

**CITY OF COLDWATER
BRANCH COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

**City Council
City of Coldwater, Michigan**

November 24, 2014

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, 2014, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Coldwater, Michigan, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows 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 and budgetary comparison information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Coldwater's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived for and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

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

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Coldwater's financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the City's financial statements, which begin on page 16.

Financial Highlights

- The City's assets exceeded its liabilities at the close of the most recent fiscal year by \$93.9 million. Of this amount, investment in capital assets (net of depreciation and related debt) accounts for more than half, or \$47.6 million, and \$33.8 million represents unrestricted net assets, which are economic resources (not total cash) which may be used to meet the City's ongoing obligations to residents and creditors, without legal restriction. The remaining \$12.5 million represent restricted assets.
- The City's total net position decreased \$1.1 million, primarily due to a \$3.4 million charge in the Electric Fund for the City's share of a power plant investment that was cancelled.
- In the City's governmental activities, revenues generated \$12.9 million. This is a decrease of approximately \$6.5 million, primarily attributed to the fact that the prior year included a \$10.3 million contribution from Dr. Robert W. Browne and his wife for the construction of new aquatic and recreation centers. The overall contribution covered multiple years with \$3.8 million occurring in the current year. Expenses totaled \$11.0 million. This is an increase of approximately \$.9 million compared to prior year amounts.
- In the City's business-type activities, revenues generated \$41.3 million. This is an increase of approximately \$1.2 million compared to prior year. Expenses totaled \$44.2 million. This was an increase of \$4.4 million compared to prior years. This increase is primarily due to the \$3.4 million Electric Fund charge discussed above.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of almost \$14 million, a decrease of \$1.0 million compared to the prior year. Approximately 18% of the amount (\$2.5 million) is available for spending at the City's discretion (unassigned fund balance).
- At the close of the current fiscal year, unassigned fund balance for the general fund was \$2.5 million, or approximately 31.5% of total general fund expenditures.

Using this Annual Report

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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

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

Fund Financial Statements – The fund financial statements begin on page 18 and present more detailed information about the City’s most significant funds, not the City as a whole. The fund financial statements present a short-term view, using a modified accrual basis of accounting, and tell us how the taxpayers’ resources were spent during the year as well as how much is available for future spending. Funds are accounting tools the City uses to keep track of specific sources of funding and spending for particular purposes. The City’s major funds for 2014 include the General Fund, Revolving Development Fund, Capital Improvement Fund, and the Aquatic and Recreation Centers Capital Fund. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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

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

The City as a Whole

Statement of Net Position – As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City's assets exceeded total liabilities by \$93.9 million at the close of June 30, 2014. The following table shows, in a condensed format, the net assets as of June 30, 2014 and 2013.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and other assets	\$ 15,643,421	\$ 15,878,348	\$ 40,520,271	\$ 40,157,551	\$ 56,163,692	\$ 56,035,899
Capital assets	23,377,912	19,051,202	42,016,011	44,001,473	65,393,923	63,052,675
Total assets	39,021,333	34,929,550	82,536,282	84,159,024	121,557,615	119,088,574
Liabilities						
Long-term debt outstanding	2,457,913	953,743	14,390,621	16,378,524	16,848,534	17,332,267
Other liabilities	1,509,179	806,898	9,250,200	4,945,186	10,759,379	5,752,084
Total liabilities	3,967,092	1,760,641	23,640,821	21,323,710	27,607,913	23,084,351
Net Assets						
Investment in capital assets- Net of related debt	21,546,899	18,730,189	26,088,203	26,512,553	47,635,102	45,242,742
Restricted	9,858,384	10,774,315	2,640,676	2,171,422	12,499,060	12,945,737
Unrestricted	3,648,958	3,664,405	30,166,582	34,151,339	33,815,540	37,815,744
Total net assets	\$ 35,054,241	\$ 33,168,909	\$ 58,895,461	\$ 62,835,314	\$ 93,949,702	\$ 96,004,223

Over 50% of the City's net assets reflect its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide a variety of services to our citizens. Accordingly, these assets are not available for future spending. An additional portion of the City's net position (13.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$33.8 million, or 36% of the City's net position, is unrestricted and may be used to meet the City's ongoing obligations to its residents and creditors. Of the unrestricted funds, \$3.7 million are available to the governmental funds.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Statement of Activities – The following table shows, in condensed format, the changes of net position as of June 30, 2014, compared to prior year:

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 1,121,100	\$ 1,054,061	\$ 42,256,881	\$ 41,273,909	\$ 43,377,981	\$ 42,327,970
Operating grants and contributions	207,572	455,541	-	-	207,572	455,541
Capital grants and contributions	3,833,155	10,297,867	-	-	3,833,155	10,297,867
General revenues:						
Property taxes	3,724,181	3,589,938	-	-	3,724,181	3,589,938
State shared revenues	1,727,247	1,678,565	-	-	1,727,247	1,678,565
Unrestricted investment	72,744	66,800	1,189,985	861,898	1,262,729	928,698
Gain (loss) on sale	(98,130)	(5,981)	(137,098)	10,368	(235,228)	4,387
Miscellaneous	108,317	38,433	153,917	134,777	262,234	173,210
Capital contributions	-	-	-	-	-	-
Payments in lieu of taxes	2,208,432	2,199,864	(2,208,432)	(2,199,864)	-	-
Total revenues	12,904,618	19,375,088	41,255,253	40,081,088	54,159,871	59,456,176
Expenses						
General government	1,926,973	1,979,000	-	-	1,926,973	1,979,000
Public safety	4,026,059	3,789,182	-	-	4,026,059	3,789,182
Public works	2,904,841	2,794,248	-	-	2,904,841	2,794,248
Recreation and cultural	900,588	920,340	-	-	900,588	920,340
Economic development	1,221,138	568,044	-	-	1,221,138	568,044
Interest	39,687	8,704	-	-	39,687	8,704
Transfers	-	-	-	-	-	-
Electric	-	-	35,954,548	31,274,710	35,954,548	31,274,710
Telecommunications	-	-	3,322,591	3,360,097	3,322,591	3,360,097
Water	-	-	1,910,291	1,844,766	1,910,291	1,844,766
Waste water	-	-	2,590,640	2,856,822	2,590,640	2,856,822
Rubbish	-	-	425,140	449,067	425,140	449,067
Total expenses	11,019,286	10,059,518	44,203,210	39,785,462	55,222,496	49,844,980
Increase in Net Assets	<u>\$ 1,885,332</u>	<u>\$ 9,315,570</u>	<u>\$ (2,947,957)</u>	<u>\$ 295,626</u>	<u>\$ (1,062,625)</u>	<u>\$ 9,611,196</u>

During the current fiscal year, the net position for the City as a whole decreased \$1,062,625. Governmental activities increased net position by \$1,885,332, and Business-type activities decreased by \$2,947,957.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Governmental Activities

Total Governmental revenue is reported at \$12,904,618, a decrease of \$6,470,470 over prior year. The decrease is primarily attributable to the timing of the \$14.1 million contribution from Dr. Robert W. Browne and his wife for the new aquatic and recreation centers. \$3,833,155 was received in the current year compared to \$10,266,845 that was received in the prior year. Other decreases included a decrease of \$247,969 in operating grants and a \$92,149 additional loss on disposal of assets. These decreases in revenue were offset by a \$67,039 increase in charges for services, a \$134,243 increase in property tax revenue, and a slight increase in state shared revenue of \$48,682.

Total Governmental expenses are reported at \$11,019,286, an increase of \$959,768 over prior year. The increase is attributable primarily to the State of Michigan consolidating their revolving loan program. The City was required to return \$1,024,570 of Revolving Loan fund monies. Other increases came in the areas of public safety and public works. Offsetting the above increases were decreases in other expenditure areas, primarily the completion of the Tibbits restoration project in the prior year.

Business-type Activities

The City of Coldwater's business-type activities consist of electricity, telecommunications, water supply, and wastewater (all classified as Major Funds), as well as rubbish services. Of the City's charges for service revenue of \$42,256,881, the majority is generated from charges passed on to residents. Charges for service are offset by operational expenses of \$44,203,210 as well as Payments in Lieu of Taxes (PILOT) in the amount of \$2,208,432. The PILOT is a City Charter provision that requires 6.5% of utility revenues to be transferred to the City's General Fund. This year's transfer is based on the 2012 fiscal operating results. Total expenditures exceed revenues by \$2,947,957. This deficit was the result of the \$3,370,074 charge taken for the City's share of costs associated with the cancellation of a planned power plant project.

Financial Analysis of the City's Funds

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Governmental Funds

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

In the General Fund, revenues exceeded expenditures by \$50,438. While General Fund revenues decreased by \$243,600, expenditures also decreased by \$143,798, resulting in the increase in fund balance.

General Fund revenues are derived from two main sources. The largest source is property tax collections, which were \$3,500,234 this year, an increase of \$134,250 over prior year. The second largest revenue source is state shared revenue, which increased by \$24,866 to \$926,301. This is the third year in a row we have received a small increase in state shared revenue, but this follows a decade of decreases resulting in over \$300,000 per year less revenue today than 2002 levels.

Other significant revenue sources include licenses, permits and federal grants. Building permit revenue increased by \$52,362 this year as the City reacquired the permitting jurisdiction for skilled trades within City limits. Federal grant revenues decreased from the prior year because the multi-year Tibbits Opera House building restoration grant project was completed. The federally funded restoration of the downtown Kerr building was started in the current year but is primarily taking place during the 2015 fiscal year. Private contributions for the required local match on the Tibbits Opera House project decreased in the current year as the project was completed. Also in the prior year a payment of \$229,708 was received for payment on a loan to the Local District Financing Authority (LDFA) for the purchase of property. That payment was included in Other Income. No significant miscellaneous payments were received in the current year.

Additional significant revenues include PILOT payments, which increased slightly by \$8,568. Finally, a transfer of \$102,703 was made from the retirement millage levied in the amount of one-third of a mill.

Overall General Fund expenditures decreased compared to last year. The largest area was the \$348,967 decrease in Federal grant expenditures due to the completion of the Tibbits Opera House project discussed above. Building expenditures increased as \$89,874 was spent on renovations to the Public Safety Building. Capital Outlays also increased by \$46,351 due to equipment purchases. In conjunction with the \$14.1 million contribution for the new aquatic and recreation centers, the City issued bonds in the amount of \$1,526,000 to cover its portion of the projects. The first debt service payment in the amount of \$17,183 was made in April, 2014. Future debt service payments will be approximately \$100,000 per year.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The majority of the remaining costs associated with the General Fund is directly tied to labor and fringe benefits and represents over 60 percent of expenses. Providing City services is very labor intensive, especially in the area of public safety where coverage is provided twenty-four hours a day to protect the safety and welfare of City residents. Labor costs increased only slightly over last year. Due to many cost-saving initiatives over the past years, including reduction of staff levels, health care cost reductions, improvement and streamlining of work processes and greater use of technology to improve productivity and create efficiencies, labor costs are roughly equal to what they were five years ago. The City did experience a significant increase in retirement costs due to closed defined benefit plans. Retirement costs increased by \$109,833 from the prior year and are now nearly double what they were five years ago. While painful in the short term, for the long term Coldwater is positioned very well in regards to legacy costs. By moving away from defined benefit pensions many years ago the City's legacy costs are much less than those experienced by many other municipalities.

Revolving Development Fund – 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. During the current year the State of Michigan regionalized its efforts to utilize these funds for economic development loans. This required the City to transfer \$1,024,570 back to the State.

Capital Improvement Fund – 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 2014, there were no new projects undertaken by the Capital Improvement Fund.

Aquatic and Recreation Centers Capital Fund – This fund was established for the purpose of recording revenues and expenditures related to construction of a new aquatic center and expansion of the existing recreation gymnasium facilities. This project, the result of a generous donation of \$14.1 million from Dr. Robert W. Browne and his wife, will have a total project cost of \$15.6 million. Current year expenditures related to the project were \$5,404,020.

Proprietary Funds

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Electric – The Electric Fund ended the fiscal year with a loss of \$4,812,591. Of this loss \$3,370,074 was due to recording liabilities related to a power plant investment that was cancelled by American Municipal Power (AMP) of which the City is a member. The City has taken a conservative position and recorded all known costs associated with that project. The details of this cancelled project are disclosed within Note N of the financial statement disclosures. Additionally, the fund forgave a \$1,616,951 loan receivable with the Telecommunications Fund. Both of these costs are included within miscellaneous expenses.

Although there were no rate increases this year, electricity revenues increased by \$701,058 due to higher demand by commercial and industrial customers. Purchased power costs increased by \$1,699,257, partly to meet the higher demand and also to pay for our portion of a Michigan South Central Power Agency (MSCPA) turbine repair project. Coldwater's 2014 costs associated with the turbine project were \$1,629,600. The City of Coldwater is a 40% owner of MSCPA. Remaining costs shown are for operational and labor costs, fuels and ordinary repairs and maintenance.

Telecommunications – The Telecommunications Fund experienced a \$1,520,459 increase in net position. The rate increase that took effect in June, 2013, helped the fund move closer to break even; however, the main reason for the significant increase in net position was the \$1,616,951 of income earned when the loan from the Electric Fund was written off. Without the write-off the fund would have shown a decrease in net position of \$96,492.

Revenue from cable TV sales increased from the prior year due to the rate increase noted above. The cable customer base continues to hold steady. While dial up internet service has all but disappeared, the revenue generated by cable modem customers held firm. VOIP phone service revenue was also steady while business fiber revenue increased. The primary costs are programming charges, data line charges, depreciation and third party costs to administer the VOIP service. The City has been challenged with the increasing cost of cable programming. Significant increases were seen during the second half of the year with even more serious increases being seen during the beginning of 2015.

Water Fund – The Water Fund saw net position increase by \$336,684, slightly less than last year's increase of \$389,209. 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 operating expenditures incurred during the year. A rate increase went into effect in April, 2014, to build cash for future capital projects as well as to help pay for water plant improvements and equipment purchases of approximately \$830,000.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Wastewater – Net change in assets for the Wastewater Fund was a decrease of \$3,531. This was a significant improvement from the results of the prior year when the fund ran a \$374,763 deficit. Planned multi-step rate increases in 2013 and again in 2014 explains the improved financial results. Improved financial results should continue into the 2015 fiscal year.

Rubbish – The Rubbish Fund saw an increase in net assets of \$11,022. This is the second full year that garbage collection services were privatized to a third party contractor.

General Fund Budgetary Highlights

As shown in the required supplemental information, the City's final amended budget shows a planned budget deficit of \$642,631; however, actual operating resulted in an increase in fund balance of \$50,438, primarily because of curtailed expenditures. The significant budget-to-actual differences are as follows:

Revenues – There were no significant variances with final budget.

Expenditures –

- Expenditures for General Government were under budget by \$99,429. Approximately half of the budget variance related to the cemetery department, most of which was due to wage allocations for employees that work in multiple departments. Because of the harsh winter more time was spent on winter road work, so more wages and benefits were allocated to the Major and Local Street Funds and less to departments in the General Fund.
- Expenditures for Public Safety were under budget by \$160,905. Most of this difference is the result of two situations; delays in the renovations at the public safety building that pushed costs into the 2015 fiscal year and changes in staffing and benefit requirements for the fire department.
- Public Works expenditures were under budget by \$138,622, primarily for the same reason as in the General Government. That being because during the winter more time was spent on winter road maintenance, so more wages and benefits were allocated to the Major and Local Street Funds and less to departments in the General Fund. Also, two employees were on worker's compensation during a portion of the year and not drawing wages.
- Recreation and cultural expenditures were under budget by \$164,609 due to the recreation center being closed for three months and thus not fully staffed, the shortened season of Heritage Pool that resulted in decreased expenditures for seasonal labor, and the late spring, which resulting in mowing at the parks starting later than anticipated.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Capital Asset and Debt Administration

The City has continued its efforts to improve the City's infrastructure. This fiscal year saw the reinvestment of \$8.3 million in capital assets for the City's Governmental and Enterprise Funds combined, \$1.1 million of which was reinvested in the City's aging utility infrastructure. Also included in the total was \$5.4 million of capital costs associated with the construction of the aquatic center and recreation center expansion. In addition to the utility infrastructure a total of five vehicles were replaced for police, fire, and public works. The planning department continued its program for acquiring, demolishing and/or rehabilitating blighted properties. The City will continue its annual street maintenance programs based on available Act 51 transportation funds from the State.

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

With our aging infrastructure and fleet, plans for next fiscal year include obtaining financing for infrastructure projects.

The Standard & Poor's rating agency increased the City's A+ credit rating to AA- with a stable outlook.

Economic Factors, Next Year's Budgets and Rates

The adopted budget for the fiscal year ending June 30, 2015, 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.

The City is budgeting for a deficit of \$311,559 at the close of next fiscal year on June 30, 2015. Even with the projected deficit, the City will remain in a financially strong position with an operating fund balance reserve of 29% of revenues.

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

City revenues in the next fiscal year are budgeted to increase slightly. Our largest source of revenue, property taxes, is expected to see a slight drop due to a change in state law affecting personal property. The second largest source of revenue, PILOT, is, however, expected to increase by approximately 10% to \$2.45 million primarily due to utility revenue increases created by the Mastronardi Produce greenhouse. State revenue sharing, also a significant source of revenue for the City, will increase by approximately 3.5%. Additionally, the City will be coordinating a pass-through Federal grant relating to the renovation of the Kerr building. The City will receive approximately \$900,000 but will then disburse those funds to pay the contractors of the project. This is similar to the City's involvement with the historic Tibbits Opera House building restoration.

With the improved economy, we are cautiously encouraged by positive economic movement. We have seen a pick-up in interest regarding industrial expansion into our community and at the State level the revitalization of the auto industry has led to overall economic growth (as evidenced by a three-year slight increase in revenue sharing). There is concern about the reduction and eventual elimination of personal property taxes over the next couple years and the expected negative impact on property tax collections. The State has promised that cities will be reimbursed for lost revenue, but there is no growth component in their calculation. While real property tax values have finally started to rise future growth is limited by inflation. It will take a decade to get back to the property tax levels seen in 2010.

Home prices are rising and the number of foreclosures is decreasing. Issuance of building permits remains strong, foreshadowing future economic growth. Demand for utilities – electric, water, wastewater and telecommunications – continues to grow. The growth in utility demand ultimately results in increased revenues for the General Fund in the form of PILOT payments.

We've all been watching the frenzy of construction activity taking place on the sites of the aquatic and recreation centers. This generous donation will result in fresh, new, state-of-the-art facilities for our citizens, as well as provide opportunity for the City of Coldwater and Coldwater Community Schools to work cooperatively for the betterment of the community. Additionally, the work started on the Kerr building late in the current year will eventually lead to a restored structure that will house 14 apartments on the second and third floors while providing retail space on the main floor. Significant construction was also taking place on the south side of Coldwater where Mastronardi Produce began working on phase two of its greenhouse operation. This high tech greenhouse is growing tomatoes year-round. These tomatoes are distributed all over the Midwest. Completion of phase two will double the size of the growing operation and will provide additional revenue to the City through the increased power usage.

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

CITY OF COLDWATER

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Contacting the City's Management

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

CITY OF COLDWATER
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 4,334,074	\$ 14,443,418	\$ 18,777,492	\$ 551,277
Accounts receivable	82,389	4,055,476	4,137,865	-
Special assessment receivable	25,254	-	25,254	-
Notes receivable	118,308	-	118,308	-
Inventories	44,293	112,687	156,980	-
Due from other governmental units	164,395	-	164,395	-
Prepaid expenses	63,154	506,660	569,814	-
Investment in Power Agency	-	18,761,354	18,761,354	-
Restricted assets	10,811,554	2,640,676	13,452,230	-
Capital assets, less accumulated depreciation	<u>23,377,912</u>	<u>42,016,011</u>	<u>65,393,923</u>	<u>241,501</u>
Total assets	39,021,333	82,536,282	121,557,615	792,778
LIABILITIES				
Accounts payable	1,291,041	6,423,837	7,714,878	988
Accrued expenditures	151,482	844,263	995,745	-
Due to others	5,656	-	5,656	385,933
Long term liabilities:				
Bonds payable, due within one year	61,000	1,982,100	2,043,100	-
Bonds and notes payable, due in more than one year	1,770,013	13,945,708	15,715,721	82,618
Compensated absences	<u>687,900</u>	<u>444,913</u>	<u>1,132,813</u>	<u>-</u>
Total liabilities	3,967,092	23,640,821	27,607,913	469,539
NET POSITION				
Investment in capital assets - net of related debt	21,546,899	26,088,203	47,635,102	207,865
Restricted	9,858,384	2,640,676	12,499,060	115,374
Unrestricted	<u>3,648,958</u>	<u>30,166,582</u>	<u>33,815,540</u>	<u>-</u>
Total net position	<u>\$ 35,054,241</u>	<u>\$ 58,895,461</u>	<u>\$ 93,949,702</u>	<u>\$ 323,239</u>

See Notes to Financial Statements

CITY OF COLDWATER

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating / Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	Component Units
Governmental activities:								
General government	\$ 1,926,973	\$ 260,665	\$ -	\$ -	\$ (1,666,308)	\$ -	\$ (1,666,308)	\$ -
Public safety	4,026,059	312,137	46,593	-	(3,667,329)	-	(3,667,329)	-
Public works	2,904,841	385,095	160,979	-	(2,358,767)	-	(2,358,767)	-
Recreation and cultural	900,588	163,203	-	3,833,155	3,095,770	-	3,095,770	-
Economic development	1,221,138	-	-	-	(1,221,138)	-	(1,221,138)	-
Interest	39,687	-	-	-	(39,687)	-	(39,687)	-
Total governmental activities	11,019,286	1,121,100	207,572	3,833,155	(5,857,459)	-	(5,857,459)	-
Business-type activities:								
Electric	35,954,548	33,422,272	-	-	-	(2,532,276)	(2,532,276)	-
Telecommunications	3,322,591	3,313,916	-	-	-	(8,675)	(8,675)	-
Water	1,910,291	2,379,262	-	-	-	468,971	468,971	-
Waste water	2,590,640	2,709,752	-	-	-	119,112	119,112	-
Rubbish	425,140	431,679	-	-	-	6,539	6,539	-
Total business-type activities	44,203,210	42,256,881	-	-	-	(1,946,329)	(1,946,329)	-
Total primary government	<u>\$ 55,222,496</u>	<u>\$ 43,377,981</u>	<u>\$ 207,572</u>	<u>\$ 3,833,155</u>	(5,857,459)	(1,946,329)	(7,803,788)	-
Component units:								
Downtown Development Authority	\$ 176,741	\$ 4,500	\$ 2,000	\$ -	-	-	-	(170,241)
Local Development Authority	38,802	-	-	-	-	-	-	(38,802)
Total component units	<u>\$ 215,543</u>	<u>\$ 4,500</u>	<u>\$ 2,000</u>	<u>\$ -</u>	-	-	-	(209,043)
General revenues:								
Property taxes					3,724,181	-	3,724,181	77,028
State shared revenues					1,727,247	-	1,727,247	-
Unrestricted investment earnings					72,744	1,189,985	1,262,729	4,703
Gain (loss) on sale of assets					(98,130)	(137,098)	(235,228)	(308,751)
Miscellaneous					108,317	153,917	262,234	-
Payments in lieu of taxes					2,208,432	(2,208,432)	-	-
Total general revenues, transfers, forgiveness of debt and payments in lieu of taxes					<u>7,742,791</u>	<u>(1,001,628)</u>	<u>6,741,163</u>	<u>(227,020)</u>
Change in Net Position					1,885,332	(2,947,957)	(1,062,625)	(436,063)
Change in accounting principle					-	(755,467)	(755,467)	-
Net Position - Beginning					33,168,909	62,835,314	96,004,223	759,302
Contribution in aid of construction					-	(236,429)	(236,429)	-
Net Postion - Ending					<u>\$ 35,054,241</u>	<u>\$ 58,895,461</u>	<u>\$ 93,949,702</u>	<u>\$ 323,239</u>

See Notes to Financial Statements

CITY OF COLDWATER

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

	General Fund	Revolving Development Fund	Capital Improvement Fund	Aquatic and Recreation Centers Capital Fund	Other Nonmajor Governmental Funds	Totals
ASSETS						
Cash and investments	\$ 3,145,566	\$ 251,068	\$ 752,038	\$ -	\$ 185,402	\$ 4,334,074
Accounts receivable	82,389	-	-	-	-	82,389
Special assessment receivable	-	-	25,254	-	-	25,254
Notes receivable	33,637	84,671	-	-	-	118,308
Due from other governmental units	22,353	-	-	-	142,042	164,395
Inventory	44,293	-	-	-	-	44,293
Prepaid expenses	63,154	-	-	-	-	63,154
Restricted assets	-	-	-	10,361,554	450,000	10,811,554
Total assets	\$ 3,391,392	\$ 335,739	\$ 777,292	\$ 10,361,554	\$ 777,444	\$ 15,643,421
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ 315,179	\$ -	\$ -	\$ 960,039	\$ 15,823	\$ 1,291,041
Due to other governmental units	-	5,656	-	-	-	5,656
Accrued expenditures	133,066	-	-	-	4,228	137,294
Unearned revenue	33,637	79,565	25,254	-	-	138,456
Total liabilities	481,882	85,221	25,254	960,039	20,051	1,572,447
FUND BALANCE						
Nonspendable	63,154	5,106	-	-	-	68,260
Restricted	-	245,412	-	9,401,515	143,197	9,790,124
Committed	-	-	-	-	614,196	614,196
Assigned	311,559	-	752,038	-	-	1,063,597
Unassigned	2,534,797	-	-	-	-	2,534,797
Total fund balance	2,909,510	250,518	752,038	9,401,515	757,393	14,070,974
Total liabilities and fund balance	\$ 3,391,392	\$ 335,739	\$ 777,292	\$ 10,361,554	\$ 777,444	\$ 15,643,421

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET POSTION
JUNE 30, 2014

Total Fund Balance - Governmental Funds	\$ 14,070,974
Amounts reported for governmental activities in the statement of net postion are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in funds:	
The cost of the capital assets	37,848,851
Accumulated depreciation	<u>(14,470,939)</u>
Total capital assets not reported in funds	23,377,912
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	
	138,456
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid	
	(14,188)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable	(1,831,013)
Compensated absences	<u>(687,900)</u>
Total long-term liabilities not reported in funds	<u>(2,518,913)</u>
Total Net Position - Governmental Activities	\$ 35,054,241

CITY OF COLDWATER

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Revolving Development Fund	Capital Improvement Fund	Aquatic and Recreation Centers Capital Fund	Other Nonmajor Governmental Funds	Totals
REVENUES						
Taxes	\$ 3,621,896	\$ -	\$ -	\$ -	\$ 102,285	\$ 3,724,181
Special assessments	-	-	7,280	-	41,001	48,281
Licenses and permits	227,828	-	-	-	-	227,828
Federal sources	33,974	-	-	-	-	33,974
State shared revenue	926,301	-	-	-	800,946	1,727,247
State sources	38,778	-	-	-	160,979	199,757
Charges for services	461,808	-	-	-	4,568	466,376
Rent	337,182	-	-	-	-	337,182
Interest income	49,067	7,413	8,919	5,179	2,166	72,744
Contributions	9,556	-	-	3,833,155	1,223	3,843,934
Other income	41,060	15,789	-	-	383	57,232
Total revenues	5,747,450	23,202	16,199	3,838,334	1,113,551	10,738,736
EXPENDITURES						
General government	1,384,219	-	-	-	-	1,384,219
Public safety	3,867,633	-	-	-	-	3,867,633
Public works	1,528,328	-	-	-	874,903	2,403,231
Recreation and cultural	783,899	-	-	5,404,020	9,875	6,197,794
Planning	185,568	-	-	-	-	185,568
Economic development	-	11,000	-	-	-	11,000
Debt service	17,183	-	-	-	24,316	41,499
Other expenditures	291,254	-	-	-	-	291,254
Total expenditures	8,058,084	11,000	-	5,404,020	909,094	14,382,198
Excess (deficiency) of revenues over expenditures	(2,310,634)	12,202	16,199	(1,565,686)	204,457	(3,643,462)
OTHER SOURCES (USES)						
Sale of fixed assets	49,937	-	-	-	-	49,937
Payment in lieu of taxes	2,208,432	-	-	-	-	2,208,432
Debt proceeds	-	-	-	1,526,000	-	1,526,000
Return of grant to State	-	(1,024,570)	-	-	-	(1,024,570)
Transfers from (to) other funds	102,703	-	-	-	(102,703)	-
Total other sources (uses)	2,361,072	(1,024,570)	-	1,526,000	(102,703)	2,759,799
Excess (deficiency) of revenues and other sources over expenditures and other uses	50,438	(1,012,368)	16,199	(39,686)	101,754	(883,663)
FUND BALANCE - BEGINNING	2,859,072	1,262,886	735,839	9,441,201	655,639	14,954,637
FUND BALANCE - ENDING	\$ 2,909,510	\$ 250,518	\$ 752,038	\$ 9,401,515	\$ 757,393	\$ 14,070,974

See Notes to Financial Statements

CITY OF COLDWATER
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Net change in Fund Balance - Total Governmental Funds \$ (883,663)

Amounts reported for governmental activities in the statement of activities are different because:

Depreciation expense	(1,412,655)
Loss on sale of asset	(98,130)
Capital outlay	<u>5,837,495</u>

Total	4,326,710
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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	(7,280)
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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	12,923
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued interest	(14,188)
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Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):

Debt proceeds	(1,526,000)
Principal repayment	16,000

Increases in compensated absences are reported as a decrease to expenditures

<u>(39,170)</u>

Change in Net Position of Governmental Activities \$ 1,885,332

See Notes to Financial Statements

CITY OF COLDWATER

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Electric Fund	Telecom- munications Fund	Water Fund	Waste Water Fund	Nonmajor Rubbish Fund	Totals
ASSETS						
Current assets:						
Cash and investments	\$ 12,142,934	\$ -	\$ 229,074	\$ 1,662,537	\$ 408,873	\$ 14,443,418
Accounts receivable	3,210,317	186,352	285,744	346,605	26,458	4,055,476
Inventories	-	-	112,687	-	-	112,687
Prepaid and other assets	292,774	120,241	47,761	45,718	166	506,660
Total current assets	<u>15,646,025</u>	<u>306,593</u>	<u>675,266</u>	<u>2,054,860</u>	<u>435,497</u>	<u>19,118,241</u>
Noncurrent assets:						
Investment in Power Agency	18,761,354	-	-	-	-	18,761,354
Restricted assets	1,299,670	337,019	442,691	561,296	-	2,640,676
Capital assets, less accumulated depreciation	14,596,113	3,553,874	10,702,840	13,163,184	-	42,016,011
Total noncurrent assets	<u>34,657,137</u>	<u>3,890,893</u>	<u>11,145,531</u>	<u>13,724,480</u>	<u>-</u>	<u>63,418,041</u>
Total assets	<u>\$ 50,303,162</u>	<u>\$ 4,197,486</u>	<u>\$ 11,820,797</u>	<u>\$ 15,779,340</u>	<u>\$ 435,497</u>	<u>\$ 82,536,282</u>
LIABILITIES AND NET POSITION						
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 5,982,125	\$ 150,444	\$ 216,333	\$ 74,047	\$ 888	\$ 6,423,837
Accrued expenditures	564,321	51,276	72,252	156,414	-	844,263
Bonds and notes payable, due within one year	700,000	350,000	465,000	467,100	-	1,982,100
Total current liabilities	<u>7,246,446</u>	<u>551,720</u>	<u>753,585</u>	<u>697,561</u>	<u>888</u>	<u>9,250,200</u>
Noncurrent liabilities						
Bonds and notes payable, due in more than one year	2,705,000	1,150,000	3,650,000	6,440,708	-	13,945,708
Compensated absences	231,555	66,426	78,852	66,885	1,195	444,913
Total noncurrent liabilities	<u>2,936,555</u>	<u>1,216,426</u>	<u>3,728,852</u>	<u>6,507,593</u>	<u>1,195</u>	<u>14,390,621</u>
Total liabilities	<u>10,183,001</u>	<u>1,768,146</u>	<u>4,482,437</u>	<u>7,205,154</u>	<u>2,083</u>	<u>23,640,821</u>
NET POSITION						
Investment in capital assets, net of related debt	11,191,113	2,053,874	6,587,840	6,255,376	-	26,088,203
Restricted	1,299,670	337,019	442,691	561,296	-	2,640,676
Unrestricted	27,629,378	38,447	307,829	1,757,514	433,414	30,166,582
Total net position	<u>\$ 40,120,161</u>	<u>\$ 2,429,340</u>	<u>\$ 7,338,360</u>	<u>\$ 8,574,186</u>	<u>\$ 433,414</u>	<u>\$ 58,895,461</u>

See Notes to Financial Statements

CITY OF COLDWATER

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

	Electric Fund	Telecom- munications Fund	Water Fund	Waste Water Fund	Nonmajor Rubbish Fund	Totals
REVENUES						
Charges for services	\$ 33,422,272	\$ 3,313,916	\$ 2,379,262	\$ 2,709,752	\$ 431,679	\$ 42,256,881
OPERATING EXPENSES						
Purchased power	27,851,250	-	-	-	-	27,851,250
Power plant	178,692	-	-	-	-	178,692
Distribution	1,117,429	2,228,581	375,351	-	-	3,721,361
Substation	223,465	-	-	-	-	223,465
Sanitation	-	-	-	-	425,140	425,140
Metering and lighting	600,890	-	-	-	-	600,890
Wells	-	-	70,627	-	-	70,627
Treatment	-	-	398,128	804,835	-	1,202,963
Collection system	-	-	-	232,919	-	232,919
Customer service	189,913	262,301	-	-	-	452,214
Administration	1,445,202	317,606	462,823	522,355	-	2,747,986
Depreciation	825,904	430,091	435,796	796,135	-	2,487,926
Total operating expenditures	<u>32,432,745</u>	<u>3,238,579</u>	<u>1,742,725</u>	<u>2,356,244</u>	<u>425,140</u>	<u>40,195,433</u>
OPERATING INCOME	989,527	75,337	636,537	353,508	6,539	2,061,448
NONOPERATING REVENUES (EXPENSES)						
Investment income	1,165,297	-	4,175	16,030	4,483	1,189,985
Interest expense	(151,729)	(84,012)	(167,566)	(234,396)	-	(637,703)
Gain (loss) on sale of fixed assets	(140,929)	-	2,060	1,771	-	(137,098)
Miscellaneous income	119,804	1,631,998	11,706	7,360	-	1,770,868
Miscellaneous expense	(4,987,025)	-	-	-	-	(4,987,025)
Total nonoperating revenues (expenses)	<u>(3,994,582)</u>	<u>1,547,986</u>	<u>(149,625)</u>	<u>(209,235)</u>	<u>4,483</u>	<u>(2,800,973)</u>
INCOME (LOSS) BEFORE TRANSFERS AND CONTRIBUTIONS	(3,005,055)	1,623,323	486,912	144,273	11,022	(739,525)
TRANSFERS						
Payments in lieu of taxes	<u>(1,807,536)</u>	<u>(102,864)</u>	<u>(150,228)</u>	<u>(147,804)</u>	-	<u>(2,208,432)</u>
CHANGE IN NET POSITION	(4,812,591)	1,520,459	336,684	(3,531)	11,022	(2,947,957)
CHANGE IN ACCOUNTING PRINCIPLE	(183,317)	(15,798)	(320,665)	(235,687)	-	(755,467)
NET POSITION - BEGINNING	45,352,498	924,679	7,322,341	8,813,404	422,392	62,835,314
Contribution in aid of construction	<u>(236,429)</u>	-	-	-	-	<u>(236,429)</u>
NET POSITION - ENDING	<u>\$ 40,120,161</u>	<u>\$ 2,429,340</u>	<u>\$ 7,338,360</u>	<u>\$ 8,574,186</u>	<u>\$ 433,414</u>	<u>\$ 58,895,461</u>

See Notes to Financial Statements

CITY OF COLDWATER

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

	Electric Fund	Telecom- munications Fund	Water Fund	Waste Water Fund	Nonmajor Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 33,502,268	\$ 3,337,537	\$ 2,360,911	\$ 2,684,881	\$ 432,265	\$ 42,317,862
Payments made to suppliers	(32,167,734)	(2,312,371)	(789,030)	(1,054,542)	(390,425)	(36,714,102)
Payments made to employees	(1,286,057)	(523,318)	(455,785)	(488,420)	(34,800)	(2,788,380)
Net cash provided by operating activities	48,477	501,848	1,116,096	1,141,919	7,040	2,815,380
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal and interest paid on capital debt	(821,729)	(414,012)	(612,566)	(350,508)	-	(2,198,815)
Contribution in aid of construction	(236,429)	-	-	-	-	(236,429)
Proceeds on sale of assets	1,588,543	-	2,060	1,771	-	1,592,374
Purchase of capital assets	(1,102,269)	(87,836)	(782,278)	(122,455)	-	(2,094,838)
Net cash provided by (used in) capital and related financing activities	(571,884)	(501,848)	(1,392,784)	(471,192)	-	(2,937,708)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received on investments	1,165,297	-	4,175	16,030	4,483	1,189,985
Change in investments	(22,805)	-	(11,170)	(442,124)	-	(476,099)
Net cash provided by (used in) investing activities	1,142,492	-	(6,995)	(426,094)	4,483	713,886
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	619,085	-	(283,683)	244,633	11,523	591,558
CASH AND CASH EQUIVALENTS - BEGINNING	11,523,849	337,019	512,757	1,417,904	397,350	14,188,879
CASH AND CASH EQUIVALENTS - ENDING	\$ 12,142,934	\$ 337,019	\$ 229,074	\$ 1,662,537	\$ 408,873	\$ 14,780,437

See Notes to Financial Statements

CITY OF COLDWATER

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS - Continued FOR THE YEAR ENDED JUNE 30, 2014

	<u>Electric Fund</u>	<u>Telecom- munications Fund</u>	<u>Water Fund</u>	<u>Waste Water Fund</u>	<u>Nonmajor Rubbish Fund</u>	<u>Totals</u>
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS						
Cash and investments	\$ 12,142,934	\$ -	\$ 229,074	\$ 1,662,537	\$ 408,873	\$ 14,443,418
Restricted cash and investments	1,299,670	337,019	442,691	561,296	-	2,640,676
Less amounts classified as investments	<u>(1,299,670)</u>	<u>-</u>	<u>(442,691)</u>	<u>(561,296)</u>	<u>-</u>	<u>(2,303,657)</u>
Total cash and cash equivalents	<u>\$ 12,142,934</u>	<u>\$ 337,019</u>	<u>\$ 229,074</u>	<u>\$ 1,662,537</u>	<u>\$ 408,873</u>	<u>\$ 14,780,437</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Operating income	\$ 989,527	\$ 75,337	\$ 636,537	\$ 353,508	\$ 6,539	\$ 2,061,448
Adjustments to reconcile operating income to net cash from operating activities:						
Other income (expenses)	(4,867,221)	1,631,998	11,706	7,360	-	(3,216,157)
Depreciation	825,904	430,091	435,796	796,135	-	2,487,926
Loss (Gain) on sale of assets	(140,929)	-	2,060	1,771	-	(137,098)
Payments in lieu of taxes	(1,807,536)	(102,864)	(150,228)	(147,804)	-	(2,208,432)
Changes in assets and liabilities:						
Receivables	(39,808)	8,574	(32,117)	(34,002)	586	(96,767)
Inventories	21,964	-	11,122	-	-	33,086
Prepays and other assets	47,499	(49,881)	8,171	7,386	(24)	13,151
Due from (to) other funds	1,491,716	(1,491,716)	-	-	-	-
Accounts payable	3,557,684	15,615	181,937	14,807	187	3,770,230
Accrued expenditures	(18,482)	(5,177)	3,047	136,047	-	115,435
Compensated absences	<u>(11,841)</u>	<u>(10,129)</u>	<u>8,065</u>	<u>6,711</u>	<u>(248)</u>	<u>(7,442)</u>
Net cash provided by operating activities	<u>\$ 48,477</u>	<u>\$ 501,848</u>	<u>\$ 1,116,096</u>	<u>\$ 1,141,919</u>	<u>\$ 7,040</u>	<u>\$ 2,815,380</u>

See Notes to Financial Statements

CITY OF COLDWATER
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 32,244
LIABILITIES	
Accounts payable	\$ 11,455
Due to other governmental units	20,789
	<hr/>
Total	\$ 32,244
	<hr/> <hr/>

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Downtown Development Authority	Local Development Finance Authority	Total
ASSETS			
Cash and investments	\$ 165,344	\$ 385,933	\$ 551,277
Capital assets, less accumulated depreciation	241,501	-	241,501
 Total assets	 406,845	 385,933	 792,778
LIABILITIES			
Accounts payable	988	-	988
Due to others	-	385,933	385,933
Long term liabilities:			
Notes payable, due in more than one year	-	82,618	82,618
 Total liabilities	 988	 468,551	 469,539
NET ASSETS (DEFICIT)			
Investment in capital assets - net of related debt	241,501	(33,636)	207,865
Restricted (deficit)	164,356	(48,982)	115,374
 Total net position (deficit)	 \$ 405,857	 \$ (82,618)	 \$ 323,239

See Notes to Financial Statements

CITY OF COLDWATER
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating / Grants and Contributions</u>	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	<u>Total</u>
Downtown Development Authority	\$ 176,741	\$ 4,500	\$ 2,000	\$ (170,241)	\$ -	\$ (170,241)
Local Development Finance Authority	38,802	-	-	-	(38,802)	(38,802)
Total component activities	<u>\$ 215,543</u>	<u>\$ 4,500</u>	<u>\$ 2,000</u>	(170,241)	(38,802)	(209,043)
General revenues:						
Property taxes				69,080	7,948	77,028
Interest				307	4,396	4,703
Gain (loss) on sale of assets				(308,751)	-	(308,751)
Total general revenues				<u>(239,364)</u>	<u>12,344</u>	<u>(227,020)</u>
Change in Net Position				(409,605)	(26,458)	(436,063)
Net Position (Deficit) - Beginning				<u>815,462</u>	<u>(56,160)</u>	<u>759,302</u>
Net Position (Deficit) - Ending				<u>\$ 405,857</u>	<u>\$ (82,618)</u>	<u>\$ 323,239</u>

See Notes to Financial Statements

CITY OF COLDWATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY:

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

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

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

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

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

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

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

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

The City first utilizes restricted resources to finance qualifying activities.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

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.

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

The City does not allocate indirect costs.

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

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

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

Capital Improvement and Aquatic and Recreation Centers Capital Funds are used to account for the capital improvements in the City.

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.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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 2013 tax is levied and collectible on August 1, 2013 and is recognized as revenue in the year ended June 30, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 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, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION:

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, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have anything that qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City does not have anything that qualifies for reporting in this category.

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.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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 position.

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

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

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

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

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

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

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

**ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND
NET POSITION: – 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>Aquatic and Recreation Centers Capital Fund</u>	<u>Other Nonmajor Governmental Funds</u>
Nonspendable:					
Prepaid expenses	\$ 63,154	\$ -	\$ -	\$ -	\$ -
Notes receivable	-	5,106	-	-	-
Restricted:					
Revolving development	-	245,412	-	-	-
Aquatic and Recreation Centers	-	-	-	9,401,515	-
Major streets	-	-	-	-	110,945
Local streets	-	-	-	-	32,252
Committed:					
Parking authority	-	-	-	-	22,830
Library Memorial	-	-	-	-	141,366
Cemetery	-	-	-	-	450,000
Assigned:					
Fund balancing	311,559	-	752,038	-	-
Unassigned:	2,534,797	-	-	-	-
Total	<u>\$ 2,909,510</u>	<u>\$ 250,518</u>	<u>\$ 752,038</u>	<u>\$ 9,401,515</u>	<u>\$ 757,393</u>

BASIS OF BUDGETING:

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

NOTE B – DEPOSITS AND INVESTMENTS

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

Investments consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost which approximates market value. The certificates of deposits are currently earning rates of .15% to .50%.

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.

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Bank investment pool (not 2a-7)	\$ 1,383,513	0.0027
U.S. government or agency bond or note	4,588,442	3

1 day maturity equals 0.0027, one year equals 1.00

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE B – DEPOSITS AND INVESTMENTS – Continued

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.

<u>Investment</u>	<u>Fair Value</u>	<u>Fitch Rating</u>
Michigan CLASS pool	\$ 1,383,513	AAA

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

Custodial credit risk for deposits – In the case of deposits, this is the risk that in the event of a financial institution failure, the City’s deposits may not be recovered. As of June 30, 2014, \$29,934,982 of the City’s bank balance of \$32,013,827 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

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

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE C – TRANSFERS FROM (TO) OTHER FUNDS

Transfers from (to) other funds, during the year ended June 30, 2014, for the City are as follows:

GENERAL FUND

Transfer from Retirement Fund	<u>\$ 102,703</u>
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OTHER NONMAJOR FUNDS

Major Streets Fund	
Transfer to Local Streets Fund	(160,000)

Local Streets Fund	
Transfer from Major Streets Fund	160,000

Retirement Fund	
Transfer to General Fund	<u>(102,703)</u>

Total other nonmajor governmental funds	<u>\$ (102,703)</u>
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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, 2014**

NOTE D – CAPITAL ASSETS

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

GOVERNMENTAL ACTIVITIES

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2014</u>
GROUP:				
Capital assets, not being depreciated:				
Land	\$ 1,564,763	\$ -	\$ 28,199	\$ 1,536,564
Capital assets, being depreciated:				
Roads and sidewalks	13,850,187	194,668	225,591	13,819,264
Land improvements	740,633	-	-	740,633
Buildings and improvements	11,291,105	12,652	214	11,303,543
Vehicles	2,891,681	218,680	399,057	2,711,304
Other tools and equipment	2,127,143	7,475	630,006	1,504,612
Construction in progress	836,386	5,404,020	7,475	6,232,931
Total assets being depreciated	<u>31,737,135</u>	<u>5,837,495</u>	<u>1,262,343</u>	<u>36,312,287</u>
Total assets	33,301,898	5,837,495	1,290,542	37,848,851
ACCUMULATED DEPRECIATION:				
Roads and sidewalks	6,653,886	692,509	225,591	7,120,804
Land improvements	457,793	42,464	-	500,257
Building and improvements	3,687,848	391,808	214	4,079,442
Vehicles	1,990,317	169,303	378,245	1,781,375
Other tools and equipment	1,460,852	116,571	588,362	989,061
Total accumulated depreciation	<u>14,250,696</u>	<u>1,412,655</u>	<u>1,192,412</u>	<u>14,470,939</u>
Net capital assets	<u>\$ 19,051,202</u>	<u>\$ 4,424,840</u>	<u>\$ 98,130</u>	<u>\$ 23,377,912</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE D – CAPITAL ASSETS – Continued

BUSINESS-TYPE ACTIVITIES

GROUP:	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 781,502	\$ -	\$ -	\$ 781,502
Capital assets, being depreciated:				
Work in progress	126,559	330,348	92,683	364,224
Utility systems	56,714,627	921,210	2,218,438	55,417,399
Buildings	19,042,547	26,965	25,586	19,043,926
Machinery and equipment	6,996,789	892,201	3,654,354	4,234,636
Total assets being depreciated	<u>82,880,522</u>	<u>2,170,724</u>	<u>5,991,061</u>	<u>79,060,185</u>
Total assets	83,662,024	2,170,724	5,991,061	79,841,687
ACCUMULATED DEPRECIATION:				
Electric	16,187,395	825,904	4,232,492	12,780,807
Telecommunications	5,602,063	430,091	51,847	5,980,307
Water	6,944,828	435,796	20,331	7,360,293
Waste water	10,926,267	796,135	18,133	11,704,269
Total accumulated depreciation	<u>39,660,553</u>	<u>2,487,926</u>	<u>4,322,803</u>	<u>37,825,676</u>
Net capital assets	<u>\$ 44,001,471</u>	<u>\$ (317,202)</u>	<u>\$ 1,668,258</u>	<u>\$ 42,016,011</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE D – CAPITAL ASSETS – Continued

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

GOVERNMENTAL ACTIVITIES:

General government	\$ 232,457
Public safety	218,416
Public works	854,968
Recreation and culture	106,814
	<hr/>
Total governmental activities	\$ 1,412,655
	<hr/> <hr/>

BUSINESS -TYPE ACTIVITIES:

Electric	\$ 825,904
Telecommunications	430,091
Water	435,796
Waste water	796,135
	<hr/>
Total business-type activities	\$ 2,487,926
	<hr/> <hr/>

The component units capital assets at June 30, 2014 consist of the following:

COMPONENT UNITS:

Equipment	\$ 1,221
Infrastructure	301,819
	<hr/>
Total component units	303,040
Less, accumulated depreciation	<hr/> 61,539
Net capital assets of component units	<hr/> <hr/> \$ 241,501

All assets are held in the Downtown Development Authority. The component unit's depreciation expense for the year ended June 30, 2014 amounted to \$23,668.

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE E – LONG-TERM DEBT

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>
Governmental Activities:				
Revenue bonds	\$ 321,013	\$ -	\$ 16,000	\$ 305,013
General obligation capital improvement bond	-	1,526,000	-	1,526,000
Compensated absences	648,730	39,170	-	687,900
	<u>969,743</u>	<u>1,565,170</u>	<u>16,000</u>	<u>2,518,913</u>
Total governmental activities	<u>\$ 969,743</u>	<u>\$ 1,565,170</u>	<u>\$ 16,000</u>	<u>\$ 2,518,913</u>
Business-type Activities:				
Revenue bonds and Refunding bonds	\$ 8,667,956	\$ -	\$ 1,084,000	\$ 7,583,956
General obligation capital improvement bond	1,160,000	-	-	1,160,000
General obligation capital improvement and Refunding bonds	7,340,000	-	445,000	6,895,000
Equipment loan	320,964	-	32,112	288,852
Compensated absences	452,355	-	7,442	444,913
	<u>17,941,275</u>	<u>-</u>	<u>1,568,554</u>	<u>16,372,721</u>
Total business-type activities	<u>\$ 17,941,275</u>	<u>\$ -</u>	<u>\$ 1,568,554</u>	<u>\$ 16,372,721</u>

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE E – 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 \$16,000 to \$22,400, due April 2030	\$ 305,013
Series 2013 Pool and Recreation Hall Limited Tax General Obligation Capital Improvement Bonds, interest rates varying from 0.6% to 4.65%, annual principal payments ranging from \$45,000 to \$98,000, due April 2038	1,526,000
Accumulated compensated absences	<u>687,900</u>
Total governmental activities debt	<u><u>\$ 2,518,913</u></u>

BUSINESS-TYPE ACTIVITIES

Series 2004 Electric Utility System Revenue Bonds, interest rates varying from 3.9% to 4.9%, annual payments ranging from \$105,000 to \$180,000, due August 2024	\$ 1,540,000
Series 2006 Electric Utility System Revenue Refunding Bonds, interest rates varying from 4.125% to 4.5%, annual payments ranging from \$595,000 to \$650,000, due August 2016	1,865,000
Series 2002 Telecommunications System Revenue Refunding Bonds, at an interest rate of 5.5%, annual principal payments ranging from \$350,000 to \$390,000, due August 2017	1,500,000
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 \$275,000 to \$485,000, due September 2025	4,115,000

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE E – LONG-TERM DEBT – Continued

Series 2010 Waste Water Limited Tax General Obligation Refunding Bonds, interest rates varying from 1.85% to 4.1%, annual principal payments ranging from \$210,000 to \$315,000, due July 2024 2,780,000

Series 2005 Water Supply and Waste Water System General Obligation Capital Improvement Bonds, interest rates varying from 3.85% to 4.45%, annual payments ranging from \$70,000 to \$130,000, due July 2025 1,160,000

Series 2004 Water Supply and Waste Water System Revenue Bonds, interest rates varying from 4.0% to 4.6%, annual payments ranging from \$70,000 to \$115,000, due July 2024 1,005,000

Series 2009 Water Supply and Waste Water System Revenue Bonds, interest rate of 2.5%, annual payments ranging from \$84,000 to \$132,556, due April 2030 1,673,956

Note payable to bank, interest rate of 2.45%, annual payments ranging from \$33,100 to \$39,408, due June 2022, secured by equipment 288,852

Total bonds and installment purchase agreements 15,927,808

Accumulated compensated absences 444,913

Total business-type activities debt \$ 16,372,721

CITY OF COLDWATER

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE E – LONG-TERM DEBT – Continued

COMPONENT UNITS

Local Development Finance Authority note payable, at an interest rate of 7.0%, due 2015

\$ 82,618

The annual requirements to service all debt outstanding as of June 30, 2014, including interest payments of \$4,258,280 for the debt service requirements are as follows:

	Governmental Activities		
	Principal	Interest	Total
2015	\$ 61,000	\$ 64,601	\$ 125,601
2016	61,800	63,846	125,646
2017	63,600	62,936	126,536
2018	63,600	61,846	125,446
2019	65,400	60,613	126,013
2020-2024	351,600	277,235	628,835
2025-2029	411,600	216,891	628,491
2030-2034	385,413	134,675	520,088
2035-2038	367,000	39,362	406,362
	<u>\$ 1,831,013</u>	<u>\$ 982,005</u>	<u>\$ 2,813,018</u>
	Business-type Activities		
	Principal	Interest	Total
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	1,297,993	355,272	1,653,265
2019	943,065	311,668	1,254,733
2020-2024	5,317,441	973,481	6,290,922
2025-2029	2,155,400	112,668	2,268,068
2030-2034	132,556	3,314	135,870
	<u>\$ 15,927,808</u>	<u>\$ 3,276,275</u>	<u>\$ 19,204,083</u>

Interest expense for the year ended June 30, 2014 was \$637,703 for Business-type Activities and \$39,687 for the Governmental Activities. Total interest incurred by component units for the year ended June 30, 2014 amounted to \$3,931.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE F – 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 G – 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 ten years of service; payment is based on various factors depending on the type of benefit to be paid. Deferred retirement benefits vest after ten 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, 2014, the City's required and actual pension cost was \$834,200. The annual required contribution percentage was determined as a part of an actuarial valuation, 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, 2014

NOTE G – RETIREMENT PROGRAM – Continued

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a ten-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, 2014, there were 88 plan members. Plan members are required to contribute 0% to 9% 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, 2014 was \$332,983. Plan provisions and contribution requirements are established and may be amended by the City Council.

NOTE H – 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, 2014 is \$84,671

The City recognizes collections of principal and interest on the federal portion of these loans as unearned revenue as the loans are repaid. Unearned revenue amounted to \$79,565 at June 30, 2014. Repayment of the local portion of these loans is recorded as a reduction of the loan receivable and interest income when received. Upon repayment of the balance of each loan, unearned revenue will either be recognized as revenue when deemed available by the granting agency or the funds will be returned to the granting agency.

NOTE I – JOINT VENTURES

The City is a member of the Michigan South Central Power Agency, which provides electric services to the residents of its member communities. The participating communities provide annual funding for its operations. During the current year, the City paid \$27,851,250 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, 2014**

NOTE J – CONSTRUCTION CODE FEES

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

Shortfall at July 1, 2013	\$ (2,108,034)
Current year building permit revenue	75,427
Less related expenses - Direct costs	<u>(239,745)</u>
Shortfall at June 30, 2014	<u><u>\$ (2,272,352)</u></u>

NOTE K – COMMITMENTS

The City of Coldwater has entered into contracts to complete the Dr. Robert W Browne Aquatic Center and the Dr. Robert W. Browne Recreation Center. The amount committed to finish the project at June 30, 2014 was approximately \$8.7 million. The total project cost is approximately \$15.6 million. Of that amount, Dr. Browne has contributed \$14.1 million with the City issuing \$1.5 million of capital improvement bonds for the remainder of the project.

NOTE L – CONTINGENCY

The City of Coldwater is involved in a dispute with the 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.

NOTE M – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2014, the City has implemented GASB No. 65, Items Previously Reported as Assets and Liabilities. This resulted in an adjustment to the beginning net position on the statement of activities of \$755,467 to remove deferred charges no longer required to be capitalized in accordance with GASB 65.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE N – PURCHASED POWER CONTRACTS

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

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

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

The City's estimated share at June 30, 2014 of the impaired costs is \$5,278,847. The City received a credit of \$1,892,945 related to their participation in the AMP Fremont Energy Center (AFEC) Project, leaving a net impaired cost estimate of \$3,385,902.

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

The impaired costs have been included in the business-type activities and the electric enterprise fund as an expense. The City elected to finance this amount through AMP as part of their monthly power supply invoice from Michigan South Central Power Agency (MSCPA).

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

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

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE N – PURCHASED POWER CONTRACTS – Continued

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

AMP's share of the total Project costs, including AMP's share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1.697 billion of debt of which as of June 30, 2014, the City of Coldwater's share is approximately \$43,492,436. These estimated costs include (i) AMP's costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project

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

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

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

On January 21, 2012 the AMP Fremont Energy Center ("AFEC") began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE N – PURCHASED POWER CONTRACTS – Continued

This amount included a development fee of \$35,535,448 paid by AFEC participants for the account of AMP Generating Station participants who are also AFEC participants. The amount was previously recorded as a noncurrent regulatory asset at December 31, 2011. In June 2012, AMP sold 26.419 MW or 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency ("MPPA") and entered into a power sales contract with Central Virginia Electric Cooperative ("CVEC") for the output of a 21.248 MW or 4.15% interest in AFEC. AMP has sold the output of the remaining 464.355 MW or 90.69% interest to the AFEC participants, which consist of 87 of its members, pursuant to a take-or-pay power sales contract.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 17,615 kW or 3.79% of capacity and associated energy from the AFEC facility. The City's share of the permanent financing as of June 30, 2014, is approximately \$20,397,294.

Combined Hydroelectric Projects (79 Members). - AMP is currently developing three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the "*Combined Hydroelectric Projects*"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects entails the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers' dams and includes associated transmission facilities. The Combined Hydroelectric Projects, including associated transmission facilities, will be constructed and operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects. AMP received the last of the material permits needed to begin construction on the Cannelton hydroelectric facility and Smithland hydroelectric facility, respectively in 2009. Ground breaking ceremonies were held for Cannelton on August 25, 2009 and for Smithland on September 1, 2010. AMP received the last of the material permits for the Willow Island hydroelectric facility in the last quarter of 2010 and ground breaking ceremonies took place on July 21, 2011.

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

All major contracts for the projects which include the turbines, the powerhouse construction, the powerhouse gates, the powerhouse cranes, and the transformers have been awarded for the Cannelton, Smithland, and Willow Island facilities. And property right-of-way acquisitions for the transmission lines have been completed for all three projects.

As of September 11, 2014, AMP is projecting that the Combined Hydroelectric Projects are expected to enter into commercial operation as follows: Cannelton in the second quarter of 2015; Willow Island in the second quarter of 2015; and Smithland in the second quarter of 2016.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE N – PURCHASED POWER CONTRACTS – Continued

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP has issued in seven series \$2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the “Combined Hydroelectric Bonds”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds) of which as of June 30, 2014, the City of Coldwater’s share is approximately \$63,669,251. The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

Meldahl Hydroelectric Project (48 Members) and Greenup (47 Members) - AMP is currently constructing a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and of related equipment and associated transmission facilities (the “Meldahl Project”). When the Meldahl Project enters commercial operation, it is projected to have a generating capacity of approximately 105 MW. The City of Hamilton, Ohio, a Member of AMP and a participant in the Meldahl Project, and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license necessary to construct and operate the Meldahl Project. Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project will be owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company (“Meldahl, LLC”), and will be operated by Hamilton. AMP, acting as agent of Meldahl LLC, is financing the development, acquisition, construction and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of its Meldahl Hydroelectric Project Revenue Bonds (the “Meldahl Bonds”) in the amount of \$685,100,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members.

The City of Coldwater has executed a take-or-pay power sales contract with AMP for 1,794 kW or 1.71% of capacity and associated energy from the hydro facility. The City’s share of the debt as of June 30, 2014, is approximately \$11,705,423.

All major contracts for the project which include the turbine, the powerhouse construction, the powerhouse gate, the powerhouse crane, and the transformer have been awarded for the Meldahl facility. And the property right-of-way acquisitions for the transmission line have been completed for this project.

As of September 11, 2014, AMP estimates the Meldahl Project will enter commercial operation in the first quarter of 2015.

CITY OF COLDWATER

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2014

NOTE N – PURCHASED POWER CONTRACTS – Continued

The referenced agreements with Hamilton respecting the Meldahl Project also provided that Hamilton would sell to AMP a 48.6% undivided ownership interest in the Greenup Hydroelectric Facility (“Greenup”), a 70.2 MW run-of-the river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River, in commercial operation since 1988. The sale is contingent upon the placement of the Meldahl Project into commercial operation. Based on the estimated commercial operation date for the Meldahl Project, AMP currently estimates that it will issue bonds to finance its undivided ownership interest in Greenup in the second or third quarter of 2014. AMP’s Greenup bonds will be secured by a separate power sales contract that has been executed by the same Members (all except Hamilton which will retain title to the remaining 51.4% ownership interest in Greenup) that executed the Meldahl power sales contract. Hamilton will continue to operate Greenup.

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 3,640,856	\$ 3,611,856	\$ 3,621,896	\$ 10,040
Licenses and permits	151,800	214,800	227,828	13,028
Federal sources	-	6,276	33,974	27,698
State shared revenue	926,000	926,000	926,301	301
State sources	44,000	37,700	38,778	1,078
Charges for services	483,900	435,400	461,808	26,408
Rent	299,658	327,658	337,182	9,524
Interest earned	25,000	25,000	49,067	24,067
Contributions	1,500	9,124	9,556	432
Other	30,000	36,000	41,060	5,060
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	5,602,714	5,629,814	5,747,450	117,636
EXPENDITURES				
General government	1,404,248	1,483,648	1,384,219	(99,429)
Public safety	3,832,768	4,028,538	3,867,633	(160,905)
Public works	1,588,850	1,666,950	1,528,328	(138,622)
Recreation and cultural	948,908	948,508	783,899	(164,609)
Planning	183,946	164,846	185,568	20,722
Debt Service	96,000	17,183	17,183	-
Other	270,415	316,684	291,254	(25,430)
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	8,325,135	8,626,357	8,058,084	(568,273)
Excess (deficiency) of revenues over expenditures	(2,722,421)	(2,996,543)	(2,310,634)	685,909
OTHER SOURCES				
Sale of fixed assets	-	42,400	49,937	7,537
Payment in lieu of taxes	2,208,443	2,208,443	2,208,432	(11)
Transfers from other funds	103,069	103,069	102,703	(366)
Proceeds from debt	223,000	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other sources	2,534,512	2,353,912	2,361,072	7,160
Excess (deficiency) of revenues and other sources over expenditures	(187,909)	(642,631)	50,438	693,069
FUND BALANCE - BEGINNING	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCE - ENDING	\$ 2,445,952	\$ 2,216,441	\$ 2,909,510	\$ 693,069

CITY OF COLDWATER
REQUIRED SUPPLEMENTAL INFORMATION
REVOLVING DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest income	\$ 7,300	\$ 7,300	\$ 7,413	\$ 113
Other	15,220	15,220	15,789	569
Total revenue	22,520	22,520	23,202	682
EXPENDITURES				
Economic development	63,549	63,549	11,000	(52,549)
Excess (deficiency) of revenues over expenditures	(41,029)	(41,029)	12,202	53,231
OTHER SOURCES (USES)				
Return of grant to State	-	-	(1,024,570)	(1,024,570)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(41,029)	(41,029)	(1,012,368)	(971,339)
FUND BALANCE - BEGINNING	608,144	1,262,886	1,262,886	-
FUND BALANCE - ENDING	<u>\$ 567,115</u>	<u>\$ 1,221,857</u>	<u>\$ 250,518</u>	<u>\$ (971,339)</u>

CITY OF COLDWATER
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014

NOTE A - COMPLIANCE WITH STATE REGULATIONS

A comparison of actual results of operations to the budgeted amounts, at the level of control adopted by the City, for the General Fund is presented as Required Supplemental Information. The budget is adopted on the functional level.

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

	Final Budget	Actual
General Fund		
Planning	\$ 164,846	\$ 185,568
Revolving Development Fund		
Return of grant to State	\$ -	\$ 1,024,570

CITY OF COLDWATER

**REQUIRED SUPPLEMENTAL INFORMATION
RETIREMENT SYSTEM ANALYSIS OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

As of December 31	Fiscal Year Ended June 30,							Covered Payroll	Underfunded Actuarial Accrued Liability Percentage of Covered Payroll
	Annual Pension Cost*	Percentage of Annual Pension Contributed	Net Pension Obligation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio		
2009	345,540	100%	-	20,736,364	25,353,044	4,616,680	82%	2,600,872	177.51%
2010	441,735	100%	-	20,451,738	25,659,658	5,207,920	80%	2,393,508	217.59%
2011	546,133	100%	-	20,255,548	26,258,719	6,003,171	77%	2,439,638	246.07%
2012	686,300	100%	-	19,981,036	26,715,368	6,734,332	75%	2,253,464	298.84%
2013	834,200	100%	-	20,050,307	27,411,350	7,361,043	73%	2,291,257	321.27%

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

CITY OF COLDWATER

**OTHER SUPPLEMENTAL INFORMATION
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Nonmajor Special Revenue Funds</u>				<u>Nonmajor Capital Project Funds</u>	<u>Nonmajor Permanent Fund</u>	<u>Totals</u>
	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Parking Authority Fund</u>	<u>Retirement Fund</u>	<u>Library Memorial Fund</u>	<u>Cemetery Special and Perpetual Care Nonexpendable Trust Fund</u>	
ASSETS							
Cash and investments	\$ 12,280	\$ 6,871	\$ 22,917	\$ 808	\$ 142,526	\$ -	\$ 185,402
Due from other governmental units	110,553	31,489	-	-	-	-	142,042
Restricted assets	-	-	-	-	-	450,000	450,000
Total assets	<u>\$ 122,833</u>	<u>\$ 38,360</u>	<u>\$ 22,917</u>	<u>\$ 808</u>	<u>\$ 142,526</u>	<u>\$ 450,000</u>	<u>\$ 777,444</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	\$ 9,570	\$ 4,285	\$ -	\$ 808	\$ 1,160	\$ -	\$ 15,823
Accrued expenditures	2,318	1,823	87	-	-	-	4,228
Total liabilities	11,888	6,108	87	808	1,160	-	20,051
FUND BALANCE							
Restricted	110,945	32,252	-	-	-	-	143,197
Committed	-	-	22,830	-	141,366	450,000	614,196
Total fund balance	110,945	32,252	22,830	-	141,366	450,000	757,393
Total liabilities and fund balance	<u>\$ 122,833</u>	<u>\$ 38,360</u>	<u>\$ 22,917</u>	<u>\$ 808</u>	<u>\$ 142,526</u>	<u>\$ 450,000</u>	<u>\$ 777,444</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, 2014**

	Nonmajor Special Revenue Funds				Nonmajor Capital Project Fund	Nonmajor Permanent Fund	Totals
	Major Streets Fund	Local Streets Fund	Parking Authority Fund	Retirement Fund	Library Memorial Fund	Cemetery Special and Perpetual Care Nonexpendable Trust Fund	
REVENUES							
Taxes	\$ -	\$ -	\$ -	\$ 102,285	\$ -	\$ -	\$ 102,285
Special assessments	-	-	41,001	-	-	-	41,001
State shared revenue	609,684	191,262	-	-	-	-	800,946
State sources	160,979	-	-	-	-	-	160,979
Charges for services	-	-	3,714	-	854	-	4,568
Interest income	493	-	-	35	1,638	-	2,166
Contributions	-	-	-	-	1,223	-	1,223
Other income	-	-	-	383	-	-	383
Total revenues	771,156	191,262	44,715	102,703	3,715	-	1,113,551
EXPENDITURES							
Public works	489,115	325,801	59,987	-	-	-	874,903
Recreation and cultural	-	-	-	-	9,875	-	9,875
Debt service	16,717	7,599	-	-	-	-	24,316
Total expenditures	505,832	333,400	59,987	-	9,875	-	909,094
Excess (deficiency) of revenues over expenditures	265,324	(142,138)	(15,272)	102,703	(6,160)	-	204,457
OTHER SOURCES (USES)							
Transfers from (to) other funds	(160,000)	160,000	-	(102,703)	-	-	(102,703)
Excess (deficiency) of revenues and other sources over expenditures and other uses	105,324	17,862	(15,272)	-	(6,160)	-	101,754
FUND BALANCE - BEGINNING	5,621	14,390	38,102	-	147,526	450,000	655,639
FUND BALANCE - ENDING	\$ 110,945	\$ 32,252	\$ 22,830	\$ -	\$ 141,366	\$ 450,000	\$ 757,393

CITY OF COLDWATER
OTHER SUPPLEMENTAL INFORMATION
FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Health Insurance Fund	Tax Collection Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 11,317	\$ 20,927	\$ 32,244
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES			
Accounts payable	\$ 11,317	\$ 138	\$ 11,455
Due to other governmental units	-	20,789	20,789
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 11,317	\$ 20,927	\$ 32,244
	<u> </u>	<u> </u>	<u> </u>



November 24, 2014

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, 2014. 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 \$1,133,000.

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management letter dated November 24, 2014.

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.

Upcoming Changes in Regulations and Standards

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

GASB 68 Accounting and Financial Reporting for Pensions – Effective 6/15/2015

The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost sharing plan. The Statement also will improve comparability and consistency of how governments calculate the pension liabilities and expense.

Uniform Guidance for Federal Audits – Effective 12/26/2015

The Office of Management and Budget (OMB) has consolidated seven separate circulars into a single federal regulation. The new Uniform Guidance covers all aspects of federal grants from pre-award through the single audit. While much of the guidance was simply reorganized and recodified, there were also several substantive changes to the single audit thresholds. A single audit will now only be required if total expenditures of federal awards exceed \$750,000. The OMB has indicated that there will be further changes to the single audit announced in 2015.

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.