

**CITY OF COLDWATER  
BRANCH COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

## CONTENTS

	<u>Page</u>
<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-16
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	19
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balance	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	22
Proprietary Funds:	
Statement of Net Assets	23
Statement Revenues, Expenses and Changes in Net Assets	24
Statement of Cash Flows	25-26
Fiduciary Funds:	
Statement of Fiduciary Net Assets	27
Component Units:	
Statement of Net Assets	28
Statement of Activities	29
<b>Notes to Financial Statements</b>	30-50
<b>Required Supplemental Information</b>	
General Fund:	
Budgetary Comparison Schedule	51
Revolving Development Fund:	
Budgetary Comparison Schedule	52
Retirement System Analysis of Funding Progress	53

**CONTENTS – Continued**

Page

**Other Supplemental Information**

Nonmajor Governmental Funds: Combining Balance Sheet	54
Nonmajor Governmental Funds: Combining Statement of Revenues, Expenditures and Changes In Fund Balance	55
Fiduciary Funds: Combining Balance Sheet	56



## **INDEPENDENT AUDITOR'S REPORT**

**City Council  
City of Coldwater, Michigan**

**December 3, 2012**

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Coldwater's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan as of June 30, 2012 and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison schedules, and pension system schedule of funding progress pages 3 through 16 and 51 through 53 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management, about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Combining Financial Statements and Other Supplemental Information**

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

*Taylor, Plant & Watkins, P.C.*  
**TAYLOR, PLANT & WATKINS, P.C.**  
(Formerly Rumsey & Watkins, P.C.)

## CITY OF COLDWATER

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Coldwater's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements.

#### **Financial Highlights**

The following represents the most significant financial highlights for the year ended June 30, 2012:

- The City's overall fund equity increased by \$1.1 million (1.6%) . City's Governmental Funds total equity decreased \$528,000 while Enterprise Funds show an overall increase of \$1.6 million.
- Main driver of increased fund equity is the Electric Fund with a change in net assets of \$1.8 million. This increase is primarily attributable to the operational income, which increased as a result of paying off outstanding indebtedness as the Michigan South Central Power Agency (MSCPA).
- Enterprise Funds ended the year with an increase in net assets of \$1.6 million or 2.67%
- The City's Governmental Funds ended the year with a decrease in net assets of \$528,000, primarily resulting from the early pay off of amounts owed on the Henry L. Brown (HLB) Municipal Building (\$596,138). A review of the City's balance sheet under the full accrual basis method of accounting, which provides more of a longer term view of the City's finances, also reflects a \$1.6 million increase in total net assets primarily attributed to the Enterprise Funds. The City's Governmental Activities show a decrease in net assets of \$30,500.
- This year the City saw an overall change in fund equity of \$1.1 million, which is a decrease of \$1 million from the prior year.
- Governmental Funds saw a decrease in equity of \$528,000, even though total revenues after adjusting for debt proceeds increased by \$1 million (14.77%). The largest increase, \$953,740 in Rent revenue, was from General Fund and Enterprise Funds transfers to pay off early the amount due for the HLB Municipal Building.
- Property taxes decreased by \$252,941 (6.34%) as residential and commercial property values declined as a result of faltering national economy.
- Revenue from licenses increased \$106,928 due to an increase in new investment in the community.
- Federal revenue increased \$307,260, primarily from a federal grant for the Tibbits Restoration Project.
- State sources decreased by \$46,136 as the majority of the construction to rehabilitate Michigan Avenue was completed in the prior year. The balance of the funds and construction was wrapped up in the current year.
- Charges for services increased by \$623,377 (1.7%) as demand for electricity improved over the prior year, primarily by industrial customers.
- Decrease in interest income of \$362,099 is due to a recording of investment in the MSCPA in 2011. This year the MSCPA's fund equity did not increase as much as prior year.
- Revenue from contributions increased by \$257,222, primarily due to a matching contribution from private donors to the Tibbits Restoration Project.
- Other income decreased by \$227,710 due to the sale of industrial land in 2011.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

#### **Financial Highlights – Continued**

- Debt proceeds decreased by \$431,000, the amount received in 2011 for purchase of a new fire engine.
- Program expenditures overall for the Governmental Funds increased primarily due to early pay off of amounts due for the HLB Municipal Building.

#### **Using this Annual Report**

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

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

**CITY OF COLDWATER**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**The City as a Whole**

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

	Governmental Funds		Enterprise Funds		Total	
	2012	2011	2012	2011	2012	2011
<b>Assets</b>	\$ 6,490,838	\$ 7,070,566	\$ 87,497,218	\$ 86,505,408	\$ 93,988,056	\$ 93,575,974
<b>Liabilities</b>	903,873	955,598	24,960,630	25,597,875	25,864,503	26,553,473
<b>Fund Equity</b>						
Investment in capital - Net of related debt	-	-	25,770,928	23,780,276	25,770,928	23,780,276
Retained earnings:						
Restricted	-	-	2,569,730	2,545,479	2,569,730	2,545,479
Unreserved	-	-	34,195,930	34,581,778	34,195,930	34,581,778
Fund balances:						
Nonspendable	45,212	50,308	-	-	45,212	50,308
Restricted	1,506,349	1,605,715	-	-	1,506,349	1,605,715
Committed	635,585	623,454	-	-	635,585	623,454
Assigned	727,120	709,037	-	-	727,120	709,037
Unassigned	2,672,699	3,126,454	-	-	2,672,699	3,126,454
Total fund equity	\$ 5,586,965	\$ 6,114,968	\$ 62,536,588	\$ 60,907,533	\$ 68,123,553	\$ 67,022,501

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	
	2012	2011	2012	2011	2012	2011
<b>Assets</b>						
Current and other assets	\$ 6,490,838	\$ 7,070,566	\$ 40,786,562	\$ 40,841,692	\$ 47,277,400	\$ 47,912,258
Capital assets	18,755,538	19,365,971	45,421,184	44,706,646	64,176,722	64,072,617
Total assets	25,246,376	26,436,537	86,207,746	85,548,338	111,454,122	111,984,875
<b>Liabilities</b>						
Long-term debt outstanding	844,326	1,874,730	18,201,765	19,606,258	19,046,091	21,480,988
Other liabilities	548,711	677,971	5,469,393	5,034,547	6,018,104	5,712,518
Total liabilities	1,393,037	2,552,701	23,671,158	24,640,805	25,064,195	27,193,506
<b>Net Assets</b>						
Investment in capital assets- Net of related debt	18,419,325	17,878,758	25,770,928	23,780,276	44,190,253	41,659,034
Restricted	2,187,146	2,279,477	2,569,730	2,545,479	4,756,876	4,824,956
Unrestricted	3,246,868	3,725,601	34,195,930	34,581,778	37,442,798	38,307,379
Total net assets	\$ 23,853,339	\$ 23,883,836	\$ 62,536,588	\$ 60,907,533	\$ 86,389,927	\$ 84,791,369



# CITY OF COLDWATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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

	Governmental Funds		Enterprise Funds		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenue</b>						
Taxes	\$ 3,735,358	\$ 3,988,299	\$ -	\$ -	\$ 3,735,358	\$ 3,988,299
Special assessments	48,596	101,021	-	-	48,596	101,021
Licenses and permits	250,226	143,298	-	-	250,226	143,298
Federal sources	336,477	29,217	-	-	336,477	29,217
State shared revenue	1,630,391	1,634,961	-	-	1,630,391	1,634,961
State sources	99,471	145,607	-	-	99,471	145,607
Charges for services	529,253	542,777	37,219,765	36,582,864	37,749,018	37,125,641
Rent	1,485,253	531,513	-	-	1,485,253	531,513
Interest income	92,387	112,638	230,812	572,660	323,199	685,298
Contributions	261,018	3,796	-	-	261,018	3,796
Other income	62,849	197,879	203,144	295,824	265,993	493,703
Proceeds from debt	-	431,000	-	-	-	431,000
Sale of fixed assets	(1,370)	893	9,666	23,717	8,296	24,610
<b>Total income</b>	<b>8,529,909</b>	<b>7,862,899</b>	<b>37,663,387</b>	<b>37,475,065</b>	<b>46,193,296</b>	<b>45,337,964</b>
<b>Program expenses</b>						
General government	1,227,415	1,275,832	-	-	1,227,415	1,275,832
Public safety	3,782,113	3,857,232	-	-	3,782,113	3,857,232
Public works	2,307,862	2,137,511	-	-	2,307,862	2,137,511
Recreation and cultural	1,002,135	877,668	-	-	1,002,135	877,668
Planning	693,863	125,531	-	-	693,863	125,531
Economic development	24,258	26,508	-	-	24,258	26,508
Debt service	1,217,077	764,531	-	-	1,217,077	764,531
Other expenditures	962,277	473,499	-	-	962,277	473,499
Purchased power	-	-	21,115,457	21,316,267	21,115,457	21,316,267
Power plant	-	-	323,431	327,795	323,431	327,795
Distribution	-	-	3,454,994	3,158,649	3,454,994	3,158,649
Substation	-	-	101,184	212,929	101,184	212,929
Sanitation	-	-	452,364	441,335	452,364	441,335
Metering and lighting	-	-	554,136	480,555	554,136	480,555
Wells	-	-	70,183	53,745	70,183	53,745
Treatment	-	-	1,154,484	1,195,797	1,154,484	1,195,797
Collection system	-	-	177,638	187,065	177,638	187,065
Customer service	-	-	408,754	382,612	408,754	382,612
Administration	-	-	2,658,971	2,408,699	2,658,971	2,408,699
Depreciation and amortization	-	-	2,628,284	2,543,743	2,628,284	2,543,743
Interest expense	-	-	775,364	870,677	775,364	870,677
<b>Total expenses</b>	<b>11,217,000</b>	<b>9,538,312</b>	<b>33,875,244</b>	<b>33,579,868</b>	<b>45,092,244</b>	<b>43,118,180</b>
Excess (deficit) of revenues over expenditures	(2,687,091)	(1,675,413)	3,788,143	3,895,197	1,101,052	2,219,784
Other Sources (Uses)	2,159,088	2,146,188	(2,159,088)	(2,146,188)	-	-
<b>Change in fund equity</b>	<b>\$ (528,003)</b>	<b>\$ 470,775</b>	<b>\$ 1,629,055</b>	<b>\$ 1,749,009</b>	<b>\$ 1,101,052</b>	<b>\$ 2,219,784</b>

# CITY OF COLDWATER

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

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

	Governmental Activities		Business-type Activities	
	2012	2011	2012	2011
<b>Revenues</b>				
Program revenues:				
Charges for services	\$ 1,173,007	\$ 1,076,967	\$ 37,219,765	\$ 36,582,864
Operating grants and contributions	659,083	132,028	-	-
Capital grants and contributions	-	8,350	-	-
General revenues:				
Property taxes	3,735,358	3,988,299	-	-
State shared revenues	1,630,391	1,634,961	-	-
Unrestricted investment earnings	92,389	112,639	230,812	572,660
Gain (loss) on sale of assets	(8,261)	(5,093)	9,666	23,717
Miscellaneous	17,870	32,377	203,144	295,824
Capital contributions	-	-	-	-
Payments in lieu of taxes	2,159,088	2,146,188	(2,159,088)	(2,146,188)
Total revenues	9,458,925	9,126,716	35,504,299	35,328,877
<b>Expenses</b>				
General government	1,233,604	1,689,899	-	-
Public safety	3,778,781	3,464,486	-	-
Public works	2,626,482	2,543,018	-	-
Recreation and cultural	1,083,978	991,670	-	-
Economic development	700,500	128,284	-	-
Interest	66,077	82,375	-	-
Transfers	-	-	-	-
Electric	-	-	25,647,274	25,881,405
Telecommunications	-	-	3,173,414	2,997,277
Water	-	-	1,820,170	1,836,168
Waste water	-	-	2,766,606	2,410,917
Rubbish	-	-	467,780	454,101
Total expenses	9,489,422	8,899,732	33,875,244	33,579,868
<b>Increase in Net Assets</b>	<u>\$ (30,497)</u>	<u>\$ 226,984</u>	<u>\$ 1,629,055</u>	<u>\$ 1,749,009</u>

The City has remained in a very stable financial condition, considering the overall state of the economy and decline in revenue. The combined fund equity increased approximately 1.6% under the modified accrual basis (short-term view), from \$67,022,501 to \$68,123,553. Governmental funds decreased 8.6% and Enterprise funds increased 2.7%. In looking at the financial results under the full accrual basis (long-term view), total net assets increased by \$1.6 million (1.9%) from \$84,791,369 to \$86,389,927.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

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

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

City Council felt it was imperative to maintain their strong financial position during this time of economic uncertainty. State budget issues, declining property tax values and a stagnant national economy add to the uncertainty facing local governments today. The City of Coldwater has been able to avoid many of the pitfalls afflicting other municipalities by avoiding personnel legacy costs, conservative principles and avoiding long-term debt. Budgets are adopted in an effort to make sure costs are not passed on to future generations. Over the last several years, the City has reduced its work force by over 10%. These cuts reflect the management's attitude towards running government more like a business. In these times of declining revenue, operational cuts were made to mirror the decline in revenue. Additional details will be discussed in the following discussions of the Governmental and Enterprise Funds that follow.

Even with the City's strong financial position there remain several caveats for the future. City infrastructure continues to age and must be replaced or repaired. State revenue funding also continues to have an uncertain future, while property taxes continue to lag behind prior years. However, there are several bright spots on the horizon. A plastics company has tentatively agreed to expand their business in Coldwater, bringing the expectation of increased employment. The tomato factory continues to discuss moving forward with the second phase of their construction. In addition, other local companies have been discussing expansion and employment levels seem to be picking up. Even property values seem to have hit the bottom as recent sales figures indicate higher prices and foreclosures have declined. Mixed together, you begin to see positive signs of improvement in our local economy that will ultimately result in increased employment and tax base.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

#### **Governmental Funds**

As previously discussed the City's Governmental Fund's net assets decreased \$528,000 (8.6%) under the modified accrual basis and by \$30,500 (.1%) under the full accrual basis of accounting. Given the current economy and the State budget woes these operating results prove the City Council made the correct choices in reducing expenditures in advance of the economic downturn.

The City has three main revenue sources: property taxes, state shared revenue and payments in lieu of taxes which are based on a City Charter-required 6.5% of all utility fund revenue transferred to the City's General Fund. As discussed in more detail below, total revenues increased \$667,000 (7.9%) from the prior year.

Property tax revenues decreased by \$252,941 (6.3%) from prior year. The main driver behind this decrease was a significant decline in both residential and commercial property tax values. Tax foreclosures and mortgage defaults spurred on by local unemployment were the main reasons behind the significant drop in revenue. Property taxes are expected to drop another \$60,000 in the next fiscal year.

State Revenue Sharing decreased only slightly by \$4,570. Last year, there was a slight increase of \$34,176 due to the 2010 census being received in June. Going forward, it is expected Revenue Sharing will remain flat.

Payments in lieu of taxes (PILOT) increased by \$12,900. This is based on the operating results of the utility funds for the 2010 fiscal year. Increase was partly due to rate increases in revenue as growth in the utility was nominal and was also impacted by the state of the economy. Since the 2010 fiscal year, local companies have increased their utility demand, primarily electric. For 2013, it is expected to increase by \$41,000.

The main increase in revenue (\$953,740) came in rent income, primarily resulting from equal contributions from the General Fund and Proprietary (utility) funds used to pay off the amounts owing for the HLB Municipal Building. Other increases in revenue include licenses (\$106,928) due to increased construction activity in the community; Federal sources (\$307,260) from a federal grant for the Tibbits Restoration Project; and contributions (\$257,222) from private entities to match the federal grant for the Tibbits Restoration Project.

Decreases in revenue included \$20,251 in interest income, reduction of \$431,000 in Debt proceeds because no new debt was incurred in 2012 compared to the debt for the new fire engine in 2011; and \$135,030 in other revenue primarily because last year's revenue included the proceeds from sale of the Mastrionardi property

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

Overall expenditures in Governmental Funds increased by \$1,678,688 (17.6%) over the prior year. While the City has continued to hold the line on spending and hiring, overall expenditures have increased primarily due to pay-off of amounts owed on the HLB Municipal Building, tax chargebacks for Michigan Tax Tribunal decisions, capital improvements to the Public Safety Building and expense incurred for the Tibbits Restoration Project (offset by federal grant revenues).

General Government expenditures dropped by \$48,417 (3.8%), the second year of decline as the Finance Director position has remained unfilled

Public Safety expenditures decreased overall by \$75,119. Increases in expenditures for building improvements to the Public Safety Building, purchase of two patrol cars, addition of one new firefighter position, and pay raises, were offset by a decrease in 2012 expenditures for debt as compared to 2011 when a new fire truck was purchased for \$454,411.

Public Works increased by \$170,351 compared to the prior year. The increase was due primarily to adding a new position for GIS projects and replacing prior year full and part-time position vacancies.

Debt service increased by \$452,546, primarily the difference between the payoff for the MLB Municipal Building in 2012 and the payoff of debt on a new fire engine in 2011.

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

#### **Enterprise Funds**

The Enterprise Funds as a whole saw net assets increase by \$1,629,055 or 2.67%. Of this amount \$1,834,540 is attributed to the Electric Fund. The Water Fund also contributed \$426,879. The Telecommunications and Wastewater Funds saw net assets decrease by \$253,898 and \$368,460, respectively.

Overall operating revenues of the utility funds increased by \$636,901, or 1.74%. This increase is the combined result of increased revenue in each of the utility funds, Electric, Telecommunications, Water and Wastewater.

Purchased power decreased by \$200,810, or .94%. Included in the cost of purchased power is the debt owed on the generating station operated by the Michigan South Central Power Agency, of which the City is a 40% owner. The generating station became entirely debt free in March, 2011. However, starting in March, 2012 purchased power costs increased as the debt was included for the utility's share in other generating assets including coal, hydro and natural gas generating facilities.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

Expenditures as a whole increased by \$295,376, or .88%. The City makes every effort to minimize costs and to utilize best practices to continue to provide high quality services at the lowest cost possible to all utility customers.

PILOT expenditures increased by \$12,900, or .6%. The PILOT is calculated based on the final operating revenues of the 2010 fiscal year.

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

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

#### **Component Units**

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

#### **Financial Analysis of the City's Funds**

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

Our presentation of the City's major funds begins on page 19, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. Major funds for the fiscal year ended June 30, 2012 include the General Fund, Revolving Development Fund and Capital Improvement Fund.

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

Financial results for the General Fund saw a decrease in fund balance of \$457,513. While there are many individual changes in revenue and expenses that together comprised the overall decrease, the main contributor is the early pay off of amounts owed on the Henry L. Brown Municipal Building.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

General Fund revenues are derived from two main sources, the largest of which are property taxes. As previously discussed, property taxes were down compared to the prior year as taxable values were affected by the downturn in the residential housing market. Property taxes decreased by \$244,107, or 6.3%, for a total amount of \$3.6 million.

The second largest revenue is state shared revenue which increased only minimally by \$12,784. Revenue sharing has been cut numerous times over the past decade dropping from a high of \$1,235,176 in 2002 to current level. The City is optimistic that revenue sharing going forward will remain neutral.

As previously discussed, the City did see a slight increase in the PILOT. The PILOT increased by \$12,900 and is based on the utility revenues received in 2010.

Transfers from other funds are from the retirement millage levied in the amount of 1/3<sup>rd</sup> of a mill.

The City Council is fiscally conservative. As a result, the City has adequate reserves to fund the operations of the General Fund and to continue the policy of reinvesting in the capital needs of the City. This year the City invested \$691,208 into capital expenditures without issuing any additional debt.

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

Financially, the City's General Fund is in a very strong financial position. Because of the strength of the City's balance sheet the decision was made to retire the debt on the municipal building early and to make much needed improvements to the public safety building. This will help offset the continual decline in revenues in the immediate future without adversely affecting the services provided to the citizens of the City.

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

The Capital Improvement Fund accounts for various capital projects as they are constructed. The fund also provides for payment of the liabilities through special assessments or bonded special assessments. Revenues from special assessments and interest earned are used to offset debt service payments. In 2012, there were no new projects undertaken by the Capital Improvement Fund.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

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

The City's Electric Fund ended the fiscal year with a positive change in net assets of \$1,834,540. Purchased power costs were decreased as a result of paying off the debt at the MSCPA. Otherwise, during the year there were no significant repairs or unexpected expenditures. Primarily, the costs shown are operational costs, labor costs, fuels and ordinary repairs and maintenance.

The Telecommunications Fund experienced a \$253,898 operating loss. The City continues to be challenged to keep up with the ever changing technology in today's market place. Consumer usage of dial up internet service and traditional land line long distance continue to decrease. Management is looking at other business solutions including offering fiber optic business services. Remaining revenue streams from the services of cable television, VOIP phone service and business fiber optic service all increased during the year. There were no significant changes in the expenditures during the year in comparison to prior years. The primary costs are programming charges, data line charges, depreciation and 3<sup>rd</sup> party costs to administer the VOIP and long distance services.

The Water Fund saw net assets increase by \$426,879. Improved financial results resulted from a necessary rate increase. Operating costs were primarily related to the cost to pump, treat and distribute water to residents and businesses. Other than normal maintenance and repairs there were no other significant expenditures incurred during the year.

Net change in assets for the Wastewater Fund was a decrease of \$368,460 attributed directly to an increase in depreciation expense of \$126,000. Depreciation increased as a result of infrastructure improvements made as part of a federal grant where the City received \$1.1 million in federal assistance for wastewater main reconstruction and wastewater treatment plant improvements. Regulatory considerations continue to mandate significant investment in infrastructure and will ultimately require increases to wastewater rates.

The Sanitation Fund essentially operates at a breakeven level. However, at the end of the fiscal year the City decided to contract out its future garbage collection. With a new garbage truck being needed and the closing of a privately held refuse transfer station, the City determined it was less expensive to contract for the actual refuse collection.



## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

#### **General Fund Budgetary Highlights**

As shown in the required supplemental information, the City's final amended budget shows a planned budgeted deficit of 726,455. Actual operating resulted in a deficit of only \$457,513, an improvement of \$268,942. The significant budget-to-actual differences are as follows:

##### Revenues -

- Property tax revenue was under budget by \$88,239 due to Michigan Tax Tribunal chargebacks.
- Federal sources was under budget by \$211,023, as a portion of the work on the Tibbits Restoration Project was delayed into the 2013 year.
- Revenues from contributions was under budget by \$189,397. Since the contributions were primarily a match of the federal grant funding for the Tibbits Restoration Project, they were likewise delayed with the work schedule to the 2013 year.

##### Expenditures –

- General Government expenditures were under budget by \$25,253 primarily resulting from reduction of operating costs, including personnel.
- Public Safety expenditures were under budget by \$130,525 due primarily to reduction in costs for building repairs and maintenance. .
- Public Works expenditures were under budget by \$61,705 due primarily to postponing capital expenditures.
- Recreation and Cultural expenditures were under budget by \$39,430 primarily due to capital expenditures being postponed and operating costs were overestimated.
- Planning expenditures were under budget by \$392,881 related to the above-described Tibbits Restoration Project to be completed in 2013.
- Other expenditures were under budget by \$99,048 due to the cost of charging the City-wide trash pickup to the General Fund versus the Sanitation Fund.

#### **Capital Asset and Debt Administration**

As previously stated, the City has continued its efforts to improve the City's infrastructure. This fiscal year saw the reinvestment of 4 million in capital assets for the City's Governmental and Enterprise Funds combined, \$3.3 million of which was reinvested in the City's aging utility infrastructure.

In addition to the utility infrastructure, mechanical improvements were installed in the Public Safety Building and two police patrol cars and a Public Works Ford 550 with loader were purchased. Looking to decrease expenditures, rather than purchasing new, we retrofitted a dump truck and repaired a Front Coupler/Loader.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

Looking ahead to the 2013 fiscal year, there are several planned capital expenditures for the upcoming fiscal year that include replacement of a dump truck and other equipment that will improve our efficiency, such as a spray patch machine used to fill in potholes in a more efficient manner than cold patch.

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

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

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

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

The adopted budget for the fiscal year ending June 30, 2013 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 budget surplus of \$3,774 is projected for the June 30, 2013 fiscal year. Revenues are expected to continue to decrease as property tax values decline. Currently, future budgeting projections are indicating small operating fund losses for the next two years. However, these losses are manageable given the size of the City's reserves and subject to improvements in the local economy, again, proving the previous difficult personnel decisions and other cost cutting measures were necessary for the long-term benefit of the City.

The City continues to proactively take steps to reduce operating costs and continually looks for ways to improve efficiency. In addition, City staff feels the City may have seen the bottoming out of the local property values and there has been a significant increase in local development compared to prior years. The addition of the commercial tomato factory will have an impact on future revenues going forward.

Recent tax changes and legislation has been passed in Michigan to improve the business climate in the State. Reports have Michigan improving their position in regards to taxability, and other economic indicators state Michigan is rebounding from the last recession. The Governor and Legislature have continued to balance the budget without making further cuts to local government. However, the City is closely monitoring proposed legislation to the personal property tax laws that may have a significant impact to the City. There are positives that can come from reforming the current taxation of equipment and machinery purchases, but these reforms must continue to provide a consistent revenue stream that does not severely impact local revenues.

## **CITY OF COLDWATER**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

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

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

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

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

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

**CITY OF COLDWATER**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Cash and investments	\$ 5,259,023	\$ 14,401,024	\$ 19,660,047	\$ 454,423
Accounts receivable	153,034	4,288,653	4,441,687	-
Special assessment receivable	40,127	-	40,127	-
Notes receivable	339,314	-	339,314	-
Inventory	-	156,608	156,608	-
Due from other governmental units	213,207	-	213,207	-
Prepaid expenses	36,133	615,513	651,646	-
Unamortized bond costs	-	850,415	850,415	-
Investment in Power Agency	-	17,904,619	17,904,619	-
Restricted assets	450,000	2,569,730	3,019,730	-
Capital assets, less accumulated depreciation	18,755,538	45,421,184	64,176,722	661,459
Total assets	25,246,376	86,207,746	111,454,122	1,115,882
<b>LIABILITIES</b>				
Accounts payable	251,913	2,563,750	2,815,663	13,534
Accrued expenditures	89,868	1,084,307	1,174,175	-
Deferred revenue	191,730	-	191,730	-
Due to others	-	-	-	382,052
Long term liabilities:				
Bonds payable, due within one year	15,200	1,821,336	1,836,536	-
Bonds and notes payable, due in more than one year	321,013	17,828,920	18,149,933	273,022
Compensated absences	523,313	372,845	896,158	-
Total liabilities	1,393,037	23,671,158	25,064,195	668,608
<b>NET ASSETS</b>				
Investment in capital assets - net of related debt	18,419,325	25,770,928	44,190,253	441,920
Restricted	2,187,146	2,569,730	4,756,876	5,354
Unrestricted	3,246,868	34,195,930	37,442,798	-
Total net assets	<u>\$ 23,853,339</u>	<u>\$ 62,536,588</u>	<u>\$ 86,389,927</u>	<u>\$ 447,274</u>

See Notes to Financial Statements

**CITY OF COLDWATER**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating / Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Governmental activities:</b>				
General government	\$ 1,233,604	\$ 297,627	\$ -	\$ -
Public safety	3,778,781	333,730	599,754	-
Public works	2,626,482	365,697	59,329	-
Recreation and cultural	1,083,978	173,328	-	-
Economic development	700,500	2,625	-	-
Interest	66,077	-	-	-
Total governmental activities	9,489,422	1,173,007	659,083	-
<b>Business-type activities:</b>				
Electric	25,647,274	28,876,047	-	-
Telecommunications	3,173,414	2,992,014	-	-
Water	1,820,170	2,355,391	-	-
Waste water	2,766,606	2,542,581	-	-
Rubbish	467,780	453,732	-	-
Total business-type activities	33,875,244	37,219,765	-	-
Total primary government	\$ 43,364,666	\$ 38,392,772	\$ 659,083	\$ -
<b>Component units:</b>				
Downtown Development Authority	\$ 95,234	\$ 9,000	\$ 10,000	\$ -
Local Development Authority	22,790	-	-	-
Total component units	\$ 118,024	\$ 9,000	\$ 10,000	\$ -

General revenues:

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

Payments in lieu of taxes

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

**Change in Net Assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**Net (Expense) Revenue and Changes in Net Assets**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (935,977)	\$ -	\$ (935,977)	\$ -
(2,845,297)	-	(2,845,297)	-
(2,201,456)	-	(2,201,456)	-
(910,650)	-	(910,650)	-
(697,875)	-	(697,875)	-
(66,077)	-	(66,077)	-
(7,657,332)	-	(7,657,332)	-
-	3,228,773	3,228,773	-
-	(181,400)	(181,400)	-
-	535,221	535,221	-
-	(224,025)	(224,025)	-
-	(14,048)	(14,048)	-
-	3,344,521	3,344,521	-
(7,657,332)	3,344,521	(4,312,811)	-
-	-	-	(76,234)
-	-	-	(22,790)
-	-	-	(99,024)
3,735,358	-	3,735,358	120,872
1,630,391	-	1,630,391	-
92,389	230,812	323,201	4,078
(8,261)	9,666	1,405	-
17,870	203,144	221,014	-
2,159,088	(2,159,088)	-	-
7,626,835	(1,715,466)	5,911,369	124,950
(30,497)	1,629,055	1,598,558	25,926
23,883,836	60,907,533	84,791,369	421,348
<u>\$ 23,853,339</u>	<u>\$ 62,536,588</u>	<u>\$ 86,389,927</u>	<u>\$ 447,274</u>

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2012**

	<u>General Fund</u>	<u>Revolving Development Fund</u>	<u>Capital Improvement Fund</u>
<b>ASSETS</b>			
Cash and investments	\$ 2,982,065	\$ 1,253,065	\$ 727,120
Accounts receivable	141,532	-	-
Special assessment receivable	-	-	40,127
Notes receivable	219,539	119,775	-
Due from other governmental units	58,549	-	-
Prepaid expenses	36,133	-	-
Restricted assets	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 3,437,818</u>	<u>\$ 1,372,840</u>	<u>\$ 767,247</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 230,977	\$ -	\$ -
Accrued expenditures	86,740	-	-
Deferred revenue	411,269	110,696	40,127
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	728,986	110,696	40,127
<b>FUND BALANCE</b>			
Nonspendable	36,133	9,079	-
Restricted	-	1,253,065	-
Committed	-	-	-
Assigned	-	-	727,120
Unassigned	2,672,699	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balance	<u>2,708,832</u>	<u>1,262,144</u>	<u>727,120</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balance	<u>\$ 3,437,818</u>	<u>\$ 1,372,840</u>	<u>\$ 767,247</u>

See Notes to Financial Statements

<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
\$ 296,773	\$ 5,259,023
11,502	153,034
-	40,127
-	339,314
154,658	213,207
-	36,133
450,000	450,000
<u>\$ 912,933</u>	<u>\$ 6,490,838</u>
\$ 20,936	\$ 251,913
3,128	89,868
-	562,092
<u>24,064</u>	<u>903,873</u>
-	45,212
253,284	1,506,349
635,585	635,585
-	727,120
-	2,672,699
<u>888,869</u>	<u>5,586,965</u>
<u>\$ 912,933</u>	<u>\$ 6,490,838</u>



**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO NET ASSETS**  
**JUNE 30, 2012**

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 5,586,965</b>
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in funds:</p>	
The cost of the capital assets	31,915,450
Accumulated depreciation	<u>(13,159,912)</u>
Total capital assets not reported in funds	18,755,538
<p>Special assessment receivables and loans and related interest receivable are expected to be collected over several years, and are not available to pay for current year expenditures</p>	
	370,362
<p>Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:</p>	
Bonds payable	(336,213)
Compensated absences	<u>(523,313)</u>
Total long-term liabilities not reported in funds	<u>(859,526)</u>
<b>Total Net Assets - Governmental Activities</b>	<b><u><u>\$ 23,853,339</u></u></b>

**CITY OF COLDWATER**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>General Fund</b>	<b>Revolving Development Fund</b>	<b>Capital Improvement Fund</b>
<b>REVENUES</b>			
Taxes	\$ 3,634,059	\$ -	\$ -
Special assessments	-	-	7,595
Licenses and permits	250,226	-	-
Federal sources	336,477	-	-
State shared revenue	851,571	-	-
State sources	40,142	-	-
Charges for services	524,631	-	-
Rent	292,977	-	-
Interest income	66,461	12,903	8,622
Contributions	260,153	-	-
Other income	37,771	21,940	2,118
Total revenues	6,294,468	34,843	18,335
<b>EXPENDITURES</b>			
General government	1,227,415	-	-
Public safety	3,782,113	-	-
Public works	1,355,832	-	-
Recreation and cultural Planning	990,370 693,863	-	-
Economic development	-	24,258	-
Debt service	-	-	-
Other expenditures	962,025	-	252
Total expenditures	9,011,618	24,258	252
Excess (deficiency) of revenues over expenditures	(2,717,150)	10,585	18,083
<b>OTHER SOURCES (USES)</b>			
Sale of fixed assets	(1,370)	-	-
Payment in lieu of taxes	2,159,088	-	-
Transfers from (to) other funds	101,919	-	-
Total other sources (uses)	2,259,637	-	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(457,513)	10,585	18,083
<b>FUND BALANCE - BEGINNING</b>	3,166,345	1,251,559	709,037
<b>FUND BALANCE - ENDING</b>	\$ 2,708,832	\$ 1,262,144	\$ 727,120

See Notes to Financial Statements

<b>Other Nonmajor Governmental Funds</b>	<b>Totals</b>
\$ 101,299	\$ 3,735,358
41,001	48,596
-	250,226
-	336,477
778,820	1,630,391
59,329	99,471
4,622	529,253
1,192,276	1,485,253
4,401	92,387
865	261,018
1,020	62,849
2,183,633	8,531,279
-	1,227,415
-	3,782,113
952,030	2,307,862
11,765	1,002,135
-	693,863
-	24,258
1,217,077	1,217,077
-	962,277
2,180,872	11,217,000
2,761	(2,685,721)
-	(1,370)
-	2,159,088
(101,919)	-
(101,919)	2,157,718
(99,158)	(528,003)
988,027	6,114,968
\$ 888,869	\$ 5,586,965

**CITY OF COLDWATER**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>Net change in Fund Balance - Total Governmental Funds</b>	<b>\$ (528,003)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(1,293,380)
Loss on sale of asset	(8,261)
Capital outlay	<u>691,208</u>
Total	(610,433)
Special assessment revenues are recorded in the statement of activities when the assessment is assessed; they are not reported in the funds until collected:	
Payments received	(7,595)
Long-term receivables recorded as revenue in the statement of activities when the receivable is recorded; they are not reported in the funds until collected:	
Payments received	(21,940)
Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):	
Principal repayment	1,151,000
Increases in compensated absences are reported as a decrease to expenditures	<u>(13,526)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ (30,497)</u></u></b>

**CITY OF COLDWATER**  
**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and investments	\$ 11,858,564	\$ -	\$ 379,470
Accounts receivable	3,437,528	196,246	301,025
Inventories	30,460	-	126,148
Due from other funds	1,289,472	-	-
Prepaid and other assets	373,523	131,667	55,720
Total current assets	<u>16,989,547</u>	<u>327,913</u>	<u>862,363</u>
<b>Noncurrent assets:</b>			
Unamortized bond costs	226,807	19,666	347,203
Investment in Power Agency	17,904,619	-	-
Restricted assets	1,264,459	337,019	425,224
Capital assets, less accumulated depreciation	16,369,246	4,282,714	10,484,601
Total noncurrent assets	<u>35,765,131</u>	<u>4,639,399</u>	<u>11,257,028</u>
Total assets	<u>\$ 52,754,678</u>	<u>\$ 4,967,312</u>	<u>\$ 12,119,391</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 2,238,885	\$ 188,083	\$ 61,259
Accrued expenditures	833,781	64,289	79,495
Due to other funds	-	1,289,472	-
Bonds and notes payable, due within one year	635,000	320,000	430,000
Total current liabilities	<u>3,707,666</u>	<u>1,861,844</u>	<u>570,754</u>
<b>Noncurrent liabilities</b>			
Bonds and notes payable, due in more than one year	4,075,000	1,830,000	4,560,000
Compensated absences	218,067	56,589	55,505
Total noncurrent liabilities	<u>4,293,067</u>	<u>1,886,589</u>	<u>4,615,505</u>
Total liabilities	<u>8,000,733</u>	<u>3,748,433</u>	<u>5,186,259</u>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	11,659,246	2,132,714	5,494,601
Restricted	1,264,459	337,019	425,224
Unrestricted	31,830,240	(1,250,854)	1,013,307
Total net assets	<u>\$ 44,753,945</u>	<u>\$ 1,218,879</u>	<u>\$ 6,933,132</u>

See Notes to Financial Statements

<b>Waste Water Fund</b>	<b>Nonmajor Sanitation Fund</b>	<b>Totals</b>
\$ 1,746,927	\$ 416,063	\$ 14,401,024
326,460	27,394	4,288,653
-	-	156,608
-	-	1,289,472
54,603	-	615,513
<hr/> 2,127,990	<hr/> 443,457	<hr/> 20,751,270
256,739	-	850,415
-	-	17,904,619
543,028	-	2,569,730
<hr/> 14,284,623	<hr/> -	<hr/> 45,421,184
<hr/> 15,084,390	<hr/> -	<hr/> 66,745,948
<hr/> <b>\$ 17,212,380</b>	<hr/> <b>\$ 443,457</b>	<hr/> <b>\$ 87,497,218</b>
\$ 74,531	\$ 992	\$ 2,563,750
106,742	-	1,084,307
-	-	1,289,472
<hr/> 436,336	<hr/> -	<hr/> 1,821,336
617,609	992	6,758,865
7,363,920	-	17,828,920
42,684	-	372,845
<hr/> 7,406,604	<hr/> -	<hr/> 18,201,765
8,024,213	992	24,960,630
6,484,367	-	25,770,928
543,028	-	2,569,730
2,160,772	442,465	34,195,930
<hr/> <b>\$ 9,188,167</b>	<hr/> <b>\$ 442,465</b>	<hr/> <b>\$ 62,536,588</b>

**CITY OF COLDWATER**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
<b>REVENUES</b>			
Charges for services	\$ 28,876,047	\$ 2,992,014	\$ 2,355,391
<b>OPERATING EXPENSES</b>			
Purchased power	21,115,457	-	-
Power plant	323,431	-	-
Distribution	937,559	2,085,949	431,486
Substation	101,184	-	-
Sanitation	-	-	-
Metering and lighting	554,136	-	-
Wells	-	-	70,183
Treatment	-	-	342,434
Collection system	-	-	-
Customer service	178,581	230,173	-
Administration	1,342,604	280,153	326,116
Depreciation and amortization	885,728	457,514	447,551
Total operating expenditures	<u>25,438,680</u>	<u>3,053,789</u>	<u>1,617,770</u>
<b>OPERATING INCOME</b>	3,437,367	(61,775)	737,621
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	202,794	945	5,073
Interest expense	(208,594)	(119,625)	(202,400)
Gain (loss) on sale of fixed assets	3,556	971	1,729
Miscellaneous	178,753	25,438	26,336
Total nonoperating revenues (expenses)	<u>176,509</u>	<u>(92,271)</u>	<u>(169,262)</u>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS</b>	3,613,876	(154,046)	568,359
<b>TRANSFERS</b>			
Payments in lieu of taxes	<u>(1,779,336)</u>	<u>(99,852)</u>	<u>(141,480)</u>
<b>CHANGE IN NET ASSETS</b>	1,834,540	(253,898)	426,879
<b>NET ASSETS - BEGINNING</b>	<u>42,919,405</u>	<u>1,472,777</u>	<u>6,506,253</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 44,753,945</u>	<u>\$ 1,218,879</u>	<u>\$ 6,933,132</u>

See Notes to Financial Statements

<b>Waste Water Fund</b>	<b>Nonmajor Sanitation Fund</b>	<b>Totals</b>
\$ 2,542,581	\$ 453,732	\$ 37,219,765
-	-	21,115,457
-	-	323,431
-	-	3,454,994
-	-	101,184
-	452,364	452,364
-	-	554,136
-	-	70,183
812,050	-	1,154,484
177,638	-	177,638
-	-	408,754
710,098	-	2,658,971
822,075	15,416	2,628,284
<u>2,521,861</u>	<u>467,780</u>	<u>33,099,880</u>
20,720	(14,048)	4,119,885
17,958	4,042	230,812
(244,745)	-	(775,364)
3,410	-	9,666
(27,383)	-	203,144
<u>(250,760)</u>	<u>4,042</u>	<u>(331,742)</u>
(230,040)	(10,006)	3,788,143
<u>(138,420)</u>	<u>-</u>	<u>(2,159,088)</u>
(368,460)	(10,006)	1,629,055
<u>9,556,627</u>	<u>452,471</u>	<u>60,907,533</u>
<u>\$ 9,188,167</u>	<u>\$ 442,465</u>	<u>\$ 62,536,588</u>



**CITY OF COLDWATER**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 28,752,615	\$ 3,056,556	\$ 2,336,487
Payments made to suppliers	(25,272,250)	(1,800,926)	(1,018,371)
Payments made to employees	(1,257,108)	(578,029)	(420,454)
Net cash provided by (used in) operating activities	2,223,257	677,601	897,662
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal and interest paid on capital debt	(818,594)	(419,625)	(622,400)
Proceeds of issuance of debt	-	-	-
Payment of bond issuance costs	-	-	-
Purchase of capital assets	(2,003,800)	(257,976)	(465,989)
Net cash provided by (used in) capital and related financing activities	(2,822,394)	(677,601)	(1,088,389)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received on investments	202,794	945	5,073
Change in investments	(102,280)	-	(1,300)
Net cash provided by investing activities	100,514	945	3,773
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(498,623)	945	(186,954)
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	12,357,187	336,074	566,424
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 11,858,564</u>	<u>\$ 337,019</u>	<u>\$ 379,470</u>

See Notes to Financial Statements

<b>Waste Water Fund</b>	<b>Nonmajor Sanitation Fund</b>	<b>Totals</b>
\$ 2,448,972	\$ 457,599	\$ 37,052,229
(1,521,710)	(381,933)	(29,995,190)
(432,766)	(89,555)	(2,777,912)
494,496	(13,889)	4,279,127
(618,745)	-	(2,479,364)
427,886	-	427,886
-	-	-
(520,107)	-	(3,247,872)
(710,966)	-	(5,299,350)
17,958	4,042	230,812
(10,082)	-	(113,662)
7,876	4,042	117,150
(208,594)	(9,847)	(903,073)
1,955,521	425,910	15,641,116
<u>\$ 1,746,927</u>	<u>\$ 416,063</u>	<u>\$ 14,738,043</u>

**CITY OF COLDWATER**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS - Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Electric Fund</u>	<u>Telecommunications Fund</u>	<u>Water Fund</u>
<b>BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS</b>			
Cash and investments	\$ 11,858,564	\$ -	\$ 379,470
Restricted cash and investments	1,264,459	337,019	425,224
Less amounts classified as investments	<u>(1,264,459)</u>	<u>-</u>	<u>(425,224)</u>
Total cash and cash equivalents	<u><u>\$ 11,858,564</u></u>	<u><u>\$ 337,019</u></u>	<u><u>\$ 379,470</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating income	\$ 3,437,367	\$ (61,775)	\$ 737,621
Adjustments to reconcile operating income to net cash from operating activities:			
Other income	178,753	25,438	26,336
Depreciation and amortization	885,728	457,514	447,551
Loss (Gain) on sale of assets	3,556	971	1,729
Payments in lieu of taxes	(1,779,336)	(99,852)	(141,480)
Changes in assets and liabilities:			
Receivables	(305,741)	38,133	(46,969)
Inventories	7,186	-	6,908
Prepays and other assets	(363,454)	(28,236)	(51,960)
Due from (to) other funds	(332,402)	332,402	-
Accounts payable	632,107	38,259	(64,310)
Accrued expenditures	(150,169)	(24,853)	(23,806)
Compensated absences	9,662	(400)	6,042
Net cash provided by (used in) operating activities	<u><u>\$ 2,223,257</u></u>	<u><u>\$ 677,601</u></u>	<u><u>\$ 897,662</u></u>

See Notes to Financial Statements

<b>Waste Water Fund</b>	<b>Nonmajor Sanitation Fund</b>	<b>Totals</b>
\$ 1,746,927	\$ 416,063	\$ 14,401,024
543,028	-	2,569,730
(543,028)	-	(2,232,711)
<u>\$ 1,746,927</u>	<u>\$ 416,063</u>	<u>\$ 14,738,043</u>
\$ 20,720	\$ (14,048)	\$ 4,119,885
(27,383)	-	203,144
822,075	15,416	2,628,284
3,410	-	9,666
(138,420)	-	(2,159,088)
(69,636)	3,867	(380,346)
-	-	14,094
(51,664)	-	(495,314)
32,335	-	32,335
(38,600)	(11,990)	555,466
(38,264)	(7,134)	(244,226)
(20,077)	-	(4,773)
<u>\$ 494,496</u>	<u>\$ (13,889)</u>	<u>\$ 4,279,127</u>

**CITY OF COLDWATER**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2012**

	<u><b>Agency Funds</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 34,559
	<hr/>
<b>LIABILITIES</b>	
Accounts payable	\$ 11,317
Due to other governmental units	23,242
	<hr/>
Total	\$ 34,559
	<hr/>

**CITY OF COLDWATER**  
**COMPONENT UNITS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 72,371	\$ 382,052	\$ 454,423
Capital assets, less accumulated depreciation	661,459	-	661,459
 Total assets	 733,830	 382,052	 1,115,882
<b>LIABILITIES</b>			
Accounts payable	13,534	-	13,534
Due to others	-	382,052	382,052
Long term liabilities:			
Notes payable, due in more than one year	-	273,022	273,022
 Total liabilities	 13,534	 655,074	 668,608
<b>NET ASSETS (DEFICIT)</b>			
Investment in capital assets - net of related debt	661,459	(219,539)	441,920
Restricted (deficit)	58,837	(53,483)	5,354
 Total net assets (deficit)	 \$ 720,296	 \$ (273,022)	 \$ 447,274

**CITY OF COLDWATER**  
**COMPONENT UNITS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>Functions/Programs</b>	<b>Program Revenues</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating / Grants and Contributions</b>
Downtown Development Authority	\$ 95,234	\$ 9,000	\$ 10,000
Local Development Finance Authority	22,790	-	-
Total component activities	\$ 118,024	\$ 9,000	\$ 10,000

General revenues:

Property taxes

Interest

Total general revenues

**Change in Net Assets**

**Net Assets (Deficit) - Beginning**

**Net Assets (Deficit) - Ending**

**Net (Expense) Revenue and Changes in Net Assets**

<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Total</b>
\$ (76,234)	\$ -	\$ (76,234)
-	(22,790)	(22,790)
(76,234)	(22,790)	(99,024)
99,305	21,567	120,872
157	3,921	4,078
99,462	25,488	124,950
23,228	2,698	25,926
697,068	(275,720)	421,348
<u>\$ 720,296</u>	<u>\$ (273,022)</u>	<u>\$ 447,274</u>



**CITY OF COLDWATER**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**REPORTING ENTITY:**

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

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

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

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

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

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

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2012**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

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

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

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

##### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:**

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

## CITY OF COLDWATER

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2012

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

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

##### **BASIS OF PRESENTATION:**

##### **MAJOR GOVERNMENTAL FUNDS**

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

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

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2012**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **BASIS OF PRESENTATION: - Continued**

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

##### **MAJOR PROPRIETARY FUNDS**

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

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

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

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

##### **FIDUCIARY FUNDS**

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

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2012**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **PROPERTY TAX REVENUE**

The City's property taxes are levied each August 1 and based on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2011 tax is levied and collectible on August 1, 2011 and is recognized as revenue in the year ended June 30, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2011 taxable valuation of the City totaled \$303 million, a portion of which is abated and a portion of which is captured by the LDFA and DDA. Taxes levied consisted of 11.5978 mills for operating purposes and .3333 mills for the retirement system. This resulted in almost \$3.5 million for general operating and approximately \$102,000 for retirement. These amounts are reported in the respective General and Retirement Funds in the financial statements.

##### **ASSETS, LIABILITIES AND NET ASSETS:**

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

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

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**ASSETS, LIABILITIES AND NET ASSETS: - Continued**

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

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

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

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

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

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

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**ASSETS, LIABILITIES AND NET ASSETS: – Continued**

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

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

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

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

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

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

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

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**ASSETS, LIABILITIES AND NET ASSETS: – Continued**

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

	<u>General Fund</u>	<u>Revolving Development Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Nonmajor Governmental Funds</u>
Nonspendable:				
Prepaid expenses	\$ 36,133	\$ -	\$ -	\$ -
Notes receivable	-	9,079	-	-
Restricted:				
Revolving development	-	1,253,065	-	-
Capital improvement	-	-	-	-
Major streets	-	-	-	188,455
Local streets	-	-	-	64,829
Committed:				
Parking authority	-	-	-	28,768
Library Memorial	-	-	-	156,817
Cemetery	-	-	-	450,000
Assigned:	-	-	727,120	-
Unassigned:	2,672,699	-	-	-
 Total	 <u>\$ 2,708,832</u>	 <u>\$ 1,262,144</u>	 <u>\$ 727,120</u>	 <u>\$ 888,869</u>

**BASIS OF BUDGETING:**

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

**USE OF ESTIMATES:**

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



**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE B – DEPOSITS AND INVESTMENTS**

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

Investments consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost which approximates market value. The certificates of deposits are currently earning rates of .75% to 1.41%.

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

Investment	Fair Value	Weighted Average Maturity (Years)
Bank investment pool (not 2a-7)	\$ 3,029,458	0.0027
U.S. government or agency bond or note	6,768,275	3.7

1 day maturity equals 0.0027, one year equals 1.00

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

Investment	Fair Value	Fitch Rating
Michigan CLASS pool	\$ 3,029,458	AAA

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE B – DEPOSITS AND INVESTMENTS – Continued**

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

**Custodial credit risk for deposits** – In the case of deposits, this is the risk that in the event of a financial institution failure, the City’s deposits may not be recovered. As of June 30, 2012, \$21,126,461 of the City’s bank balance of \$23,334,248 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

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

**NOTE C – DUE FROM (TO) OTHER FUNDS**

The due from (to) other funds, at June 30, 2012, for the City are as follows:

**ELECTRIC FUND**

Due from Telecommunications Fund

\$ 1,289,472

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE D – TRANSFERS FROM (TO) OTHER FUNDS**

Transfers from (to) other funds, during the year ended June 30, 2012, for the City are as follows:

**GENERAL FUND**

Transfer from Retirement Fund	<u>\$ 101,919</u>
-------------------------------	-------------------

**OTHER NONMAJOR FUNDS**

Major Streets Fund	
Transfer to Local Streets Fund	\$ (284,977)

Local Streets Fund	
Transfer from Major Streets Fund	284,977

Retirement Fund	
Transfer to General Fund	<u>(101,919)</u>

Total other nonmajor governmental funds	<u>\$ (101,919)</u>
---	---------------------

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

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE E – CAPITAL ASSETS**

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

**GOVERNMENTAL ACTIVITIES**

<b>GROUP:</b>	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2012</b>
Land	\$ 1,542,415	\$ 12,622	\$ -	\$ 1,555,037
Roads and sidewalks	13,241,547	325,733	165,174	13,402,106
Land improvements	737,263	-	-	737,263
Buildings and improvements	11,229,237	61,868	-	11,291,105
Vehicles	2,728,741	148,604	19,304	2,858,041
Other tools and equipment	2,162,729	142,381	233,212	2,071,898
Subtotal	31,641,932	691,208	417,690	31,915,450
<b>ACCUMULATED DEPRECIATION:</b>				
Roads and sidewalks	5,620,507	653,819	156,913	6,117,413
Land improvements	370,012	43,875	-	413,887
Building and improvements	3,143,998	271,182	-	3,415,180
Vehicles	1,754,133	167,665	19,304	1,902,494
Other tools and equipment	1,387,311	156,839	233,212	1,310,938
Total accumulated depreciation	12,275,961	1,293,380	409,429	13,159,912
Net capital assets	<u>\$ 19,365,971</u>	<u>\$ (602,172)</u>	<u>\$ 8,261</u>	<u>\$ 18,755,538</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE E – CAPITAL ASSETS – Continued**

**BUSINESS-TYPE ACTIVITIES**

<b>GROUP:</b>	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2012</b>
Land	\$ 713,759	\$ 67,743	\$ -	\$ 781,502
Work in progress	86,067	172,803	58,788	200,082
Utility systems	53,464,319	2,495,219	100,351	55,859,187
Buildings	19,018,697	-	-	19,018,697
Machinery and equipment	<u>6,862,575</u>	<u>570,897</u>	<u>464,867</u>	<u>6,968,605</u>
Subtotal	80,145,417	3,306,662	624,006	82,828,073
<b>ACCUMULATED DEPRECIATION:</b>				
Electric	14,864,617	842,238	260,110	15,446,745
Telecommunications	4,841,030	453,645	93,125	5,201,550
Water	6,115,319	421,013	17,756	6,518,576
Waste water	9,453,666	801,022	14,670	10,240,018
Sanitation	<u>164,139</u>	<u>-</u>	<u>164,139</u>	<u>-</u>
Total accumulated depreciation	<u>35,438,771</u>	<u>2,517,918</u>	<u>549,800</u>	<u>37,406,889</u>
Net capital assets	<u><u>\$ 44,706,646</u></u>	<u><u>\$ 788,744</u></u>	<u><u>\$ 74,206</u></u>	<u><u>\$ 45,421,184</u></u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE E – CAPITAL ASSETS – Continued**

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

**GOVERNMENTAL ACTIVITIES:**

General government	\$ 239,974
Public safety	116,043
Public works	816,260
Recreation and culture	<u>121,103</u>
Total governmental activities	<u>\$ 1,293,380</u>

**BUSINESS -TYPE ACTIVITIES:**

Electric	\$ 842,238
Telecommunications	453,645
Water	421,013
Waste water	<u>801,022</u>
Total business-type activities	<u>\$ 2,517,918</u>

The component units capital assets at June 30, 2012 consist of the following:

**COMPONENT UNITS:**

Land	\$ 272,618
Building	226,221
Infrastructure	<u>301,819</u>
Total component units	800,658
Less, accumulated depreciation	<u>139,199</u>
Net capital assets of component units	<u>\$ 661,459</u>

All assets are held in the Downtown Development Authority. The component unit's depreciation expense for the year ended June 30, 2012 amounted to \$23,668.

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE F – LONG-TERM DEBT**

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>Governmental Activities:</b>				
Revenue bonds	\$ 352,213	\$ -	\$ 16,000	\$ 336,213
Building authority bonds	1,135,000	-	1,135,000	-
Compensated absences	509,787	13,526	-	523,313
	<u>509,787</u>	<u>13,526</u>	<u>-</u>	<u>523,313</u>
Total governmental activities	<u>\$ 1,997,000</u>	<u>\$ 13,526</u>	<u>\$ 1,151,000</u>	<u>\$ 859,526</u>
<b>Business-type Activities:</b>				
Revenue bonds and Refunding bonds	\$ 10,816,370	\$ 75,386	\$ 1,054,000	\$ 9,837,756
General obligation capital improvement bond	1,345,000	-	60,000	1,285,000
General obligation capital improvement and Refunding bonds	8,765,000	-	590,000	8,175,000
Equipment loan	-	352,500	-	352,500
Compensated absences	377,618	-	4,773	372,845
	<u>377,618</u>	<u>-</u>	<u>4,773</u>	<u>372,845</u>
Total business-type activities	<u>\$ 21,303,988</u>	<u>\$ 427,886</u>	<u>\$ 1,708,773</u>	<u>\$ 20,023,101</u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE F – LONG-TERM DEBT – Continued**

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

**GOVERNMENTAL ACTIVITIES**

Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$22,270 to \$30,065, due April 2030	\$ 336,213
Accumulated compensated absences	<u>523,313</u>
Total governmental activities debt	<u><u>\$ 859,526</u></u>

**BUSINESS-TYPE ACTIVITIES**

Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 3.6% to 4.9%, annual payments ranging from \$95,000 to \$180,000, due August 2024	\$ 1,735,000
Series 2006 Electric Utility System Revenue Refunding Bonds, interest rates varying from 4.125% to 4.5%, annual payments ranging from \$540,000 to \$650,000, due August 2016	2,975,000
Series 2002 Telecommunications System Revenue Refunding Bonds, at an interest rate of 5.5%, annual principal payments ranging from \$320,000 to \$390,000, due August 2017	2,150,000
Series 2007 Water Supply and Waste Water System General Obligation Capital Improvement and Refunding Bonds at an interest rate of 4.0%, annual principal payments ranging from \$265,000 to \$485,000, due September 2025	4,990,000



**CITY OF COLDWATER**

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

**NOTE F – LONG-TERM DEBT – Continued**

Series 2010 Waste Water Limited Tax General Obligation Refunding Bonds, interest rates varying from 1.3% to 4.1%, annual principal payments ranging from \$200,000 to \$315,000, due July 2024	3,185,000
Series 2005 Water Supply and Waste Water System General Obligation Capital Improvement Bonds, interest rates varying from 3.7% to 4.45%, annual payments ranging from \$60,000 to \$130,000, due July 2025	1,285,000
Series 2004 Water Supply and Waste Water System Revenue Bonds, interest rates varying from 3.5% to 4.6%, annual payments ranging from \$65,000 to \$115,000, due July 2024	1,140,000
Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$79,800 to \$132,556, due April 2030	1,837,756
Note payable to bank, interest rate of 2.45%, annual payments of \$40,172, due June 2022, secured by equipment	<u>352,500</u>
Total bonds and installment purchase agreements	19,650,256
Accumulated compensated absences	<u>372,845</u>
Total business-type activities debt	<u><u>\$ 20,023,101</u></u>

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE F – LONG-TERM DEBT – Continued**

**COMPONENT UNITS**

Local Development Finance Authority note payable, at an interest rate of 7.0%, due 2013

\$ 273,022

The annual requirements to service all debt outstanding as of June 30, 2012, including interest payments of \$4,774,475 for the debt service requirements are as follows:

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 15,200	\$ 8,705	\$ 23,905
2014	16,000	8,316	24,316
2015	16,000	7,916	23,916
2016	16,800	7,516	24,316
2017	17,600	7,096	24,696
2018-2022	92,800	28,739	121,539
2023-2027	105,600	16,539	122,139
2028-2030	56,213	3,117	59,330
	<u>\$ 336,213</u>	<u>\$ 87,944</u>	<u>\$ 424,157</u>
	<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 1,821,336	\$ 742,336	\$ 2,563,672
2014	1,901,309	667,920	2,569,229
2015	1,982,100	589,158	2,571,258
2016	2,072,111	507,033	2,579,144
2017	2,027,142	423,681	2,450,823
2018-2022	5,339,102	1,378,074	6,717,176
2023-2027	4,139,400	360,148	4,499,548
2028-2030	367,756	18,181	385,937
	<u>\$ 19,650,256</u>	<u>\$ 4,686,531</u>	<u>\$ 24,336,787</u>

Interest expense for the year ended June 30, 2012 was \$775,364 for Business-type Activities and \$65,778 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2012 amounted to \$18,869.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2012**

#### **NOTE G – RISK MANAGEMENT**

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

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

#### **NOTE H – RETIREMENT PROGRAM**

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

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

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

Annual Pension Cost – For the year ended June 30, 2012, the City's required and actual pension cost was \$546,133. The annual required contribution percentage was determined as a part of an actuarial valuation at December 31, 2007, using the entry age normal cost method. Significant actuarial assumptions used include: a rate of return on investment of present and future assets of 8% per year compounded annually, projected salary increases of 4.5% per year compounded annually, attributable to inflation, additional projected salary increases ranging from 0% to 4.2% per year, depending on age, attributable to seniority/merit and the assumption that benefits will increase 2.5 percent year (annually) after retirement for persons with selected benefits.

## **CITY OF COLDWATER**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2012**

#### **NOTE H – RETIREMENT PROGRAM – Continued**

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

Defined Contribution Plan – The City also participates in the ICMA retirement plan, a division of MERS, which is a defined contribution pension plan established in 1997 to provide retirement benefits to employees not covered under the defined benefit plan. All employees hired after May, 2002 are covered by the defined contribution plan. At June 30, 2012, there were 79 plan members. Plan members are required to contribute 0% to 7.5% of covered payroll. The City is required to contribute 6% to 13.5% of annual covered payroll. The City's contribution for the year ended June 30, 2012 was \$279,147. Plan provisions and contribution requirements are established and may be amended by the City Council.

#### **NOTE I – REVOLVING DEVELOPMENT FUND LOANS RECEIVABLE**

During the last several years, the City has loaned funds to several local companies. The balance of these loans receivable at June 30, 2012 is \$119,775.

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 \$110,696 at June 30, 2012. Repayment of the local portion of these loans is recorded as a reduction of the loan receivable and interest income when received. Upon repayment of the balance of each loan, deferred revenue will either be recognized as revenue when deemed available by the granting agency or the funds will be returned to the granting agency.

#### **NOTE J – JOINT VENTURES**

The City is a member of the Michigan South Central Power Agency, which provides electric services to the residents of its member communities. The participating communities provide annual funding for its operations. During the current year, the City paid \$21,115,457 for purchased power and debt retirement. The City is unaware of any circumstances that would cause any additional benefit or burden to participating governments in the near future. Complete financial statements for the Michigan South Central Power Agency can be obtained from the administrative offices at 720 Herring Road, Litchfield, Michigan 49252.

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

**CITY OF COLDWATER**

**NOTES TO FINANCIAL STATEMENTS – Continued  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE K – CONSTRUCTION CODE FEES**

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

Shortfall at July 1, 2011	\$ (1,783,882)
Current year building permit revenue	112,936
Less related expenses - Direct costs	<u>(202,092)</u>
Shortfall at June 30, 2012	<u><u>\$ (1,873,038)</u></u>

**NOTE L – COMMITMENTS**

The City of Coldwater has entered into contracts with various firms for construction and renovation. There were three projects in progress and were just getting started at year end with approximately \$790,000 estimated for costs to complete the construction projects.

**NOTE M – CONTINGENCY**

The City of Coldwater is involved in a dispute with a Department of Environmental Quality. The outcome of the dispute cannot be determined at this time. It is the opinion of management that the outcome will have no material effect on the financial position of the City.

**CITY OF COLDWATER**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 3,647,781	\$ 3,722,298	\$ 3,634,059	\$ (88,239)
Licenses and permits	172,800	249,396	250,226	830
Federal sources	-	547,500	336,477	(211,023)
State shared revenue	758,233	847,068	851,571	4,503
State sources	44,000	42,000	40,142	(1,858)
Charges for services	481,241	500,899	524,631	23,732
Rent	294,758	297,194	292,977	(4,217)
Interest earned	65,000	65,000	66,461	1,461
Contributions	1,500	449,550	260,153	(189,397)
Other	21,000	43,420	37,771	(5,649)
Total revenues	<u>5,486,313</u>	<u>6,764,325</u>	<u>6,294,468</u>	<u>(469,857)</u>
<b>EXPENDITURES</b>				
General government	1,329,266	1,252,668	1,227,415	(25,253)
Public safety	3,741,500	3,912,638	3,782,113	(130,525)
Public works	1,400,400	1,417,537	1,355,832	(61,705)
Recreation and cultural	1,025,300	1,029,800	990,370	(39,430)
Planning	82,700	1,086,744	693,863	(392,881)
Other	368,257	1,061,073	962,025	(99,048)
Total expenditures	<u>7,947,423</u>	<u>9,760,460</u>	<u>9,011,618</u>	<u>(748,842)</u>
Excess (deficiency) of revenues over expenditures	(2,461,110)	(2,996,135)	(2,717,150)	278,985
<b>OTHER SOURCES</b>				
Sale of fixed assets	-	7,221	(1,370)	(8,591)
Payment in lieu of taxes	2,159,102	2,159,102	2,159,088	(14)
Transfers from other funds	103,357	103,357	101,919	(1,438)
Total other sources	<u>2,262,459</u>	<u>2,269,680</u>	<u>2,259,637</u>	<u>(10,043)</u>
Excess (deficiency) of revenues and other sources over expenditures	(198,651)	(726,455)	(457,513)	268,942
<b>FUND BALANCE - BEGINNING</b>	<u>2,664,980</u>	<u>3,166,345</u>	<u>3,166,345</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 2,466,329</u>	<u>\$ 2,439,890</u>	<u>\$ 2,708,832</u>	<u>\$ 268,942</u>

**CITY OF COLDWATER**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**REVOLVING DEVELOPMENT FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest income	\$ 29,000	\$ 29,000	\$ 12,903	\$ (16,097)
Other	17,000	17,000	21,940	4,940
Total revenue	46,000	46,000	34,843	(11,157)
<b>EXPENDITURES</b>				
Economic development	35,000	35,000	24,258	(10,742)
Excess of revenues over expenditures	11,000	11,000	10,585	(415)
<b>FUND BALANCE - BEGINNING</b>	1,259,398	1,251,559	1,251,559	-
<b>FUND BALANCE - ENDING</b>	<u>\$ 1,270,398</u>	<u>\$ 1,262,559</u>	<u>\$ 1,262,144</u>	<u>\$ (415)</u>

**CITY OF COLDWATER**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Fiscal Year Ended June 30,

<u>As of December 31</u>	<u>Annual Pension Cost*</u>	<u>Percentage of Annual Pension Contributed</u>	<u>Net Pension Obligation</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>
2007	337,640	100%	-	21,433,474	24,026,708	2,593,234
2008	322,106	100%	-	21,228,432	24,695,681	3,467,249
2009	345,540	100%	-	20,736,364	25,353,044	4,616,680
2010	441,735	100%	-	20,451,738	25,659,658	5,207,920
2011	546,133	100%	-	26,258,719	20,255,548	6,003,171

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



Funded Ratio	Covered Payroll	Underfunded Actuarial Accrued Liability Percentage of Covered Payroll
89%	2,809,097	92.32%
86%	2,703,461	128.25%
82%	2,600,872	177.51%
80%	2,393,508	217.59%
77%	2,439,638	246.07%

**CITY OF COLDWATER**  
**OTHER SUPPLEMENTAL INFORMATION**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**Nonmajor Special Revenue Funds**

	<b>Major Streets Fund</b>	<b>Local Streets Fund</b>	<b>Parking Authority Fund</b>	<b>Retirement Fund</b>
<b>ASSETS</b>				
Cash and investments	\$ 71,629	\$ 38,937	\$ 28,263	\$ -
Accounts receivable	10,997	-	505	-
Due from other governmental units	124,327	30,331	-	-
Restricted assets	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 206,953</u>	<u>\$ 69,268</u>	<u>\$ 28,768</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 17,550	\$ 2,259	\$ -	\$ -
Accrued expenditures	948	2,180	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	18,498	4,439	-	-
<b>FUND BALANCE</b>				
Restricted	188,455	64,829	-	-
Committed	-	-	28,768	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>188,455</u>	<u>64,829</u>	<u>28,768</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 206,953</u>	<u>\$ 69,268</u>	<u>\$ 28,768</u>	<u>\$ -</u>

<u>Nonmajor Capital Project Funds</u>		<u>Nonmajor Permanent Fund</u>		
<u>Library Memorial Fund</u>	<u>Coldwater Municipal Building Authority Fund</u>	<u>Cemetery Special and Perpetual Care Nonexpendable Trust Fund</u>		<u>Totals</u>
\$ 157,944	\$ -	\$ -	\$ -	\$ 296,773
-	-	-	-	11,502
-	-	-	-	154,658
-	-	450,000	-	450,000
<u>\$ 157,944</u>	<u>\$ -</u>	<u>\$ 450,000</u>		<u>\$ 912,933</u>
\$ 1,127	\$ -	\$ -	\$ -	\$ 20,936
-	-	-	-	3,128
1,127	-	-	-	24,064
-	-	-	-	253,284
156,817	-	450,000	-	635,585
156,817	-	450,000	-	888,869
<u>\$ 157,944</u>	<u>\$ -</u>	<u>\$ 450,000</u>		<u>\$ 912,933</u>

**CITY OF COLDWATER**  
**OTHER SUPPLEMENTAL INFORMATION**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**Nonmajor Special Revenue Funds**

	<b>Major Streets Fund</b>	<b>Local Streets Fund</b>	<b>Parking Authority Fund</b>	<b>Retirement Fund</b>
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ 101,299
Special assessments	-	-	41,001	-
State shared revenue	592,845	185,975	-	-
State sources	59,329	-	-	-
Charges for services	-	-	3,585	-
Rent	-	-	-	-
Interest income	2,450	268	-	71
Contributions	-	-	-	-
Other income	471	-	-	549
Total revenues	655,095	186,243	44,586	101,919
<b>EXPENDITURES</b>				
Public works	468,807	459,019	24,204	-
Recreation and cultural	-	-	-	-
Debt service	17,051	7,750	-	-
Total expenditures	485,858	466,769	24,204	-
Excess (deficiency) of revenues over expenditures	169,237	(280,526)	20,382	101,919
<b>OTHER SOURCES (USES)</b>				
Transfers from (to) other funds	(284,977)	284,977	-	(101,919)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(115,740)	4,451	20,382	-
<b>FUND BALANCE - BEGINNING</b>	304,195	60,378	8,386	-
<b>FUND BALANCE - ENDING</b>	\$ 188,455	\$ 64,829	\$ 28,768	\$ -

<b>Nonmajor Capital Project Funds</b>		<b>Nonmajor Permanent Fund</b>	
<b>Library Memorial Fund</b>	<b>Coldwater Municipal Building Authority Fund</b>	<b>Cemetery Special and Perpetual Care Nonexpendable Trust Fund</b>	<b>Totals</b>
\$ -	\$ -	\$ -	\$ 101,299
-	-	-	41,001
-	-	-	778,820
-	-	-	59,329
1,037	-	-	4,622
-	1,192,276	-	1,192,276
1,612	-	-	4,401
865	-	-	865
-	-	-	1,020
3,514	1,192,276	-	2,183,633
-	-	-	952,030
11,765	-	-	11,765
-	1,192,276	-	1,217,077
11,765	1,192,276	-	2,180,872
(8,251)	-	-	2,761
-	-	-	(101,919)
(8,251)	-	-	(99,158)
165,068	-	450,000	988,027
<u>\$ 156,817</u>	<u>\$ -</u>	<u>\$ 450,000</u>	<u>\$ 888,869</u>

**CITY OF COLDWATER**  
**OTHER SUPPLEMENTAL INFORMATION**  
**FIDUCIARY FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2012**

	<b>Health Insurance Fund</b>	<b>Tax Collection Fund</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,317	\$ 23,242	\$ 34,559
<b>LIABILITIES</b>			
Accounts payable	\$ 11,317	\$ -	\$ 11,317
Due to other governmental units	-	23,242	23,242
Total	\$ 11,317	\$ 23,242	\$ 34,559



December 3, 2012

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

We have audited the financial statements of City of Coldwater as of and for the year ended June 30, 2012. Professional standards require that we provide you with the following information related to our audit.

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

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

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

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

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

### **Significant Accounting Policies**

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

### **Accounting Estimates**

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

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$896,000.

### **Difficulties Encountered in Performing the Audit**

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

### **Audit Adjustments**

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

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management letter dated December 3, 2012.



**Consultations with Other Independent Accountants**

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

**Issues Discussed Prior to Retention of Independent Auditors**

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

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

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

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

*Taylor, Plant & Watkins, P.C.*  
TAYLOR, PLANT & WATKINS, P.C.