465	18,465
Bonds and notes payable, due within one year	-	185,000	185,000
Long term liabilities:			
Bonds and notes payable, due in more than one year	-	5,545,000	5,545,000
Advance to other funds	-	415,971	415,971
Premium on bonds payable	-	86,086	86,086
Total liabilities	713	6,250,522	6,251,235
NET ASSETS			
Investment in capital assets - net of related debt	258,906	(5,363,949)	(5,105,043)
Restricted	88,562	11,788	100,350
Total net position	\$ 347,468	\$ (5,352,161)	\$ (5,004,693)

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

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	\$ 93,344	\$ -	\$ 2,000	-	\$ (91,344)	\$ -	\$ (91,344)
Local Development Finance Authority	350,826	-	-	-	-	(350,826)	(350,826)
Total component activities	\$ 444,170	\$ -	\$ 2,000	\$ -	(91,344)	(350,826)	(442,170)
General revenues:							
Property taxes					84,650	786,682	871,332
Interest					3,154	12,918	16,072
Other income					2,719	-	2,719
Total general revenues					90,523	799,600	890,123
Change in Net Position					(821)	448,774	447,953
Net Position - Beginning					348,289	(5,800,935)	(5,452,646)
Contribution in aid of construction					-	-	-
Net Position - Ending					\$ 347,468	\$ (5,352,161)	\$ (5,004,693)

See Notes to Financial Statements

CITY OF COLDWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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

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

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

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

The LDFA currently has a negative net position which will be eliminated in future years with tax recapture.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

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

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

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

The City first utilizes restricted resources to finance qualifying activities.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

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.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

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.

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, 2020

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 2019 tax is levied and collectible on August 1, 2019 and is recognized as revenue in the year ended June 30, 2020, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2019 taxable valuation of the City totaled \$346 million, a portion of which is abated and a portion of which is captured by the LDFA and DDA. Taxes levied consisted of 11.5827 mills for operating purposes, 1.3333 mills for the retirement system, and 1.75 mills for roadway construction. This resulted in almost \$3.4 million for general operating and approximately \$408,000 and \$602,000 for retirement and roadways. These amounts are reported in the respective General, Retirement and Road Debt Service Funds in the financial statements.

Tax Abatements - Industrial property tax abatements are granted in the State of Michigan under Public Act 198, as amended, to promote economic development, creation of jobs, and new or improvement facilities. The industrial facilities tax (IFT) exemption must be approved by both the local unit (after public hearing is held) and the State of Michigan. IFT exemptions can cover real and/or personal property. By State law, the exemption must be applied for no later than six months after commencement of the project, and must be accompanied by a written agreement between the taxpayer and the local unit. An exemption allows for taxation on IFT property at 50% of the local property tax millage rate for a period of 1 to 12 years. Accordingly, such agreements meet the criteria of "tax abatements" under GASB Statement No. 77. Property taxes abated by the City in fiscal year 2020 amounted to \$720,067.

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".

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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.

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, 2020, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Deferred Outflows/Inflows of Resources – 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 sponsors elect to pay multiple years at a time, the sponsorship money is deferred until future years, when the revenue applies.

Compensated Absences – It is the City’s policy to permit employees to accumulate earned but unused paid time off/sick and vacation pay. All paid time off/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.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Fund Balance – Continued

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, Major Streets Fund, Local Streets Fund, Retirement Fund, Road Debt Service Fund, Road Construction Bond 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.

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, 2020**

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>Other Nonmajor Governmental Funds</u>
Nonspendable:		
Prepaid expenses	\$ 94,584	\$ 93,480
Restricted:		
Grant Fund	-	591,649
Road Construction Bond	-	6,228
Major streets	-	356,334
Local streets	-	24,778
Road debt service	-	497,997
Revolving development	-	270,346
Committed:		
Parking authority	-	55,797
Library Memorial	-	136,972
Brownfield redevelopment	-	16,099
Cemetery	-	450,000
Assigned:		
Fund balancing	2,330,438	79,627
Unassigned:	<u>2,626,574</u>	<u>-</u>
Total	<u>\$ 5,051,596</u>	<u>\$ 2,579,307</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, 2020

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 .34% to 2.78%.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

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)	\$ 12,091,299	0.0027
U.S. government or agency bond or note	84,882	1

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	\$ 12,091,299	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, 2020, \$30,234,447 of the City’s bank balance of \$32,210,719 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, 2020**

NOTE C – DUE FROM OTHER FUNDS

The due from other funds, at June 30, 2020, for the City are as follows:

GOVERNMENTAL FUNDS

CAPITAL IMPROVEMENT FUND

Due from Local Development Finance Authority	<u>\$ 415,971</u>
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PROPRIETARY FUNDS

ELECTRIC FUND

Due from Telecommunications Fund	<u>\$ 67,202</u>
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CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE D – TRANSFERS FROM (TO) OTHER FUNDS

Transfers from (to) other funds, during the year ended June 30, 2020, for the City are as follows:

GOVERNMENTAL FUNDS

GENERAL FUND

Transfer from Retirement Fund	\$ 408,343
Transfer to Grant Fund	(138,980)
Transfer to GIS Fund	(50,000)
	<hr/>
Total General Fund	219,363

MAJOR STREETS FUND

Transfer to Local Streets Fund	(560,000)
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LOCAL STREETS FUND

Transfer from Major Streets Fund	560,000
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GRANT FUND

Transfer from General Fund	138,980
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RETIREMENT FUND

Transfer to General Fund	(408,343)
	<hr/>
Total governmental funds	<u><u>\$ (50,000)</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

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

PROPRIETARY FUNDS

ELECTRIC FUND

Transfer to GIS Fund	(50,000)
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GIS FUND

Transfer from General Fund	50,000
Transfer from Electric Fund	<u>50,000</u>
Total GIS Fund	<u>100,000</u>
Total proprietary funds	<u>\$ 50,000</u>

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 received transfers from the General Fund to cover major projects completed during the year.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2019	Additions	Disposals	Balance June 30, 2020
GROUP:				
Capital assets, not being depreciated:				
Land	\$ 1,824,017	\$ 288,706	\$ 21,510	\$ 2,091,213
Capital assets, being depreciated:				
Roads and sidewalks	12,028,925	504,543	941,522	11,591,946
Land improvements	12,197,058	1,385,146	-	13,582,204
Buildings and improvements	27,336,947	44,114	-	27,381,061
Vehicles	4,782,742	98,193	55,076	4,825,859
Other tools and equipment	2,063,268	232,902	198,995	2,097,175
Construction in progress	167,082	129,038	167,082	129,038
Total assets being depreciated	<u>58,576,022</u>	<u>2,393,936</u>	<u>1,362,675</u>	<u>59,607,283</u>
Total assets	60,400,039	2,682,642	1,384,185	61,698,496
ACCUMULATED DEPRECIATION:				
Roads and sidewalks	6,900,483	601,446	941,522	6,560,407
Land improvements	1,351,063	472,026	-	1,823,089
Building and improvements	7,430,645	720,798	-	8,151,443
Vehicles	2,066,382	286,413	55,076	2,297,719
Other tools and equipment	1,473,593	140,079	198,995	1,414,677
Total accumulated depreciation	<u>19,222,166</u>	<u>2,220,762</u>	<u>1,195,593</u>	<u>20,247,335</u>
Net capital assets	<u>\$ 41,177,873</u>	<u>\$ 461,880</u>	<u>\$ 188,592</u>	<u>\$ 41,451,161</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE E – CAPITAL ASSETS – Continued

BUSINESS-TYPE ACTIVITIES

	Balance July 1, 2019	Additions	Disposals	Balance June 30, 2020
GROUP:				
Capital assets, not being depreciated:				
Land	\$ 1,893,366	\$ -	\$ -	\$ 1,893,366
Capital assets, being depreciated:				
Work in progress	402,325	3,143,907	402,325	3,143,907
Land improvements	535,882	-	-	535,882
Utility systems	76,718,141	11,367,729	600,089	87,485,781
Buildings	32,420,128	5,973,589	63,840	38,329,877
Office equipment	862,792	30,877	16,227	877,442
Vehicles	3,019,792	-	181,456	2,838,336
Machinery and equipment	4,206,660	446,080	147,401	4,505,339
Total assets being depreciated	<u>118,165,720</u>	<u>20,962,182</u>	<u>1,411,338</u>	<u>137,716,564</u>
Total assets	120,059,086	20,962,182	1,411,338	139,609,930
ACCUMULATED DEPRECIATION:				
Electric	15,176,866	1,371,722	645,847	15,902,741
Telecommunications	6,935,348	435,899	73,036	7,298,211
Rubbish	-	12,514	-	12,514
Water	9,787,684	779,868	39,183	10,528,369
Waste water	16,566,523	1,525,495	126,258	17,965,760
Total accumulated depreciation	<u>48,466,421</u>	<u>4,125,498</u>	<u>884,324</u>	<u>51,707,595</u>
Net capital assets	<u>\$ 71,592,665</u>	<u>\$ 16,836,684</u>	<u>\$ 527,014</u>	<u>\$ 87,902,335</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE E – CAPITAL ASSETS – Continued

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

GOVERNMENTAL ACTIVITIES:

General government	\$ 602,358
Public safety	263,519
Public works	783,054
Recreation and culture	<u>571,831</u>
Total governmental activities	<u>\$ 2,220,762</u>

BUSINESS -TYPE ACTIVITIES:

Electric	\$ 1,371,722
Telecommunications	435,899
Rubbish	12,514
Water	779,868
Waste water	<u>1,525,495</u>
Total business-type activities	<u>\$ 4,125,498</u>

The component units' capital assets at June 30, 2020 consist of the following:

COMPONENT UNITS:

Infrastructure	\$ 825,775
Less, accumulated depreciation	<u>200,818</u>
Net capital assets of component units	<u>\$ 624,957</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, 2020 amounted to \$31,731.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE F – LONG-TERM DEBT

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2020</u>
Governmental Activities:				
Revenue bonds	\$ 218,613	\$ -	\$ 18,400	\$ 200,213
General obligation capital improvement bond	1,297,000	-	48,000	1,249,000
Unlimited tax general obligation bond	3,135,000	-	495,000	2,640,000
General obligation capital improvement bond	690,000	-	82,000	608,000
Equipment loan	975,128	-	121,891	853,237
Compensated absences	456,813	-	33,104	423,709
	<u>\$ 6,772,554</u>	<u>\$ -</u>	<u>\$ 798,395</u>	<u>\$ 5,974,159</u>
Business-type Activities:				
Revenue bonds and Refunding bonds	\$ 22,190,803	\$ 17,085,000	\$ 797,599	\$ 38,478,204
General obligation capital improvement and Refunding bonds	4,769,000	-	657,000	4,112,000
Compensated absences	269,861	141,445	-	411,306
	<u>\$ 27,229,664</u>	<u>\$ 17,226,445</u>	<u>\$ 1,454,599</u>	<u>\$ 43,001,510</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

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 \$19,200 to \$23,035, due April 2030	\$ 200,213
Series 2013 Pool and Recreation Hall Limited Tax General Obligation Capital Improvement Bonds, interest rates varying from 2.55% to 4.65%, annual principal payments ranging from \$49,000 to \$98,000, due April 2038	1,249,000
Series 2015 Road Construction Unlimited Tax General Obligation Bonds, interest rates varying from 2.100% to 2.9%, annual principal payments ranging from \$505,000 to \$555,000, due May 2025	2,640,000
Series 2016 Tennis and Splash Limited Tax General Obligation Capital Improvement Bonds, interest rate of 1.5%, annual payments ranging from \$83,000 to \$91,000, due December 2026	608,000
Note payable to bank, interest rate of 2.37%, annual principal payments of \$121,891, due October 2026, secured by equipment	853,237
Accumulated compensated absences	<u>423,709</u>
Total governmental activities debt	<u><u>\$ 5,974,159</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE F – LONG-TERM DEBT – Continued

BUSINESS-TYPE ACTIVITIES

Series 2017 Electric Utility System Revenue Bonds, at an interest rate of 4.0%, annual payments ranging from \$175,000 to \$330,000, due February 2037	4,195,000
Series 2020A Electric Utility System Revenue Bonds, at an interest rate of 3.0%, annual payments ranging from \$200,000 to \$345,000, due February 2040	5,320,000
Series 2020B Electric Utility System Revenue Bonds, interest rates varying from 1.858% to 3.905%, annual payments ranging from \$460,000 to \$780,000, due February 2040	11,765,000
Series 2016 Water Supply and Wastewater System General Obligation Capital Improvement and Refunding Bonds, interest rates varying from 1.55% to 2.05%, annual payments of \$320,000 to \$354,000, due September 2025	2,018,000
Series 2016 Water Supply and Wastewater System Revenue Bonds, at an interest rate of 4.0%, annual payments ranging from \$405,000 to \$1,000,000, due August 2041	14,660,000
Series 2010 Wastewater Limited Tax General Obligation Refunding Bonds, interest rates varying from 3.70% to 4.1%, annual principal payments ranging from \$260,000 to \$315,000, due July 2024	1,425,000
Series 2009 Water Supply and Wastewater System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$100,800 to \$120,934, due April 2030	1,123,756
Series 2016 Water Supply and Wastewater System Revenue Refunding Bonds, at an interest rate of 2.25%, annual principal payments ranging from \$94,000 to \$105,000, due July 2024	500,000

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

NOTE F – LONG-TERM DEBT – Continued

Series 2015 Water Supply and Wastewater System General Obligation Limited Tax Refunding Bonds, interest rates varying from 1.85 to 2.9%, annual principal payments ranging from \$103,000 to \$122,000, due July 2025	669,000
Series 2014 Wastewater supply revenue bonds, interest rate of 2.5%, annual principal payments ranging from \$50,000 to \$74,448, due October 2034	<u>914,448</u>
Total bonds and installment purchase agreements	42,590,204
Accumulated compensated absences	<u>411,306</u>
Total business-type activities debt	<u><u>\$ 43,001,510</u></u>

COMPONENT UNITS

Local Development Finance Authority Series 2016A Limited Tax General Obligation Bonds, interest rates ranging from 3.0% to 5.0%, annual principal payments ranging from \$80,000 to \$170,000, due December 2040	2,485,000
Local Development Finance Authority Series 2016B Limited Tax General Obligation Bonds, interest rates ranging from 3.0% to 5.0%, annual principal payments ranging from \$105,000 to \$220,000, due December 2040	<u>3,245,000</u>
Total component units debt	<u><u>\$ 5,730,000</u></u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE F – LONG-TERM DEBT – Continued

The annual requirements to service all debt outstanding as of June 30, 2020, including interest payments of \$17,289,454 for the debt service requirements are as follows:

	Governmental Activities		
	Principal	Interest	Total
2021	\$ 778,091	\$ 151,325	\$ 929,416
2022	791,091	134,613	925,704
2023	804,891	116,516	921,407
2024	823,691	96,982	920,673
2025	841,691	75,754	917,445
2026-2030	837,995	210,188	1,048,183
2031-2035	392,000	117,052	509,052
2036-2040	281,000	23,297	304,297
Total	<u>\$ 5,550,450</u>	<u>\$ 925,727</u>	<u>\$ 6,476,177</u>
	Business-type Activities		
	Principal	Interest	Total
2021	\$ 2,322,801	\$ 1,288,997	\$ 3,611,798
2022	2,222,800	1,397,712	3,620,512
2023	2,294,000	1,333,069	3,627,069
2024	2,367,200	1,264,863	3,632,063
2025	2,444,200	1,192,853	3,637,053
2026-2030	9,129,755	5,018,349	14,148,104
2031-2035	9,684,448	3,332,612	13,017,060
2036-2040	10,165,000	1,456,072	11,621,072
2041-2042	1,960,000	79,200	2,039,200
Total	<u>\$ 42,590,204</u>	<u>\$ 16,363,727</u>	<u>\$ 58,953,931</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE F – LONG-TERM DEBT – Continued

	Component Units		
	Principal	Interest	Total
2021	\$ 185,000	\$ 218,806	\$ 403,806
2022	185,000	213,256	398,256
2023	190,000	207,631	397,631
2024	195,000	201,856	396,856
2025	205,000	193,806	398,806
2026-2030	1,195,000	806,069	2,001,069
2031-2035	1,440,000	555,569	1,995,569
2036-2040	1,745,000	249,844	1,994,844
2041-2042	390,000	7,557	397,557
Total	\$ 5,730,000	\$ 2,654,394	\$ 8,384,394

Interest expense for the year ended June 30, 2020 was \$1,064,804 for Business-type Activities and \$163,581 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2020 amounted to \$223,331.

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, 2020

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, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	93
Inactive employees entitled to but not yet receiving benefits	12
Active employees	<u>21</u>
Total	<u><u>126</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, 2019, 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, 2020

NOTE H – RETIREMENT PROGRAM – Continued

Actuarial assumptions – The total pension liability in the December 31, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.0% in the long-term
- Investment rate of return: 7.35%, 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.
- 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	55.5%	5.02%
Global Fixed Income	18.5%	2.18%
Real Assets	13.5%	4.23%
Diversifying Strategies	12.5%	6.56%

Discount rate – The discount rate used to measure the total pension liability is 8% for 2019. 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, 2020**

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 12/31/18	\$ 29,076,026	\$ 18,403,554	\$ 10,672,472
Changes for the Year			
Service Cost	162,056	-	162,056
Interest on Total Pension Liability	2,241,860	-	2,241,860
Changes in benefits	-	-	-
Difference between expected and actual experience	272,870	-	272,870
Changes in assumptions	871,706	-	871,706
Employer Contribution	-	1,606,000	(1,606,000)
Employee Contribution	-	39,927	(39,927)
Net investment income	-	2,457,841	(2,457,841)
Benefit payments, including employee refunds	(2,267,619)	(2,267,619)	-
Administrative expense	-	(42,328)	42,328
Other changes	-	-	-
	1,280,873	1,793,821	(512,948)
Net Changes			
Balances as of 12/31/19	\$ 30,356,899	\$ 20,197,375	\$ 10,159,524

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

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 8.0%, as well as what the City’s Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.0%) or 1% higher (9.0%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Total Pension Liability (a)	\$ 33,151,354	\$ 30,356,899	\$ 27,949,735
Fiduciary Net Position (b)	<u>20,197,375</u>	<u>20,197,375</u>	<u>20,197,375</u>
Net Pension Liability (a-b)	<u>\$ 12,953,979</u>	<u>\$ 10,159,524</u>	<u>\$ 7,752,360</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions – For the year ended June 30, 2020, the employer recognized pension expense of \$2,417,912. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ -	\$ -
Differences in assumptions	-	-
Excess (Deficit) Investment Returns	1,399,158	1,313,002
Contributions subsequent to the measurement date*	<u>836,000</u>	<u>-</u>
Total	<u>\$ 2,235,158</u>	<u>\$ 1,313,002</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, 2020.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

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 June 30	
2020	\$ (46,775)
2021	71,392
2022	263,962
2023	(202,423)

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, 2020, there were 118 plan members. Plan members are required to contribute 0% to 7.5% of covered payroll. The City is required to contribute 10% to 11% of annual covered payroll. The City’s contribution for the year ended June 30, 2020 was \$645,868. Plan provisions and contribution requirements are established and may be amended by the City Council.

NOTE I – 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 \$28,545,710 for purchased power and debt retirement. 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 53% interest in the Michigan South Central Power Agency (MSCPA). The City records the investment using the equity method and calculates 53% 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 53% of the equity net of the City’s assets.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

NOTE J – 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, 2019	\$ (2,919,158)
Current year building permit revenue	93,776
Less related expenses - Direct costs	<u>(298,754)</u>
Shortfall at June 30, 2020	<u><u>\$ (3,124,136)</u></u>

NOTE K – PURCHASED POWER CONTRACTS

American Municipal Power Generating Station (AMPGS) - Until November 2009, AMP had been developing a 960 MW twin unit, supercritical boiler, coal-fired, steam and electric generating facility, to be known as the American Municipal Power Generating Station (“*AMPGS*”), in Meigs County, in southeastern Ohio, on the Ohio River. AMP had planned for AMPGS to enter commercial operation in 2014 at a total capital cost of approximately \$3 billion. In the fourth quarter of 2009, however, the estimated capital costs increased by 37% and Bechtel Power Corporation (“*Bechtel*”), the EPC (engineer, procure and construct) contractor, would not guarantee that the costs would not continue to escalate. As a result of the estimated cost increases and prior to the commencement of major construction at the project site, the 81 AMP Members that had subscribed for capacity from AMPGS (“*AMPGS Participants*”) voted to cease development of AMPGS as a coal fired project.

In August 2016, AMP and Bechtel engaged in court-ordered mediation to resolve disputes raised in litigation relating to the cancellation of the AMPGS Project. Following the mediation, AMP and Bechtel reached a comprehensive settlement which resolved all claims. The terms of such settlement are confidential.

The City is reporting a payable to AMP in its business-type activities and in its electric enterprise fund for its share of the AMPGS impaired costs. AMP financed these costs on its revolving line of credit. The City makes monthly payments against the liability.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

NOTE K – PURCHASED POWER CONTRACTS – Continued

As of June 30, 2020, Coldwater had remaining outstanding liabilities of \$325,687 for its share of stranded costs and an additional \$1,540,897 for its share of what AMP has designated as Plant Held for Future Use (PHFU). The PHFU related liability consists of the property at the Meigs County, Ohio site.

Prairie State Energy Campus (PSEC) – On December 20, 2007, AMP acquired a 23.26% undivided ownership interest (the “*PSEC Ownership Interest*”) in the Prairie State Energy Campus (“*PSEC*”), a two-unit, supercritical coal-fired power plant designed to have a net rated capacity of approximately 1,582 MW 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. Unit 1 of the PSEC commenced operations in the second quarter of 2012 and Unit 2 of the PSEC commenced operations in the fourth quarter of 2012.

From July 2008 through September 2010, AMP issued five series of Prairie State Energy Campus Revenue Bonds (collectively, the “*Initial Prairie State Bonds*”) to finance PSEC project costs and PSEC related expenses. The Initial Prairie State Bonds consist of tax-exempt, taxable and tax advantaged Build America Bonds issued in the original aggregate principal amount of \$1,696,800,000. In 2015, 2017 and 2019, AMP issued bonds (the “*Prairie State Refunding Bonds*” and, together with the Initial Prairie State Bonds, the “*Prairie State Bonds*”) to refund all of the callable tax-exempt Initial Prairie State Bonds issued in 2008 and 2009, certain of callable outstanding Initial Prairie State Bonds issued as Build America Bonds and certain of the bonds issued in 2015 to refund the Initial Prairie State Bonds. As of June 30, 2020, AMP had \$1,470,255,000 aggregate principal amount of Prairie State Bonds outstanding.

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 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.

The City of Coldwater has executed a take-or-pay power sales contract with AMP as a participant of the PSEC of 9,952 kW or 2.7% kW of capacity and associated energy from the PSEC.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

NOTE K – PURCHASED POWER CONTRACTS – Continued

AMP Fremont Energy Center (AFEC) – On July 28, 2011, AMP acquired from FirstEnergy Generation Corporation (“*FirstEnergy*”) the Fremont Energy Center (“*AFEC*”), a combined cycle, natural gas fueled electric generating plant, then nearing completion of construction and located in Fremont, Sandusky County, Ohio. Following completion of the commissioning and testing, AMP declared AFEC to be in commercial operation as of January 20, 2012. AFEC has a capacity of 512 MW (unfired)/675 MW (fired) and consists of two combustion turbines, two heat recovery steam generators and one steam turbine and condenser.

AMP subsequently sold a 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency and entered into a power sales contract with the Central Virginia Electric Cooperative for the output associated with a 4.15% undivided ownership interest in AFEC. The output of AFEC associated with the remaining 90.69% undivided ownership interest (the “*90.69% Interest*”) is sold to AMP Members pursuant to a take-or-pay power sales contract with 86 of its Members (the “*AFEC Power Sales Contract*”).

In 2012, to provide permanent financing for the 90.69% Interest, AMP issued, in two series, \$546,085,000 of its AMP Fremont Energy Center Project Revenue Bonds (the “*2012 AFEC Bonds*”), consisting of taxable and tax-exempt obligations. The AFEC Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under the AFEC Power Sales Contract. In 2017, AMP issued bonds (the “*AFEC Refunding Bonds*”) and, together with the 2012 AFEC Bonds, the “*AFEC Bonds*”) to refund a portion of the 2012 AFEC Bonds. As of June 30, 2020, \$478,965,000 aggregate principal amount of AFEC Bonds was outstanding.

The City of Coldwater has executed a take-or-pay power sales contract with AMP as a participant of the AFEC of 18,055 kW or 3.88% kW of capacity and associated energy from the AFEC.

Combined Hydroelectric Projects – AMP owns and operates 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 is in commercial operation and consists of run-of-the-river hydroelectric generating facilities on existing Army Corps dams and includes associated transmission facilities. AMP holds the licenses from FERC for the Combined Hydroelectric Projects.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

NOTE K – PURCHASED POWER CONTRACTS – Continued

To provide financing for, or refinance certain obligations incurred in respect of, the Combined Hydroelectric Projects, AMP has issued ten series of its Combined Hydroelectric Projects Revenue Bonds (the “*Combined Hydroelectric Bonds*”), in an original aggregate principal amount of \$2,142,071,461 and consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Combined Hydroelectric Bonds are 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. As of June 30, 2020, \$2,142,071,461 aggregate principal amount of the Combined Hydroelectric Bonds and approximately \$33.8 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Combined Hydroelectric Bonds.

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

Meldahl Hydroelectric Project – AMP owns and, together with the City of Hamilton, Ohio, an AMP Member, developed and constructed a 108.8 MW, three-unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing Army Corps dam on the Ohio River, and related equipment and associated transmission facilities (the “*Meldahl Project*”). The Meldahl Project is operated by the City of Hamilton.

In order to finance the construction of the Meldahl Project and related costs, AMP issued seven series of its Meldahl Hydroelectric Project Revenue Bonds (“*Meldahl Bonds*”) in an original aggregate principal amount of \$820,185,000 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. As of June 30, 2020, \$665,630,000 aggregate principal amount of the Meldahl Bonds and approximately \$3.0 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Meldahl Bonds.

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2020

NOTE K – PURCHASED POWER CONTRACTS – Continued

Greenup Hydroelectric Project – In connection with the development of the Meldahl Project, Hamilton agreed to sell and AMP agreed to purchase a 48.6% undivided ownership interest (the “AMP Interest”) in the Greenup Hydroelectric Facility. On May 11, 2016, AMP issued \$125,630,000 aggregate principal amount of its Greenup Hydroelectric Project Revenue Bonds, Series 2016A (the “2016 Greenup Bonds”) and, with a portion of the proceeds thereof, acquired the AMP Interest. The 2016 Greenup Bonds are secured by a separate power sales contract that has been executed by the same Members (with the exception of Hamilton, which retained title to a 51.4% ownership interest in the Greenup Hydroelectric Facility) that executed the Meldahl Power Sales Contract. As of June 30, 2020, \$122,350,000 aggregate principal amount of the Greenup Bonds was outstanding and approximately \$881,676 aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit were outstanding under the indenture securing the Greenup Bonds.

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

Solar Electricity Prepayment Project – In 2016, AMP entered into the NextEra PPA pursuant to the terms of which AMP agreed to purchase and a subsidiary of NextEra agreed to sell all of the power and energy generated by solar generation facilities (each, a “System”), each of which is located behind the meter of an AMP Member’s Electric System. Under the terms of the NextEra PPA, AMP is required to prepay for twenty-five years of energy to be generated by each System at a “P90” confidence interval, meaning that, in any given year, the probability of exceeding such level of production is ninety percent (90%), and assuming a 0.5% degradation factor. Sixteen Systems with a rated capacity of approximately 58.325 MW have entered commercial operation.

On January 31, 2019, AMP issued \$55,195,000 of its Solar Electricity Prepayment Project Revenue Bonds, Series 2019A (the “Solar Prepayment Bonds”) to refinance draws on its Line of Credit associated with the first 13 Systems, with a rated capacity of approximately 36.83 MW. Such Solar Prepayment Bonds are secured by a trust indenture (the “Solar Indenture”) and payable from amounts received by AMP under a take-and-pay power sales contract with 22 of its Members. As of June 30, 2020, \$53,940,000 aggregate principal amount of the 2019 Solar Prepayment Bonds were outstanding under the Solar Indenture and \$37,278,132 aggregate principal amount was on the Line of Credit, which represent prepayments already made under the NextEra PPA and will be refinanced by additional bonds issued under the Solar Indenture, and certain developmental costs. Amounts on the Line of Credit are payable as a subordinate obligation under the Solar Indenture.

The City of Coldwater has executed a take-or-pay power sales contract with AMP as a participant of the Solar Electricity Project of 1,208 kW or 1.996% of capacity and associated energy from the Solar Electricity Project.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE L – 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, 2020 was approximately \$6.4 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, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,600,000	\$ 3,600,000	\$ 3,589,240	\$ (10,760)
Payment in lieu of taxes	3,183,490	3,183,490	3,183,492	2
Licenses and permits	237,000	237,000	264,148	27,148
Federal sources	-	-	-	-
State shared revenue	1,081,000	1,081,000	1,096,449	15,449
State sources	511,000	623,000	695,897	72,897
Charges for services	522,108	507,608	473,190	(34,418)
Rent	282,600	270,600	265,972	(4,628)
Interest earned	110,000	110,000	120,692	10,692
Contributions	10,000	10,000	200	(9,800)
Other	38,000	128,000	130,775	2,775
	<u>9,575,198</u>	<u>9,750,698</u>	<u>9,820,055</u>	<u>69,357</u>
EXPENDITURES				
General government	1,603,155	1,666,655	1,597,660	(68,995)
Public safety	4,577,060	4,654,560	4,359,861	(294,699)
Public works	1,687,765	1,689,265	1,606,140	(83,125)
Recreation and cultural	1,129,949	1,094,949	893,219	(201,730)
Planning	158,007	210,007	193,413	(16,594)
Debt service	245,500	245,500	245,334	(166)
Other	681,000	800,000	784,968	(15,032)
	<u>10,082,436</u>	<u>10,360,936</u>	<u>9,680,595</u>	<u>(680,341)</u>
Excess (deficiency) of revenues over expenditures	(507,238)	(610,238)	139,460	749,698
OTHER SOURCES				
Sale of fixed assets	10,000	10,000	9,170	(830)
Transfers from other funds	226,000	226,000	219,363	(6,637)
	<u>236,000</u>	<u>236,000</u>	<u>228,533</u>	<u>(7,467)</u>
Excess (deficiency) of revenues and other sources over expenditures	(271,238)	(374,238)	367,993	742,231
FUND BALANCE - BEGINNING	<u>4,074,118</u>	<u>4,683,603</u>	<u>4,683,603</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 3,802,880</u>	<u>\$ 4,309,365</u>	<u>\$ 5,051,596</u>	<u>\$ 742,231</u>

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2020

	2020	2019	2018	2017	2016
Total Pension Liability					
Service cost	\$ 162,056	\$ 164,223	\$ 164,356	\$ 197,701	\$ 201,065
Interest	2,241,860	2,229,644	2,200,592	2,210,238	2,154,627
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	272,870	16,702	186,006	(459,710)	(204,284)
Changes of assumptions	871,706	-	-	-	1,340,439
Benefit payments including employee refunds	(2,267,619)	(2,245,976)	(2,129,490)	(1,982,096)	(1,991,878)
Other	-	-	(2)	272	876
Net Change in Total Pension Liability	<u>1,280,873</u>	<u>164,593</u>	<u>421,462</u>	<u>(33,595)</u>	<u>1,500,845</u>
Total Pension Liability - beginning	29,076,026	28,911,433	28,489,971	28,523,566	27,022,721
Total Pension Liability - ending	<u>\$ 30,356,899</u>	<u>\$ 29,076,026</u>	<u>\$ 28,911,433</u>	<u>\$ 28,489,971</u>	<u>\$ 28,523,566</u>
 Plan Fiduciary Net Position					
Contributions - employer	\$ 1,606,000	\$ 1,290,000	\$ 1,160,202	\$ 1,005,222	\$ 919,890
Contributions - employee	39,927	38,625	44,639	53,287	56,904
Net investment income	2,457,841	(760,574)	2,417,550	1,965,325	(274,268)
Benefit payments including employee refunds	(2,267,619)	(2,245,976)	(2,129,490)	(1,982,096)	(1,991,878)
Administrative expense	(42,328)	(38,308)	(38,348)	(38,837)	(40,691)
Net Change in Plan Fiduciary Net Position	<u>1,793,821</u>	<u>(1,716,233)</u>	<u>1,454,553</u>	<u>1,002,901</u>	<u>(1,330,043)</u>
Plan Fiduciary Net Position - beginning	18,403,554	20,119,787	18,665,234	17,662,333	18,992,376
Plan Fiduciary Net Position - ending	<u>\$ 20,197,375</u>	<u>\$ 18,403,554</u>	<u>\$ 20,119,787</u>	<u>\$ 18,665,234</u>	<u>\$ 17,662,333</u>
 Employer Net Pension Liability	<u>\$ 10,159,524</u>	<u>\$ 10,672,472</u>	<u>\$ 8,791,646</u>	<u>\$ 9,824,737</u>	<u>\$ 10,861,233</u>
 Plan Fiduciary Net Position as a percentage of the Total Pension Liability	67%	63%	70%	66%	62%
 Covered Employee Payroll	1,567,502	1,587,580	1,603,897	1,919,518	1,994,277
 Employer's Net Pension Liability as a percentage of covered employee payroll	648%	672%	548%	512%	545%

Note to schedule: The above amounts are based on measurement date of December 31st.

**CITY OF COLDWATER
 REQUIRED SUPPLEMENTAL INFORMATION
 SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
 FOR THE YEAR ENDED JUNE 30, 2020**

	2020	2019	2018	2017	2016
Actuarial determined contributions	\$ 1,055,292	\$ 991,032	\$ 1,012,554	\$ 919,584	\$ 847,229
Contributions in relation to the actuarially determined contribution	1,606,000	1,290,000	1,160,202	1,005,222	919,890
Contribution deficiency (excess)	<u>\$ (550,708)</u>	<u>\$ (298,968)</u>	<u>\$ (147,648)</u>	<u>\$ (85,638)</u>	<u>\$ (72,661)</u>
 Covered Employee Payroll	 \$ 1,567,502	 \$ 1,587,580	 \$ 1,603,897	 \$ 1,919,518	 \$ 1,994,277
 Contributions as a percentage of covered employee payroll	 102%	 81%	 72%	 52%	 46%

Notes to Schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	21 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.00%
Investment rate of return	7.35%
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.

CITY OF COLDWATER

**OTHER SUPPLEMENTAL INFORMATION
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2020**

	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	\$ 205,342	\$ 24,171	\$ 66,167	\$ 2,455	\$ 270,346	\$ 501,220
Accounts receivable	-	-	-	-	-	-
Special assessment receivable	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-
Due from other governmental units	155,135	44,486	-	-	-	-
Due from other funds	-	-	-	-	-	-
Prepaid expenses	93,480	-	-	-	-	-
Restricted assets	-	-	-	-	-	-
Total assets	<u>\$ 453,957</u>	<u>\$ 68,657</u>	<u>\$ 66,167</u>	<u>\$ 2,455</u>	<u>\$ 270,346</u>	<u>\$ 501,220</u>
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 1,690	\$ 42,661	\$ 10,370	\$ 2,455	\$ -	\$ 3,223
Accrued expenditures	2,453	1,218	-	-	-	-
Unearned revenue	-	-	-	-	-	-
Total liabilities	4,143	43,879	10,370	2,455	-	3,223
FUND BALANCE						
Nonspendable	93,480	-	-	-	-	-
Restricted	356,334	24,778	-	-	270,346	497,997
Committed	-	-	55,797	-	-	-
Assigned	-	-	-	-	-	-
Total fund balance	<u>449,814</u>	<u>24,778</u>	<u>55,797</u>	<u>-</u>	<u>270,346</u>	<u>497,997</u>
Total liabilities and fund balance	<u>\$ 453,957</u>	<u>\$ 68,657</u>	<u>\$ 66,167</u>	<u>\$ 2,455</u>	<u>\$ 270,346</u>	<u>\$ 501,220</u>

CITY OF COLDWATER

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2020**

						Nonmajor Permanent Fund	
						Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Capital Project Grant Fund	Brownfield Redevelopment Fund		Totals
ASSETS							
Cash and investments	\$ 136,972	\$ 79,597	\$ 6,605	\$ 591,649	\$ 16,099	\$ -	\$ 1,900,623
Accounts receivable	-	-	-	-	-	-	-
Special assessment receivable	-	21,879	-	-	-	-	21,879
Notes receivable	-	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-	199,621
Due from other funds	-	415,971	-	-	-	-	415,971
Prepaid expenses	-	30	-	-	-	-	93,510
Restricted assets	-	-	-	-	-	450,000	450,000
Total assets	\$ 136,972	\$ 517,477	\$ 6,605	\$ 591,649	\$ 16,099	\$ 450,000	\$ 3,081,604
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ 377	\$ -	\$ -	\$ -	\$ 60,776
Accrued expenditures	-	-	-	-	-	-	3,671
Unearned revenue	-	437,850	-	-	-	-	437,850
Total liabilities	-	437,850	377	-	-	-	502,297
FUND BALANCE							
Nonspendable	-	-	-	-	-	-	93,480
Restricted	-	-	6,228	591,649	-	-	1,747,332
Committed	136,972	-	-	-	16,099	450,000	658,868
Assigned	-	79,627	-	-	-	-	79,627
Total fund balance	136,972	79,627	6,228	591,649	16,099	450,000	2,579,307
Total liabilities and fund balance	\$ 136,972	\$ 517,477	\$ 6,605	\$ 591,649	\$ 16,099	\$ 450,000	\$ 3,081,604

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, 2020**

	<u>Nonmajor Special Revenue Funds</u>					<u>Nonmajor Debt Fund</u>
	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Parking Authority Fund</u>	<u>Retirement Fund</u>	<u>Revolving Development Fund</u>	<u>Road Debt Service Fund</u>
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ 404,561	\$ -	\$ 597,883
Special assessments	-	-	58,442	-	-	-
Federal sources	261,347	-	-	-	-	-
State grants	-	-	-	-	-	-
State shared revenue	1,001,093	318,739	-	-	-	-
State sources	51,088	169,101	-	-	-	212,872
Charges for services	-	-	2,890	-	-	-
Interest income	4,086	303	-	1,765	4,821	6,968
Contributions	-	-	-	-	-	-
Other income	-	-	-	2,017	-	-
Total revenues	<u>1,317,614</u>	<u>488,143</u>	<u>61,332</u>	<u>408,343</u>	<u>4,821</u>	<u>817,723</u>
EXPENDITURES						
Public works	1,060,971	1,074,131	74,242	-	-	-
Debt service						
Principal	12,650	5,750	-	-	-	495,000
Interest	3,957	1,799	-	-	-	75,407
Total expenditures	<u>1,077,578</u>	<u>1,081,680</u>	<u>74,242</u>	<u>-</u>	<u>-</u>	<u>570,407</u>
Excess (deficiency) of revenues over expenditures	240,036	(593,537)	(12,910)	408,343	4,821	247,316
OTHER SOURCES (USES)						
Sale of fixed assets	-	-	-	-	-	-
Return of grant to State	-	-	-	-	(17,369)	-
Transfers from (to) other funds	(560,000)	560,000	-	(408,343)	-	-
Total other sources (uses)	<u>(560,000)</u>	<u>560,000</u>	<u>-</u>	<u>(408,343)</u>	<u>(17,369)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(319,964)	(33,537)	(12,910)	-	(12,548)	247,316
FUND BALANCE - BEGINNING	<u>769,778</u>	<u>58,315</u>	<u>68,707</u>	<u>-</u>	<u>282,894</u>	<u>250,681</u>
FUND BALANCE - ENDING	<u>\$ 449,814</u>	<u>\$ 24,778</u>	<u>\$ 55,797</u>	<u>\$ -</u>	<u>\$ 270,346</u>	<u>\$ 497,997</u>

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, 2020**

	Library Memorial Fund	Capital Improvement Fund	Road Construction Bond Fund	Capital Project Grant Fund	Brownfield Redevelopment Fund	Nonmajor Permanent Fund Cemetery Special and Perpetual Care Nonexpendable Trust Fund	Totals
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,002,444
Special assessments	-	-	-	-	-	-	58,442
Federal sources	-	-	-	-	-	-	261,347
State grants	-	179,581	-	-	-	-	179,581
State shared revenue	-	-	-	-	-	-	1,319,832
State sources	-	-	-	-	-	-	433,061
Charges for services	-	-	-	-	-	-	2,890
Interest income	2,430	2,576	472	11,601	273	-	35,295
Contributions	-	-	-	29,000	-	-	29,000
Other income	-	-	-	-	-	-	2,017
Total revenues	2,430	182,157	472	40,601	273	-	3,323,909
EXPENDITURES							
Public works	-	359,476	82,414	46,642	-	-	2,697,876
Debt service							
Principal	-	-	-	82,000	-	-	595,400
Interest	-	-	-	9,735	-	-	90,898
Total expenditures	-	359,476	82,414	138,377	-	-	3,384,174
Excess (deficiency) of revenues over expenditures	2,430	(177,319)	(81,942)	(97,776)	273	-	(60,265)
OTHER SOURCES (USES)							
Sale of fixed assets	-	-	-	-	-	-	-
Return of grant to State	-	-	-	-	-	-	(17,369)
Transfers from (to) other funds	-	-	-	138,980	-	-	(269,363)
Total other sources (uses)	-	-	-	138,980	-	-	(286,732)
Excess (deficiency) of revenues and other sources over expenditures and other uses	2,430	(177,319)	(81,942)	41,204	273	-	(346,997)
FUND BALANCE - BEGINNING	134,542	256,946	88,170	550,445	15,826	450,000	2,926,304
FUND BALANCE - ENDING	\$ 136,972	\$ 79,627	\$ 6,228	\$ 591,649	\$ 16,099	\$ 450,000	\$ 2,579,307

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2020

	Health Insurance Fund	Tax Collection Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 11,317	\$ 695	\$ 12,012
LIABILITIES			
Due to other governmental units	\$ -	\$ 695	\$ 695
Accounts payable	11,317	-	11,317
Total	\$ 11,317	\$ 695	\$ 12,012

* Designates major program



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

**City Council
City of Coldwater, Michigan**

October 15, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the City of Coldwater, Michigan’s basic financial statements, and have issued our report thereon dated October 15, 2020.

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.

Upcoming Changes in Regulations and Standards

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Village in the future. If you have questions regarding these standards, please contact us for further explanation.

GASB 87 Leases – Effective for fiscal years beginning after 12/15/2021

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

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