

# **City of Coldwater, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Coldwater, Michigan

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# City of Coldwater, Michigan

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## Independent Auditor's Report

To the City Council  
City of Coldwater, Michigan

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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Coldwater, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedule of funding progress (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



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To the City Council  
City of Coldwater, Michigan

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

The City adopted Governmental Accounting Standards Board Statement Number 40 during the current year. As a result, these financial statements present new financial information within the financial statement footnotes related to deposits and investments.

*Plante & Moran, PLLC*

September 23, 2005

# City of Coldwater, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Coldwater's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- The City's governmental activities' total net assets increased by \$199,829. This increase was primarily due to increased revenue from utility operations in the form of payments in lieu of taxes, property tax collections, and decreased expenditures in the form of staff reductions, deferment of expenditures, and conservative fiscal spending.
- Net assets for business-type activities increased by approximately \$2.1 million, of which \$1.9 million was primarily due to the Electric Fund. Electric Fund operation increases accounted for approximately \$900,000 as part of a planned phased-in approach of electrical rates intended to build reserves, as well as for planned future capital projects. Another \$1 million was due to the operating results of the Michigan South Central Power Agency, of which the City owns approximately 40 percent, and records its investment on the equity method.
- Planned rate increases have been implemented for Water, Wastewater, and Telecommunications Funds to cover cost of service as well as plan for future capital improvements.
- Government activities general revenues increased by 4.1 percent over the prior year, while primary governmental activity expenditures increased 1.2 percent.
- State revenue sharing has been cut by the State of Michigan for the third year in a row. The City is now receiving revenue sharing equal to that received in fiscal year 1997.

### Using this Annual Report

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

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

# City of Coldwater, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

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

	Governmental Funds		Enterprise Funds		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>	\$ 9,503,053	\$ 9,462,975	\$ 69,133,041	\$ 64,319,335	\$ 78,636,094	\$ 73,782,310
<b>Liabilities</b>	<u>3,405,158</u>	<u>3,887,281</u>	<u>30,614,379</u>	<u>27,911,608</u>	<u>34,019,537</u>	<u>31,798,889</u>
<b>Fund Equity</b>						
Investment in capital - Net of related debt	-	-	19,593,737	20,173,640	19,593,737	20,173,640
Retained earnings:						
Restricted	-	-	4,956,534	3,556,371	4,956,534	3,556,371
Unreserved	-	-	13,968,391	12,677,716	13,968,391	12,677,716
Fund balances:						
Reserved	336,987	924,787	-	-	336,987	924,787
Unreserved - Designated	1,081,216	-	-	-	1,081,216	-
Unreserved - Undesignated	<u>4,679,692</u>	<u>4,650,907</u>	<u>-</u>	<u>-</u>	<u>4,679,692</u>	<u>4,650,907</u>
Total fund equity	<b><u>\$ 6,097,895</u></b>	<b><u>\$ 5,575,694</u></b>	<b><u>\$ 38,518,662</u></b>	<b><u>\$ 36,407,727</u></b>	<b><u>\$ 44,616,557</u></b>	<b><u>\$ 41,983,421</u></b>

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current and other assets	\$ 9,503,053	\$ 9,462,971	\$ 23,651,105	\$ 20,305,033	\$ 33,154,158	\$ 29,768,004
Capital assets	<u>17,780,427</u>	<u>18,087,454</u>	<u>43,449,812</u>	<u>44,014,302</u>	<u>61,230,239</u>	<u>62,101,756</u>
Total assets	27,283,480	27,550,425	67,100,917	64,319,335	94,384,397	91,869,760
<b>Liabilities</b>						
Long-term debt outstanding	3,788,553	4,323,365	23,938,210	23,840,622	27,726,763	28,163,987
Other liabilities	<u>953,916</u>	<u>885,878</u>	<u>4,644,045</u>	<u>4,070,986</u>	<u>5,597,961</u>	<u>4,956,864</u>
Total liabilities	<u>4,742,469</u>	<u>5,209,243</u>	<u>28,582,255</u>	<u>27,911,608</u>	<u>33,324,724</u>	<u>33,120,851</u>
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	13,914,592	13,764,089	19,593,737	20,173,640	33,508,329	33,937,729
Restricted	1,460,421	924,787	4,956,534	3,556,371	6,416,955	4,481,158
Unrestricted	<u>7,165,998</u>	<u>7,652,306</u>	<u>13,968,391</u>	<u>12,677,716</u>	<u>21,134,389</u>	<u>20,330,022</u>
Total net assets	<b><u>\$ 22,541,011</u></b>	<b><u>\$ 22,341,182</u></b>	<b><u>\$ 38,518,662</u></b>	<b><u>\$ 36,407,727</u></b>	<b><u>\$ 61,059,673</u></b>	<b><u>\$ 58,748,909</u></b>

# City of Coldwater, Michigan

## Management's Discussion and Analysis (Continued)

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

	Governmental Funds		Enterprise Funds		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenue</b>						
Property taxes and special assessments	\$ 3,946,206	\$ 3,744,158	\$ -	\$ -	\$ 3,946,206	\$ 3,744,158
Licenses and permits	134,741	154,183	-	-	134,741	154,183
Federal grants	52,162	25,014	-	-	52,162	25,014
State-shared revenues	1,854,197	1,928,518	-	-	1,854,197	1,928,518
State grants	111,179	72,276	-	-	111,179	72,276
Charges for services	630,618	709,779	29,746,039	29,227,459	30,376,657	29,937,238
Interest income	360,950	379,086	1,279,053	136,967	1,640,003	516,053
Other	183,591	290,673	-	248,941	183,591	539,614
Rents and royalties	1,945,669	1,752,913	-	-	1,945,669	1,752,913
Sale of fixed assets and land	-	-	302,422	-	302,422	-
Contribution from private sources	5,530	4,604	-	-	5,530	4,604
<b>Total revenue</b>	<b>9,224,843</b>	<b>9,061,204</b>	<b>31,327,514</b>	<b>29,613,367</b>	<b>40,552,357</b>	<b>38,674,571</b>
<b>Program Expenses</b>						
General government	1,127,428	1,218,264	-	-	1,127,428	1,218,264
Public safety	3,076,048	2,942,293	-	-	3,076,048	2,942,293
Public works	2,053,726	1,952,045	-	-	2,053,726	1,952,045
Recreation and culture	794,701	978,891	-	-	794,701	978,891
Planning	149,848	120,232	-	-	149,848	120,232
Economic development	328,221	156,239	-	-	328,221	156,239
Other	513,189	370,823	-	-	513,189	370,823
Capital outlay	-	18,663	-	-	-	18,663
Debt service	800,448	822,838	-	-	800,448	822,838
Purchased power	-	-	16,769,357	16,143,003	16,769,357	16,143,003
Power plant	-	-	424,864	490,988	424,864	490,988
Distribution	-	-	2,729,903	2,944,801	2,729,903	2,944,801
Substation	-	-	188,900	109,920	188,900	109,920
Sanitation	-	-	329,960	311,215	329,960	311,215
Metering/lighting	-	-	305,874	328,562	305,874	328,562
Wells	-	-	92,472	80,648	92,472	80,648
Treatment	-	-	957,779	967,394	957,779	967,394
Collection systems	-	-	131,552	150,899	131,552	150,899
Customer service	-	-	150,736	111,049	150,736	111,049
Billing, accounting, collections and administration, and general	-	-	1,735,556	1,719,369	1,735,556	1,719,369
Payments in lieu of taxes	-	-	1,685,940	1,535,640	1,685,940	1,535,640
Depreciation and amortization	-	-	2,431,902	2,323,316	2,431,902	2,323,316
Interest expense	-	-	1,287,261	1,218,840	1,287,261	1,218,840
<b>Total expenses</b>	<b>8,843,609</b>	<b>8,580,288</b>	<b>29,222,056</b>	<b>28,435,644</b>	<b>38,065,665</b>	<b>37,015,932</b>
<b>Excess of Revenue Over Expenditures</b>	<b>\$ 381,234</b>	<b>\$ 480,916</b>	<b>\$ 2,105,458</b>	<b>\$ 1,177,723</b>	<b>\$ 2,486,692</b>	<b>\$ 1,658,639</b>



# City of Coldwater, Michigan

## Management's Discussion and Analysis (Continued)

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

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
<b>Revenues</b>				
Program revenues:				
Charges for services	\$ 701,458	\$ 866,180	\$ 29,743,836	\$ 29,227,459
Operating grants and contributions	1,051,735	1,063,620	-	-
Capital grants and contributions	166,310	59,303	-	-
General revenues:				
Property taxes	3,526,528	3,367,196	-	-
State-shared revenues	991,318	1,034,308	-	-
Unrestricted investment earnings	360,951	379,086	1,272,387	123,335
Miscellaneous	41,572	117,270	311,287	178,529
Payments in lieu	1,705,007	1,550,005	-	-
Total revenues	8,544,879	8,436,968	31,327,510	29,529,323
<b>Expenses</b>				
General government	1,843,897	1,756,079	-	-
Public safety	3,108,208	2,974,467	-	-
Public works	2,016,692	2,141,846	-	-
Community/Economic development	326,992	328,683	-	-
Recreation and culture	835,865	806,618	-	-
Interest on long-term debt	207,919	235,026	-	-
Transfers	5,477	-	(5,477)	-
Electric	-	-	22,053,608	21,319,056
Telecommunications	-	-	3,056,344	3,046,415
Water	-	-	1,769,837	1,777,171
Rubbish	-	-	344,597	323,721
Waste water	-	-	1,997,666	1,883,111
Total expenses	8,345,050	8,242,719	29,216,575	28,349,474
<b>Increase in Net Assets</b>	<b>\$ 199,829</b>	<b>\$ 194,249</b>	<b>\$ 2,110,935</b>	<b>\$ 1,179,849</b>

Overall the City remains in a very stable financial condition. The City's combined fund equity increased approximately 5.8 percent under the modified accrual basis, from \$41,983,421 to \$44,616,557. Governmental funds increased 9.4 percent and Enterprise Funds 5.8 percent. The total net assets for governmental activities on the full accrual basis shows an increase of 0.8 percent.

In terms of governmental funds, the City has continued its long-standing conservative fiscal policies. The City continues to have minimal long-term debt and has paid for obligations on a pay-as-you-go basis. Budgets continue to be adopted that maintain current fund balance and ensure costs are not passed on to future generations.

# City of Coldwater, Michigan

## Management's Discussion and Analysis (Continued)

Revenues for the governmental activities and governmental funds have increased approximately 2 percent, even with the third year in a row of cuts to state-shared revenue. City revenues are derived from three main sources: property taxes, state shared-revenue, and payments in lieu of taxes from City-owned utilities. Increases in taxes and utility payments to the General Fund were able to offset cuts in state revenue sharing.

Property tax revenue increased 4.5 percent for the year. For the 2005 fiscal year, the City was able to avoid any millage rollback due to State Headlee limitations. A number of Michigan cities are experiencing millage rollbacks, which is having an effect on property tax revenue. The City's maximum millage levy for 2005 was 11.7079 mills, of which the City Charter authorizes 12.5000 mills. Fiscal year 2006 will see a millage reduction down to 11.5978 mills. Taxable value for the City of Coldwater increased 1 percent for the 2005 and 2006 fiscal years, which is reflective of the current economy of the State of Michigan.

Payments in lieu of taxes are set by the City Charter at 6.5 percent of gross revenue of the utility operations. For the 2005 fiscal year, revenues received by the General Fund increased by \$155,000, which is a 10 percent increase over the prior year. The added revenue is the result of rate increases to cover cost of service, build reserve funds, and to fund capital improvements.

State-shared revenue received from the State of Michigan was cut by \$42,990. State-shared revenue is based on sales tax payments received by the State. Michigan continues to hemorrhage jobs in an economy that continues to rely on manufacturing jobs that are rapidly moving to countries with a lower wage base and fringe benefit cost structure. Michigan's manufacturing-laden economy continues to lag behind the national economy with the highest unemployment rates.

Total government fund expenditures were primarily held in check, increasing at a rate of 3.1 percent under modified accrual and 1.2 percent under the full accrual basis. As stated previously, the City Council has adopted conservative fiscal policies that have kept expenditures down while continuing to provide quality services to City residents.

Public safety, public works, and recreation account for over 67 percent of the City's expenditures. The City Council has maintained a consistent policy of applying financial resources to programs that benefit the residents in a traditional manner - police, fire, and recreation opportunity. This has been accomplished by keeping costs down by eliminating positions through attrition, delaying nonessential expenditures, and conservative budgeting.

Final operating results for the government funds, under the modified accrual basis, shows a surplus of \$381,234. This surplus was due to several capital projects being delayed until the 2006 fiscal year. Road improvement and sidewalk projects initially to be completed in the 2005 fiscal year were delayed, causing the surplus. Subsequent to the end of the fiscal year, the City did complete several significant road projects costing in excess of \$500,000.

# City of Coldwater, Michigan

## Management's Discussion and Analysis (Continued)

The City's utility funds all continued to experience growth, with the Electric Fund leading the way. Revenue increased 5.5 percent for fiscal year 2005 while expenditures were held to an increase of 2.8 percent. Rate increases were implemented to cover cost of service, build bond reserves, and plan for future capital improvements. Several positions were eliminated through retirement to contain costs.

During the year, \$3.7 million in revenue bonds were sold to finance expansion of the wastewater treatment facilities as well as to upgrade various components of the electrical system and construct a new electrical service building.

Overall, the utility operations continue to operate efficiently and effectively. Continued emphasis on customer service and community remain a vital key to the financial success of the utility operations.

### **Governmental Activities**

The City's General Fund saw revenues increase by 3.1 percent, primarily from property taxes and payments in lieu of taxes from the utility. Expenditures saw a small increase of 0.6 percent due to cost-cutting measures such as reducing employment through attrition and delaying expenditures. Even with keeping expenditures at a minimum, the City had a deficit of revenue over expenditures of \$17,846. However, borrowing and transfers from the Retirement Fund eliminated the deficit, leaving a final surplus of \$352,715.

The majority of the surplus was originally planned to be spent on demolishing a condemned industrial building. The costs associated with the demolition and purchase of the property was originally to be funded with the General Fund expenditures. However, approval was received from the State of Michigan late in the fiscal year, allowing the demolition to be paid out of the Revolving Loan Fund as a grant. Another \$93,237 of the surplus was the result of sidewalk construction, website development, and equipment purchases carried forward to the 2006 fiscal year. These items are shown as designated fund balance on the balance sheet.

Final General Fund balance at June 30, 2005 ended up at \$2,073,086. This represents approximately 29 percent of General Fund revenues. Plans have been made to reduce the fund balance back to 20 percent to 25 percent of the revenues in the 2006 fiscal year by starting capital improvement projects that have been deferred.

In the City's other major funds, the Revolving Development Fund and the Capital Improvement Fund, there were no significant changes, other than the demolition previously discussed. Both funds reflect minimal activity that reflects the current economy of Michigan.

Other governmental funds to note are the Major and Local Street Funds. Both of these funds ended the 2005 fiscal year with increased fund balances. In both cases, in fiscal year 2006, the City will spend down these funds with road construction in excess of \$500,000.

# **City of Coldwater, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The City's business-type activities consist of the electric, water, wastewater, telecommunications, and sanitation services. The utilities increased total net assets by approximately \$2.1 million. Consistent with prior years, the bulk of this increase was due to the Electric Fund. A concerted effort is being made to increase reserve balances to prepare for future capital expenditures. A capital improvement plan has been developed that will utilize these additional resources to minimize the cost of borrowing in the future. Operating revenues increased by 1.7 percent.

Rate increases have been implemented in both the Water and Wastewater Funds, which has led to increased revenues of 3.2 percent, with operating expenses increasing at only 1.5 percent. The rate increases will provide for future capital needs of the system and improve the financial reserves. Revenue bonds were sold for the Wastewater Fund to make improvements the State of Michigan mandated at the wastewater treatment plant.

The significant growth in the Telecommunications Fund has diminished. Market penetration has been realized in our service area and no new telecommunications services were launched. Revenues and expenditures both increased by 0.7 percent. However, in order to cover debt service and plan for future capital improvements, rate increases were implemented during the 2006 fiscal year.

### **Component Units**

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

### **The City's Funds**

Our analysis of the City's major funds begins on page 16, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended June 30, 2005 include the General Fund, Revolving Development Fund, Capital Improvement Fund, and the Coldwater Municipal Building Authority Fund.

The General Fund pays for most of the City's governmental services. The primary services provided include police and fire services, street repair and maintenance, parks and recreation, and administrative services related to general operations that support the primary services.

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

# City of Coldwater, Michigan

## Management's Discussion and Analysis (Continued)

The Capital Improvement Fund accounts for various capital projects as they are constructed. The fund also provides for payment of the liabilities through special assessments or bonded special assessments.

### General Fund Budgetary Highlights

As shown in the required supplemental information, the City's amended budget shows a deficit of \$280,992. Actual operating results ended up as a surplus of \$352,715, a difference of \$633,707. The significant budget-to-actual differences are as follows:

- Approval of the purchase and demolition of a commercial building in the amount of \$161,000 was originally planned to be funded with the General Fund. However, after the final budget amendments, the City received approval from the State of Michigan to pay for these expenses with grant money from the Revolving Development Fund.
- Funding for the school resource officer in the amount of \$18,000 was delayed to the 2006 fiscal year to accommodate the school's budgetary concerns.
- Health care premium costs were budgeted at a historical 15 percent increase; however, final increases were 9.5 percent.
- Several capital improvements for recreation and cultural departments were put on hold including swimming pool improvements, boat launch construction, linear trail improvements, and forestry equipment.
- Under planning, downtown apartment grants continue to be delayed as landlords get their plans in place.
- Operating transfers to the parking authority in the amount of \$22,600 were budgeted to cover the deficit in the Parking Authority Fund, but was not needed as parking lot projects were delayed. The Local Street Fund transfer of \$30,000 was not needed as construction projects were changed to road maintenance and the requirement for a local match was not required. Also, \$30,000 was budgeted to be transferred to the Capital Projects Fund to pay for the City's share of sidewalks; however, it was decided to pay the entire sidewalk construction costs out of the General Fund.

### Capital Asset and Debt Administration

During the 2005 fiscal year, capital improvements were kept to a minimum. The most significant purchase was the purchase of a street sweeper for \$155,000. The purchase was funded with an installment purchase agreement with a local financial institution. Other significant necessary purchases included the scheduled police car rotation, dump truck, and fire equipment funded with federal grant revenues.

# City of Coldwater, Michigan

## Management's Discussion and Analysis (Continued)

Total acquisition of land and demolition of the commercial building was \$200,398 in fiscal year 2005. These costs were paid out of the Revolving Development Fund. Another \$100,070 was capitalized from the street funds and sidewalks constructed and maintained during the year. All of these capital additions were financed with reserve funds. No additional bonded indebtedness was incurred.

For business-type activities, there were several capital items purchased for the various utility funds. In the Electric Fund, \$601,000 was spent on the construction of a new service building and \$268,000 was spent on the demolition of the old steam plant. These two projects, as well as several other less significant projects including voltage upgrades, diesel generator automation, and other miscellaneous capital improvements, were paid through a revenue bond in the amount of \$2.3 million.

The Wastewater Fund also used a revenue bond in the amount of \$1.4 million to pay for the construction of wastewater treatment plant improvements and a backup generator. Improvements to the wastewater treatment plant will extend over the next two fiscal years as improvements are being made to comply with regulations promulgated by the Michigan Department of Environmental Quality.

In the 2005 fiscal year, the Water Fund implemented a program to convert all flat rate water customers to metered service. This led to the purchase of water meters in the amount of approximately \$180,000, to be installed by the end of fiscal year 2006.

Major Telecommunications Fund purchases were for wireless Internet equipment and digital television system improvements. No additional funds were borrowed to fund these system improvements.

The City is planning on issuing additional wastewater bonds in the amount of \$1.5 million to fund additional capital improvements to the wastewater treatment facility in December 2005.

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

The adopted budget for the fiscal year ending June 30, 2006 continues to reflect the current Michigan economy. City Council continues to maintain its policy of fiscal conservatism while providing the citizens of Coldwater quality services.

A small surplus has been budgeted for the June 30, 2006 fiscal year. However, various capital projects that were delayed from the 2005 fiscal year will be completed in the 2006 fiscal year. These capital improvements will require budget amendments that will result in a deficit budget being presented to reduce the build-up of the 2005 fund balance as previously discussed.

The economy of the State of Michigan continues to lag behind the national economy. This puts greater pressures on the State legislature to balance the budget with less revenue. One item that is always subject to reduction is the statutory portion of the City's state-shared revenue. While currently the State Legislature has indicated there will be no further cuts to state-shared revenue, there is no guarantee.

# **City of Coldwater, Michigan**

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## **Management's Discussion and Analysis (Continued)**

The City also was subject to a Headlee rollback for the 2006 fiscal year. This year's maximum rate is 11.5970, which is down from 11.7079 in 2005. Approximately \$32,000 in tax revenue will be lost due to the rollback.

Labor negotiations are ongoing with police and fire unions. These union contracts expired on June 20, 2005. The City is hopeful a settlement will be reached with the unions soon. Subsequent to the end of the year, the City did sign a contract with all nonunion employees that covers a three-year period.

A lawsuit with a natural gas supplier over personal property taxes appears to be settled. The settlement will require property taxes received in prior years in the amount of approximately \$46,000 to be repaid to the company.

Overall, the City continues to maintain a strong financial position. The fiscal conservatism of the City Council has positioned the City to be able to mitigate any short-term financial crisis due to natural disaster or additional State budget cuts.

### **Contacting the City's Management**

This financial report is intended to provide our 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, we welcome you to contact the Clerk's office.

# City of Coldwater, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 2)	\$ 5,358,389	\$ 3,178,506	\$ 8,536,895	\$ 772,588
Receivables:	-	-	-	-
Special assessments	1,177,564	-	1,177,564	-
Customers	98,506	3,776,959	3,875,465	-
Loans and other	1,033,068	-	1,033,068	49,821
Due from others	209,505	-	209,505	-
Prepaid costs and other assets	21,500	141,587	163,087	-
Inventories	-	98,982	98,982	-
Unamortized bond costs	-	1,119,238	1,119,238	-
Investment in South Central Power Agency (Note 11)	-	8,809,652	8,809,652	-
Internal balances	817,510	(817,510)	-	-
Restricted assets	787,011	7,343,691	8,130,702	-
Capital assets - Net (Note 3)	17,780,427	43,449,812	61,230,239	891,070
<b>Total assets</b>	<b>27,283,480</b>	<b>67,100,917</b>	<b>94,384,397</b>	<b>1,713,479</b>
<b>Liabilities</b>				
Accounts payable	192,044	2,206,451	2,398,495	18,933
Accrued and other liabilities	158,705	950,082	1,108,787	-
Due to others	4,769	-	4,769	656,695
Notes payable (Note 5):				
Due within one year	598,398	1,487,512	2,085,910	173,966
Due in more than one year	3,267,437	23,592,804	26,860,241	766,099
Employee absences	521,116	345,406	866,522	-
<b>Total liabilities</b>	<b>4,742,469</b>	<b>28,582,255</b>	<b>33,324,724</b>	<b>1,615,693</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	13,914,592	19,593,737	33,508,329	234,567
Restricted:				
Debt service	-	4,539,185	4,539,185	-
Streets and highways	1,123,434	-	1,123,434	-
Other purposes	336,987	417,349	754,336	-
Unrestricted (deficit)	7,165,998	13,968,391	21,134,389	(136,781)
<b>Total net assets</b>	<b>\$ 22,541,011</b>	<b>\$ 38,518,662</b>	<b>\$ 61,059,673</b>	<b>\$ 97,786</b>



# City of Coldwater, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,843,897	\$ 231,864	\$ 6,002	48,150
Public safety	3,108,208	51,566	138,528	-
Public works	2,016,692	267,821	906,705	-
Community and economic development	326,992	-	-	118,160
Recreation and culture	835,865	150,207	500	-
Interest on long-term debt	207,919	-	-	-
Total governmental activities	8,339,573	701,458	1,051,735	166,310
Business-type activities:				
Electric	22,053,608	22,692,747	-	-
Telecommunications	3,056,344	2,956,740	-	-
Water	1,769,837	1,776,622	-	-
Rubbish	344,597	424,297	-	-
Waste water	1,997,666	1,893,430	-	-
Total primary government	<u>\$ 37,561,625</u>	<u>\$ 30,445,294</u>	<u>\$ 1,051,735</u>	<u>\$ 166,310</u>
Component units:				
Downtown Development Authority	\$ 167,623	\$ 9,700	\$ 49,491	\$ -
Local Development Authority	69,478	-	-	-
Total component units	<u>\$ 237,101</u>	<u>\$ 9,700</u>	<u>\$ 49,491</u>	<u>\$ -</u>

General revenues:

Property taxes  
 State-shared revenues  
 Unrestricted investment earnings  
 Miscellaneous

Transfers

Payments in lieu of taxes

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

**Change in Net Assets**

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,557,881)	\$ -	\$ (1,557,881)	\$ -
(2,918,114)	-	(2,918,114)	-
(842,166)	-	(842,166)	-
(208,832)	-	(208,832)	-
(685,158)	-	(685,158)	-
(207,919)	-	(207,919)	-
(6,420,070)	-	(6,420,070)	-
-	639,139	639,139	-
-	(99,604)	(99,604)	-
-	6,785	6,785	-
-	79,700	79,700	-
-	(104,236)	(104,236)	-
(6,420,070)	521,784	(5,898,286)	-
-	-	-	(108,432)
-	-	-	(69,478)
-	-	-	(177,910)
3,526,528	-	3,526,528	440,998
991,318	-	991,318	-
360,951	1,272,387	1,633,338	17,947
41,572	311,287	352,859	-
(5,477)	5,477	-	-
1,705,007	-	1,705,007	-
6,619,899	1,589,151	8,209,050	458,945
199,829	2,110,935	2,310,764	281,035
22,341,182	36,407,727	58,748,909	(183,249)
<b>\$ 22,541,011</b>	<b>\$ 38,518,662</b>	<b>\$ 61,059,673</b>	<b>\$ 97,786</b>

# City of Coldwater, Michigan

## Governmental Funds Balance Sheet June 30, 2005

	General Fund	Revolving Development Fund	Capital Improvement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 2,226,548	\$ 840,163	\$ 1,058,473	\$ 1,233,205	\$ 5,358,389
Receivables:					
Customers	98,506	-	-	-	98,506
Special assessments	-	-	1,131,736	45,828	1,177,564
Loans	401,503	1,470,575	-	-	1,872,078
Due from other governmental units	42,159	-	-	167,346	209,505
Restricted assets	-	-	-	787,011	787,011
<b>Total assets</b>	<b>\$ 2,768,716</b>	<b>\$ 2,310,738</b>	<b>\$ 2,190,209</b>	<b>\$ 2,233,390</b>	<b>\$ 9,503,053</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 136,459	\$ 198	\$ 41,609	\$ 13,778	\$ 192,044
Accrued and other liabilities	152,899	-	-	5,806	158,705
Due to others	4,769	-	-	-	4,769
Deferred revenue	401,503	1,470,574	1,131,735	45,828	3,049,640
<b>Total liabilities</b>	<b>695,630</b>	<b>1,470,772</b>	<b>1,173,344</b>	<b>65,412</b>	<b>3,405,158</b>
<b>Fund Balances</b>					
Reserved (Note 6)	-	-	-	336,987	336,987
Designated, reported in:					
General Fund	144,102	-	-	-	144,102
Special Revenue Funds	-	-	-	487,114	487,114
Permanent Funds (Note 6)	-	-	-	450,000	450,000
Unreserved and undesignated, reported in:					
General Fund	1,928,984	-	-	-	1,928,984
Special Revenue Funds	-	839,966	-	637,305	1,477,271
Capital Projects Funds	-	-	1,016,865	256,572	1,273,437
<b>Total fund balances</b>	<b>2,073,086</b>	<b>839,966</b>	<b>1,016,865</b>	<b>2,167,978</b>	<b>6,097,895</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,768,716</b>	<b>\$ 2,310,738</b>	<b>\$ 2,190,209</b>	<b>\$ 2,233,390</b>	<b>\$ 9,503,053</b>
Fund Balance - Total governmental funds					\$ 6,097,895
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					17,780,427
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					3,049,640
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(4,386,951)
<b>Net assets of governmental activities</b>					<b>\$ 22,541,011</b>

# City of Coldwater, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Revolving Development Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 3,425,695	\$ -	\$ -	\$ 100,833	\$ 3,526,528
Special assessments	-	-	411,089	8,589	419,678
Licenses and permits	134,741	-	-	-	134,741
Federal grants	52,162	-	-	-	52,162
State-shared revenues	991,318	-	-	862,879	1,854,197
State grants	67,353	-	-	43,826	111,179
Charges for services	625,826	-	-	4,792	630,618
Interest income	106,777	121,647	98,592	33,934	360,950
Rents and royalties	1,721,196	-	-	224,473	1,945,669
Contributions from private sources	4,688	-	-	842	5,530
Other	29,829	117,054	-	36,708	183,591
	<u>7,159,585</u>	<u>238,701</u>	<u>509,681</u>	<u>1,316,876</u>	<u>9,224,843</u>
<b>Expenditures</b>					
General government	1,127,428	-	-	-	1,127,428
Public safety	3,076,048	-	-	-	3,076,048
Public works	1,443,246	-	-	610,480	2,053,726
Recreation and culture	794,701	-	-	-	794,701
Planning	149,848	-	-	-	149,848
Economic development	-	328,221	-	-	328,221
Other	393,950	-	96,847	22,392	513,189
Debt service	192,210	-	383,765	224,473	800,448
	<u>7,177,431</u>	<u>328,221</u>	<u>480,612</u>	<u>857,345</u>	<u>8,843,609</u>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>					
	(17,846)	(89,520)	29,069	459,531	381,234
<b>Other Financing Sources (Uses)</b>					
Proceeds from debt issuance	135,000	-	-	-	135,000
Sale of fixed assets and land	11,444	-	-	-	11,444
Transfers in	225,259	-	-	182,413	407,672
Transfers out	(1,142)	-	-	(412,007)	(413,149)
	<u>370,561</u>	<u>-</u>	<u>-</u>	<u>(229,594)</u>	<u>140,967</u>
<b>Change in Fund Balances</b>					
	352,715	(89,520)	29,069	229,937	522,201
<b>Fund Balances - Beginning of year</b>					
	<u>1,720,371</u>	<u>929,486</u>	<u>987,796</u>	<u>1,938,041</u>	<u>5,575,694</u>
<b>Fund Balances - End of year</b>					
	<u>\$ 2,073,086</u>	<u>\$ 839,966</u>	<u>\$ 1,016,865</u>	<u>\$ 2,167,978</u>	<u>\$ 6,097,895</u>

# City of Coldwater, Michigan

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 522,201</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	647,997
Depreciation	(955,025)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end:	
New special assessments	59,865
Payments received during the year	(419,678)
Long-term receivables recorded as revenue in the statement of activities when the receivable is set; they are not reported in the funds until collected or collectible within 60 days of year end	(107,000)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	592,529
Bond proceeds are recorded as revenue in the government funds, but not in the statement of activities (where it adds to long-term debt)	(135,000)
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(6,060)
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 199,829</u></b>

# City of Coldwater, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2005

	Electric Fund	Telecommunications Fund	Water Fund	Waste Water Fund	Nonmajor - Sanitation Fund	Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 2,671,634	\$ 17,553	\$ 65,593	\$ 264,431	\$ 159,295	\$ 3,178,506
Receivables - Net	3,001,253	230,671	257,736	255,235	32,064	3,776,959
Inventories	42,394	-	56,588	-	-	98,982
Due from other funds	1,214,614	-	-	-	-	1,214,614
Prepaid costs and other assets	18,394	107,541	8,270	7,382	-	141,587
Total current assets	6,948,289	355,765	388,187	527,048	191,359	8,410,648
Noncurrent assets:						
Unamortized bond costs	371,393	46,748	456,532	244,565	-	1,119,238
Investment in South Central Power Agency	8,809,652	-	-	-	-	8,809,652
Restricted assets	2,946,334	726,952	405,025	3,265,380	-	7,343,691
Capital assets	15,883,703	7,174,635	8,877,157	11,423,308	91,009	43,449,812
Total noncurrent assets	28,011,082	7,948,335	9,738,714	14,933,253	91,009	60,722,393
Total assets	34,959,371	8,304,100	10,126,901	15,460,301	282,368	69,133,041
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	1,957,443	128,197	91,213	26,969	2,629	2,206,451
Accrued and other liabilities	556,366	111,971	123,038	157,044	1,663	950,082
Due to other funds	-	1,214,614	-	-	-	1,214,614
Current portion of long-term debt	505,000	257,512	270,000	455,000	-	1,487,512
Total current liabilities	3,018,809	1,712,294	484,251	639,013	4,292	5,858,659
Noncurrent liabilities - Long-term debt - Net of current portion	9,530,627	5,138,280	4,290,358	5,796,455	-	24,755,720
Total liabilities	12,549,436	6,850,574	4,774,609	6,435,468	4,292	30,614,379
<b>Net Assets</b>						
Investment in capital assets - Net of related debt	7,205,551	1,778,843	4,316,799	6,201,535	91,009	19,593,737
Restricted - Debt retirement	1,588,859	726,952	405,025	1,818,349	-	4,539,185
Restricted - Other purposes	-	-	-	417,349	-	417,349
Unrestricted	13,615,525	(1,052,269)	630,468	587,600	187,067	13,968,391
Total net assets	<b>\$ 22,409,935</b>	<b>\$ 1,453,526</b>	<b>\$ 5,352,292</b>	<b>\$ 9,024,833</b>	<b>\$ 278,076</b>	<b>\$ 38,518,662</b>

# City of Coldwater, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Electric Fund	Telecommunications Fund	Water Fund	Waste Water Fund	Nonmajor - Sanitation Fund	Total
<b>Operating Revenue</b> - Charges for services	\$ 22,692,747	\$ 2,956,740	\$ 1,776,622	\$ 1,893,430	\$ 426,500	\$ 29,746,039
<b>Operating Expenses</b>						
Purchased power	16,769,357	-	-	-	-	16,769,357
Power plant	424,864	-	-	-	-	424,864
Distribution	717,660	1,715,587	296,656	-	-	2,729,903
Substation	188,900	-	-	-	-	188,900
Sanitation	-	-	-	-	329,960	329,960
Metering/lighting	305,874	-	-	-	-	305,874
Wells	-	-	92,472	-	-	92,472
Treatment	-	-	322,762	635,017	-	957,779
Collection systems	-	-	-	131,552	-	131,552
Customer service	150,736	-	-	-	-	150,736
Billing, accounting, collections and administration, and general	683,318	403,724	329,164	319,350	-	1,735,556
Payments in lieu of taxes	1,390,992	81,060	105,156	108,732	-	1,685,940
Depreciation and amortization	912,725	567,899	403,221	533,420	14,637	2,431,902
Total operating expenses	<u>21,544,426</u>	<u>2,768,270</u>	<u>1,549,431</u>	<u>1,728,071</u>	<u>344,597</u>	<u>27,934,795</u>
<b>Operating Income</b>	1,148,321	188,470	227,191	165,359	81,903	1,811,244
<b>Nonoperating Revenue (Expense)</b>						
Investment income	1,212,457	8,869	6,862	50,865	-	1,279,053
Interest expense	(509,182)	(288,074)	(220,410)	(269,595)	-	(1,287,261)
Miscellaneous	130,539	25,596	33,806	112,481	-	302,422
Total nonoperating revenue (expense)	<u>833,814</u>	<u>(253,609)</u>	<u>(179,742)</u>	<u>(106,249)</u>	<u>-</u>	<u>294,214</u>
<b>Income (Loss) - Before transfers</b>	1,982,135	(65,139)	47,449	59,110	81,903	2,105,458
<b>Transfers from Other Funds</b>	-	-	-	-	5,477	5,477
<b>Change in Net Assets</b>	1,982,135	(65,139)	47,449	59,110	87,380	2,110,935
<b>Net Assets - Beginning of year</b>	<u>20,427,800</u>	<u>1,518,665</u>	<u>5,304,843</u>	<u>8,965,723</u>	<u>190,696</u>	<u>36,407,727</u>
<b>Net Assets - End of year</b>	<u>\$ 22,409,935</u>	<u>\$ 1,453,526</u>	<u>\$ 5,352,292</u>	<u>\$ 9,024,833</u>	<u>\$ 278,076</u>	<u>\$ 38,518,662</u>

# City of Coldwater, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Electric Fund	Telecommunications Fund	Water Fund	Waste Water Fund	Nonmajor - Sanitation Fund	Total
<b>Cash Flows from Operating Activities</b>						
Cash received from customers	\$ 22,132,600	\$ 2,911,194	\$ 1,952,461	\$ 2,186,104	\$ 417,728	\$ 29,600,087
Payments made to suppliers	(19,247,841)	(1,614,012)	(832,428)	(838,812)	(276,390)	(22,809,483)
Payments made to employees	(1,039,779)	(595,855)	(391,324)	(377,295)	(52,260)	(2,456,513)
Net cash provided by operating activities	1,844,980	701,327	728,709	969,997	89,078	4,334,091
<b>Cash Flows from Capital and Related Financing Activities</b>						
Principal and interest paid on capital debt	(913,925)	(535,500)	(478,837)	(697,684)	-	(2,625,946)
Proceeds for issuance of bonds	2,315,000	-	-	1,375,000	-	3,690,000
Payment of bond issuance costs	(124,352)	-	-	(77,427)	-	(201,779)
Purchase of capital assets	(1,084,296)	(174,222)	(275,470)	(216,523)	(10,652)	(1,761,163)
Transfers	-	-	-	-	5,477	5,477
Net cash provided by (used in) capital and related financing activities	192,427	(709,722)	(754,307)	383,366	(5,175)	(893,411)
<b>Cash Flows from Investing Activities</b>						
Interest received on investments	1,212,457	8,869	6,862	50,865	-	1,279,053
Change in investments	(1,253,614)	-	(9,307)	(1,163,604)	-	(2,426,525)
Net cash provided by (used in) investing activities	(41,157)	8,869	(2,445)	(1,112,739)	-	(1,147,472)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,996,250	474	(28,043)	240,624	83,903	2,293,208
<b>Cash and Cash Equivalents - Beginning of year</b>	1,926,307	744,031	93,636	635,403	75,392	3,474,769
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 3,922,557</u>	<u>\$ 744,505</u>	<u>\$ 65,593</u>	<u>\$ 876,027</u>	<u>\$ 159,295</u>	<u>\$ 5,767,977</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>						
Cash and investments	\$ 2,671,634	\$ 17,553	\$ 65,593	\$ 264,431	\$ 159,295	\$ 3,178,506
Restricted cash	2,946,334	726,952	405,025	3,265,380	-	7,343,691
Less amounts classified as investments (Note 2)	(1,695,411)	-	(405,025)	(2,653,784)	-	(4,754,220)
Total cash and cash equivalents	<u>\$ 3,922,557</u>	<u>\$ 744,505</u>	<u>\$ 65,593</u>	<u>\$ 876,027</u>	<u>\$ 159,295</u>	<u>\$ 5,767,977</u>

The proprietary funds had no noncash transactions during the year.



# City of Coldwater, Michigan

## Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2005

	Electric Fund	Telecommunications Fund	Water Fund	Waste Water Fund	Nonmajor - Sanitation Fund	Total
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>						
Operating income	\$ 1,148,321	\$ 188,470	\$ 227,191	\$ 165,359	\$ 81,903	\$ 1,811,244
Adjustments to reconcile operating income to net cash from operating activities:						
Other income	130,539	25,596	33,806	112,481	-	302,422
Depreciation and amortization	912,725	567,899	403,221	533,420	14,637	2,431,902
Changes in assets and liabilities:						
Receivables	(299,663)	(71,142)	(73,943)	(50,950)	(8,772)	(504,470)
Inventories	(9,081)	-	4,584	-	-	(4,497)
Prepays and other assets	2,897	(70,378)	4,340	4,797	-	(58,344)
Due from	(391,023)	-	215,976	231,143	-	56,096
Accounts payable	700,406	13,947	26,253	(8,304)	677	732,979
Accrueds	(350,141)	(4,639)	(5,049)	(17,949)	633	(377,145)
Due to	-	51,574	(107,670)	-	-	(56,096)
Total	<u>\$ 1,844,980</u>	<u>\$ 701,327</u>	<u>\$ 728,709</u>	<u>\$ 969,997</u>	<u>\$ 89,078</u>	<u>\$ 4,334,091</u>

# City of Coldwater, Michigan

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## Fiduciary Funds Balance Sheet June 30, 2005

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 55,817
Accounts receivable	<u>136</u>
Total assets	<b><u>\$ 55,953</u></b>
<b>Liabilities</b>	
Accounts payable	\$ 50,750
Due to other governmental units	<u>5,203</u>
Total liabilities	<b><u>\$ 55,953</u></b>

# City of Coldwater, Michigan

## Component Units Statement of Net Assets (Deficit) June 30, 2005

	Downtown Development Authority	Local Development Finance Authority	Totals
<b>Assets</b>			
Cash and investments	\$ 115,893	\$ 656,695	\$ 772,588
Receivables - Loans and other	49,821	-	49,821
Capital assets	448,167	442,903	891,070
Total assets	613,881	1,099,598	1,713,479
<b>Liabilities</b>			
Accounts payable	18,933	-	18,933
Noncurrent liabilities:			
Due to others	-	656,695	656,695
Notes payable, due within one year	115,000	58,966	173,966
Notes payable, due in more than one year	140,000	626,099	766,099
Total liabilities	273,933	1,341,760	1,615,693
<b>Net Assets (Deficit)</b>			
Investment in capital assets - Net of related debt	193,167	41,400	234,567
Unrestricted	146,781	(283,562)	(136,781)
Total net assets (deficit)	<u>\$ 339,948</u>	<u>\$ (242,162)</u>	<u>\$ 97,786</u>

# City of Coldwater, Michigan

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	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>
Downtown Development Authority	\$ 167,623	\$ 9,700	\$ 49,491
Local Development Finance Authority	<u>69,478</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 237,101</u>	<u>\$ 9,700</u>	<u>\$ 49,491</u>

General revenues - Interest

Property taxes

Total general revenues

### **Change in Net Assets**

**Net Assets (Deficit) - Beginning of year**

**Net Assets (Deficit) - End of year**

**Component Units  
Statement of Activities  
June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Local Development Authority	Total
\$ (108,432)	\$ -	\$ (108,432)
<u>-</u>	<u>(69,478)</u>	<u>(69,478)</u>
(108,432)	(69,478)	(177,910)
4,428	13,519	17,947
<u>270,683</u>	<u>170,315</u>	<u>440,998</u>
<u>275,111</u>	<u>183,834</u>	<u>458,945</u>
166,679	114,356	281,035
<u>173,269</u>	<u>(356,518)</u>	<u>(183,249)</u>
<b><u>\$ 339,948</u></b>	<b><u>\$ (242,162)</u></b>	<b><u>\$ 97,786</u></b>

## **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Coldwater, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Coldwater, Michigan:

### **Reporting Entity**

The City is governed by an elected nine-member council. As required by generally accepted accounting principles, these financial statements present the City of Coldwater and its component units. The individual component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationships with the City.

The Board of Public Utilities was created to provide electric services, water supply services, telecommunications, sanitary sewers, and sewage disposal facilities and to conduct the affairs of the City’s systems for the construction, generation, maintenance, purchase, extension, and distribution of these services to the residents of the City. The board’s governing body, which consists of five individuals, is selected by the mayor with City Council approval. In addition, the board’s budget, rates, and charges are subject to approval by the City Council. 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 component units 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.

- a. The Downtown Development Authority (the “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’s governing body, which consists of nine individuals, is selected by the mayor and City Council. In addition, the Authority’s budget is subject to approval by the City Council.
- b. 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’s governing body, which consists of nine individuals, is selected by the mayor with City Council approval. In addition, the LDFA’s budget is subject to approval by the City Council.

## **Note I - Summary of Significant Accounting Policies (Continued)**

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

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally 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 the primary government is financially accountable.

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

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

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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.

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 the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Revolving Development Fund** - The purpose of this fund is to loan money to various projects that will improve housing industry or infrastructure of the City. Revenue is derived from interest received on outstanding loans.



## **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Capital Improvement Fund** - This fund was established to account for capital improvements in the City of Coldwater. The fund includes payment of debt service on special assessment bonds used to finance the various capital projects.

The City reports the following major proprietary funds:

**Electric Fund, Water Fund, and the Waste Water Fund** - Each 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, respectively. Rates are established by the Board of Public Utilities. The Board consists of five nonpartisan members appointed by the mayor with City Council approval.

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

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

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.

### **Property Tax Revenue**

Property taxes are levied on July 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 2005 tax is levied and collectible on July 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The 2004 taxable valuation of the City totaled \$282.7 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 11.7079 mills for operating purposes and .3333 mills for the retirement system. This resulted in almost \$3.4 million for general operating and approximately \$100,000 for retirement. These amounts are recognized in the respective General and Retirement Funds in the financial statements.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advance to/from 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."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are assessed December 31 and the related property taxes become a lien on August 1 of the following year. These taxes are due on August 1 with the final collection date of September 15. The taxes are then added to the county tax rolls in March of the following year. The City bills and collects its own property taxes and those of the Coldwater Community Schools, Branch Intermediate School District, and Branch County.

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), 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.

### Note I - Summary of Significant Accounting Policies (Continued)

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

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

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

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

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

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, commercial paper rated within the top two highest classifications, repurchase agreements of the United States, bankers' acceptances of United States Banks, obligations of the State of Michigan or any of its political subdivisions, mutual funds registered under the Federal Investment Company Act of 1940, and investment pools organized under either the Surplus Funds Investment Pool Act of 1982 or the Local Government Investment Pool Act of 1985.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$10,641,981 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 2 - Deposits and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Bank investment pool (if not 2a-7)	\$ 2,601,535	4.4 years
U.S. government or agency bond or note	2,406,560	12.6 years

**Credit Rate Risk** - The City does not specifically identify credit risk in the investment policy adopted by the City. The City has the following investments with credit risk and the applicable rating:

Investment	Fair Value	Credit Rating
Bank investment pool	\$ 2,601,535	Not rated

### Note 3 - Capital Assets

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

#### Governmental Activities

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Capital assets not being depreciated -				
Land	\$ 455,482	\$ 200,398	\$ -	\$ 655,880
Capital assets being depreciated:				
Roads and sidewalks	9,384,923	100,070	-	9,484,993
Land improvements	663,883	8,770	-	672,653
Buildings and improvements	10,806,556	2,231	-	10,808,787
Vehicles	1,446,536	249,770	-	1,696,306
Other tools and equipment	958,843	86,759	-	1,045,602
Subtotal	23,260,741	447,600	-	23,708,341
Accumulated depreciation:				
Roads and sidewalks	2,797,218	443,673	-	3,240,891
Land improvements	203,240	7,888	-	211,128
Buildings and improvements	1,257,870	274,822	-	1,532,692
Vehicles	743,639	137,523	-	881,162
Other tools and equipment	626,802	91,119	-	717,921
Subtotal	5,628,769	955,025	-	6,583,794
Net capital assets being depreciated	17,631,972	(507,425)	-	17,124,547
Net capital assets	<u>\$ 18,087,454</u>	<u>\$ (307,027)</u>	<u>\$ -</u>	<u>\$ 17,780,427</u>

# City of Coldwater, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Capital Assets (Continued)

#### Business-type Activities

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 101,124	\$ -	\$ -	\$ 101,124
Works in process	-	68,421	-	68,421
Subtotal	101,124	68,421	-	169,545
Capital assets being depreciated:				
Utility systems	38,631,613	717,065	-	39,348,678
Buildings	18,336,239	600,842	-	18,937,081
Machinery and equipment	8,082,936	374,835	-	8,457,771
Subtotal	65,050,788	1,692,742	-	66,743,530
Accumulated depreciation:				
Electric	9,675,625	884,785	-	10,560,410
Telecommunications	2,166,217	562,932	-	2,729,149
Water	3,665,691	361,714	-	4,027,405
Waste water	5,562,524	501,585	-	6,064,109
Rubbish	67,553	14,637	-	82,190
Subtotal	21,137,610	2,325,653	-	23,463,263
Net capital assets being depreciated	43,913,178	(632,911)	-	43,280,267
Net capital assets	\$ 44,014,302	\$ (564,490)	\$ -	\$ 43,449,812

Depreciation expense was charged to programs of the primary government as follows:

#### Governmental activities:

General government	\$ 674,591
Public safety	118,464
Public works	101,670
Recreation and culture	60,300
Total governmental activities	\$ 955,025

#### Business-type activities:

Water	\$ 361,714
Sewer	501,584
Telecommunications	562,932
Electric	884,784
Rubbish	14,639
Total business-type activities	\$ 2,325,653

### Note 3 - Capital Assets (Continued)

The component units' capital assets at June 30, 2005 consist of the following:

Land	\$ 715,521
Building	<u>226,096</u>
Subtotal	941,617
Less accumulated depreciation	<u>(50,547)</u>
Net carrying amount	<u><u>\$ 891,070</u></u>

All assets are held in the Downtown Development Authority, except for land of approximately \$442,903 held in the Local Downtown Development Authority.

### Note 4 - Interfund Receivables

The following are the interfund receivables at June 30, 2005:

Fund Due To	Fund Due From	Amount
Electric Fund	Telecommunications Fund	<u>\$ 1,214,614</u>

Interfund receivable balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Parking Authority Fund	\$ 1,142
Major Street Fund	Local Roads Fund	164,424
Retirement Fund	General Fund	225,259
Retirement Fund	Major Street Fund	9,149
Retirement Fund	Local Roads Fund	5,807
Retirement Fund	Parking Authority Fund	1,891
Retirement Fund	Rubbish Fund	<u>5,477</u>
	Total interfund transfers	<u><u>\$ 413,149</u></u>



### Note 4 - Interfund Receivables (Continued)

The transfers from the General Fund to the Parking Authority Fund were to provide operating cash to the fund; the transfer from the major streets fund to the local streets fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfers from the Retirement Fund to the General Fund, Major Street Fund, Local Roads Fund, Parking Authority Fund, and the Rubbish Fund represent the distribution of Retirement Funds.

### Note 5 - Long-term Debt

#### Outstanding Debt

The following is a summary of the debt outstanding of the City as of June 30, 2005:

#### Governmental Activities:

1998 special assessment bonds payable at interest rates of 4.50% to 5.00%, principal payments of \$65,000 due annually on March 1, concluding in 2007	\$ 195,000
1998 general obligation limited tax bonds payable at interest rates of 4.60% to 4.8%, principal payments of \$10,000 to \$20,000 due annually on March 1, concluding in 2007	50,000
1999 special assessment bonds payable at interest rates of 4.00% to 4.50%, principal payments of \$15,000 to \$40,000 due annually on March 1, concluding in 2009	120,000
1999 special assessment bonds payable at interest rates of 4.90% to 5.15%, principal payments of \$35,000 due annually on March 1, concluding in 2009	140,000
1999 special assessment bonds payable at interest rates of 4.50% to 5.00%, principal payments of \$100,000 to \$105,000 due annually on March 1, concluding in 2009	405,000
2001 special assessment bonds payable at interest rates of 3.95%, principal payments of \$70,000 to \$75,000 due semiannually on February 1 and September 1, concluding in 2011	440,000
1999 general obligation limited tax bonds payable at interest rates of 4.50% to 5.00%, principal payments of \$25,000 to \$35,000 due annually on March 1, concluding in 2009	130,000
1999 Building Authority Bonds, maturing on October 1, 2019, plus interest ranging from 4.30% to 5.375% semiannually, principal payments of \$75,000 to \$155,000	1,655,000
2000 Building Authority Bonds, maturing on October 1, 2010, plus interest ranging from 5.00% to 5.250% semiannually, principal payments of \$45,000 to \$60,000	330,000

### Note 5 - Long-term Debt (Continued)

1999 general obligation limited tax bonds payable at interest rates of 4.10% to 4.50%, principal payments of \$5,000 to \$10,000 due annually on March 1, concluding in 2009	\$ 40,000
Act 99 contract payable, semiannual payments of \$48,680 including interest at 5.1%. Payments due on March 1 and September 1, concluding in 2007	225,835
Act 99 contract payable, annual payments of \$27,000 plus interest at 3.75%. Payments due on November 1, concluding in 2010	<u>135,000</u>
Total bonds and note payable	3,865,835
Compensated absences	<u>521,116</u>
Total governmental activity debt	4,386,951

#### Business-type Activities

Series 2000 Electric Revenue Bonds, maturing \$60,000 to \$140,000 annually, plus interest ranging from 5.7% to 6.0% semiannually through August 1, 2019	1,445,000
Series 1996 Electric Revenue Bonds, maturing \$370,000 to \$685,000 annually, plus interest ranging from 5.20% to 5.75% semiannually through August 1, 2016	6,110,000
Series 1998 Water Supply and Waste Water System Revenue Refunding Bonds, maturing \$270,000 to \$480,000 annually, plus interest ranging from 4.45% to 5.00% semiannually through July 1, 2016	4,515,000
Series 1993 Water Supply and Waste Water System Revenue Refunding Bonds, maturing \$325,000 to \$355,000 annually, plus interest ranging from 4.70% to 5.00% semiannually through July 1, 2007	695,000
Series 1999 Waste Water System Revenue Bonds, maturing \$115,000 to \$330,000 annually, plus interest ranging from 4.5% to 4.6% semi-annually through July 1, 2024	4,100,000

### Note 5 - Long-term Debt (Continued)

Series 2002 Telecommunications System Revenue Refunding Bonds, maturing \$220,000 to \$390,000 annually, plus interest of 5.5% semiannually through August 1, 2017	\$ 3,950,000
Act 99 contract payable, monthly payments of \$1,097 including interest at 4.30%. Payments due monthly, concluding in 2018	131,631
Act 99 contract payable, monthly payments of \$1,177 including interest at 4.30%. Payments due monthly, concluding in 2018	141,257
Act 99 contract payable, quarterly payments of \$4,846 including interest at 4.30%. Payments due quarterly, concluding in 2018	256,826
Act 99 contract payable, monthly payments of \$370 including interest at 4.50%. Payments due monthly, concluding in 2019	45,602
Series 2004 Electric Utility System Revenue Bonds, maturing \$75,000 to \$180,000 annually, plus interest of 2% to 4.9% semiannually through August 1, 2024	2,315,000
Series 2004 Water Supply and Waste Water System Revenue Bonds, maturing \$55,000 to \$115,000 annually plus interest of 3% to 4.6% semi-annually through July 1, 2024	1,375,000
Loans payable to Revolving Loan Fund	<u>817,510</u>
Total bonds and notes payable	25,897,826
Compensated absences	<u>345,406</u>
Total business-type activity debt	<u>26,243,232</u>
Total	<u>\$ 30,630,183</u>

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

### Note 5 - Long-term Debt (Continued)

#### Component Units Debt

Debt outstanding for component units consisted of Downtown Development Authority Bonds totaling \$150,000, bearing interest at rates from 4.75 percent to 7.2 percent, maturing through 2008. The Downtown Development Authority also has a note payable to a bank of \$110,399, bearing an interest rate of 5 percent. The Local Development Finance Authority has notes payable to the City totaling \$685,065, bearing an interest rate of 7.5 percent. These loans have varying maturities through 2008.

#### Changes in Long-term Debt

The following are summaries of long-term debt transactions of the City for the year ended June 30, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 270,000	\$ -	\$ 50,000	\$ 220,000	\$ 55,000
Building authority bonds	2,105,000	-	120,000	1,985,000	120,000
Installment purchase agreements	338,364	135,000	112,529	360,835	113,398
Special assessment bonds	1,610,000	-	310,000	1,300,000	310,000
Other liabilities - Compensated absences	515,179	5,937	-	521,116	-
Total governmental activities	<u>\$ 4,838,543</u>	<u>\$ 140,937</u>	<u>\$ 592,529</u>	<u>\$ 4,386,951</u>	<u>\$ 598,398</u>
<b>Business-type Activities</b>					
Revenue bonds	\$ 22,054,074	\$ 3,690,000	\$ 1,239,074	\$ 24,505,000	\$ 1,450,000
Notes payable	1,447,242	-	54,416	1,392,826	37,512
Other liabilities - Compensated absences	339,346	6,060	-	345,406	-
Total business-type activities	<u>\$ 23,840,662</u>	<u>\$ 3,696,060</u>	<u>\$ 1,293,490</u>	<u>\$ 26,243,232</u>	<u>\$ 1,487,512</u>

### Note 5 - Long-term Debt (Continued)

#### Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2005 (excluding capital leases and employee benefits), including both principal and interest, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 598,938	\$ 182,857	\$ 781,795	\$ 1,487,512	\$ 3,278,864	\$ 4,766,376
2007	613,427	154,978	768,405	1,558,322	1,206,206	2,764,528
2008	589,470	125,949	715,419	1,299,141	1,128,719	2,427,860
2009	447,000	97,431	544,431	1,421,051	2,570,832	3,991,883
2010	252,000	86,814	338,814	1,495,975	990,563	2,486,538
2011-2015	670,000	261,870	931,870	8,735,212	3,738,011	12,473,223
2016-2020	695,000	97,422	792,422	7,085,603	1,403,692	8,489,295
2021-2025	-	-	-	2,815,000	340,045	3,155,045
2026-2030	-	-	-	-	-	-
Total	<u>\$ 3,865,835</u>	<u>\$ 1,007,321</u>	<u>\$ 4,873,156</u>	<u>\$ 25,897,816</u>	<u>\$ 14,656,932</u>	<u>\$ 40,554,748</u>

Total interest incurred for the City for the year amounted to approximately \$1,492,000, which was accounted for in the General and Enterprise Funds. Total interest incurred by component units for the year ended June 30, 2005 amounted to approximately \$71,500.

### Note 6 - Restricted Net Assets and Reserved Fund Balances

The balances of the restricted net assets and reserved fund balance accounts are as follows:

	Governmental Activities	Business-type Activities
Reserved and restricted:		
Cemetery maintenance	\$ 450,000	
Future retirement contributions	<u>336,987</u>	
Total restricted net assets/ reserved fund balance	<u>\$ 786,987</u>	
Designated - Capital expenditures	<u>\$ 631,216</u>	
Restricted - Revenue bond restrictions:		
Improvement and replacement account		\$ 417,349
Bond reserve		<u>4,539,185</u>
Total restricted net assets		<u>\$ 4,956,534</u>

Fund balances have been reserved in the Cemetery and Perpetual Care Fund and the Retirement Fund in the amounts of \$450,000 and \$336,987, respectively.

### Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee medical benefit claims and participates in the Michigan Municipal Liability and Property Pool and Michigan Municipal Workers' Compensation Fund for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

### Note 8 - Pension Plans

**Defined Benefit Plan** - The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all employees of the City. The MMERS provides retirement benefits, as well as death and disability benefits. Service retirement benefits vest after 10 years of service or after age 60 is attained; payment is based on various factors depending on the type of benefit to be paid. Deferred retirement benefits vest after 10 years of service, but are not paid until the date retirement would have occurred had the member remained an employee.

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

**Funding Policy** - The obligation to contribute to and maintain the MMERS for these employees was established by negotiation with the six competitive bargaining units and requires a contribution from the employees of 0 percent to 10 percent of gross wages.

**Annual Pension Cost** - For the year ended June 30, 2005, the City's required and actual pension cost was \$306,086. The annual required contribution percentage was determined as a part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 4.2 percent per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5 percent per year (annually) after retirement for persons with selected benefits.

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

### **Note 9 - Pension Plans (Continued)**

**Defined Contribution Plan** - The City also participates in the ICMA retirement plan, a division of MMERS, which is a defined contribution pension plan established in 1997 to provide retirement benefits to all employees hired after that date. At June 30, 2005, there were 67 plan members. Plan members are required to contribute 0 percent to 7.5 percent of covered payroll. The City is required to contribute 6 percent to 13.5 percent of annual covered payroll. The City's contribution for the year ended June 30, 2005 was \$207,336. Plan provisions and contribution requirements are established and may be amended by the Coldwater City Council.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price.

### **Note 10 - Loans Receivable - Revolving Development Fund**

During the last several years, the City has loaned local and CDBG funds to several local companies. The balance of these loans receivable at June 30, 2005 is \$631,565. In addition, the City has loaned \$817,510 to the Telecommunications Fund.

The City recognizes collections of principal and interest on the federal portion of these loans as deferred revenue as the loans are repaid. Deferred revenue amounted to \$1,449,075 at June 30, 2005. Repayment of the local portion of these loans is recorded as a reduction of the loan receivable and interest income when received. Upon repayment of the balance of each loan, deferred revenue will either be recognized as revenue when de-obligated by the granting agency or funds will be returned to the granting agency.

### **Note 11 - 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 approximately \$16,769,000 for purchased power and debt retirement. The City is unaware of any circumstances that would cause any additional benefit or burden to the 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.



### Note 11 - Joint Ventures (Continued)

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

### Note 13 - 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, 2004	\$ (370,220)
Current year building permit revenue	31,079
Less related expenses - Direct costs	<u>(272,305)</u>
Shortfall at June 30, 2005	<u>\$ (611,446)</u>

## **Required Supplemental Information**

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# City of Coldwater, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenues</b>				
Property taxes	\$ 3,442,000	\$ 3,416,780	\$ 3,425,695	\$ 8,915
Licenses and permits	119,750	111,250	134,741	23,491
Federal sources	413,000	51,000	52,162	1,162
State shared revenue	1,008,000	993,760	991,318	(2,442)
State sources	21,800	45,200	67,353	22,153
Charges for services	743,550	664,050	625,826	(38,224)
Interest income	50,000	60,000	106,777	46,777
Rent and royalties	1,716,021	1,716,015	1,721,196	5,181
Miscellaneous	42,200	42,100	29,829	(12,271)
Contributions from private sources	3,000	3,100	4,688	1,588
Total revenues	<u>7,559,321</u>	<u>7,103,255</u>	<u>7,159,585</u>	<u>56,330</u>
<b>Expenditures</b>				
General government	1,257,377	1,169,927	1,127,428	42,499
Public safety	3,116,450	3,153,330	3,076,048	77,282
Public works	1,143,365	1,436,344	1,443,246	(6,902)
Recreation and cultural	1,025,375	975,375	794,701	180,674
Planning	532,650	182,650	149,848	32,802
Other	371,636	532,296	393,950	138,346
Debt service	213,850	213,850	192,210	21,640
Total expenditures	<u>7,660,703</u>	<u>7,663,772</u>	<u>7,177,431</u>	<u>486,341</u>
<b>Excess of Expenditures Over Revenues</b>	(101,382)	(560,517)	(17,846)	542,671
<b>Other Financing Sources (Uses)</b>				
Proceeds from debt issuance	-	135,000	135,000	-
Sale of fixed assets and land	2,500	2,500	11,444	8,944
Operating transfers in	224,625	224,625	225,259	634
Operating transfers out	(82,600)	(82,600)	(1,142)	81,458
Total other financing sources (uses)	<u>144,525</u>	<u>279,525</u>	<u>370,561</u>	<u>91,036</u>
<b>Change in Fund Balance</b>	43,143	(280,992)	352,715	633,707
<b>Fund Balance - Beginning of year</b>	<u>1,720,371</u>	<u>1,720,371</u>	<u>1,720,371</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 1,763,514</b></u>	<u><b>\$ 1,439,379</b></u>	<u><b>\$ 2,073,086</b></u>	<u><b>\$ 633,707</b></u>

# City of Coldwater, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Revolving Development Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Interest income	\$ 100,000	\$ 100,000	\$ 121,647	\$ 21,647
Other	-	-	117,054	117,054
	<u>100,000</u>	<u>100,000</u>	<u>238,701</u>	<u>138,701</u>
<b>Expenditures - Economic development</b>	<u>60,000</u>	<u>60,000</u>	<u>328,221</u>	<u>(268,221)</u>
Excess of revenue over (under) expenditures	40,000	40,000	(89,520)	(129,520)
<b>Fund Balance - Beginning of year</b>	<u>929,486</u>	<u>929,486</u>	<u>929,486</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 969,486</b></u>	<u><b>\$ 969,486</b></u>	<u><b>\$ 839,966</b></u>	<u><b>\$ (129,520)</b></u>

# City of Coldwater, Michigan

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## Note to Required Supplemental Information Year Ended June 30, 2005

**Stewardship, Compliance, and Accountability** - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the City Council) for the General Fund and Major Special Revenue Fund is presented as Required Supplemental Information. The budget is adopted on the department level.

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

	<u>Budget</u>	<u>Actual</u>
Special Revenue - Revolving Development Fund	\$ 60,000	\$ 328,221

# City of Coldwater, Michigan

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Fiscal Year Ended June 30

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As of December 31	Annual Pension Cost*	Percent of APC Contributed	Net Pension Obligation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) AAL
2000	\$ 251,744	100	\$ -	\$ 19,161,167	\$ 19,386,397	\$ 225,230
2001	300,264	100	-	19,710,361	20,106,759	396,398
2002	226,383	100	-	19,237,443	20,706,136	1,468,693
2003	217,007	100	-	19,578,175	21,361,625	1,783,450
2004	306,086	100	-	19,822,285	22,636,615	2,814,330

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

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**Required Supplemental Information**  
**Retirement System Analysis of Funding Progress**  
**June 30, 2005**

Funded Ratio	Covered Payroll	Unfunded (Overfunded) AAL as Percentage of Covered
99	\$ 3,608,121	6.24
98	3,694,472	10.73
93	3,096,838	47.43
92	3,018,999	59.07
88	2,903,461	96.93

## **Other Supplemental Information**

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# City of Coldwater, Michigan

## Nonmajor Governmental Funds Combining Balance Sheet June 30, 2005

	Nonmajor Special Revenue Funds				Nonmajor Capital Projects Funds		Nonmajor Permanent Fund	Total Nonmajor Governmental Funds
	Major Roads	Local Roads	Parking Authority	Retirement Fund	Library Memorial Fund	Coldwater Municipal Building Authority Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
<b>Assets</b>								
Cash and investments	\$ 657,694	\$ 315,541	\$ 1,000	\$ -	\$ 258,970	\$ -	\$ -	\$ 1,233,205
Receivables:								
Special assessments	45,828	-	-	-	-	-	-	45,828
Due from other governmental units	134,154	33,192	-	-	-	-	-	167,346
Restricted assets	-	-	-	337,011	-	-	450,000	787,011
<b>Total assets</b>	<b>\$ 837,676</b>	<b>\$ 348,733</b>	<b>\$ 1,000</b>	<b>\$ 337,011</b>	<b>\$ 258,970</b>	<b>\$ -</b>	<b>\$ 450,000</b>	<b>\$ 2,233,390</b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ 13,974	\$ 3,173	\$ 15	\$ 24	\$ 2,398	\$ -	\$ -	\$ 19,584
Deferred revenue	45,828	-	-	-	-	-	-	45,828
<b>Total liabilities</b>	<b>59,802</b>	<b>3,173</b>	<b>15</b>	<b>24</b>	<b>2,398</b>	<b>-</b>	<b>-</b>	<b>65,412</b>
<b>Fund Balances</b>								
Reserved	-	-	-	336,987	-	-	-	336,987
Designated	330,118	156,996	-	-	-	-	450,000	937,114
Unreserved	447,756	188,564	985	-	256,572	-	-	893,877
<b>Total fund balances</b>	<b>777,874</b>	<b>345,560</b>	<b>985</b>	<b>336,987</b>	<b>256,572</b>	<b>-</b>	<b>450,000</b>	<b>2,167,978</b>
<b>Total liabilities and fund balances</b>	<b>\$ 837,676</b>	<b>\$ 348,733</b>	<b>\$ 1,000</b>	<b>\$ 337,011</b>	<b>\$ 258,970</b>	<b>\$ -</b>	<b>\$ 450,000</b>	<b>\$ 2,233,390</b>

# City of Coldwater, Michigan

## Nonmajor Special Revenue Funds

	Major Roads	Local Roads	Parking Authority	Retirement Fund
<b>Revenue</b>				
Property taxes and special assessments	\$ 8,589	\$ -	\$ -	\$ 100,833
State sources	657,698	205,181	-	-
Grants	43,826	-	-	-
Charges for services	-	-	3,821	-
Rents and royalties	-	-	-	-
Interest income	16,754	2,713	-	8,950
Other income	1,048	-	35,003	-
Contributions from private sources	-	-	-	-
Total revenue	<u>727,915</u>	<u>207,894</u>	<u>38,824</u>	<u>109,783</u>
<b>Expenditures - Current</b>				
Public works	345,140	208,450	56,890	-
Debt service	-	-	-	-
Other	-	-	-	-
Total expenditures	<u>345,140</u>	<u>208,450</u>	<u>56,890</u>	<u>-</u>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	<u>382,775</u>	<u>(556)</u>	<u>(18,066)</u>	<u>109,783</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	9,149	170,231	3,033	-
Transfers out	(164,424)	-	-	(247,583)
Total other financing sources (uses)	<u>(155,275)</u>	<u>170,231</u>	<u>3,033</u>	<u>(247,583)</u>
<b>Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures and Other Uses</b>	<u>227,500</u>	<u>169,675</u>	<u>(15,033)</u>	<u>(137,800)</u>
<b>Fund Balances - Beginning of year</b>	<u>550,374</u>	<u>175,885</u>	<u>16,018</u>	<u>474,787</u>
<b>Fund Balances - End of year</b>	<u>\$ 777,874</u>	<u>\$ 345,560</u>	<u>\$ 985</u>	<u>\$ 336,987</u>

**Nonmajor Governmental Funds  
Combining Statement of Revenue, Expenditures  
and Changes in Fund Balances  
Year Ended June 30, 2005**

Nonmajor Capital Projects Funds		Nonmajor Permanent Fund		Total
Library Memorial Fund	Coldwater Municipal Building Authority	Cemetery Special and Perpetual Care Nonexpendable		Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 109,422
-	-	-	-	862,879
-	-	-	-	43,826
971	-	-	-	4,792
-	224,473	-	-	224,473
5,517	-	-	-	33,934
657	-	-	-	36,708
842	-	-	-	842
<u>7,987</u>	<u>224,473</u>	<u>-</u>	<u>-</u>	<u>1,316,876</u>
-	-	-	-	610,480
-	224,473	-	-	224,473
<u>22,392</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,392</u>
<u>22,392</u>	<u>224,473</u>	<u>-</u>	<u>-</u>	<u>857,345</u>
(14,405)	-	-	-	459,531
-	-	-	-	182,413
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(412,007)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(229,594)</u>
(14,405)	-	-	-	229,937
<u>270,977</u>	<u>-</u>	<u>450,000</u>	<u>-</u>	<u>1,938,041</u>
<u>\$ 256,572</u>	<u>\$ -</u>	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ 2,167,978</u>

# City of Coldwater, Michigan

## Other Supplemental Information Combining Balance Sheet Fiduciary Funds June 30, 2005

	Agency Funds		
	Health Insurance Agency Fund	Tax Collection- Escrow Fund	Totals
<b>Assets</b>			
Cash and investments	\$ 50,614	\$ 5,203	\$ 55,817
Receivables	136	-	136
Total assets	<b>\$ 50,750</b>	<b>\$ 5,203</b>	<b>\$ 55,953</b>
<b>Liabilities</b>			
Accounts payable	\$ 50,750	\$ -	\$ 50,750
Due to other governmental units	-	5,203	5,203
Total liabilities	<b>\$ 50,750</b>	<b>\$ 5,203</b>	<b>\$ 55,953</b>