



St. Louis, Michigan

**Financial Statements
For the Year Ended
June 30, 2010**

CITY OF ST. LOUIS
FINANCIAL STATEMENTS
TABLE OF CONTENTS

	<u>PAGE</u>
Introductory Section	
Letter of Transmittal	i-iii
Financial Section	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-12
Basic Financial Statements	
Government Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14-15
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of the Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Major Street Fund	21
Statement of Net Assets – Proprietary Funds.....	22-23
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	24

CITY OF ST. LOUIS
FINANCIAL STATEMENTS
TABLE OF CONTENTS

	<u>PAGE</u>
Statement of Cash Flows – Proprietary Funds	25
Statement of Fiduciary Net Assets – Fiduciary Funds	26
Notes to Financial Statements	27-52
 Required Supplementary Information	
Municipal Employees Retirement System of Michigan – Schedule of Funding Progress and Employer Contributions.....	53
 Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds – Combining Balance Sheet.....	54
Nonmajor Governmental Funds – Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	55
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –	
Local Streets Fund.....	56
Magnet Fund	57
T.A. Cutler Memorial Library Fund	58
Capital Improvement Special Revenue Fund.....	59
Combining Balance Sheet – Trust and Agency Funds	60
Combining Statement of Changes in Assets and Liabilities Agency Funds.....	61
Downtown Development Authority Component Unit	
Statement of Net Assets and Balance Sheet	62
Statement of Activities, Revenue, Expenditures and Changes in Fund Balance	63
 Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	64-65

INTRODUCTORY SECTION



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December 20, 2010

To the Honorable Mayor, Members of the City Council and Citizens of the City of St. Louis:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2010.

Management assumes full responsibility for the completeness and reliability of all of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated, objective is to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement.

Rehmann Robson, Certified Public Accountants have issued an unqualified ("clean") opinion on the financial statements of the City of St. Louis for the year ended June 30, 2010. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of St. Louis, incorporated in 1853, is located in the central part of Michigan, which is considered to be a growing area. The City of St. Louis currently occupies a land area of 3 square miles and serves a population of 4,494. The City of St. Louis is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits, by annexation, or by agreement with adjacent governmental jurisdictions, which it has done from time to time.

The City of St. Louis operates under the council-manager form of government. Policy-making and legislative authority are vested in a council consisting of the mayor and four other members all elected on a non-partisan basis. Council members serve four-year staggered terms, with two council members elected every odd year. The mayor is elected to serve a two-year term. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the government's manager and clerk. The City Manager appoints the heads of the various other departments.

The City of St. Louis provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; provision of water, sewer and electric utility services; trash collection; and recreation and cultural activities. The City of St. Louis also is financially accountable for legally separate Downtown Development Authority which is reported separately within the City's financial statements. Additional information on this legally separate entity can be found in the notes to financial statements.

The Council is required to adopt a budget for the ensuing fiscal year no later than its first regular meeting in the month of June. The annual budget serves as a foundation for the City's financial planning and control. The budget is prepared at the fund, function level (e.g., public safety), and department (e.g., police). The budget is adopted at the function level. Department heads may transfer resources within a department as they see fit; however, transfers from one department to another within a function requires City Manager approval. Transfers of appropriations between functions; however, require that a public hearing be held and approval of the City Council.

Local economy

Gratiot County (which includes the City of St. Louis and the surrounding incorporated and unincorporated area), has a labor force of 18,956 as of September 2010, which is down from September 2009 by 194. The unemployment rate in the County for September 2010 is 12.3% which is down from the September 2009 rate of 13.7%. Statewide, the seasonally unadjusted unemployment rate in October 2010 was 12.8%. The University of Michigan predicts that the statewide unemployment rate will remain relatively steady through 2012 though the rate of job loss will decline. The main reason for the unemployment rate remaining steady is that though job creation will improve, many who considered that finding a job was hopeless are not listed as unemployed; but, will return to the job market as the economy and once again be counted as unemployed.

As the State's economy continues to suffer, State support to local government continues to decline resulting in job loss in the local government sector. The City's central business district has suffered during this economic downturn and subsequent to fiscal year end lost a pharmacy and dollar store. A new pharmacy is expected to open shortly and efforts are underway to recruit new business to the former location of the dollar store. We expect to be able to regain healthy downtown occupancy rates with a variety of stores, specialty shops, and commercial businesses. Residential growth has seen some improvement over the past year as there have been two new residences constructed.

Long-term financial planning

Unreserved and undesignated fund balance in the general fund (44.4 percent of total general fund expenditures) falls above the "rule of thumb" most generally used to determine financial stability of a City's General Fund as reported in "**Challenging Financial Times Continue for Local Governments**" a study conducted by Plant and Moran for the Michigan Municipal League. The study does go on to indicate that some small local governments do require as much as 30 percent unreserved undesignated fund balances. Reserves and fund balances are at their greatest level in recent history; however, caution will need to be exercised over the course of the next two to three years until the economy improves.

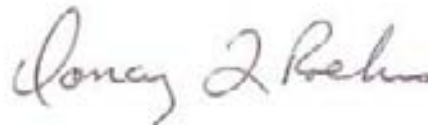
Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the City finance, administration departments and accounting assistance from Bobbie Marr and staff of Page Olson & Co., P.C and Paula Bedford and auditing staff of Rehmann Robson. We would like to express our appreciation to all members of the City staff, Page Olson & Co., P.C and Rehmann Robson who assisted and contributed to the preparation of this report. Credit also must be given to Mayor Kubin and City Council for their support for maintaining the highest standards of professionalism in the management of the City of St. Louis' finances.

Respectfully submitted,



Robert McConkie, City Manager



Nancy L. Roehrs, City Clerk/Treasurer

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

December 20, 2010

City Council
City of St. Louis
108 West Saginaw Street
St. Louis, Michigan 48880-1589

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of St. Louis*, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

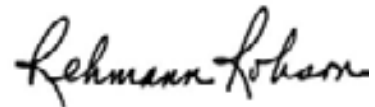
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of St. Louis*, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and Major Street Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010, on our consideration of the *City of St. Louis*'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 and the Municipal Employees Retirement System of Michigan's Schedule of Funding Progress and Employer Contributions on page 53 are not required parts of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of St. Louis*'s basic financial statements. The introductory section, combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in cursive script, reading "Lehmann Lohman".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of St. Louis, we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of St. Louis for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are presented in whole dollars

Financial Highlights

- The assets of the City of St. Louis exceed its liabilities at the close of the most recent fiscal year by \$29,317,274. Of this amount \$3,529,537 may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,328.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,770,225. Of this amount, \$1,581,391 is available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$660,132 or 44.4% of the total general fund expenditures.
- The City's total debt decreased by \$236,283.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of St. Louis basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of St. Louis finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, community and economic development, recreation and culture. The business-type activities of the City include operation of water and sewer systems and an electric distribution system.

The government-wide financial statements include not only the City of St. Louis itself, (known as the primary government), but also a legally separate downtown development authority for which the City of St. Louis is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. The St. Louis Downtown Development Authority, although a separate legal entity, functions for all practical purposes as a department of the primary government.

The government wide financial statements can be found on pages 13-15 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of St. Louis, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of St. Louis can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Unlike the government-wide financial statements however, governmental fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of St. Louis maintains nine individual governmental funds. Information is reported separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and major street fund which are considered to be major funds. Data from the other seven governmental funds are

combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of St. Louis adopts an annual budget for its General Fund and other governmental funds as required by Act 2 Michigan Public Acts of 1968, as amended. A budgetary comparison statement has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 16-21 of this report.

Proprietary Funds. The City of St. Louis maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City of St. Louis maintains four individual enterprise funds. Information is reported separately in the proprietary fund statement of net assets and in the proprietary fund statement of revenue, expenses and changes in fund net assets for the Water & Sewer Fund, the Electric Fund, the Housing Commission and the Solid Waste Fund, all of which are considered to be major funds.

The City uses an internal service fund to account for its fleet of vehicles. Information is reported separately along with the proprietary fund statement of net assets and in the proprietary fund statement of revenue, expenses and changes in fund net assets. Because the services provided by the Motor Pool Fund predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 22-25 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of St. Louis own programs. The accounting for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 26 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-52 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

The following summaries provide a perspective of financial information of the City as a whole.

City of St. Louis						
Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 2,085,844	\$ 1,608,818	\$ 4,515,119	\$ 3,901,372	\$ 6,600,963	\$ 5,510,190
Capital assets	8,965,886	9,875,217	16,460,602	16,708,360	25,426,488	26,583,577
Total assets	\$ 11,051,730	\$ 11,484,035	\$ 20,975,721	\$ 20,609,732	\$ 32,027,451	\$ 32,093,767
Liabilities						
Current liabilities	\$ 224,886	\$ 221,146	\$ 548,226	\$ 453,033	\$ 773,112	\$ 674,179
Long term liabilities outstanding	570,283	545,839	1,366,782	1,557,803	1,937,065	2,103,642
Total liabilities	\$ 795,169	\$ 766,985	\$ 1,915,008	\$ 2,010,836	\$ 2,710,177	\$ 2,777,821
Net assets:						
Invested in capital assets, net of related debt	\$ 8,449,783	\$ 9,300,701	\$ 15,240,607	\$ 15,288,360	\$ 23,690,390	\$ 24,589,061
Restricted	195,194	185,735	1,902,153	1,534,426	2,097,347	1,720,161
Unrestricted	1,611,584	1,230,614	1,917,953	1,776,110	3,529,537	3,006,724
Total net assets	\$ 10,256,561	\$ 10,717,050	\$ 19,060,713	\$ 18,598,896	\$ 29,317,274	\$ 29,315,946

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of St. Louis, assets exceed liabilities by \$29,317,274 at the close of the fiscal year.

By far the largest portion of the City of St. Louis's net assets (80.8%) reflect its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate their liabilities.

An additional portion of the City's net assets (\$2,097,347) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$3,529,537) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the fiscal year, the City of St. Louis is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's net assets increased \$1,328 during the current fiscal year.

City of St Louis
Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for Services	\$ 360,918	\$ 344,971	\$ 6,725,562	\$ 5,776,777	\$ 7,086,480	\$ 6,121,748
Operating Grants & Contributions	534,258	753,811	898,129	864,119	1,432,387	1,617,930
Capital Grants & Contributions	-	-	146,301	188,831	146,301	188,831
General Revenues:						
Property Taxes	766,658	751,257	-	-	766,658	751,257
State Aid	438,991	487,413	-	-	438,991	487,413
Other	38,673	46,120	95,569	70,055	134,242	116,175
Transfers	419,263	396,789	(419,263)	(396,789)	-	-
Total Revenues & Transfers	2,558,761	2,780,361	7,446,298	6,502,993	10,005,059	9,283,354
Expenses:						
General Government	418,404	489,727	-	-	418,404	489,727
Public Safety	933,347	783,706	-	-	933,347	783,706
Public Works	1,216,241	1,479,745	-	-	1,216,241	1,479,745
Community & Economic Development	115,504	125,335	-	-	115,504	125,335
Recreation & Culture	307,333	346,562	-	-	307,333	346,562
Interest & Fiscal Charges	28,421	35,167	-	-	28,421	35,167
Electric	-	-	3,676,147	3,517,007	3,676,147	3,517,007
Water & Sewer	-	-	1,858,352	1,927,914	1,858,352	1,927,914
Housing Commission	-	-	1,170,853	1,103,769	1,170,853	1,103,769
Solid Waste	-	-	279,129	267,869	279,129	267,869
Total Expenses	3,019,250	3,260,242	6,984,481	6,816,559	10,003,731	10,076,801
Increase (decrease) in net assets	(460,489)	(479,881)	461,817	(313,566)	1,328	(793,447)
Net Assets - July 1	10,717,050	11,196,931	18,598,896	18,912,462	29,315,946	30,109,393
Net Assets - June 30	\$ 10,256,561	\$ 10,717,050	\$ 19,060,713	\$ 18,598,896	\$ 29,317,274	\$ 29,315,946

Governmental Activities

Governmental activities net assets decreased by \$460,489 during the current fiscal year. This primarily is the effect of recording depreciation on assets in excess of investment in new assets.

Business-type Activities

Business type activities increased the City's net assets by \$461,817 during the current fiscal year. This is primarily due to investment in assets explained further in the Capital Asset section below.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,770,225. This represents an increase of \$355,081 during the fiscal year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$660,132, while the total fund balance reached \$696,650. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 44.5 percent of the total general fund expenditures.

Fund balance of the City's general fund increased by \$117,656 during the current fiscal year. The key factor in this increase is the fact that at the beginning of the fiscal year an edict was issued to department heads to be extremely conservative with expenditures because a reduction in allocation of state shared revenues was threatened by the State. City department heads responded with greater than expected savings. Part-time staff positions were eliminated and a reduced schedule for maintenance of city properties was adopted along with other cost saving measures.

Fund balances in the special revenue funds increased by \$173,800 during the current fiscal year. The key factor in this increase is saving for major future street improvement projects

The fund balances of the debt service funds of the City increased a total of \$43 during the current fiscal year. General fund and other special revenue funds of the City transfer amounts necessary to pay current amounts due on bonded indebtedness. Fund balances in the bond debt funds are adequate to service short term needs as they arise.

Proprietary Funds. The City's proprietary funds provide the same type information found in the government-wide financial statement, but in more detail.

Unrestricted net assets of the electric utility fund at the end of the year amounted to \$974,686. The total increase in net assets for the electric utility fund was \$384,927. This increase in net assets is due primarily to a rate increase in the previous fiscal year coupled with purchased power cost being less than expected and other factors were the investments made in fixed assets. A project to rebuild of hydro-electric generator, distribution improvements to the west side of the community and improvements to the dam gates and pond level monitoring were completed during the fiscal year.

Unrestricted net assets for the water & sewer system operations at the end of the year amounted to \$78,607. The total increase in net assets for the water & sewer utility fund was \$73,632. The increase of net assets for the water & sewer utility fund is due primarily to a reduction in

preliminary engineering costs associated with replacement of the water supply. Replacement of the water supply is necessary as a result of contamination emanating from an EPA Superfund site.

The unrestricted net assets for the Housing Commission at the end of the year amounted to \$564,206. The total decrease in net assets for the Housing Commission fund was \$23,176.

The unrestricted net assets for the solid waste fund at the end of the year amounted to \$157,463. The total increase in net assets for the solid waste fund was \$30,087. The primary reason for this increase of net assets was a reduction in contract cost for trash removal due to fuel surcharge less than expected in contract documents.

General Fund Budgetary Highlights

The originally adopted budget remained unchanged throughout the fiscal year. No amendments to the budget were deemed necessary.

Actual revenue fell short of budgeted revenue and other financing sources by \$17,919.

Actual expenditures were \$135,496 less than the original budget projection.

Capital Asset and Debt Administration

Major capital asset events during the current fiscal year include the following:

- Electric Utility: The projects below are multiyear projects that are continuing this fiscal year and will be completed during the 2010-11 fiscal year.

FERC Compliance Project to manage the mill pond level within tolerance established by FERC total estimated cost of \$109,000. The project includes automation of dam gates and the installation of equipment to record and report real time pond levels.

Hydroelectric Generator Rebuild Project estimated cost \$179,000.

West Side Distribution System Upgrade Project to convert customer supply from 2400v circuit to 4160v circuit which is an ongoing project scheduled to be completed in the 2010-11 fiscal year at an estimated cost of \$60,000.

- Sidewalk Improvement Program including replacement of existing deteriorated sidewalk at a cost of approximately \$20,000.
- Continuation of a project to automate utility meter reading by installing \$80,000 in new utility meters. Approximately \$31,000 was invested in meters during the current fiscal year ending June 30, 2010.

- Following the discovery of traces of the chemical compound para-Chlorobenzene Sulfonic Acid in three of the City water wells, efforts began to study replacement of a portion of the municipal water supply. After initial work was completed to evaluate options and prepare a preliminary hydro-geological study, site several test borings and observation wells, a test production well about one mile outside the City was drilled. During this time, it was discovered that all six municipal wells tested positive for varying levels of the chemical contaminant. Upon reviewing all data, the Michigan Department of Environmental Quality strongly suggests replacement of the City's entire water supply in a location five miles or greater from the City. Alternatives are continuing to be investigated including locating new well fields and the formation of a joint water authority with neighboring City of Alma.

Litigation continues in Federal District Court in Bay City against Velsicol Chemical Company, the Velsicol Trust Funds et al (responsible parties for the contamination.)

Additional information on the City's capital assets can be found in Note III C on pages 41-43.

Component Unit – Downtown Development Authority

In fiscal year 2008-09, the St. Louis Downtown Development Authority authorized a project to acquire a vacant somewhat deteriorated downtown building and renovate the building in hopes of luring a new business to the City's main street. The St. Louis City Council authorized an \$80,000 loan from the St. Louis electric utility fund to the DDA to finance the project. Shortly after the building was acquired and the renovation commenced, the DDA had a commitment to lease the facility. The lease purchase agreement was entered into on October 1, 2009. This acquisition, though the DDA owned a building which is not reflected on the DDA fund statement sheet, leaves the DDA in a deficit fund balance position.

Additional information on the Downtown Development Authority can be found in Note III C page 43 and Financial Statements pages 62-63 of this report. A Deficit Elimination Plan has been filed with Michigan Department of Treasury, as required.

Long-Term Debt

At the end of the current fiscal year, the City had a total debt outstanding of \$1,937,065. Of this amount \$510,000 is secured by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specific revenue sources (i.e., revenue bonds or leases), contracts secured by property or designated for compensated absences.

The City's total debt decreased during the current fiscal year by \$343,468. Additional information on the City's long term debt can be found in Note III, F., the Notes to Financial Statements on pages 45-47.

Economic Factors and Next Year's Budgets and Rates

Gratiot County (which includes the City of St. Louis and the surrounding incorporated and unincorporated area), has a labor force of 18,956 as of September 2010, which is down from September 2009 by 194. The unemployment rate in the County for September 2010 is 12.3% which is down from the September 2009 rate of 13.7%. Statewide, the seasonally unadjusted unemployment rate in October 2010 was 12.8%. The University of Michigan predicts that the statewide unemployment rate will remain relatively steady through 2012 though the rate of job loss will decline. The main reason for the unemployment rate remaining steady is that though job creation will improve, many who considered that finding a job was hopeless are not listed as unemployed; but, will return to the job market as the economy and once again be counted as unemployed.

As the State's economy continues to suffer, State support to local government continues to decline resulting in job loss in the local government sector. The City's central business district has suffered during this economic downturn and subsequent to fiscal year end lost a pharmacy and dollar store. A new pharmacy is expected to open shortly and efforts are underway to recruit new business to the former location of the dollar store. We expect to be able to regain healthy downtown occupancy rates with a variety of stores, specialty shops, and commercial businesses. Residential growth has seen some improvement over the past year as there have been two new residences constructed.

During the current fiscal year ended June 30, 2010, the unreserved fund balance in the general fund increased to \$660,132. The City has projected a balanced budget for the upcoming fiscal year. It is intended that the available fund balance will be sufficient to meet any unforeseen changes in the local economy from the time the budget was prepared through the 2010-11 fiscal year.

GASB Pronouncements

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved will be replaced with five new classifications: non-spendable, restricted, committed, assigned and unassigned.

The City is currently evaluating the impact this standard will have on the financial statements when adopted. The City will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011.

Requests for Information

This financial report is designed to provide a general overview of the City of St. Louis finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Nancy Roehrs, City Clerk, City of St. Louis, 108 W. Saginaw Street, St. Louis, Michigan 48880.

BASIC FINANCIAL STATEMENTS

CITY OF ST. LOUIS
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Primary Government</u>			Component Unit
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	Downtown Development Authority
Assets				
Cash and cash equivalents	\$ 1,522,293	1,270,163	2,792,456	\$ 16,196
Investments	90,511	-	90,511	-
Receivables	241,023	682,611	923,634	-
Due from component unit	-	73,161	73,161	-
Internal balances	(186,812)	186,812	-	-
Prepaid items and other assets	166,631	68,115	234,746	-
Inventory	26,069	267,079	293,148	-
Restricted cash and cash equivalents	93,214	700,602	793,816	-
Restricted investments	132,915	1,266,576	1,399,491	-
Capital assets not being depreciated	2,316,274	1,206,809	3,523,083	-
Capital assets, being depreciated, net	6,649,612	15,253,793	21,903,405	148,418
Total assets	<u>11,051,730</u>	<u>20,975,721</u>	<u>32,027,451</u>	<u>164,614</u>
Liabilities				
Accounts payable	224,886	545,412	770,298	1,370
Due to primary government	-	-	-	73,161
Unearned revenue	-	2,814	2,814	450
Long-term liabilities				
Due within one year	74,591	269,756	344,347	-
Due in more than one year	495,692	1,097,026	1,592,718	-
Total liabilities	<u>795,169</u>	<u>1,915,008</u>	<u>2,710,177</u>	<u>74,981</u>
Net Assets				
Invested in capital assets, net of related debt	8,449,783	15,240,607	23,690,390	148,418
Restricted for				
Debt service	6,749	379,746	386,495	-
Capital projects	-	1,522,407	1,522,407	-
Perpetual care - nonexpendable	151,098	-	151,098	-
Perpetual care - expendable	37,347	-	37,347	-
Unrestricted	1,611,584	1,917,953	3,529,537	(58,785)
Total net assets	<u>\$ 10,256,561</u>	<u>\$ 19,060,713</u>	<u>\$ 29,317,274</u>	<u>\$ 89,633</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 20,052	\$ -	\$ -	\$ -	\$ (20,052)
General government	398,352	61,146	6,674	-	(330,532)
Public safety	933,347	129,216	218,994	-	(585,137)
Public works	1,216,241	27,044	301,868	-	(887,329)
Community and economic development	115,504	-	-	-	(115,504)
Recreation and culture	307,333	108,123	6,722	-	(192,488)
Interest and fiscal charges on long-term debt	28,421	35,389	-	-	6,968
Total governmental activities	<u>3,019,250</u>	<u>360,918</u>	<u>534,258</u>	<u>-</u>	<u>(2,124,074)</u>
Business-type activities					
Electric	3,676,147	4,313,862	-	-	637,715
Sewer and water	1,858,352	1,945,775	42,054	-	129,477
Housing commission	1,170,853	140,324	856,075	146,301	(28,153)
Solid waste	279,129	325,601	-	-	46,472
Total business-type activities	<u>6,984,481</u>	<u>6,725,562</u>	<u>898,129</u>	<u>146,301</u>	<u>785,511</u>
Total primary government	<u>\$ 10,003,731</u>	<u>\$ 7,086,480</u>	<u>\$ 1,432,387</u>	<u>\$ 146,301</u>	<u>\$ (1,338,563)</u>
Component unit					
Downtown Development Authority	<u>\$ 16,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (16,994)</u>

continued...

CITY OF ST. LOUIS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (2,124,074)	\$ 785,511	\$ (1,338,563)	\$ (16,994)
General revenues				
Property taxes	766,658	-	766,658	40,418
Grants and contributions not restricted to specific programs	438,991	-	438,991	-
Unrestricted investment earnings	21,456	28,003	49,459	4,117
Miscellaneous	17,217	67,566	84,783	-
Transfers - internal activities	419,263	(419,263)	-	-
 Total general revenues and transfers	 <u>1,663,585</u>	 <u>(323,694)</u>	 <u>1,339,891</u>	 <u>44,535</u>
 Change in net assets	 (460,489)	 461,817	 1,328	 27,541
 Net assets, beginning of year	 <u>10,717,050</u>	 <u>18,598,896</u>	 <u>29,315,946</u>	 <u>62,092</u>
 Net assets, end of year	 <u>\$ 10,256,561</u>	 <u>\$ 19,060,713</u>	 <u>\$ 29,317,274</u>	 <u>\$ 89,633</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 592,841	\$ 257,879	\$ 632,604	\$ 1,483,324
Investments	85,062	-	5,449	90,511
Accounts receivable, net of allowance for doubtful accounts	21,803	-	4,243	26,046
Taxes receivable, net of allowance for doubtful accounts	13,532	-	-	13,532
Special assessments receivable	568	-	-	568
Due from other governmental units	113,065	40,466	47,346	200,877
Prepaid expenditures	24,651	431	787	25,869
Inventory	11,867	-	-	11,867
Restricted assets				
Cash and cash equivalents	33,804	-	59,410	93,214
Investments	-	-	132,915	132,915
Total assets	<u>\$ 897,193</u>	<u>\$ 298,776</u>	<u>\$ 882,754</u>	<u>\$ 2,078,723</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 64,075	\$ 14,759	\$ 74,690	\$ 153,524
Accrued liabilities	50,127	2,750	6,709	59,586
Due to other funds	8,134	4,190	4,802	17,126
Advance from other funds	50,000	-	-	50,000
Deferred revenue	28,207	-	55	28,262
Total liabilities	<u>200,543</u>	<u>21,699</u>	<u>86,256</u>	<u>308,498</u>
Fund balances				
Reserved				
Prepaid expenditures	24,651	431	787	25,869
Inventory	11,867	-	-	11,867
Permanent trust	-	-	151,098	151,098
Unreserved				
Undesignated, reported in				
General fund	660,132	-	-	660,132
Special revenue funds	-	276,646	600,517	877,163
Debt service funds	-	-	6,749	6,749
Permanent fund	-	-	37,347	37,347
Total fund balances	<u>696,650</u>	<u>277,077</u>	<u>796,498</u>	<u>1,770,225</u>
Total liabilities and fund balances	<u>\$ 897,193</u>	<u>\$ 298,776</u>	<u>\$ 882,754</u>	<u>\$ 2,078,723</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
RECONCILIATION OF THE FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Fund balances - total governmental funds **\$ 1,770,225**

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

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	30,667,332
Deduct: accumulated depreciation	(21,899,998)

The net pension asset used in governmental activities is not a financial resource, and therefore not reported in the funds.

Add: net pension asset	138,664
------------------------	---------

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenue on taxes receivable and contracts receivable	28,262
--	--------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	125,661
--	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Deduct: bonds payable	(510,000)
Deduct: capital lease payable	(6,103)
Deduct: accrued interest payable	(6,371)
Deduct: compensated absences	(51,111)

Net assets of governmental activities **\$ 10,256,561**

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Property taxes	\$ 715,894	\$ -	\$ -	\$ 715,894
Special assessments	-	-	50,764	50,764
Licenses and permits	15,619	-	-	15,619
Intergovernmental	478,492	214,213	214,798	907,503
Charges for services	64,971	10,299	2,994	78,264
Fines and forfeits	6,070	-	202,521	208,591
Donations	-	-	48,652	48,652
Interest and rent	12,739	2,091	48,074	62,904
Other revenue	31,399	-	17,116	48,515
Total revenues	<u>1,325,184</u>	<u>226,603</u>	<u>584,919</u>	<u>2,136,706</u>
Expenditures				
Current				
General government	409,444	-	-	409,444
Public works	133,976	138,665	142,318	414,959
Public safety	697,010	-	216,569	913,579
Community and economic development	113,280	-	-	113,280
Recreation and culture	126,564	-	148,981	275,545
Debt service				
Principal	3,413	-	55,000	58,413
Interest	942	-	28,098	29,040
Total expenditures	<u>1,484,629</u>	<u>138,665</u>	<u>590,966</u>	<u>2,214,260</u>
Revenues over (under) expenditures	<u>(159,445)</u>	<u>87,938</u>	<u>(6,047)</u>	<u>(77,554)</u>
Other financing sources (uses)				
Transfers in	279,101	-	256,214	535,315
Transfers out	(2,000)	-	(100,680)	(102,680)
Total other financing sources (uses)	<u>277,101</u>	<u>-</u>	<u>155,534</u>	<u>432,635</u>
Net change in fund balances	117,656	87,938	149,487	355,081
Fund balances, beginning of year	<u>578,994</u>	<u>189,139</u>	<u>647,011</u>	<u>1,415,144</u>
Fund balances, end of year	<u><u>\$ 696,650</u></u>	<u><u>\$ 277,077</u></u>	<u><u>\$ 796,498</u></u>	<u><u>\$ 1,770,225</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds **\$ 355,081**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	26,719
Deduct: depreciation expense	(901,749)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: change in special assessments and contracts receivable	(1,937)
--	---------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	58,413
--	--------

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.

Add: decrease in the accrued interest payable	619
Deduct: increase in the accrual of compensated absences	(12,532)
Add: increase in the net pension asset	27,778

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue	428
Add: gain on sale of capital asset	4,395
Deduct: transfer out	(13,372)
Deduct: net operating loss from governmental activities accounted for in internal service funds	(4,332)

Change in net assets of governmental activities	\$ (460,489)
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The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues				
Property taxes	\$ 724,500	\$ 724,500	\$ 715,894	\$ (8,606)
Licenses and permits	12,100	12,100	15,619	3,519
Intergovernmental:				
Federal	-	-	31,785	31,785
State	512,253	512,253	446,707	(65,546)
Charges for services	31,600	31,200	64,971	33,771
Fines and forfeits	6,000	6,000	6,070	70
Interest and rent	8,550	8,550	12,739	4,189
Other	48,500	48,500	31,399	(17,101)
Total revenues	<u>1,343,503</u>	<u>1,343,103</u>	<u>1,325,184</u>	<u>(17,919)</u>
Expenditures				
Current				
General government	504,870	504,870	409,444	(95,426)
Public safety	708,405	708,405	697,010	(11,395)
Public works	150,400	150,400	133,976	(16,424)
Community and economic development	126,200	126,200	113,280	(12,920)
Recreation and culture	125,250	125,250	126,564	1,314
Debt service				
Principal	4,000	4,000	3,413	(587)
Interest	1,000	1,000	942	(58)
Total expenditures	<u>1,620,125</u>	<u>1,620,125</u>	<u>1,484,629</u>	<u>(135,496)</u>
Revenues over (under) expenditures	<u>(276,622)</u>	<u>(277,022)</u>	<u>(159,445)</u>	<u>117,577</u>
Other financing sources (uses)				
Transfers in	279,101	279,101	279,101	-
Transfers (out)	(2,000)	(2,000)	(2,000)	-
Total other financing sources (uses)	<u>277,101</u>	<u>277,101</u>	<u>277,101</u>	<u>-</u>
Net change in fund balance	479	79	117,656	117,577
Fund balance, beginning of year	578,994	578,994	578,994	-
Fund balance, end of year	<u>\$ 579,473</u>	<u>\$ 579,073</u>	<u>\$ 696,650</u>	<u>\$ 117,577</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues				
State	\$ 222,500	\$ 222,500	\$ 214,213	\$ (8,287)
Charges for services	8,000	8,000	10,299	2,299
Interest and rent	1,500	1,500	2,091	591
Total revenues	232,000	232,000	226,603	(5,397)
Expenditures				
Public works	183,546	183,546	138,665	(44,881)
Net change in fund balance	48,454	48,454	87,938	39,484
Fund balance, beginning of year	189,139	189,139	189,139	-
Fund balance, end of year	<u>\$ 237,593</u>	<u>\$ 237,593</u>	<u>\$ 277,077</u>	<u>\$ 39,484</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Business-type Activities - Enterprise Funds					Governmental Activities
	Electric	Sewer and Water	Housing Commission	Solid Waste	Total	Internal Service Fund
Assets						
Current assets						
Cash and cash equivalents	\$ 437,228	\$ 127,650	\$ 563,326	\$ 141,959	\$ 1,270,163	\$ 38,969
Accounts receivable, net	382,226	208,167	44,070	31,532	665,995	-
Special assessments receivable	4,899	2,140	-	2,507	9,546	-
Accrued interest receivable	-	-	-	-	-	-
Due from component unit	73,161	-	-	-	73,161	-
Due from other funds	168,051	-	-	-	168,051	23,305
Due from other governments	-	7,070	-	-	7,070	-
Prepaid expenses	8,961	12,389	45,410	1,355	68,115	2,098
Inventory	210,342	56,737	-	-	267,079	14,202
Restricted assets						
Cash and cash equivalents	350,730	329,523	20,349	-	700,602	-
Investments	958,620	307,956	-	-	1,266,576	-
Total current assets	2,594,218	1,051,632	673,155	177,353	4,496,358	78,574
Noncurrent assets						
Advance to other funds	50,000	-	-	-	50,000	-
Capital assets						
Land	252,067	105,051	40,831	-	397,949	-
Buildings and improvements	809,132	254,700	4,687,310	-	5,751,142	33,284
Equipment	10,147,919	115,027	153,474	-	10,416,420	1,224,800
Infrastructure	-	20,124,230	-	-	20,124,230	-
Construction in progress	312,072	442,484	54,304	-	808,860	-
	11,521,190	21,041,492	4,935,919	-	37,498,601	1,258,084
Less accumulated depreciation	(5,403,129)	(11,986,013)	(3,648,857)	-	(21,037,999)	(1,059,532)
Total capital assets	6,118,061	9,055,479	1,287,062	-	16,460,602	198,552
Total noncurrent assets	6,168,061	9,055,479	1,287,062	-	16,510,602	198,552
Total assets	8,762,279	10,107,111	1,960,217	177,353	21,006,960	277,126

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CITY OF ST. LOUIS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	Business-type Activities - Enterprise Funds					Governmental Activities
	Electric	Sewer and Water	Housing Commission	Solid Waste	Total	Internal Service Fund
Liabilities						
Current liabilities						
Accounts payable	\$ 267,783	\$ 62,222	\$ 44,787	\$ 15,733	\$ 390,525	\$ 4,047
Accrued expenses	43,252	37,339	15,178	1,172	96,941	1,358
Due to other funds	736	170,509	-	2,985	174,230	-
Deposits and other liabilities	30,843	13,833	13,270	-	57,946	-
Deferred revenue	-	-	2,814	-	2,814	-
Accrued vacation and sick	20,197	36,722	12,837	-	69,756	868
Bonds and contracts payable - current	70,000	130,000	-	-	200,000	-
Total current liabilities	<u>432,811</u>	<u>450,625</u>	<u>88,886</u>	<u>19,890</u>	<u>992,212</u>	<u>6,273</u>
Long-term liabilities						
Accrued vacation and sick	28,214	28,754	20,063	-	77,031	2,201
Bonds and contracts payable	460,000	559,995	-	-	1,019,995	-
Total long-term liabilities	<u>488,214</u>	<u>588,749</u>	<u>20,063</u>	<u>-</u>	<u>1,097,026</u>	<u>2,201</u>
Total liabilities	<u>921,025</u>	<u>1,039,374</u>	<u>108,949</u>	<u>19,890</u>	<u>2,089,238</u>	<u>8,474</u>
Net assets						
Investment in capital assets, net of related debt	5,588,061	8,365,484	1,287,062	-	15,240,607	198,552
Restricted for						
Debt service	89,300	290,446	-	-	379,746	-
Capital projects	1,189,207	333,200	-	-	1,522,407	-
Unrestricted	974,686	78,607	564,206	157,463	1,774,962	70,100
Total net assets	<u>\$ 7,841,254</u>	<u>\$ 9,067,737</u>	<u>\$ 1,851,268</u>	<u>\$ 157,463</u>	<u>\$ 18,917,722</u>	<u>\$ 268,652</u>
Adjustment to reflect the consolidation of internal service funds related to enterprise funds					142,991	
Net assets of business-type activities					<u>\$ 19,060,713</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Sewer and Water	Housing Commission	Solid Waste	Total	Internal Service Fund
Operating revenues						
Charges for services	\$ 4,313,862	\$ 1,945,775	\$ 140,324	\$ 325,601	\$ 6,725,562	\$ 255,121
HUD operating subsidies	-	-	856,075	-	856,075	-
Other revenue	-	64,343	3,455	-	67,798	-
Total operating revenues	4,313,862	2,010,118	999,854	325,601	7,649,435	255,121
Operating expenses						
Salaries and wages	343,194	467,265	-	45,150	855,609	42,163
Employee benefits	189,251	258,228	-	25,505	472,984	24,765
Housing assistance payments	-	-	538,345	-	538,345	-
Supplies	35,000	68,042	-	1,410	104,452	54,407
Dues and fees	33,648	3,646	-	-	37,294	-
Postage	5,120	10,431	-	-	15,551	-
Gas and fuel	-	601	-	-	601	36,200
Contracted services	64,339	164,929	-	151,123	380,391	5,386
Insurance	15,113	17,801	-	-	32,914	6,034
Communications	4,576	6,000	-	-	10,576	-
Travel	6,979	5,902	-	-	12,881	103
Utilities	22,923	255,300	94,217	-	372,440	-
Energy purchases	2,497,821	-	-	-	2,497,821	-
Street lighting	47,024	-	-	-	47,024	-
Repair and maintenance	13,605	73,343	165,687	-	252,635	32,042
Equipment rental	14,955	48,991	-	54,187	118,133	11,130
Miscellaneous	92,515	2,315	207,102	48	301,980	180
Education and training	655	335	-	-	990	-
Bad debt expense	-	-	1,822	-	1,822	-
Depreciation	260,685	432,754	163,680	-	857,119	50,696
Total operating expenses	3,647,403	1,815,883	1,170,853	277,423	6,911,562	263,106
Operating income (loss)	666,459	194,235	(170,999)	48,178	737,873	(7,985)
Nonoperating revenues (expenses)						
Investment earnings	18,620	6,604	1,754	1,025	28,003	428
Interest expense	(28,273)	(40,993)	-	-	(69,266)	-
Intergovernmental	-	42,054	-	-	42,054	-
Capital grants	-	-	146,301	-	146,301	-
Gain (loss) on sale of capital assets	-	-	(232)	-	(232)	4,395
Total nonoperating revenues (expenses)	(9,653)	7,665	147,823	1,025	146,860	4,823
Income (loss) before transfers	656,806	201,900	(23,176)	49,203	884,733	(3,162)
Transfers out	(271,879)	(128,268)	-	(19,116)	(419,263)	(13,372)
Changes in net assets	384,927	73,632	(23,176)	30,087	465,470	(16,534)
Net assets, beginning of year	7,456,327	8,994,105	1,874,444	127,376		285,186
Net assets, end of year	\$ 7,841,254	\$ 9,067,737	\$ 1,851,268	\$ 157,463		\$ 268,652
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(3,653)	
Change in net assets of business-type activities					\$ 461,817	

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Sewer and Water	Housing Commission	Solid Waste	Total	Activities Internal Service Fund
Cash flows from operating activities						
Cash received from customers and users	\$ 4,220,411	\$ 1,966,846	\$ 975,674	\$ 325,033	\$ 7,487,964	\$ -
Cash received for interfund services provided	-	61,328	53,672	-	115,000	255,121
Cash payments for interfund services provided	(1,183)	-	(69,174)	(39)	(70,396)	-
Cash payments to suppliers for goods and services	(2,801,661)	(680,552)	(795,436)	(194,950)	(4,472,599)	(154,071)
Cash payments to employees for services	(510,078)	(732,715)	(185,933)	(70,457)	(1,499,183)	(66,758)
Net cash provided by (used in) operating activities	907,489	614,907	(21,197)	59,587	1,560,786	34,292
Cash flows from noncapital financing activities						
Transfers out	(271,879)	(128,268)	-	(19,116)	(419,263)	(13,372)
Cash flows from capital and related financing activities						
Grants	-	42,054	146,301	-	188,355	-
Purchase and construction of capital assets	(320,698)	(135,515)	(153,381)	-	(609,594)	(31,800)
Proceeds from disposal of capital assets	-	-	-	-	-	19,800
Principal paid on capital debt	(70,000)	(125,000)	-	-	(195,000)	-
Interest paid on capital debt	(28,273)	(40,993)	-	-	(69,266)	-
Net cash used in capital and related financing activities	(418,971)	(259,454)	(7,080)	-	(685,505)	(12,000)
Cash flows from investing activities						
Interest income	18,620	6,604	1,754	1,025	28,003	428
Purchase of investments	-	(550)	-	-	(550)	-
Sale of investments	47,383	-	-	-	47,383	-
Net cash provided by investing activities	66,003	6,054	1,754	1,025	74,836	428
Net increase (decrease) in cash and cash equivalents	282,642	233,239	(26,523)	41,496	530,854	9,348
Cash and cash equivalents, beginning of year	505,316	223,934	610,198	100,463	1,439,911	29,621
Cash and cash equivalents, end of year	\$ 787,958	\$ 457,173	\$ 583,675	\$ 141,959	\$ 1,970,765	\$ 38,969
Reconciliation of operating income to net cash provided by (used in) operating activities						
Operating income (loss)	\$ 666,459	\$ 194,235	\$ (170,999)	\$ 48,178	\$ 737,873	\$ (7,985)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	260,685	432,754	163,680	-	857,119	50,696
Change in:						
Amortization of bond discount	-	1,347	-	-	1,347	-
Accounts receivable	(32,002)	(38,586)	(39,462)	-	(110,050)	-
Accrued interest receivable	-	3,949	-	-	3,949	-
Special assessments receivable	(3,065)	(1,565)	-	(568)	(5,198)	-
Due from component unit	4,616	-	-	-	4,616	708
Due from other funds	(63,000)	-	(53,892)	-	(116,892)	1,300
Due from other governments	-	(7,070)	-	-	(7,070)	-
Prepaid expenses	(1,164)	(1,492)	(2,507)	60	(5,103)	(596)
Inventory	(1,436)	(9,972)	-	-	(11,408)	(6,919)
Accounts payable	54,387	(13,839)	27,383	11,758	79,689	(3,082)
Accrued liabilities	22,367	(7,222)	1,396	198	16,739	170
Deposits and other liabilities	825	1,040	(303)	-	1,562	-
Due to other funds	(1,183)	61,328	53,672	(39)	113,778	-
Unearned revenue	-	-	(165)	-	(165)	-
Total adjustments	241,030	420,672	149,802	11,409	822,913	42,277
Net cash provided by (used in) operating activities	\$ 907,489	\$ 614,907	\$ (21,197)	\$ 59,587	\$ 1,560,786	\$ 34,292

The accompanying notes are an integral part of these financial statements.

CITY OF ST. LOUIS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 12,170
Accounts receivable	<u>9,199</u>
Total assets	<u><u>\$ 21,369</u></u>
Liabilities	
Accrued liabilities	\$ 5,770
Due to other governmental units	12,041
Due to individuals	<u>3,558</u>
Total liabilities	<u><u>\$ 21,369</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of St. Louis, Michigan, have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

A. Reporting Entity

Located in Gratiot County, Michigan, St. Louis (the “City”) was settled in 1853 along the banks of the Pine River, became a village in 1868, and was incorporated in 1891 as the City of St. Louis. Organized under Michigan’s Comprehensive Home Rule City Act, the City of St. Louis is governed by a single ward, four member elected City Council and the Mayor. The Mayor is elected by the City at large and the City Council selects the mayor Pro Tem. The City Manager is appointed by the Council to administer the business of the City. The City of St. Louis provides the following services to approximately 4,500 residents as authorized by its charter; public safety (police and fire), highways and streets, electric, water, sewer, sanitation, recreation, public improvements, zoning, planning and general administrative services.

Blended component unit

Certain component units, despite being legally separate from the City, are essentially part of the City’s operations that they are in substance, the same as the City.

St. Louis Housing Commission - The Commission functions to provide subsidized housing to individuals of low and moderate income within the City. The commission operates an 80 unit housing project and administers a certificate program funded by the U.S. Department of Housing and Urban Development (“HUD”). Commissioners are appointed by City Council. The Commission prepares separate financial statements for submission to HUD, which can be obtained by writing Ms. Kerry Marsh, Director; P.O. Box 117; St. Louis, MI 48880.

Discretely presented component unit

The following component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The discretely presented component unit is an entity that is legally separate from the City,

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

but for which the unit is financially accountable, or its relationship with the City is such that exclusion would cause the financial statements to be misleading or incomplete.

Downtown Development Authority- the Downtown Development Authority (the “Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority is comprised of individuals from the management of the City as well as residents who are appointed by the City Council. In addition, the Authority’s budget is approved by the City Council. The Authority does not issue any other formal financial statements except as contained in the City’s comprehensive annual financial report. Detail information can be obtained by contacting the City Clerk.

Joint Ventures

Mid-Michigan Community Fire Board - The City is a member of the Mid-Michigan Community Fire Board (the “Fire Board”), which is a joint venture between the City of St. Louis and the Townships of Bethany, Pine River, and Jasper. The governing Board is comprised of five members consisting of the Supervisor of each of the Townships, the City Manager and the City Clerk.

Each unit is responsible for funding its required local contribution to cover operational deficits based on the formula established by the Fire Board. The City’s contribution for the year ended June 30, 2010, was \$75,700. The City maintains the accounting records for the Mid-Michigan Community Fire Board. Separate financial statements for the Fire Board can be obtained at the City of St. Louis administration office.

Gratiot Area Solid Waste Authority - The City is a member of the Gratiot Area Solid Waste Authority (the “Authority”), which is a joint venture between the City of Alma and the City of St. Louis. The Authority provides refuse pickup and disposal services to their residents, together with other services including recycling and composting. The governing Board is comprised of a Chairman, Vice Chairman, Secretary, Treasurer and such other officers as the Board deems advisable. The Authority has responsibility for preparing the annual budget, which is approved by each member unit of government, and to carry out all activities of the Authority.

The parties have determined that it is more cost effective to provide such services through a single contracting entity and to share the costs of such services on an equitable basis. The Authority is established as a separate public body and maintains separate financial statements.

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Gratiot County Central Dispatch Authority - The City is a member of the Gratiot County Central Dispatch Authority (the "Authority"), which is a joint venture between Gratiot County, the State of Michigan, and the Cities of Alma, St. Louis, Ithaca, and Breckenridge. The Authority provides central dispatch services for police and fire services in Gratiot County. The governing Board is comprised of eleven members. Gratiot County appoints six Board members consisting of the County Sheriff, a representative from the area townships, a representative from the area villages, one county citizen, and two county commissioners. Each of the other units appoints one Board member. The Authority has responsibility for preparing the annual budget, which is approved by Gratiot County, and to carry out all activities of the Authority.

The Authority receives funding from telephone surcharge fees and local contributions. A formula has been established to allocate the local contributions. The financial activities of the Gratiot County Central Dispatch Authority are reported in Gratiot County's financial statements as a component unit. The City has no equity interest in the Authority. Copies of Gratiot County's financial statements can be obtained by writing to Ms. Mary Sullivan, Gratiot County Treasurer; P.O. Box 437; Ithaca, MI 48847.

Mid-Michigan Area Cable Communications Consortium - The City is a member of the Mid-Michigan Area Cable Communications Consortium (the "Consortium"), which is a joint venture between nine Mid-Michigan communities with cable franchised agreements granted to Charter Communications. The nine communities include the Cities of Alma, Clare, Ithaca, Mt. Pleasant, and Saint Louis, the Villages of Breckenridge and Shepherd, and the Townships of Pine River and Union. The Consortium is responsible for developing and monitoring the enforcement of the cable ordinance, negotiating and monitoring of cable franchise agreements, and, to the extent permitted by federal law, regulate cable rates. In the future, the consortium will be responsible for the operation of public education and governmental access channels. Each community is permitted to appoint two members of the governing Board. The Consortium has responsibility for preparing the annual budget.

A formula has been established to allocate the local contributions. Local contributions to the Consortium during the fiscal year ended June 30, 2010, amounted to \$15,595. The financial activities of Mid-Michigan Area Cable Communications Consortium are reported in the financial statements of the City of Mt. Pleasant. The Consortium operates on a calendar year. There are no separate financial statements produced for the Consortium. Copies of the City of Mt. Pleasant financial statements can be obtained by writing to the City of Mt. Pleasant; 401 N. Main; Mt. Pleasant, MI 48860.

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Gratiot Community Airport Authority - The City is a member of the Gratiot Community Airport Authority (the “Authority”), which is a joint venture between the City of St. Louis, County of Gratiot, City of Alma, City of Ithaca, Township of Pine River and Township of Arcada. The joint operation makes it possible to participate in more State and Federal Aid programs, with the result that the airport would be developed and extended to care for the growing demands made upon it by industry and business within Gratiot County and surrounding areas. The governing Board consists of six members, one from each member municipality. Each member municipality, with the exception of Gratiot County and the City of Alma, shall pay \$2,000 per year.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government, and its component units. For the most part, the effect of the 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 the primary government is financial accountable.

The statement of activities demonstrates the degree to 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 revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement based grants. 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, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the principal operating fund of the City. It is used to account for all revenues, expenditures, and activities not specifically accounted for in another fund.

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

The *major street fund* is used to account for major streets maintenance funds received from the State of Michigan as well as other revenues used to maintain and reconstruct major streets within the City.

The government reports the following nonmajor governmental funds:

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Permanent fund is used to account for the resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the government or its citizenry. The City has one permanent fund for cemetery perpetual care.

The government reports the following major proprietary funds:

The *electric fund* accounts for the operation of an electricity utility system.

The *sewer and water fund* accounts for the activities of the government's sewage disposal and treatment system and water system.

The *Housing Commission fund* accounts for the activities of the St. Louis Housing Commission.

The *solid waste fund* accounts for the activities of the government's solid waste disposal system.

Additionally, the City reports the following fund types:

The *internal service fund* provides vehicle and equipment use to other departments or agencies of the government on a cost reimbursement basis.

Agency funds are used to account for assets held for other governments in an agency capacity, including tax collections.

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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 government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

D. Assets, liabilities, and net assets or equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value. State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

3. Inventory and Prepaids

Inventory is valued at cost using the "first-in, first-out" ("FIFO") method of accounting. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

4. Capital Assets

Capital assets, which include property, plant, and equipment (the City owns infrastructure assets such as water and sewer systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chooses to include infrastructure prospectively from the date of implementation, June 30, 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-60
Building improvements	15-30
Water and sewer systems	50-75
Infrastructure	5-30
Equipment	3-10

5. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

7. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services. The accompanying financial statements generally reflect such transactions as transfers. Subsidies are also recorded as transfers.

The internal service fund is used to record charges for services to all City departments and funds as operating revenue. All affected City funds record these payments to the Internal Service Fund as operating expenditures or expenses.

8. Compensated Absences

Compensated absences (vacation and sick leave) – Sick leave is earned at the rate of 10 hours per month, to be accumulated until a maximum of 500 hours is reached, and is kept to the employees credit. If at the end of a fiscal year, an employee has accumulated sick leave greater than 500 hours, one-half of the accumulated sick leave in excess of 500 hours is paid to the employee and the remainder is lost. Sick leave is not paid upon termination. Upon retirement, employees hired before December 20, 1994, are entitled to be paid one half of any accumulated unused sick leave at the rate of pay prevailing at the time of such retirement. This liability is measured using the vesting method as described in GASB Statement No. 16.

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

Employees receive vacation time on July 1st based on prior year's service. A maximum of 200 hours can be earned during the prior year. Added to earned vacation time is a maximum of 40 hours carryover of any prior year unused vacation time. Except for a 40 hour carryover, vacation time is to be used within the year received and is paid to employees upon termination.

9. Risk Management

The City is exposed to various risks of loss related to claims, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance to provide for these risks.

There was no change in coverage from the prior year. Settled claims have not exceeded the amounts of insurance coverage in any of the last three years.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Annual budgets for all governmental funds are adopted in compliance with Michigan Law. The budgets are prepared on the modified accrual basis, which is consistent with generally accepted accounting principles. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the function level for the general fund and special revenue funds.

The City does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at the end of the fiscal year and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

B. Excess Expenditures Over Appropriations For Budgetary Funds

The funds that had excess of expenditures over appropriations at the legal level of budgetary control as follows:

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General fund			
Recreation and culture	\$ 125,250	\$ 126,564	\$ 1,314
Local streets fund			
Public works	140,210	142,318	2,108
MAGNET			
Public safety	181,500	216,569	35,069

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Government-wide Financial Statement Captions:

Primary Government:	
Cash and cash equivalents	\$ 3,231,046
Investments	90,511
Restricted cash and cash equivalents	355,226
Restricted investments	1,399,491
Component Unit:	
Cash and cash equivalents	16,196
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	12,170
Total	<u>\$ 5,104,640</u>

Notes to Financial Statements:

Deposits	\$ 5,095,860
Cash on hand	8,780
Total	<u>\$ 5,104,640</u>

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

Statutory Authority

The City is authorized by the State to invest surplus funds in the following:

- Bonds, securities, repurchase agreements and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Deposits and Investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end \$4,113,750 of the City's bank balance of \$4,863,750 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The City’s investment policy does not have specific limits in excess of state law on investment credit risk.

B. Receivables

Receivables in the primary government are as follows:

	Governmental Activities	Business-type Activities
Taxes	\$ 13,532	\$ -
Special assessments	568	9,546
Accounts		
Due within one year	10,458	665,995
Due after one year	15,588	-
Intergovernmental	200,877	7,070
Total	\$ 241,023	\$ 682,611

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable
Contracts receivable	\$ 17,409
Taxes receivable	10,798
Contributions	55
Total	\$ 28,262

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

C. Capital Assets

Capital assets activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 2,307,555	\$ -	\$ -	\$ 2,307,555
Construction in progress	-	8,719	-	8,719
Total capital assets, not being depreciated	<u>2,307,555</u>	<u>8,719</u>	<u>-</u>	<u>2,316,274</u>
Capital assets being depreciated				
Buildings and improvements	1,881,859	-	-	1,881,859
Equipment and vehicles	2,198,580	31,800	(23,700)	2,206,680
Infrastructure-storm sewer	2,701,677	-	-	2,701,677
Infrastructure-streets	21,888,341	-	-	21,888,341
Infrastructure-sidewalks	<u>938,095</u>	<u>18,000</u>	<u>(25,510)</u>	<u>930,585</u>
Total capital assets being depreciated	<u>29,608,552</u>	<u>49,800</u>	<u>(49,210)</u>	<u>29,609,142</u>
Less accumulated depreciation				
Buildings and improvements	(712,128)	(66,040)	-	(778,168)
Equipment and vehicles	(1,921,851)	(75,250)	8,295	(1,988,806)
Infrastructure-storm sewer	(2,029,366)	(54,034)	-	(2,083,400)
Infrastructure-streets	(16,541,077)	(726,102)	-	(17,267,179)
Infrastructure-sidewalks	<u>(836,468)</u>	<u>(31,019)</u>	<u>25,510</u>	<u>(841,977)</u>
Total accumulated depreciation	<u>(22,040,890)</u>	<u>(952,445)</u>	<u>33,805</u>	<u>(22,959,530)</u>
Capital assets being depreciated, net	<u>7,567,662</u>	<u>(902,645)</u>	<u>(15,405)</u>	<u>6,649,612</u>
Governmental activities capital assets, net	<u>\$ 9,875,217</u>	<u>\$(893,926)</u>	<u>\$ (15,405)</u>	<u>\$ 8,965,886</u>

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 382,940	\$ 15,009	\$ -	\$ 397,949
Construction in progress	<u>398,930</u>	<u>448,694</u>	<u>(38,764)</u>	<u>808,860</u>
Capital assets not being depreciated	<u>781,870</u>	<u>463,703</u>	<u>(38,764)</u>	<u>1,206,809</u>
Capital assets being depreciated				
Buildings and improvements	5,660,490	90,652	-	5,751,142
Equipment	10,361,826	62,890	(8,296)	10,416,420
Infrastructure	<u>20,093,116</u>	<u>31,114</u>	<u>-</u>	<u>20,124,230</u>
Total capital assets being depreciated	<u>36,115,432</u>	<u>184,656</u>	<u>(8,296)</u>	<u>36,291,792</u>
Less accumulated depreciation				
Buildings and improvements	(4,041,557)	(178,395)	-	(4,219,952)
Equipment	(4,901,691)	(256,023)	8,065	(5,149,649)
Infrastructure	<u>(11,245,697)</u>	<u>(422,701)</u>	<u>-</u>	<u>(11,668,398)</u>
Total accumulated depreciation	<u>(20,188,945)</u>	<u>(857,119)</u>	<u>8,065</u>	<u>(21,037,999)</u>
Capital assets being depreciated, net	<u>15,926,487</u>	<u>(672,463)</u>	<u>(231)</u>	<u>15,253,793</u>
Business-type activities capital assets, net	<u>\$ 16,708,357</u>	<u>\$ (208,760)</u>	<u>\$ (38,995)</u>	<u>\$ 16,460,602</u>

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

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

Governmental activities

Legislative	\$ 3,201
General government	41,037
Public safety	13,027
Public works	815,860
Recreation and culture	28,624
Internal Service Fund	<u>50,696</u>

Total depreciation expense – governmental activities **\$ 952,445**

Business-type activities

Electric	\$ 260,685
Sewer/Water	432,754
Housing Commission	<u>163,680</u>

Total depreciation expense – business-type activities **\$ 857,119**

Discretely presented component unit

Activity for the Downtown Development Authority for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Construction in progress	\$ 124,288	\$ 26,646	\$ (150,934)	\$ _____ -
Capital assets being depreciated				
Buildings and improvements	-	150,934	-	150,934
Less accumulated depreciation				
Buildings and improvements	_____ -	(2,516)	_____ -	_____ (2,516)
Capital assets being depreciated, net	_____ -	148,418	_____ -	148,418
Downtown Development Authority capital assets, net	<u>\$ 124,288</u>	<u>\$ 175,064</u>	<u>\$ (150,934)</u>	<u>\$ 148,418</u>

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

D. Payables

Accounts payable and accrued liabilities in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 157,571	\$ 390,525
Wages, fringe benefits and other accrued liabilities	60,944	87,627
Deposits payable	-	57,946
Interest payable	<u>6,371</u>	<u>9,314</u>
Total	<u>\$ 224,886</u>	<u>\$ 545,412</u>

E. Interfund Receivables, Payables, and Transfers

For the year ended June 30, 2010, the City had an outstanding advance between the Electric Fund and General Fund of \$50,000. The Electric Fund advanced the General Fund \$100,000 for the construction of the City swimming pool, of which \$50,000 was paid back in the prior year. No repayment schedule has been established by the City Council other than the advance must be repaid within 20 years.

	<u>Due From</u>						<u>Total</u>
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Electric Fund</u>	<u>Sewer and Water Funds</u>	<u>Solid Waste Fund</u>	
Due to							
Internal service fund	\$ 8,134	\$ 4,190	\$ 4,802	\$ 736	\$ 2,458	\$ 2,985	\$ 23,305
Electric fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,051</u>	<u>-</u>	<u>168,051</u>
Total	<u>\$ 8,134</u>	<u>\$ 4,190</u>	<u>\$ 4,802</u>	<u>\$ 736</u>	<u>\$ 170,509</u>	<u>\$ 2,985</u>	<u>\$ 191,356</u>

The City often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	Transfer From						Total
	General Fund	Nonmajor Governmental Funds	Electric Fund	Sewer and Water Fund	Solid Waste Fund	Internal Service Fund	
Transfer to							
General fund	\$ -	\$ -	\$ 170,752	\$ 83,319	\$ 11,658	\$ 13,372	\$ 279,101
Nonmajor governmental funds	<u>2,000</u>	<u>100,680</u>	<u>101,127</u>	<u>44,949</u>	<u>7,458</u>	<u>-</u>	<u>256,214</u>
Total	<u>\$ 2,000</u>	<u>\$ 100,680</u>	<u>\$ 271,879</u>	<u>\$ 128,268</u>	<u>\$ 19,116</u>	<u>\$ 13,372</u>	<u>\$ 535,315</u>

Interfund transfers include transfer of unrestricted revenues collected in the general fund to finance various programs accounted for in other funds, in accordance with budgetary authorizations; and, transfer of revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

F. Long-term Debt

Long-term debt of the City is comprised of the following:

	Balance July 1, 2009	Additions	(Reductions)	Balance June 30, 2010	Due Within One Year
Governmental Activities					
1996 Building Authority Bonds principal due in annual installments of \$10,000 to \$40,000 through April of 2016, interest due semi-annually on October 1 st and April 1 st	\$ 215,000	\$ -	\$ (25,000)	\$ 190,000	\$ 25,000
2002 General Obligation Bond principal due in annual Installments of \$20,000 to \$50,000 through October of 2017, interest due semi-annually on April 1 st and October 1 st	350,000	-	(30,000)	320,000	30,000

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	Balance		Balance	Due
	July 1,	Additions	June 30,	Within One
	2009	(Reductions)	2010	Year
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental Activities (continued)				
Capital Lease with Key Equipment due in monthly installments of \$335 through March 2012	\$ 9,516	\$ -	\$ (3,413)	\$ 6,103
Employee compensated absences	<u>41,029</u>	<u>31,669</u>	<u>(18,518)</u>	<u>54,180</u>
Total Governmental Activities	<u>\$ 615,545</u>	<u>\$ 31,669</u>	<u>\$ (76,931)</u>	<u>\$ 570,283</u>
Business-type Activities				
Water Supply and Sanitary Sewage Disposal Revenue Bonds 1996 principal due in annual Installments of \$25,000 to \$90,000, Interest due semi- annually on October 1 st and April 1 st	\$ 245,000	\$ -	\$ (75,000)	\$ 170,000
Water Supply and Sanitary Sewage Disposal Revenue Bonds 1997 principal due in annual installments of \$30,000 to \$80,000, interest due semi- annually on October 1 st and April 1 st	575,000	-	(50,000)	525,000
Electric Revenue Bonds, Dated September 1, 2001, principal due in annual installments of \$20,000 to \$80,000, interest due semi- annually on January 1 st and July 1 st	600,000	-	(70,000)	530,000

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	Balance July 1, 2009	Additions	(Reductions)	Balance June 30, 2010	Due Within One Year
Business-type Activities (continued)					
Less: Deferred charges	\$ (6,352)	\$ -	\$ 1,347	\$ (5,005)	-
Employee compensated absences	<u>144,155</u>	<u>75,516</u>	<u>(72,884)</u>	<u>146,787</u>	<u>69,756</u>
Total Business-type Activities	<u>\$ 1,557,803</u>	<u>\$ 75,516</u>	<u>\$ (266,537)</u>	<u>\$ 1,366,782</u>	<u>\$ 269,756</u>

For the governmental activities, compensated absences are generally liquidated by the general fund and certain special revenue funds.

Annual debt service requirements to maturity for general obligation, revenue bonds and notes are as follows:

Year Ending December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 58,219	\$ 25,351	\$ 200,000	\$ 59,060
2012	62,884	22,298	220,000	48,611
2013	65,000	19,257	135,000	39,735
2014	70,000	15,863	135,000	33,053
2015	80,000	12,303	140,000	26,130
2016-2018	<u>180,000</u>	<u>12,759</u>	<u>395,000</u>	<u>31,688</u>
Total	<u>\$ 516,103</u>	<u>\$ 107,831</u>	<u>\$ 1,225,000</u>	<u>\$ 238,277</u>

G. Rental revenue

The Downtown Development Authority (the "Authority") entered into an agreement on September 30, 2009, with Kreuer Property Management for the lease of property owned by the Authority. The term of the lease is for two years of which commenced on October 1, 2009. Monthly rental payments in the amount of \$450 is due at the beginning of each month. Rental revenue in the amount of \$4,050 was received during the year ended June 30, 2010.

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Pension Plan

Plan Description

The City of St. Louis, Michigan, contributes to the Municipal Employees Retirement System of Michigan (“MERS”), an agent multiple-employer defined benefit public employee retirement plan administered by the MERS Retirement Board. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. A copy of that report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917 or by calling (800) 767-6377.

The pension plan provided pension benefits, deferred allowances, and death and disability benefits. Benefits vest after six years of service. Normal retirement is based on certain requirements.

The retirement allowance is reduced $\frac{1}{2}$ of 1% for each complete month that the retirement date precedes the age at which full normal retirement benefits are available. Pension provisions include allowances whereby an employee may terminate employment with the City after accumulating six years of service but before reaching the age of 60 (age of 55 or 50 in certain cases). If the employee does not withdraw his or her accumulated contributions, the employee is entitled to all pension benefits upon reaching retirement age as discussed above.

Pension provisions include death and disability benefits. A disabled employee is entitled to full benefits after acquiring six or more years of credited service. A surviving spouse is entitled to receive 85% of the employee’s straight life allowance. Children are entitled to 50% of the straight life allowance.

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is a flat rate of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the City are established, and may be amended, by the MERS Retirement Board. The contribution requirements of employees are established, and may be amended, by the City depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2010, the City's annual pension cost of \$135,770 for MERS was greater than the City's required contribution of \$128,748. However, the City's actual contribution was \$163,548. The required contribution was determined as part of the December 31, 2008, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return of the investment of present and future assets of 8%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually after retirement. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009, the date of the latest actuarial valuation, was 28 years.

Annual Pension Cost and Net Pension Asset

The City's annual pension cost and net pension asset to MERS for the current year were as follows:

Annual required contribution	\$ 128,748
Interest on net pension asset	(8,871)
Adjustment to annual required contribution	<u>15,893</u>
Annual pension cost	135,770
Contributions made	<u>(163,548)</u>
(Increase) decrease in net pension asset	(27,778)
Net pension (asset), beginning of year	<u>(110,886)</u>
Net pension (asset), end of year	<u><u>\$ (138,664)</u></u>

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
6/30/08	\$ 125,676	112%	\$ 97,250
6/30/09	132,532	110%	110,886
6/30/10	135,770	120%	138,664

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
12/31/09	\$ 5,390,306	\$ 7,149,635	\$1,759,329	75%	\$ 662,112	266%

The schedule of funding progress and employer contribution, presented as required supplementary information (“RSI”) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

B. Defined Contribution Pension Plan

In an effort to phase out the MERS defined benefit retirement plan described above, the City adopted a resolution to implement the ICMA Defined Contribution Money Purchase Plan for all employees of the City. Three plans, electrical employees, police employees, and non-union employees, were implemented beginning July 1, 1999, and are the only pension plans available to new employees after that date. The City’s Defined contribution pension plans are single employer defined contribution pension plans, established by the City and administered by an outside third-party administrator. The City’s contribution is 8% of each participant’s wages for the plan year contingent upon the participant electing to contribute 3% of earnings. The participants’ contributions are immediately 100% vested and the City’s contributions are vested over a five year period. Employer contributions for the plans were \$63,850 for the year ended June 30, 2010. Employee contributions for the plans were \$55,144 for the year ended June 30, 2010. Plan provisions and contribution requirements are established and may be amended by the City Council.

CITY OF ST. LOUIS, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

C. Building Inspection

The City does not maintain a separate fund for building inspection services. Expenditures for these services are classified to a separate function throughout the year within the general fund. During the year ended June 30, 2010, the building permit and inspection function of the City produced revenues totaling \$16,079 and incurred direct expenditures totaling \$73,711.

D. Contingent Liabilities

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City manages risk through the purchase of commercial insurance.

Liability, vehicle physical damage and property and crime

The City is a member of the Michigan Municipal Liability and Property Pool, which is an association organized to purchase commercial insurance for protection against loss for Michigan cities, counties, townships and special service governments. The City is insured up to the following limits: Liability - \$ 5,000,000, vehicle physical damage - \$ 5,000,000 and property and crime - \$5,000,000, subject to deductibles of \$1,000, \$100-\$250 and \$1,000, respectively.

When a claim is incurred and/or paid, the member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are increased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions.

The Plan does not maintain separate funds for members and consequently the City's share of total assets and total equity is unknown. Audited financial statements of the Plan are available.

CITY OF ST. LOUIS, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Worker's compensation

The City purchases coverage through the Michigan Municipal Workers' Compensation Fund. The Fund is authorized by State law to provide its members with coverage required by the Workers' Disability Compensation Act. Claims are subject to a maximum limit of \$500,000 per occurrence.

Velsicol Chemical Company

The City is currently going through litigation in federal district court in Bay City, Michigan against Velsicol Chemical Company, the Velsicol Trust Funds et al for the contamination of all six of the City's municipal wells. Litigation is expected to be completed in December 2010.

E. Federal Award Expenditure/Single Audit

During the year ended June 30, 2010, the City recorded expenditures of federal awards in the amount of \$1,192,920. Of this amount, \$1,035,854 is for expenditures of federal awards of the Housing Commission. A single audit is performed for the Housing Commission and a separate report has been issued. The federal revenues reported in the Major Street fund are administered by the State and the remaining federal revenue is below the threshold for a single audit; therefore, a single audit was not performed for the City for the year ended June 30, 2010.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST. LOUIS
REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2004	\$ 5,033,423	\$ 5,852,221	\$ 818,798	86%	\$ 803,382	102%
12/31/2005	5,171,928	6,122,260	950,332	84%	852,428	111%
12/31/2006	5,395,866	6,483,887	1,088,021	83%	654,213	166%
12/31/2007	5,552,820	6,715,420	1,162,600	83%	688,459	169%
12/31/2008	5,508,314	7,133,510	1,625,196	77%	673,346	241%
12/31/2009	5,390,306	7,149,635	1,759,329	75%	662,112	266%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2005	\$ 82,183	126%
2006	83,784	123%
2007	86,907	128%
2008	116,968	121%
2009	122,168	120%
2010	128,748	127%

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF ST. LOUIS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2010

	Special Revenue Funds				Total
	Local Street	MAGNET	T.A. Cutler Memorial Library	Capital Improvement	
Assets					
Cash and cash equivalents	\$ 105,690	\$ 297,455	\$ 36,550	\$ 191,609	\$ 631,304
Investments	-	-	-	-	-
Accounts receivable, net	200	-	248	-	448
Due from other governments	14,356	32,911	79	-	47,346
Prepaid expenditures	184	-	603	-	787
Restricted assets					
Cash and cash equivalents	-	-	7,675	-	7,675
Investments	-	-	-	-	-
Total assets	\$ 120,430	\$ 330,366	\$ 45,155	\$ 191,609	\$ 687,560
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 26,207	\$ 45,620	\$ 2,863	\$ -	\$ 74,690
Accrued liabilities	3,052	-	3,657	-	6,709
Due to other funds	4,617	-	185	-	4,802
Deferred revenue	-	-	55	-	55
Total liabilities	33,876	45,620	6,760	-	86,256
Fund balances					
Reserved for					
Prepaid expenditures	184	-	603	-	787
Permanent trust	-	-	-	-	-
Unreserved - undesignated	86,370	284,746	37,792	191,609	600,517
Total fund balances	86,554	284,746	38,395	191,609	601,304
Total liabilities and fund balances	\$ 120,430	\$ 330,366	\$ 45,155	\$ 191,609	\$ 687,560

Debt Service Funds			Permanent Fund	Total Nonmajor Governmental Funds
Building Authority	2002 General Obligation Limited Tax	Total	Cemetery Perpetual Care	
\$ 1,300	\$ -	\$ 1,300	\$ -	\$ 632,604
-	5,449	5,449	-	5,449
-	-	-	3,795	4,243
-	-	-	-	47,346
-	-	-	-	787
-	-	-	51,735	59,410
-	-	-	132,915	132,915
<u>\$ 1,300</u>	<u>\$ 5,449</u>	<u>\$ 6,749</u>	<u>\$ 188,445</u>	<u>\$ 882,754</u>
\$ -	\$ -	\$ -	\$ -	\$ 74,690
-	-	-	-	6,709
-	-	-	-	4,802
-	-	-	-	55
-	-	-	-	86,256
-	-	-	-	787
-	-	-	151,098	151,098
1,300	5,449	6,749	37,347	644,613
<u>1,300</u>	<u>5,449</u>	<u>6,749</u>	<u>188,445</u>	<u>796,498</u>
<u>\$ 1,300</u>	<u>\$ 5,449</u>	<u>\$ 6,749</u>	<u>\$ 188,445</u>	<u>\$ 882,754</u>

CITY OF ST. LOUIS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue Funds				Total
	Local Street	MAGNET	T.A. Cutler Memorial Library	Capital Improvement	
Revenues					
Property taxes	\$ -	\$ -	\$ 50,764	\$ -	\$ 50,764
Intergovernmental					
Federal	-	120,904	-	-	120,904
State	87,655	-	6,239	-	93,894
Charges for services	-	-	2,994	-	2,994
Fines and forfeits	-	102,973	99,548	-	202,521
Donations	-	48,652	-	-	48,652
Interest and rent	1,169	942	864	1,312	4,287
Other revenue	200	3,698	10,128	-	14,026
Total revenues	89,024	277,169	170,537	1,312	538,042
Expenditures					
Current					
Public works	142,318	-	-	-	142,318
Public safety	-	216,569	-	-	216,569
Recreation and culture	-	-	148,981	-	148,981
Debt Service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	142,318	216,569	148,981	-	507,868
Revenues over (under) expenditures	(53,294)	60,600	21,556	1,312	30,174
Other financing sources (uses)					
Transfers in	55,000	-	2,000	153,534	210,534
Transfers out	-	-	-	(100,680)	(100,680)
Total other financing sources (uses)	55,000	-	2,000	52,854	109,854
Net change in fund balances	1,706	60,600	23,556	54,166	140,028
Fund balances, beginning of year	84,848	224,146	14,839	137,443	461,276
Fund balances, end of year	\$ 86,554	\$ 284,746	\$ 38,395	\$ 191,609	\$ 601,304

Building Authority	Debt Service Funds		Permanent Fund Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	2002 General Obligation Limited Tax	Total		
\$ -	\$ -	\$ -	\$ -	\$ 50,764
-	-	-	-	120,904
-	-	-	-	93,894
-	-	-	-	2,994
-	-	-	-	202,521
-	-	-	-	48,652
37,431	30	37,461	6,326	48,074
-	-	-	3,090	17,116
<u>37,431</u>	<u>30</u>	<u>37,461</u>	<u>9,416</u>	<u>584,919</u>
-	-	-	-	142,318
-	-	-	-	216,569
-	-	-	-	148,981
25,000	30,000	55,000	-	55,000
12,420	15,678	28,098	-	28,098
<u>37,420</u>	<u>45,678</u>	<u>83,098</u>	<u>-</u>	<u>590,966</u>
<u>11</u>	<u>(45,648)</u>	<u>(45,637)</u>	<u>9,416</u>	<u>(6,047)</u>
-	45,680	45,680	-	256,214
-	-	-	-	(100,680)
<u>-</u>	<u>45,680</u>	<u>45,680</u>	<u>-</u>	<u>155,534</u>
11	32	43	9,416	149,487
<u>1,289</u>	<u>5,417</u>	<u>6,706</u>	<u>179,029</u>	<u>647,011</u>
<u>\$ 1,300</u>	<u>\$ 5,449</u>	<u>\$ 6,749</u>	<u>\$ 188,445</u>	<u>\$ 796,498</u>

CITY OF ST. LOUIS
LOCAL STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
State	\$ 88,000	\$ 82,500	\$ 87,655	\$ 5,155
Interest and rent	1,000	2,500	1,169	(1,331)
Other	-	-	200	200
Total revenues	89,000	85,000	89,024	4,024
Expenditures				
Public works	140,210	140,210	142,318	2,108
Revenues over (under) expenditures	(51,210)	(55,210)	(53,294)	1,916
Other financing sources				
Transfers in	55,000	55,000	55,000	-
Net change in fund balance	3,790	(210)	1,706	1,916
Fund balance, beginning of year	158,564	84,848	84,848	-
Fund balance, end of year	<u>\$ 162,354</u>	<u>\$ 84,638</u>	<u>\$ 86,554</u>	<u>\$ 1,916</u>

CITY OF ST. LOUIS
MAGNET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Federal	\$ 21,000	\$ 71,000	\$ 120,904	\$ 49,904
Fines and forfeitures	43,000	43,000	102,973	59,973
Contributions from local units	62,800	62,800	48,652	(14,148)
Interest and rent	1,700	1,700	942	(758)
Other	3,000	3,000	3,698	698
Total revenues	131,500	181,500	277,169	95,669
Expenditures				
Public safety	131,500	181,500	216,569	35,069
Net change in fund balance	-	-	60,600	60,600
Fund balance, beginning of year	224,146	224,146	224,146	-
Fund balance, end of year	<u>\$ 224,146</u>	<u>\$ 224,146</u>	<u>\$ 284,746</u>	<u>\$ 60,600</u>

CITY OF ST. LOUIS
T.A. CUTLER MEMORIAL LIBRARY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Revenues				
Property taxes	\$ 52,100	\$ 52,100	\$ 50,764	\$ (1,336)
State	6,000	6,000	6,239	239
Charges for services	1,800	1,800	2,994	1,194
Fines and forfeits	85,965	85,965	99,548	13,583
Interest and rent	1,000	1,000	864	(136)
Other revenue	6,000	6,000	10,128	4,128
Total revenues	152,865	152,865	170,537	17,672
Expenditures				
Library	154,865	154,865	148,981	(5,884)
Revenues over (under) expenditures	(2,000)	(2,000)	21,556	23,556
Other financing sources				
Transfers in	2,000	2,000	2,000	-
Net change in fund balance	-	-	23,556	23,556
Fund balances, beginning of year	14,839	14,839	14,839	-
Fund balances, end of year	\$ 14,839	\$ 14,839	\$ 38,395	\$ 23,556

CITY OF ST. LOUIS
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues				
Interest and rent	\$ 1,000	\$ 1,000	\$ 1,312	\$ 312
Other financing sources (uses)				
Transfers in	156,200	156,200	153,534	(2,666)
Transfers out	(89,900)	(100,680)	(100,680)	-
Total other financing sources (uses)	<u>66,300</u>	<u>55,520</u>	<u>52,854</u>	<u>(2,666)</u>
Net change in fund balance	67,300	56,520	54,166	(2,354)
Fund balances, beginning of period	<u>137,443</u>	<u>137,443</u>	<u>137,443</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 204,743</u></u>	<u><u>\$ 193,963</u></u>	<u><u>\$ 191,609</u></u>	<u><u>\$ (2,354)</u></u>

CITY OF ST. LOUIS
TRUST AND AGENCY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010

	Agency Funds			
	Tax Collection	Bethany Trust	Employee Flexible Benefit Plan	Total
Assets				
Cash and cash equivalents	\$ 8,612	\$ -	\$ 3,558	\$ 12,170
Accounts receivable	-	9,199	-	9,199
Total assets	\$ 8,612	\$ 9,199	\$ 3,558	\$ 21,369
Liabilities				
Accrued liabilities	\$ 5,770	\$ -	\$ -	\$ 5,770
Due to other governments	2,842	9,199	-	12,041
Due to individuals	-	-	3,558	3,558
Total liabilities	\$ 8,612	\$ 9,199	\$ 3,558	\$ 21,369

CITY OF ST. LOUIS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS

FOR THE YEAR ENDED JUNE 30, 2010

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<u>TAX COLLECTION</u>				
Assets				
Cash and cash equivalents	\$ 8,783	\$ 2,366,961	\$ 2,367,132	\$ 8,612
Liabilities				
Accounts payable	\$ -	\$ 2,384,687	\$ 2,384,687	\$ -
Accrued liabilities	5,840	1,165,074	1,165,144	5,770
Due to other governments	2,943	1,210,836	1,210,937	2,842
Total liabilities	\$ 8,783	\$ 4,760,597	\$ 4,760,768	\$ 8,612
<u>BETHANY TRUST</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 29,682	\$ 29,682	\$ -
Accounts receivable	9,185	31,552	31,538	9,199
Total assets	\$ 9,185	\$ 61,234	\$ 61,220	\$ 9,199
Liabilities				
Due to other governments	\$ 9,185	\$ 14	\$ -	\$ 9,199
<u>EMPLOYEE FLEXIBLE BENEFIT FUND</u>				
Assets				
Cash and cash equivalents	\$ 3,057	\$ 2,073	\$ 1,572	\$ 3,558
Liabilities				
Due to individuals	\$ 3,057	\$ 6,184	\$ 5,683	\$ 3,558
TOTAL - ALL AGENCY FUNDS				
Assets				
Cash and cash equivalents	\$ 11,840	\$ 2,398,716	\$ 2,398,386	\$ 12,170
Accounts receivable	9,185	31,552	31,538	9,199
Total assets	21,025	2,430,268	2,429,924	21,369
Liabilities				
Accounts payable	\$ -	\$ 2,384,687	\$ 2,384,687	\$ -
Accrued liabilities	5,840	1,165,074	1,165,144	5,770
Due to other governments	12,128	1,210,850	1,210,937	12,041
Due to individuals	3,057	6,184	5,683	3,558
Total liabilities	\$ 21,025	\$ 4,766,795	\$ 4,766,451	\$ 21,369

CITY OF ST. LOUIS
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT
STATEMENT OF NET ASSETS AND BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2010

	<u>Downtown Development Authority</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 16,196	\$ -	\$ 16,196
Capital assets, net:			
Assets not being depreciated	-	-	-
Assets being depreciated	-	148,418	148,418
Total assets	<u>\$ 16,196</u>	<u>148,418</u>	<u>164,614</u>
Liabilities			
Accounts payable	\$ 1,370	\$ -	\$ 1,370
Due to primary government	73,161	-	73,161
Deferred revenue	450	-	450
Total liabilities	<u>74,981</u>	<u>-</u>	<u>74,981</u>
Fund balances (deficit)			
Reserved for debt service	<u>(58,785)</u>	<u>58,785</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 16,196</u>		
Net assets			
Investment in capital assets, net of related debt		148,418	148,418
Unrestricted (deficit)		<u>(58,785)</u>	<u>(58,785)</u>
Total net assets		<u>\$ 89,633</u>	<u>\$ 89,633</u>

CITY OF ST. LOUIS
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT
STATEMENT OF ACTIVITIES, REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Downtown Development Authority	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 40,418	\$ -	\$ 40,418
Interest and rent	4,117	-	4,117
Total revenues	44,535	-	44,535
Expenditures/expenses			
Personnel services	\$ 2,800	-	2,800
Supplies	315	-	315
Contractual services	1,657	-	1,657
Capital outlay	26,646	(26,646)	-
Other expenditures/expense	5,922	-	5,922
Debt service:			
Interest expense	3,784	-	3,784
Depreciation	-	2,516	2,516
Total expenditures/expenses	41,124	(24,130)	16,994
Change in fund balance/net assets	3,411	24,130	27,541
Fund balance/net assets, beginning of year	(62,196)	124,288	62,092
Fund balance/net assets, end of year	\$ (58,785)	\$ 148,418	\$ 89,633

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

December 20, 2010

City Council
St. Louis, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of St. Louis, Michigan, as of and for the year ended June 30, 2010, which collectively comprise the City of St. Louis, Michigan's basic financial statements, and have issued our report thereon dated December 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

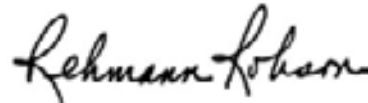
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Rehman Lohani". The signature is written in a cursive style with a large initial 'R'.

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
UNDER SAS NO. 114**

December 20, 2010

To the City Council of the
City of St. Louis

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of St. Louis* (the “City”) for the year ended June 30, 2010, and have issued our report thereon dated December 20, 2010. 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 and Government Auditing Standards

As stated in our engagement letter dated June 10, 2010, 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 accounting principles generally accepted in the United States of America. 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 the City. 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 the financial statements are free of material misstatement, we performed tests of City’s compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on August 26, 2010.

Significant Audit Observations

Qualitative Aspects of Accounting Practices

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 are described in Note 1 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 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 estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

City Council of the
City of St. Louis
December 20, 2010
Page 3

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 financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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 attached management representation letter dated December 20, 2010.

Management Consultations with Other Independent Accountants

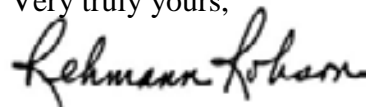
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the 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.

Other Audit Findings or Issues

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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City of St. Louis and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".



108 West Saginaw Street • St. Louis, Michigan 48880
(989) 681-2137 • Fax (989) 681-3842 • www.stlouismi.com

December 20, 2010

Rehmann Robson
P.O. Box 2025
Saginaw, MI 48605

We are providing this letter in connection with your audit of the financial statements of *City of St. Louis* as of June 30, 2010 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of St. Louis and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 30, 2010, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all—
 - a. Financial records and related data.
 - b. Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We are in agreement with the adjusting journal entries you have proposed, and they have been posted.

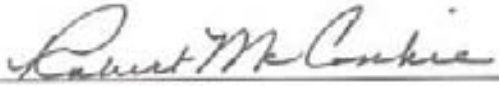
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.
10. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
11. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
 - b. Guarantees, whether written or oral, under which the City is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
13. There are no—

- a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
14. As part of your audit, you prepared the draft financial statements and related notes. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
 15. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 16. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 17. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 18. The financial statements properly classify all funds and activities.
 19. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
 20. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 21. Provisions for uncollectible receivables have been properly identified and recorded.
 22. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 23. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

24. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
25. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
26. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
27. The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
28. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.



Robert McConkie
City Manager



Nancy L. Roehrs
City Clerk