

CITY OF ST. LOUIS

Gratiot County, Michigan

FINANCIAL STATEMENTS

June 30, 2014

**BERTHIAUME
& COMPANY**

Certified Public Accountants



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INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of St. Louis as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 9), schedule of pension plan funding progress (page 43), and budgetary comparison information (pages 44 and 45), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Louis' basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014 on our consideration of the City of Louis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of St. Louis' internal control over financial reporting and compliance.

Berechtaume & Co.

Saginaw, Michigan
September 16, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

As management of the City of St. Louis (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS:

- The City's combined total net position is reported as \$46,819,657 for the fiscal year ended June 30, 2014, compared to \$40,387,226 for the fiscal year ended June 30, 2013.
- In the City's governmental activities, revenues generated were \$2,709,258 while expenses totaled \$2,713,950.
- In the City's business-type activities, revenues generated were \$13,267,189 while expenses totaled \$6,834,728.
- Total net position increased by \$6,432,431.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the City's 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 required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide statements are designed to provide readers with a broad overview of the City's finances, as a whole, in a manner similar to a private sector business. The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. The *statement of activities* presents all of the City's revenues and expenses, and is reported based on when the underlying event giving rise to the revenue or expense occurs, regardless of when cash is received or paid.

The government-wide statements of the City of St. Louis are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, recreation departments, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.

Business-type Activities – The City charges fees to customers to recover all or a significant portion of certain services it provides. These business-type activities include electric, water and sewer, and solid waste.

Component Unit – The City includes the Downtown Development Authority as a discretely presented component unit.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. 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 has three types of funds:

Governmental Funds – Many of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out. The funds also show the balances left at year-end that are available for spending.

The governmental funds focus on a short-term view, rather than the long-term focus of the government-wide statements, so additional information is provided after each of the governmental fund statements that explain the relationship of differences between the fund and government-wide statements.

The City maintains nine (9) individual governmental funds. Separate information is presented for the General Fund and Major Street Fund, which are considered to be "major" funds. Data from the other seven (7) governmental funds, considered to be "nonmajor" funds, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds. Budgetary comparison statements have been presented for major governmental funds to demonstrate compliance with those budgets.

Proprietary Funds – Proprietary funds are used to report services where the City charges a fee to the customer to recover most or all of the cost of the service rendered. Proprietary funds provide both long- and short-term financial information. The two types of proprietary funds are enterprise and internal service funds.

- Enterprise funds and business-type funds are the same, but the fund statements provide more detail and additional information such as cash flows. The City's enterprise funds are the Electric Fund, Water and Sewer Fund and Solid Waste Fund.
- Internal service funds are used to report activities that provide supplies and services to the City's other programs. The City's internal service fund is the Motor Pool Fund.

Fiduciary Funds – Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the City's own programs.

Notes to the 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.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City. The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

THE CITY OF ST. LOUIS AS A WHOLE:

The City's total combined net position for the fiscal year ended June 30, 2014 is \$46,819,657, consisting of \$10,596,504 in governmental activities and \$36,223,153 in business-type activities.

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is \$4,567,274. Governmental activities unrestricted total is \$2,946,434, while business-type activities is \$1,620,840.

The following table shows comparisons of total assets, total liabilities, and total net position in a condensed format as of June 30, 2014 and June 30, 2013.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets:						
Current and other assets	\$ 4,109,123	\$ 3,577,647	\$ 18,488,138	\$ 16,147,734	\$ 22,597,261	\$ 19,725,381
Capital assets	<u>6,960,593</u>	<u>7,174,599</u>	<u>22,349,244</u>	<u>15,193,454</u>	<u>29,309,837</u>	<u>22,368,053</u>
Total assets	<u>11,069,716</u>	<u>10,752,246</u>	<u>40,837,382</u>	<u>31,341,188</u>	<u>51,907,098</u>	<u>42,093,434</u>
Liabilities:						
Other liabilities	143,858	174,164	2,177,563	283,620	2,321,421	457,784
Long-term liabilities	<u>329,354</u>	<u>397,977</u>	<u>2,436,666</u>	<u>850,447</u>	<u>2,766,020</u>	<u>1,248,424</u>
Total liabilities	<u>473,212</u>	<u>572,141</u>	<u>4,614,229</u>	<u>1,134,067</u>	<u>5,087,441</u>	<u>1,706,208</u>
Net position:						
Net investment in capital assets	6,694,823	6,833,317	20,015,631	14,451,117	26,710,454	21,284,434
Restricted	955,247	857,202	14,586,682	12,904,216	15,541,929	13,761,418
Unrestricted	<u>2,946,434</u>	<u>2,489,586</u>	<u>1,620,840</u>	<u>2,851,788</u>	<u>4,567,274</u>	<u>5,341,374</u>
Total net position	<u>\$10,596,504</u>	<u>\$10,180,105</u>	<u>\$36,223,153</u>	<u>\$30,207,121</u>	<u>\$46,819,657</u>	<u>\$40,387,226</u>

The City's combined total net position increased by \$6,432,431 during the current fiscal year. Governmental activities increased by \$416,399 while business-type activities increased by \$6,016,032.

Governmental Activities:

The City's total governmental revenue is reported at \$2,709,258, an increase of \$427,351 from the prior fiscal year. Much of this increase is from operating and capital grants received.

Total expenses decreased by \$16,426 from the prior fiscal year.

Business-type Activities:

The City's total business-type revenue is reported at \$13,267,189, an increase of \$5,672,128 from the prior fiscal year. This is due primarily to the receipt of a lawsuit settlement.

Total expenses increased by \$35,357 from the prior fiscal year.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

The following table shows the comparison of the change in net position in a condensed format for the fiscal years ended June 30, 2014 and June 30, 2013.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
Revenues:						
Program revenues						
Charges for services	\$ 584,583	\$ 559,702	\$ 7,191,344	\$ 6,902,798	\$ 7,775,927	\$ 7,462,500
Operating grants	530,734	476,919	-	-	530,734	476,919
Capital grants	325,685	-	6,060,287	675,032	6,385,972	675,032
General revenues						
Property taxes	727,026	710,882	-	-	727,026	710,882
Franchise fees	30,038	25,885	-	-	30,038	25,885
State revenue sharing	491,349	471,372	-	-	491,349	471,372
Investment earnings	6,719	11,393	15,558	17,231	22,277	28,624
Other	13,124	25,754	-	-	13,124	25,754
Total revenues	2,709,258	2,281,907	13,267,189	7,595,061	15,976,447	9,876,968
Expenses:						
General government	171,953	321,936	-	-	171,953	321,936
Public safety	827,275	800,579	-	-	827,275	800,579
Public works	1,305,948	1,204,736	-	-	1,305,948	1,204,736
Community and economic development	113,459	102,779	-	-	113,459	102,779
Recreation and culture	278,356	279,195	-	-	278,356	279,195
Interest on long-term debt	16,959	21,151	-	-	16,959	21,151
Electric	-	-	4,459,998	4,567,173	4,459,998	4,567,173
Water and Sewer	-	-	2,051,881	1,897,433	2,051,881	1,897,433
Solid Waste	-	-	322,849	334,765	322,849	334,765
Total expenses	2,713,950	2,730,376	6,834,728	6,799,371	9,548,678	9,529,747
Excess of revenues over expenses before other	(4,692)	(448,469)	6,432,461	795,690	6,427,769	347,221
Other items:						
Contributions to principal	1,344	3,025	-	-	1,344	3,025
Sale of capital assets	3,318	7,404	-	-	3,318	7,404
Interfund transfers	416,429	1,585,940	(416,429)	(1,585,940)	-	-
Total other items	421,091	1,596,369	(416,429)	(1,585,940)	4,662	10,429
Changes in net position	416,399	1,147,900	6,016,032	(790,250)	6,432,431	357,650
Net position, beginning of year	10,180,105	9,032,205	30,207,121	30,997,371	40,387,226	40,029,576
Net position, end of year	\$ 10,596,504	\$ 10,180,105	\$ 36,223,153	\$ 30,207,121	\$ 46,819,657	\$ 40,387,226

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

THE CITY OF ST. LOUIS' FUNDS:

Presentation of the City of St. Louis' major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

The General Fund is the City's largest governmental fund and one of two governmental funds that is considered a major fund. It pays for most of the City's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended June 30, 2014, General Fund financing uses exceeded its financing sources by \$24,205, decreasing its ending fund balance to \$1,277,937. The City's second major governmental fund, the Major Street Fund was able to increase its ending fund balance by \$22,313.

General Fund Budgetary Highlights:

The General Fund budget, as originally adopted, projected a net decrease in fund balance of \$225,540. During the year, the City made budget amendments which changed the projection to a net decrease in fund balance of \$320,240. The actual results for the year yielded a decrease in fund balance of \$24,205.

Capital Assets and Debt Administration:

At June 30, 2014, the City of St. Louis had \$29,309,837 invested in a range of capital assets including land, buildings and improvements, equipment, vehicles, electric, water and sewer lines, streets, and other infrastructure, net of accumulated depreciation. At June 30, 2013, this total was \$22,368,053. Additional information about the City's capital assets is presented in Note 1 and Note 5 of the Notes to the Financial Statements.

At June 30, 2014, the City of St. Louis's total long-term indebtedness (not including compensated absences) was \$2,599,383, of which \$265,770 was backed by the full faith and credit of the City and the remaining \$2,333,613 was backed by specific revenue sources. Additional information about the City's indebtedness is presented in Note 6 of the Notes to the Financial Statements.

Economic Factors:

Following the discovery of traces of varying levels of the chemical compound para-Chlorobenzene Sulfonic Acid from the Velsicol Superfund Site in all six municipal drinking water supply wells, the Michigan Department of Environmental Quality strongly suggested replacement of the City's entire water supply in a location five miles or greater from the City.

During fiscal year 2010-2011, litigation was settled against Velsicol Chemical Company, the Velsicol Trust Funds et al (responsible parties for the contamination) in the amount of \$26,500,000. As part of the Settlement Agreement, the City has received payment of \$20,500,000. The remaining \$6,000,000 of the Settlement Agreement is being held in a Successor Liquidation Trust (SLT) that will be reimbursed to the City for replacement of the City water supply. This reimbursement is contingent upon numerous factors that are detailed in the Settlement Agreement. During the current fiscal year, the City requested reimbursement from the SLT for the remaining amount in the SLT of \$5,329,366. The City of St. Louis and the City of Alma jointly formed the Gratiot Area Water Authority to fund improvements to the water supply and treatment system for both of the Cities.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

During the fiscal year, the City was awarded a grant from the United States Environmental Protection Agency (US EPA) in the amount of \$25,051,000. The grant is to be paid over a three year period as construction projects are designed and constructed. The grant, coupled with the sums from the Velsicol Settlement Agreement, is to be used to replace the City's water supply. The first year grant allocation of \$10,500,000 was approved for projects relating to the replacement of the water supply and projects were under construction as of fiscal year end.

Gratiot County (which includes the City of St. Louis and the surrounding incorporated and unincorporated area), has a labor force of 18,394 as of July 2014, which is up from July 2013 by 115. The unemployment rate in the County for July 2014 is 9.1% which is down substantially from the July 2013 rate of 11.6%. Similarly statewide the unemployment for the same period saw a downward trend of 1.3% to 7.7%. A recent University of Michigan Research Seminar in Quantitative Economics Report for Michigan finds that "We are forecasting continued solid job growth over the next two years, but backing off from the pace during 2013. With a strong summer quarter, we see job growth coming in at an annual rate of 2.3 percent for the second half of 2013. Growth then settles back to a more sustainable rate, averaging 1.4 to 1.5 percent during 2014 and 2015, with a little more strength in the latter year...The six-year recovery period through 2015 would return the job count in Michigan to its level in early 2008, prior to the Great Recession."

As the State's economy continues to improve from the recent recession, the State's decline in support to local government, though not to pre-recession levels, has over the current fiscal year seen some improvement. We are continuing to see improvement in the local business climate. Efforts continue to recruit new business to any vacant store front so as to provide residents and visitors a variety of stores, specialty shops, and commercial businesses. The City expects to be able to maintain a healthy downtown with a minimal number of vacant storefronts. Though there were no new residential construction starts over the past year we are seeing the number of vacant homes decline and an increased number of improvements to the existing housing stock.

During the current fiscal year ended June 30, 2014, the unassigned fund balance in the general fund is \$666,375. The City has projected a balanced budget for the upcoming fiscal year. Improvement in the housing market and increasing home prices are indicators that tax revenues in the general fund will begin to increase. It is believed 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 2014-15 fiscal year.

Contacting the City's Financial Management:

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact Bobbie Marr, Finance Director, City of St. Louis, 108 W. Saginaw Street, St. Louis, Michigan 48880.

BASIC FINANCIAL STATEMENTS

CITY OF ST. LOUIS

STATEMENT OF NET POSITION

June 30, 2014

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 2,935,897	\$ 1,070,284	\$ 4,006,181	\$ 24,604
Investments	191,506	-	191,506	-
Receivables	214,029	4,944,029	5,158,058	-
Internal balances	(115,257)	115,257	-	-
Inventory	19,070	235,148	254,218	-
Prepaid expenses	11,917	6,465	18,382	-
Restricted cash and cash equivalents	-	7,305,199	7,305,199	-
Restricted investments	-	4,061,756	4,061,756	-
Advance to Water Authority	-	750,000	750,000	-
Other asset - net pension asset	851,961	-	851,961	-
Asset held for resale	-	-	-	85,000
Capital assets:				
Nondepreciable capital assets	2,924,961	10,355,515	13,280,476	-
Depreciable capital assets, net	4,035,632	11,993,729	16,029,361	-
Total assets	11,069,716	40,837,382	51,907,098	109,604
Liabilities:				
Accounts payable and accrued expenses	143,858	2,177,563	2,321,421	59
Long-term liabilities:				
Due within one year	142,179	294,400	436,579	5,924
Due in more than one year	187,175	2,142,266	2,329,441	46,287
Total liabilities	473,212	4,614,229	5,087,441	52,270
Net position:				
Net investment in capital assets	6,694,823	20,015,631	26,710,454	-
Restricted for:				
Debt service	11,697	378,416	390,113	-
Equipment replacement/improvements	-	14,208,266	14,208,266	-
Library operations	72,013	-	72,013	-
Nonexpendable cemetery principal	171,046	-	171,046	-
Park improvements	47,000	-	47,000	-
Streets	653,491	-	653,491	-
Unrestricted	2,946,434	1,620,840	4,567,274	57,334
Total net position	\$ 10,596,504	\$ 36,223,153	\$ 46,819,657	\$ 57,334

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

CITY OF ST. LOUIS

STATEMENT OF ACTIVITIES Year Ended June 30, 2014

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 171,953	\$ 436,576	\$ 5,250	\$ -	\$ 269,873
Public safety	827,275	33,130	28,362	-	(765,783)
Public works	1,305,948	23,961	461,776	325,685	(494,526)
Community and economic development	113,459	-	20,210	-	(93,249)
Recreation and culture	278,356	90,916	15,136	-	(172,304)
Interest on long-term debt	16,959	-	-	-	(16,959)
Total governmental activities	<u>2,713,950</u>	<u>584,583</u>	<u>530,734</u>	<u>325,685</u>	<u>(1,272,948)</u>
<i>Business-type activities:</i>					
Electric	4,459,998	4,339,712	-	-	(120,286)
Water and Sewer	2,051,881	2,513,393	-	6,060,287	6,521,799
Solid Waste	322,849	338,239	-	-	15,390
Total business-type activities	<u>6,834,728</u>	<u>7,191,344</u>	<u>-</u>	<u>6,060,287</u>	<u>6,416,903</u>
Total primary government	<u>\$ 9,548,678</u>	<u>\$ 7,775,927</u>	<u>\$ 530,734</u>	<u>\$ 6,385,972</u>	<u>\$ 5,143,955</u>
COMPONENT UNIT:					
Downtown Development Authority	<u>\$ 86,177</u>	<u>\$ 5,840</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (80,337)</u>

continued

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

CITY OF ST. LOUIS

STATEMENT OF ACTIVITIES, CONTINUED

Year Ended June 30, 2014

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
<i>Changes in net position:</i>				
Net (Expense) Revenue	\$ (1,272,948)	\$ 6,416,903	\$ 5,143,955	\$ (80,337)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	674,049	-	674,049	-
Property taxes, levied for library operations	47,434	-	47,434	-
Property taxes, captured by component unit	-	-	-	24,207
Payment in lieu of taxes	5,543	-	5,543	-
Franchise fees	30,038	-	30,038	-
Grants and contributions not restricted to specific programs	491,349	-	491,349	-
Unrestricted investment earnings	6,719	15,558	22,277	41
Other	13,124	-	13,124	-
Contributions to principal of permanent funds	1,344	-	1,344	-
Special items:				
Gain (loss) on sale of capital asset	3,318	-	3,318	-
Transfers	416,429	(416,429)	-	-
Total general revenues and other	<u>1,689,347</u>	<u>(400,871)</u>	<u>1,288,476</u>	<u>24,248</u>
Change in net position	416,399	6,016,032	6,432,431	(56,089)
Net position, beginning of year	<u>10,180,105</u>	<u>30,207,121</u>	<u>40,387,226</u>	<u>113,423</u>
Net position, end of year	<u>\$ 10,596,504</u>	<u>\$ 36,223,153</u>	<u>\$ 46,819,657</u>	<u>\$ 57,334</u>

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

CITY OF ST. LOUIS

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2014

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 1,025,088	\$ 380,544	\$ 1,412,752	\$ 2,818,384
Investments	191,506	-	-	191,506
Taxes receivable	18,303	-	800	19,103
Accounts receivable	17,625	-	299	17,924
Notes receivable	7,933	-	-	7,933
Accrued interest receivable	287	-	3,812	4,099
Due from other governments	83,647	59,261	19,379	162,287
Inventory	9,592	-	-	9,592
Prepaid expenditures	11,917	-	-	11,917
Total assets	<u>\$ 1,365,898</u>	<u>\$ 439,805</u>	<u>\$ 1,437,042</u>	<u>\$ 3,242,745</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 52,110	\$ 6,743	\$ 25,400	\$ 84,253
Accrued expenses	32,677	1,055	2,623	36,355
Due to other governments	3,174	-	-	3,174
Total liabilities	<u>87,961</u>	<u>7,798</u>	<u>28,023</u>	<u>123,782</u>
Fund balances:				
Nonspendable:				
Inventory	9,592	-	-	9,592
Prepaid expenditures	11,917	-	-	11,917
Long-term receivables	6,113	-	572	6,685
Nonexpendable cemetery principal	-	-	171,046	171,046
Restricted for:				
Debt service	-	-	11,697	11,697
Library operations	-	-	72,013	72,013
Park improvements	47,000	-	-	47,000
Streets	-	432,007	221,484	653,491
Assigned to:				
Capital improvements	489,000	-	309,600	798,600
Cemetery improvements	17,919	-	-	17,919
Cemetery operations	-	-	32,411	32,411
City Hall project	-	-	590,196	590,196
Pool house improvements	30,021	-	-	30,021
Unassigned	666,375	-	-	666,375
Total fund balances	<u>1,277,937</u>	<u>432,007</u>	<u>1,409,019</u>	<u>3,118,963</u>
Total liabilities and fund balances	<u>\$ 1,365,898</u>	<u>\$ 439,805</u>	<u>\$ 1,437,042</u>	<u>\$ 3,242,745</u>

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

CITY OF ST. LOUIS

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

June 30, 2014

Fund balances of governmental funds		\$ 3,118,963
Net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	31,970,009	
Less accumulated depreciation	<u>(25,428,447)</u>	6,541,562
The net pension asset used in governmental activities is not a financial resource, and therefore not reported in the funds.		851,961
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(3,313)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Bonds payable	(260,000)	
Capital lease payable	(5,770)	
Compensated absences payable	<u>(60,625)</u>	(326,395)
A portion of the net position (including capital assets of \$419,031) and liabilities of the internal service fund are included in the governmental activities in the statement of net position (net of \$115,257 allocation to business-type activities).		<u>413,726</u>
Net position of governmental activities		<u>\$10,596,504</u>

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

CITY OF ST. LOUIS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES Year Ended June 30, 2014

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues:				
Property taxes	\$ 679,397	\$ -	\$ 47,629	\$ 727,026
Licenses and permits	29,378	-	-	29,378
Federal grants	19,000	325,685	-	344,685
State grants	500,711	318,082	149,630	968,423
Contributions from other units	-	-	21,210	21,210
Charges for services	490,602	-	3,924	494,526
Fines and forfeits	3,752	-	83,426	87,178
Interest and rents	7,503	506	3,508	11,517
Other revenue	15,147	-	12,427	27,574
Total revenues	<u>1,745,490</u>	<u>644,273</u>	<u>321,754</u>	<u>2,711,517</u>
Expenditures:				
Current				
General government	393,957	-	-	393,957
Public safety	794,182	-	-	794,182
Public works	131,286	207,168	159,992	498,446
Community and economic development	113,200	-	-	113,200
Recreation and culture	114,210	-	119,912	234,122
Capital outlay	55,157	414,792	24,163	494,112
Debt service				
Principal	5,512	-	70,000	75,512
Interest and fees	1,231	-	16,613	17,844
Total expenditures	<u>1,769,695</u>	<u>621,960</u>	<u>390,680</u>	<u>2,782,335</u>
Excess (deficiency) of revenues over expenditures	<u>(24,205)</u>	<u>22,313</u>	<u>(68,926)</u>	<u>(70,818)</u>
Other financing sources (uses):				
Transfer from other funds	-	-	342,883	342,883
Transfers to other funds	-	-	(186,640)	(186,640)
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>156,243</u>	<u>156,243</u>
Changes in fund balances	(24,205)	22,313	87,317	85,425
Fund balances, beginning of year	<u>1,302,142</u>	<u>409,694</u>	<u>1,321,702</u>	<u>3,033,538</u>
Fund balances, end of year	<u>\$ 1,277,937</u>	<u>\$ 432,007</u>	<u>\$ 1,409,019</u>	<u>\$ 3,118,963</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

Year Ended June 30, 2014

Changes in fund balances of governmental funds		\$	85,425
Change in net position reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.			
Capital outlay	477,585		
Less depreciation expense	<u>(906,714)</u>	(429,129)	
Repayments of principal on long-term obligations are expenditures in governmental funds but the payments reduce long-term liabilities in the statement of net position.			75,512
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.			
Change in compensated absences payable	(6,202)		
Change in accrued interest on bonds	885		
Change in net pension asset	<u>435,483</u>	430,166	
Certain changes in net position of the internal service fund are reported with governmental activities in the statement of activities (net of (\$10,980) allocation to business-type activities).			<u>254,425</u>
Change in net position of governmental activities		\$	<u>416,399</u>

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

June 30, 2014

	<u>Enterprise Funds</u>				<u>Internal Service Fund</u>
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Nonmajor Solid Waste Fund</u>	<u>Total</u>	
Assets:					
Current assets:					
Cash and cash equivalents	\$ 35,690	\$ 926,027	\$ 108,567	\$ 1,070,284	\$ 117,513
Accounts receivable	528,777	3,594,072	36,464	4,159,313	2,683
Accrued interest receivable	-	1,484	-	1,484	-
Due from other governments	5,924	731,021	-	736,945	-
Inventory	173,359	61,789	-	235,148	9,478
Prepaid expenses	-	6,465	-	6,465	-
Total current assets	<u>743,750</u>	<u>5,320,858</u>	<u>145,031</u>	<u>6,209,639</u>	<u>129,674</u>
Noncurrent assets:					
Restricted cash and cash equivalents	1,271,174	6,034,025	-	7,305,199	-
Restricted investments	275,443	3,786,313	-	4,061,756	-
Due from other governments	46,287	-	-	46,287	-
Advance to Water Authority	-	750,000	-	750,000	-
Capital assets:					
Nondepreciable capital assets	488,010	9,867,505	-	10,355,515	-
Depreciable capital assets, net	<u>5,099,410</u>	<u>6,894,319</u>	<u>-</u>	<u>11,993,729</u>	<u>419,031</u>
Total noncurrent assets	<u>7,180,324</u>	<u>27,332,162</u>	<u>-</u>	<u>34,512,486</u>	<u>419,031</u>
Total assets	<u>7,924,074</u>	<u>32,653,020</u>	<u>145,031</u>	<u>40,722,125</u>	<u>548,705</u>
Liabilities:					
Current liabilities:					
Accounts payable	109,923	1,957,971	33,025	2,100,919	16,049
Accrued expenses	10,159	12,539	1,511	24,209	714
Deposits payable	31,369	13,344	-	44,713	-
Accrued interest payable	-	7,722	-	7,722	-
Current compensated absences	33,914	35,486	-	69,400	2,866
Current portion of long-term debt	-	225,000	-	225,000	-
Total current liabilities	<u>185,365</u>	<u>2,252,062</u>	<u>34,536</u>	<u>2,471,963</u>	<u>19,629</u>
Noncurrent liabilities:					
Compensated absences payable	19,991	13,662	-	33,653	93
Long-term debt	<u>235,000</u>	<u>1,873,613</u>	<u>-</u>	<u>2,108,613</u>	<u>-</u>
Total noncurrent liabilities	<u>254,991</u>	<u>1,887,275</u>	<u>-</u>	<u>2,142,266</u>	<u>93</u>
Total liabilities	<u>440,356</u>	<u>4,139,337</u>	<u>34,536</u>	<u>4,614,229</u>	<u>19,722</u>

continued

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION, CONTINUED

June 30, 2014

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor Solid Waste Fund</i>	<i>Total</i>	
Net position:					
Net investment in capital assets	5,352,420	14,663,211	-	20,015,631	419,031
Restricted for:					
Debt service	275,443	102,973	-	378,416	-
Replacement/improvements	1,271,174	1,451,021	-	2,722,195	-
Water supply replacement	-	11,486,071	-	11,486,071	-
Unrestricted	584,681	810,407	110,495	1,505,583	109,952
Total net position	\$ 7,483,718	\$ 28,513,683	\$ 110,495	\$ 36,107,896	\$ 528,983
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				115,257	
Net position of business-type activities				\$ 36,223,153	

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended June 30, 2014

	<i>Enterprise Funds</i>				<i>Internal Service Fund</i>
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor Solid Waste Fund</i>	<i>Total</i>	
Operating revenues:					
Charges for services	\$ 4,235,035	\$ 2,431,605	\$ 329,275	\$ 6,995,915	\$ -
Penalties	94,540	35,164	8,910	138,614	-
Equipment rental	-	-	-	-	337,125
Other	4,482	12,608	54	17,144	2,318
Total operating revenues	4,334,057	2,479,377	338,239	7,151,673	339,443
Operating expenses:					
Personnel	789,182	818,678	85,594	1,693,454	76,575
Administrative expense	204,243	162,196	13,967	380,406	-
Purchased energy	2,707,018	-	-	2,707,018	-
Other services and charges	433,304	625,879	220,264	1,279,447	222,395
Depreciation	306,933	415,501	-	722,434	59,617
Total operating expenses	4,440,680	2,022,254	319,825	6,782,759	358,587
Operating income (loss)	(106,623)	457,123	18,414	368,914	(19,144)
Non-operating revenues (expenses):					
Interest income	5,192	10,238	128	15,558	85
Rental income	5,655	29,016	-	34,671	-
Gain on disposal of capital assets	-	-	-	-	2,318
Other income	-	5,000	-	5,000	-
Interest expense	(15,248)	(25,741)	-	(40,989)	-
Net non-operating	(4,401)	18,513	128	14,240	2,403
Change in net position before other	(111,024)	475,636	18,542	383,154	(16,741)
Settlement from lawsuit (from Trust)	-	5,329,266	-	5,329,266	-
Capital contributions-federal grant	-	731,021	-	731,021	-
Transfers from other funds	-	-	-	-	260,186
Transfers to other funds	(335,319)	(73,289)	(7,821)	(416,429)	-
Change in net position	(446,343)	6,462,634	10,721	6,027,012	243,445
Net position, beginning of year	7,930,061	22,051,049	99,774	285,538	285,538
Net position, end of year	\$ 7,483,718	\$ 28,513,683	\$ 110,495	\$ 528,983	\$ 528,983
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(10,980)	
Change in net position of business-type activities				<u>\$ 6,016,032</u>	

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
 Year Ended June 30, 2014

	<u>Enterprise Funds</u>				<u>Internal Service Fund</u>
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Nonmajor Solid Waste Fund</u>	<u>Total</u>	
Cash flows from operating activities:					
Cash received from customers	\$ 4,333,678	\$ 2,410,544	\$ 337,170	\$ 7,081,392	\$ -
Cash received for interfund services	-	-	-	-	339,311
Cash payments to employees	(373,138)	(462,540)	(50,957)	(886,635)	(43,147)
Cash payments to suppliers for goods and services	<u>(3,728,921)</u>	<u>(1,123,455)</u>	<u>(261,869)</u>	<u>(5,114,245)</u>	<u>(263,297)</u>
Net cash provided (used) by operating activities	<u>231,619</u>	<u>824,549</u>	<u>24,344</u>	<u>1,080,512</u>	<u>32,867</u>
Cash flows from non-capital financing activities:					
Other income	-	5,000	-	5,000	-
Transfers from (to) other funds	<u>(335,319)</u>	<u>(73,289)</u>	<u>(7,821)</u>	<u>(416,429)</u>	<u>260,186</u>
Net cash provided (used) by non-capital financing activities	<u>(335,319)</u>	<u>(68,289)</u>	<u>(7,821)</u>	<u>(411,429)</u>	<u>260,186</u>
Cash flows from capital and related financing activities:					
Settlement from lawsuit (from Trust)	-	2,736,116	-	2,736,116	-
Proceeds from bond issue debt	-	2,098,613	-	2,098,613	-
Advance to Water Authority	-	(550,000)	-	(550,000)	-
Acquisition of capital assets	(269,117.0)	(5,737,639)	-	(6,006,756)	(267,240)
Gain on disposal of capital assets	-	-	-	-	2,318
Principal payments	(150,000)	(360,000)	-	(510,000)	-
Interest paid	<u>(24,616)</u>	<u>(20,209)</u>	<u>-</u>	<u>(44,825)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(443,733)</u>	<u>(1,833,119)</u>	<u>-</u>	<u>(2,276,852)</u>	<u>(264,922)</u>
Cash flows from investing activities:					
Interest received	5,192	9,475	128	14,795	85
Rent received	<u>5,655</u>	<u>29,016</u>	<u>-</u>	<u>34,671</u>	<u>-</u>
Net cash provided by investing activities	<u>10,847</u>	<u>38,491</u>	<u>128</u>	<u>49,466</u>	<u>85</u>

continued

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2014

	<i>Business-type Activities</i>			<i>Governmental</i>	
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Solid Waste Fund</i>	<i>Internal Service Fund</i>	
Net increase (decrease) in cash, cash equivalents and investments	(536,586)	(1,038,368)	16,651	(1,558,303)	28,216
Cash, cash equivalents and investments, beginning of year	<u>2,118,893</u>	<u>11,784,733</u>	<u>91,916</u>	<u>13,995,542</u>	<u>89,297</u>
Cash, cash equivalents and investments, end of year	<u>\$ 1,582,307</u>	<u>\$ 10,746,365</u>	<u>\$ 108,567</u>	<u>\$ 12,437,239</u>	<u>\$ 117,513</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (106,623)	\$ 457,123	\$ 18,414	\$ 368,914	\$ (19,144)
Adjustments:					
Depreciation	306,933	415,501	-	722,434	59,617
Change in assets and liabilities:					
Accounts receivable	(6,015)	(68,833)	(1,069)	(75,917)	(132)
Due from other governments	5,636	-	-	5,636	-
Inventory	27,590	(4,023)	-	23,567	823
Prepaid expenses	8,625	2,336	1,000	11,961	1,999
Accounts payable	(2,240)	31,557	5,545	34,862	(3,848)
Accrued expenses	(296)	1,514	454	1,672	365
Deposits payable	(4,521)	(3,039)	-	(7,560)	-
Compensated absences	<u>2,530</u>	<u>(7,587)</u>	<u>-</u>	<u>(5,057)</u>	<u>687</u>
Net cash provided (used) by operating activities	<u>\$ 231,619</u>	<u>\$ 824,549</u>	<u>\$ 24,344</u>	<u>\$ 1,080,512</u>	<u>\$ 40,367</u>

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

CITY OF ST. LOUIS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2014

	<i>Agency Funds</i>
Assets:	
Cash and cash equivalents	\$ 234,595
Accounts receivable	<u>5,618</u>
Total assets	<u>\$ 240,213</u>
Liabilities:	
Accrued liabilities	\$ 17,638
Due to other governmental units	<u>222,575</u>
Total liabilities	<u>\$ 240,213</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 7,400 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.

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

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, these financial statements of the reporting entity include those of the City and its component unit. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City’s financial statements. The blended and discretely presented component units discussed below are included in the City’s reporting entity because of their operational or financial relationship with the City.

Blended Component Unit:

Building Authority – The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were a part of the primary government because its primary purpose is to finance and construct the City’s public buildings. The Building Authority is reported as a debt service fund.

Discretely Presented Component Unit:

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 annual financial statements. Detail information can be obtained by contacting the City Finance Director.

Joint Ventures:

The City participates in several joint venture entities that are not reported as component units as follows:

Mid-Michigan Community Fire Board – The Mid-Michigan Community Fire Board (the “Fire Board”) 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 Finance Director. 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, 2014, was \$101,919.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Joint Ventures, continued:

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 Gratiot Area Solid Waste Authority (the “Authority”) 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 City of Alma maintains the accounting records for the Authority. It is reported at the end of the City of Alma’s individual fund statements. Copies of the City of Alma financial statements can be obtained by writing to City of Alma, 525 E. Superior, Alma, MI 48801.

Gratiot Area Water Authority – The Gratiot Area Water Authority is a joint venture between the City of St. Louis and the City of Alma. The purpose of the Authority is to acquire, own, improve, enlarge, extend and operate those portions of the City of Alma and the City of St. Louis water system which provide water treatment and supply to both cities. The governing board is comprised of six trustees, two appointed from each municipality plus the City Managers of each municipality.

Funding of the initial improvements is to be provided by St. Louis and US EPA through terms of a Settlement Agreement related to contamination of the St. Louis City Wells. Ongoing the Authority will establish rates to be charged for wholesale water sold to Alma and St. Louis based on its cost of service. The City of Alma maintains the accounting records for the Authority. It is reported at the end of the City of Alma’s individual fund statements. Copies of the City of Alma financial statements can be obtained by writing to City of Alma, 525 E. Superior, Alma, MI 48801.

Gratiot County Central Dispatch Authority – The Gratiot County Central Dispatch Authority (the “Authority”) 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.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Joint Ventures, continued:

Mid-Michigan Area Cable Communications Consortium – The Mid-Michigan Area Cable Communications Consortium (the “Consortium”) is a joint venture between nine Mid-Michigan communities with cable franchised agreements granted to Charter Communications. The twelve communities include the Cities of Alma, Clare, Harrison, Ithaca, Mt. Pleasant, and Saint Louis, the Villages of Breckenridge, North Star, and Shepherd, and the Townships of Arcada, 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, 2014, amounted to \$30,038. The Consortium operates on a calendar year and produces separate financial statements. Copies of the Mid-Michigan Area Cable Communications Consortium financial statements can be obtained by writing to Carey Hammel, Operations and Administrative Director, 312 West Michigan Street, Mt. Pleasant, MI 48860.

Gratiot Community Airport Authority – The Gratiot Community Airport Authority (the “Authority”) 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. Operational funds are contributed by each member municipality. Each municipality contributes \$4,000 per year with Gratiot County and the City of Alma contributing additional funds required in equal percentages. The City of Alma maintains the accounting records for the Authority. It is reported as a proprietary fund in the City of Alma’s financial statements. Copies of the City of Alma financial statements can be obtained by writing to City of Alma, 525 E. Superior, Alma, MI 48801.

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, normally supported by taxes and intergovernmental revenue, 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 the Downtown Development Authority, a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

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 financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, sales taxes, licenses, 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

General Fund – The General Fund is the City’s primary operating fund. It accounts for all financial resources, except for those required to be accounted for in another fund.

Special Revenue Fund – Major Street Fund – The Major Street Fund accounts for the maintenance and construction of streets designated by the Michigan Department of Transportation as major streets in the City.

The City reports the following major proprietary funds:

Enterprise Fund – Electric Fund – The Electric Fund accounts for the operations of the City’s electric system.

Enterprise Fund – Water and Sewer Fund – The Water and Sewer Fund accounts for the water system and sewage disposal/treatment system.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Additionally, the City reports the following fund types:

Special Revenue Funds – Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds – Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Permanent Fund – Permanent Funds 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.

Internal Service Fund – Motor Pool Fund – The Motor Pool Fund provides vehicle and equipment use to other departments or agencies of the government on a cost reimbursement basis.

Fiduciary Funds – Agency Funds – Agency Funds account for assets held for other governments in an agency capacity, including tax collections.

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

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the City's policy is to first apply restricted resources. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: restricted, committed, assigned, and unassigned.

Assets, Liabilities and Net Position/Fund Balances:

Deposits and Investments – Cash includes cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the City considers all investments (including restricted assets) to be cash equivalents. The investment policy adopted by the City Council is in accordance with Public Act 20 of 1943, as amended. The City's deposits and investments have been made in accordance with statutory authority.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., streets, bridges, sidewalks and other assets that are immovable and of value only to the government) are defined by the City as assets with an individual cost in excess of \$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 market value at the date of donation. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	40-60 years
Building improvements	15-30 years
Equipment	3-10 years
Infrastructure	5-30 years
Water and sewer systems	50-75 years

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 (1/2) 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.

Employees receive vacation time on July 1st based on the 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.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. In the financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period.

Fund Balances – In the fund financial statements, fund balance may be presented in five possible categories, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which amounts can be spent:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted – amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants, contributions, specific fee mandates).

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Committed – amounts that are committed for specific purposes by the City Council, as the City’s highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as majority vote or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same type of formal action taken to establish the commitment.

Assigned – amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Manager has the authority to assign amounts to be used for specific purposes.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. However, unassigned balances also include negative balances in other governmental funds.

Property Taxes – Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th, at which time penalties and interest are assessed. Collections of all the taxes and remittances of them to the other taxing authorities are accounted for in an agency fund. The 2013 taxable valuation of the City totaled \$48,192,825 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 13.4089 mills for the City’s operating purposes and .9983 mills for library operations.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

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

NOTES TO FINANCIAL STATEMENTS June 30, 2014

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, CONTINUED

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures in excess of the amounts budgeted.

State Construction Code Act:

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

Cumulative surplus at July 1, 2013	\$ -
Current year building permit revenue	29,378
Related expenses:	
Direct costs	<u>(87,213)</u>
Cumulative surplus at June 30, 2014	<u>\$ -</u>

NOTE 3: DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2014:

Statement of Net Position:

Cash and cash equivalents (included restricted):	\$ 11,311,380
Primary Government	24,604
Component Unit	
Investments (including restricted):	4,253,262
Primary Government	

Statement of Fiduciary Assets and Liabilities:

Cash and cash equivalents:	
Agency Funds	<u>234,595</u>
Total	<u>\$ 15,823,841</u>

Deposits and Investments:

Bank Deposits:	\$ 11,202,725
Checking/Savings Accounts	367,624
Certificates of Deposits	
Investments in Mutual Funds:	4,253,262
Pooled investments - Michigan CLASS	<u>230</u>
Cash on Hand	
Total	<u>\$ 15,823,841</u>

Interest Rate Risk – Investments – Public Act 196 of 1997 limits the allowable investments and the maturities of some of the allowable investments. 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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

Custodial Credit Risk – Investments – Public Act 196 of 1997 authorizes the City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States, in accounts of financial institutions, commercial paper with specific maximum maturities and ratings when purchased, repurchase agreements, bankers acceptances of United States banks, obligations of the State of Michigan or any of its political subdivisions, mutual funds composed of investment vehicles that are legal for direct investment by a public corporation and investments in Michigan government pools. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk and the City does not have a policy.

The City has invested in the Michigan Cooperative Liquid Asset Securities System (CLASS), which is a Michigan public sector joint investment program authorized by the State of Michigan. The rating of Michigan CLASS is AAAM (Standard and Poor's). The carrying amount (fair value) at year end of the City's funds invested with Michigan CLASS is \$4,253,262.

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 deposit policy for custodial credit risk. As of year end, the City's bank deposits were \$12,153,130, of which \$11,549,209 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The City analyzes the financial condition of the banks. The City only invests with those institutions with an acceptable estimated risk level for depositories and certificates of deposit.

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

There are a number of limitations and restrictions contained in the various bond indentures, including requirements to maintain certain restricted assets. The City is in compliance with all significant provisions of the bond indentures. The City Charter also requires utility replacement reserves. Cash and investments have also been reserved related to a lawsuit settlement to be used for water system replacement costs. At June 30, 2014 the City had these accounts established and had restricted cash, cash equivalents and investments as follows:

	<u>Restricted Cash and Cash Equivalents</u>	<u>Restricted Investments</u>	<u>Total</u>
Electric Fund:			
Bond Reserve for Debt Service	\$ -	\$ 275,443	\$ 275,443
Replacement/Improvements	1,271,174	-	1,271,174
Water and Sewer Fund:			
Bond Reserve for Debt Service	102,973	-	102,973
Replacement/Improvements	181,897	1,269,124	1,451,021
Water System Replacements	5,749,155	2,517,189	8,266,344
	<u>\$ 7,305,199</u>	<u>\$ 4,061,756</u>	<u>\$ 11,366,955</u>

The City also has restricted net position for certain accounts receivable restricted for the water system replacements.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 5: CAPITAL ASSETS

Capital asset activity for the governmental activities and business-type activities for the year ended June 30, 2014 was as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 2,330,055	\$ -	\$ -	\$ 2,330,055
Construction in progress	155,951	438,955	-	594,906
Total nondepreciable capital assets	<u>2,486,006</u>	<u>438,955</u>	<u>-</u>	<u>2,924,961</u>
Depreciable capital assets:				
Buildings and improvements	2,108,477	-	-	2,108,477
Equipment and vehicles	2,247,424	329,465	(84,775)	2,492,114
Infrastructure - storm sewer	2,701,677	-	-	2,701,677
Infrastructure - streets	22,246,646	-	-	22,246,646
Infrastructure - sidewalks	981,174	-	-	981,174
Total depreciable capital assets	30,285,398	329,465	(84,775)	30,530,088
Accumulated depreciation	<u>(25,596,805)</u>	<u>(966,331)</u>	<u>68,680</u>	<u>(26,494,456)</u>
Depreciable capital assets, net	<u>4,688,593</u>	<u>(636,866)</u>	<u>(16,095)</u>	<u>4,035,632</u>
Total capital assets, net	<u>\$ 7,174,599</u>	<u>\$ (197,911)</u>	<u>\$ (16,095)</u>	<u>\$ 6,960,593</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 988,499	\$ -	\$ -	\$ 988,499
Construction in progress	1,589,437	7,869,824	(92,244)	9,367,017
Total nondepreciable capital assets	<u>2,577,936</u>	<u>7,869,824</u>	<u>(92,244)</u>	<u>10,355,516</u>
Depreciable capital assets				
Buildings and improvements	1,072,732	92,244	-	1,164,976
Equipment	10,262,946	-	-	10,262,946
Infrastructure	20,861,257	8,400	-	20,869,657
Total depreciable capital assets	32,196,935	100,644	-	32,297,579
Accumulated depreciation	<u>(19,581,417)</u>	<u>(722,434)</u>	<u>-</u>	<u>(20,303,851)</u>
Depreciable capital assets, net	<u>12,615,518</u>	<u>(621,790)</u>	<u>-</u>	<u>11,993,728</u>
Total capital assets, net	<u>\$ 15,193,454</u>	<u>\$ 7,248,034</u>	<u>\$ (92,244)</u>	<u>\$ 22,349,244</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS June 30, 2014

NOTE 5: CAPITAL ASSETS, CONTINUED

Capital asset activity for the component unit for the year ended June 30, 2014 was as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Component unit:				
Depreciable capital assets				
Building	\$ 150,934	\$ -	\$ (150,934)	\$ -
Accumulated depreciation	<u>(17,609)</u>	<u>-</u>	<u>17,609</u>	<u>-</u>
Depreciable capital assets, net	<u>133,325</u>	<u>-</u>	<u>(133,325)</u>	<u>-</u>
Total capital assets, net	<u>\$ 133,325</u>	<u>\$ -</u>	<u>\$ (133,325)</u>	<u>\$ -</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General government	\$ 44,299	\$ -
Public safety	20,271	-
Public works	801,427	-
Recreation and culture	40,717	-
Electric	-	306,933
Water and Sewer	-	415,501
Internal Service Fund	<u>59,617</u>	<u>-</u>
	<u>\$ 966,331</u>	<u>\$ 722,434</u>

NOTE 6: LONG-TERM LIABILITIES

The City may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term liabilities include compensated absences.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 6: LONG-TERM LIABILITIES, CONTINUED

Long-term obligation activity for the year ended June 30, 2014 is summarized as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Governmental Activities:					
1996 Building Authority Bonds, principal due in annual installments of \$10,000 to \$40,000 through April 2016, interest from 5.00-6.75% due semi-annually.	\$ 110,000	-	(30,000)	\$ 80,000	\$ 40,000
2002 General Obligation Bond, principal due in annual installments of \$20,000 to \$50,000 through October 2017, interest from 4.25-4.90% due semi-annually.	220,000	-	(40,000)	180,000	40,000
Capital lease with Key Equipment, due in monthly installments of \$562 through May 2015.	11,282	-	(5,512)	5,770	5,770
Compensated absences	56,695	56,341	(49,452)	63,584	56,409
Total Governmental Activities	<u>\$ 397,977</u>	<u>\$ 56,341</u>	<u>\$ (124,964)</u>	<u>\$ 329,354</u>	<u>\$ 142,179</u>
Business-type Activities:					
1997 Water and Sewage Revenue Bonds, at 5.4% interest, refunded with 2013 Revenue Bonds, at 2% interest.	\$ 360,000	\$ -	\$ (360,000)	\$ -	\$ -
2001 Electric Revenue Bonds, principal due in annual installments of \$75,000 to \$85,000 through July 2017, interest from 4.55-5.10% due semi-annually.	385,000	-	(150,000)	235,000	-
2013 Water Supply and Sewage Disposal Revenue Bond, principal due in annual installments of \$225,000 to \$325,000 through April 1, 2034, interest of 2.00% due semi-annually.	-	2,098,613	-	2,098,613	225,000
Less: Deferred charges	(2,663)	-	2,663	-	-
Compensated absences	108,110	67,755	(72,812)	103,053	69,400
Total Business-type Activities	<u>\$ 850,447</u>	<u>\$ 2,166,368</u>	<u>\$ (580,149)</u>	<u>\$ 2,436,666</u>	<u>\$ 294,400</u>
Component Unit:					
Loan payable to Electric Fund, monthly payments of \$700 including interest through December 2021.	\$ 57,847	\$ -	\$ (5,636)	\$ 52,211	\$ 5,924

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 6: LONG-TERM LIABILITIES, CONTINUED

Annual debt service requirements to maturity for the above obligations (excluding compensated absences and loan payable to Electric Fund) are as follows:

<i>Year Ended</i> <i>June 30,</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2015	\$ 85,770	\$ 12,715	\$ 98,485	\$ 225,000	\$ 75,736	\$ 300,736
2016	85,000	7,992	92,992	305,000	114,267	419,267
2017	45,000	3,541	48,541	310,000	105,992	415,992
2018	50,000	1,225	51,225	325,000	97,268	422,268
2019	-	-	-	245,000	90,300	335,300
2020-2024	-	-	-	1,280,000	377,000	1,657,000
2025-2029	-	-	-	1,425,000	243,000	1,668,000
2030-2034	-	-	-	1,565,000	95,200	1,660,200
	<u>\$ 265,770</u>	<u>\$ 25,473</u>	<u>\$ 291,243</u>	<u>\$ 5,680,000</u>	<u>\$ 1,198,763</u>	<u>\$ 6,878,763</u>
Less: 2013 Water Supply and Sewage Disposal System						
Revenue Bond proceeds not drawn as of June 30, 2014					<u>(3,346,387)</u>	
					<u>\$ 2,333,613</u>	

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of fiscal year end for the City's primary government and component unit are as follows:

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Receivables:				
Property taxes	\$ 19,103	\$ -	\$ 19,103	\$ -
Accounts	20,607	895,429	916,036	-
Settlement from Trust	-	3,263,884	3,263,884	-
Notes	7,933	-	7,933	-
Accrued interest	4,099	1,484	5,583	-
Intergovernmental	162,287	731,021	893,308	-
Due from component unit:				
Current	-	5,924	5,924	-
Noncurrent	-	46,287	46,287	-
Total receivables	<u>\$ 214,029</u>	<u>\$ 4,944,029</u>	<u>\$ 5,158,058</u>	<u>\$ -</u>
Accounts payable and accrued expenses:				
Accounts	\$ 100,302	\$ 2,100,919	\$ 2,201,221	\$ 59
Payroll liabilities	37,069	24,209	61,278	-
Deposits payable	-	44,713	44,713	-
Accrued interest	3,313	7,722	11,035	-
Intergovernmental	3,174	-	3,174	-
Total accounts payable and accrued expenses	<u>\$ 143,858</u>	<u>\$ 2,177,563</u>	<u>\$ 2,321,421</u>	<u>\$ 59</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 8: INTERFUND BALANCES AND TRANSFERS

There were no interfund balances outstanding at June 30, 2014.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires or allows to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Nonmajor Governmental Funds	Nonmajor Governmental Funds	
Public Improvement Fund	Local Street Fund	\$ 120,000
	2002 General Obligation Limited Tax Fund	30,000
Nonmajor Governmental Funds	Nonmajor Governmental Funds	
T.A. Cutler Memorial Library Fund	Building Authority Fund	36,640
Electric Fund	Nonmajor Governmental Fund	
	Public Improvement Fund	95,495
	Motor Pool Fund	239,824
Water and Sewer Fund	Nonmajor Governmental Fund	
	Public Improvement Fund	52,927
	Motor Pool Fund	20,362
Solid Waste Fund	Nonmajor Governmental Fund	
	Public Improvement Fund	7,821
		<u>\$ 603,069</u>

NOTE 9: RISK MANAGEMENT

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. There was no change in coverage from the prior year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

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.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9: RISK MANAGEMENT, CONTINUED

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.

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.

NOTE 10: EMPLOYEE RETIREMENT PLANS

The City has two employee pension plans. One is a Defined Contribution Plan and the other is a Defined Benefit Plan, both administered by the MERS Retirement Board, of the Municipal Employee's Retirement System of Michigan (MERS). Information concerning each plan follows:

Defined Benefit Pension Plan (Municipal Employees' Retirement System of Michigan):

Plan Description – The City 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 the Plan. A copy of that report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917. The defined benefit plan was closed to all new employees beginning July 1, 1999.

The Plan provided pension benefits, deferred allowances, and death and disability benefits. Benefits vest after six (6) of service. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of either 2.25 or 2.5 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. Normal retirement is based on certain requirements. The most recent period of which actuarial data was available was for the year ended December 31, 2013.

The retirement allowance is reduced ½ 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.

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 required to contribute to the plan ranging at a rate of .53-4.88%. 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.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS June 30, 2014

NOTE 10: EMPLOYEE RETIREMENT PLANS, CONTINUED

Employees contributed \$15,842 to the plan for the fiscal year ended June 30, 2014.

Annual Pension Cost – The City’s annual required contribution (ARC), annual pension cost (APC), actual contributions made, and net pension obligation (asset) are as follows.

Annual required contribution	\$ 266,620
Interest on net pension asset	(33,318)
Adjustment to annual required contribution	<u>48,738</u>
Annual pension cost	282,040
Contributions made	<u>(717,523)</u>
(Increase) decrease in net pension asset	(435,483)
Net pension (asset), beginning of year	<u>(416,478)</u>
Net pension (asset), end of year	<u>\$ (851,961)</u>

The annual required contribution for the City was determined as part of the December 31, 2012 actuarial valuation, using the entry actual age actuarial cost method. The significant actuarial assumptions included: (i) a rate of return of the investment of present and future assets of 8%; (ii) projected salary increases of 4.5% per year, compounded annually, attributable to inflation; (iii) additional projected salary increases of 0% to 8.40% per year, depending on age, attributable to seniority/merit, and (iv) the assumption that benefits for the Division 10 plan will increase 2.5% annually after retirement. The actuarial value of the Plan 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 a closed basis. The remaining amortization period is 25 years.

The City’s annual pension cost and net pension asset to MERS for the current year were as follows, which is reported in the governmental activities in the government-wide financial statements:

Three year trend information as of June 30, follows:

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contributions</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
6/30/14	12/31/13	\$ 282,040	\$ 717,523	254%	\$ 851,961
6/30/13	12/31/12	219,109	270,779	124%	253,917
6/30/12	12/31/11	226,500	389,061	172%	416,478

Funded Status – As of December 31, 2013, the most recent actuarial valuation date, the plan was 77 percent funded. The actuarial accrued liability for benefits was \$7,565,028, and the actuarial value of assets was \$5,826,660, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,738,368. The covered payroll (annual payroll of active employees covered by the plan) was \$435,849, and the ratio of the UAAL to the covered payroll was 399 percent.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 10: EMPLOYEE RETIREMENT PLANS, CONTINUED

Defined Contribution Pension Plan (Municipal Employees' Retirement System of Michigan):

In an effort to phase out the MERS defined benefit pension plan described above, the City adopted a resolution to implement the MERS Defined Contribution Money Purchase Plan for all employees of the City. The plan was implemented beginning July 1, 1999, and is the only pension plan available to new employees after that date.

The City's Defined Contribution Pension Plan is a single employer defined contribution pension plan, established by the City and administered by MERS Retirement Board. 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 plan were \$95,781 for the year ended June 30, 2014. Employee contributions for the plan were \$35,741 for the year ended June 30, 2014. Plan provisions and contribution requirements are established and may be amended by the City Council.

NOTE 11: BOND PROJECTS IN PROGRESS

Defeasance of Debt – On July 30, 2013, the City deposited \$373,305 into an Escrow Fund to defease the outstanding Water Supply and Sewage Disposal System Revenue Bonds, Series 1997. To accomplish the defeasance, it was necessary for the City to call the Outstanding Bonds for redemption on October 1, 2013. The funds deposited into the Escrow Fund were used for the payment of principal and interest and redemption premium on the Outstanding Bonds on the Call Date. The interest savings on the defeasance of the debt was \$41,850.

Bond Issuance – On January 29, 2014, the City passed a resolution which authorized the notice of intent to issue and sell bonds in an amount not to exceed \$2,100,000 for the purpose of paying part of the costs of acquiring, constructing, furnishing and equipping a City hall, police department and community facilities building. As of June 30, 2014, the bonds were not yet issued.

Bond Issuance Proceeds – On September 17, 2013, the City issued Water Supply and Sewage Disposal System Revenue Bond, Series 2013 for \$5,445,000 to provide for the acquisition, construction, furnishing and equipping of improvements to the water supply and sewage disposal system of the City. As of June 30, 2014, the balance of proceeds on the bond not drawn is \$3,346,387.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST. LOUIS

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended June 30, 2014

<u>Actuarial Valuation Date</u>	<u>12/31/13</u>	<u>12/31/12</u>	<u>12/31/11</u>
Actuarial Value of Assets	\$ 5,826,660	\$ 5,401,671	\$ 5,378,756
Actuarial Accrued Liability (AAL)	7,565,028	7,761,007	7,522,522
Unfunded AAL (UAAL)	1,738,368	2,359,336	2,143,766
Funded Ratio	77%	70%	72%
Covered Payroll	435,849	470,555	572,413
UAAL as a percentage of covered payroll	399%	501%	375%

CITY OF ST. LOUIS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2014

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 664,250	\$ 672,250	\$ 679,397	\$ 7,147
Licenses and permits	13,100	20,000	29,378	9,378
Intergovernmental	685,630	564,880	519,711	(45,169)
Charges for services	409,320	483,120	490,602	7,482
Fines and forfeits	4,800	4,800	3,752	(1,048)
Interest and rents	4,900	6,500	7,503	1,003
Other revenue	14,000	14,000	15,147	1,147
Total revenues	1,796,000	1,765,550	1,745,490	(20,060)
Expenditures:				
Current				
General government	483,970	458,970	400,884	(58,086)
Public safety	887,870	892,870	839,991	(52,879)
Public works	148,550	148,550	133,207	(15,343)
Community and economic development	113,200	168,200	113,200	(55,000)
Recreation and culture	361,100	240,350	114,710	(125,640)
Pension liability contribution	20,000	170,000	160,960	(9,040)
Debt service	6,850	6,850	6,743	(107)
Total expenditures	2,021,540	2,085,790	1,769,695	(316,095)
Change in fund balance	(225,540)	(320,240)	(24,205)	296,035
Fund balance, beginning of year	1,302,142	1,302,142	1,302,142	-
Fund balance, end of year	\$ 1,076,602	\$ 981,902	\$ 1,277,937	\$ 296,035

CITY OF ST. LOUIS

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<i>Actual</i>
	<u>Original</u>	<u>Final</u>		<i>Over (Under)</i>
				<u>Final Budget</u>
Revenues:				
Intergovernmental	\$ 637,080	\$ 637,080	\$ 643,767	\$ 6,687
Interest and rents	400	400	506	106
Other revenue	<u>12,000</u>	<u>12,000</u>	<u>-</u>	<u>(12,000)</u>
Total revenues	<u>649,480</u>	<u>649,480</u>	<u>644,273</u>	<u>(5,207)</u>
Expenditures:				
Current				
Public works	<u>812,050</u>	<u>812,050</u>	<u>621,960</u>	<u>(190,090)</u>
Change in fund balance	(162,570)	(162,570)	22,313	184,883
Fund balance, beginning of year	<u>409,694</u>	<u>409,694</u>	<u>409,694</u>	<u>-</u>
Fund balance, end of year	<u>\$ 247,124</u>	<u>\$ 247,124</u>	<u>\$ 432,007</u>	<u>\$ 184,883</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2014

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	
	<u>Local Street Fund</u>	<u>T.A.Cutler Memorial Library Fund</u>	<u>Building Authority Fund</u>	<u>2002 General Obligation Limited Tax Fund</u>
Assets:				
Cash and cash equivalents	\$ 226,282	\$ 75,332	\$ 948	\$ 10,749
Taxes receivable	-	800	-	-
Accounts receivable	-	299	-	-
Accrued interest receivable	-	-	-	-
Due from other governments	19,379	-	-	-
Total assets	<u>\$ 245,661</u>	<u>\$ 76,431</u>	<u>\$ 948</u>	<u>\$ 10,749</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 23,364	\$ 2,036	\$ -	\$ -
Accrued expenses	813	1,810	-	-
Total liabilities	<u>24,177</u>	<u>3,846</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable:				
Long-term receivables	-	572	-	-
Nonexpendable cemetery principal	-	-	-	-
Restricted for:				
Streets	221,484	-	-	-
Library operations	-	72,013	-	-
Debt service	-	-	948	10,749
Assigned to:				
Capital improvements	-	-	-	-
Cemetery operations	-	-	-	-
City Hall project	-	-	-	-
Total fund balances	<u>221,484</u>	<u>72,585</u>	<u>948</u>	<u>10,749</u>
Total liabilities and fund balances	<u>\$ 245,661</u>	<u>\$ 76,431</u>	<u>\$ 948</u>	<u>\$ 10,749</u>

continued

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET, CONTINUED

June 30, 2014

	<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	<u>Total</u>
	<u>Public Improvement Fund</u>	<u>New City Hall Fund</u>	<u>Cemetery Perpetual Care Fund</u>	
Assets:				
Cash and cash equivalents	\$ 309,600	\$ 590,196	\$ 199,645	\$ 1,412,752
Taxes receivable	-	-	-	800
Accounts receivable	-	-	-	299
Accrued interest receivable	-	-	3,812	3,812
Due from other governments	-	-	-	19,379
Total assets	<u>\$ 309,600</u>	<u>\$ 590,196</u>	<u>\$ 203,457</u>	<u>\$ 1,437,042</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 25,400
Accrued expenses	-	-	-	2,623
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,023</u>
Fund balances:				
Nonspendable:				
Long-term receivables	-	-	-	572
Nonexpendable cemetery principal	-	-	171,046	171,046
Restricted for:				
Streets	-	-	-	221,484
Library operations	-	-	-	72,013
Debt service	-	-	-	11,697
Assigned to:				
Capital improvements	309,600	-	-	309,600
Cemetery operations	-	-	32,411	32,411
City Hall project	-	590,196	-	590,196
Total fund balances	<u>309,600</u>	<u>590,196</u>	<u>203,457</u>	<u>1,409,019</u>
Total liabilities and fund balances	<u>\$ 309,600</u>	<u>\$ 590,196</u>	<u>\$ 203,457</u>	<u>\$ 1,437,042</u>

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES Year Ended June 30, 2014

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	
	<u>Local Street Fund</u>	<u>T.A.Cutler Memorial Library Fund</u>	<u>Building Authority Fund</u>	<u>2002 General Obligation Limited Tax Fund</u>
Revenues:				
Property taxes	\$ -	\$ 47,629	\$ -	\$ -
State grants	143,694	5,936	-	-
Contributions from other units	-	1,000	-	20,210
Charges for services	-	2,580	-	-
Fines and forfeits	-	83,426	-	-
Interest and rents	140	171	17	7
Other revenue	-	12,121	-	-
Total revenues	<u>143,834</u>	<u>152,863</u>	<u>17</u>	<u>20,217</u>
Expenditures:				
Current				
Public works	159,992	-	-	-
Recreation and culture	-	119,912	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	30,000	40,000
Interest and fees	-	-	6,690	9,923
Total expenditures	<u>159,992</u>	<u>119,912</u>	<u>36,690</u>	<u>49,923</u>
Excess (deficiency) of revenues over expenditures	<u>(16,158)</u>	<u>32,951</u>	<u>(36,673)</u>	<u>(29,706)</u>
Other financing sources (uses):				
Transfers from other funds	120,000	-	36,640	30,000
Transfers to other funds	-	(36,640)	-	-
Net other financing sources (uses)	<u>120,000</u>	<u>(36,640)</u>	<u>36,640</u>	<u>30,000</u>
Changes in fund balances	103,842	(3,689)	(33)	294
Fund balances, beginning of year	<u>117,642</u>	<u>76,274</u>	<u>981</u>	<u>10,455</u>
Fund balances, end of year	<u>\$ 221,484</u>	<u>\$ 72,585</u>	<u>\$ 948</u>	<u>\$ 10,749</u>

continued

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended June 30, 2014

	<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	<u>Total</u>
	<u>Public Improvement Fund</u>	<u>City Hall Project Fund</u>	<u>Cemetery Perpetual Care Fund</u>	
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ 47,629
State grants	-	-	-	149,630
Contributions from other units	-	-	-	21,210
Charges for services	-	-	1,344	3,924
Fines and forfeits	-	-	-	83,426
Interest and rents	508	876	1,789	3,508
Other revenue	-	306	-	12,427
Total revenues	<u>508</u>	<u>1,182</u>	<u>3,133</u>	<u>321,754</u>
Expenditures:				
Current				
Public works	-	-	-	159,992
Recreation and culture	-	-	-	119,912
Capital outlay	-	24,163	-	24,163
Debt service				
Principal	-	-	-	70,000
Interest and fees	-	-	-	16,613
Total expenditures	<u>-</u>	<u>24,163</u>	<u>-</u>	<u>390,680</u>
Excess (deficiency) of revenues over expenditures	<u>508</u>	<u>(22,981)</u>	<u>3,133</u>	<u>(68,926)</u>
Other financing sources (uses):				
Transfers from other funds	156,243	-	-	342,883
Transfers to other funds	(150,000)	-	-	(186,640)
Net other financing sources (uses)	<u>6,243</u>	<u>-</u>	<u>-</u>	<u>156,243</u>
Changes in fund balances	6,751	(22,981)	3,133	87,317
Fund balances, beginning of year	<u>302,849</u>	<u>613,177</u>	<u>200,324</u>	<u>1,321,702</u>
Fund balances, end of year	<u>\$ 309,600</u>	<u>\$ 590,196</u>	<u>\$ 203,457</u>	<u>\$ 1,409,019</u>

CITY OF ST. LOUIS

WATER AND SEWER FUND

COMBINING STATEMENT OF NET POSITION

June 30, 2014

	<i>Water and Sewer Fund</i>	<i>Water Supply Replacement Fund</i>	<i>Total Water and Sewer Fund</i>
Assets:			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 932,633	\$ (6,606)	\$ 926,027
Accounts receivable	3,594,072	-	3,594,072
Accrued interest receivable	1,484	-	1,484
Due from other governments	(3,263,884)	3,994,905	731,021
Inventory	61,789	-	61,789
Prepaid expenses	-	6,465	6,465
	<u>1,326,094</u>	<u>3,994,764</u>	<u>5,320,858</u>
<i>Noncurrent assets:</i>			
Restricted cash and cash equivalents	284,870	5,749,155	6,034,025
Restricted investments	1,269,124	2,517,189	3,786,313
Advance to Water Authority	-	750,000	750,000
<i>Capital assets:</i>			
Nondepreciable capital assets	4,014,336	5,853,169	9,867,505
Depreciable capital assets, net	<u>6,894,319</u>	<u>-</u>	<u>6,894,319</u>
	<u>12,462,649</u>	<u>14,869,513</u>	<u>27,332,162</u>
Total noncurrent assets			
Total assets	<u>13,788,743</u>	<u>18,864,277</u>	<u>32,653,020</u>
Liabilities:			
<i>Current liabilities:</i>			
Accounts payable	439,782	1,518,189	1,957,971
Accrued expenses	12,539	-	12,539
Deposits payable	13,344	-	13,344
Accrued interest payable	7,722	-	7,722
Current compensated absences	35,486	-	35,486
Current long-term debt	<u>225,000</u>	<u>-</u>	<u>225,000</u>
	<u>733,873</u>	<u>1,518,189</u>	<u>2,252,062</u>
Total current liabilities			
<i>Noncurrent liabilities:</i>			
Compensated absences payable	13,662	-	13,662
Long-term debt	<u>1,873,613</u>	<u>-</u>	<u>1,873,613</u>
	<u>1,887,275</u>	<u>-</u>	<u>1,887,275</u>
Total noncurrent liabilities			
Total liabilities	<u>2,621,148</u>	<u>1,518,189</u>	<u>4,139,337</u>

continued

CITY OF ST. LOUIS

WATER AND SEWER FUND

COMBINING STATEMENT OF NET POSITION, CONTINUED

June 30, 2014

	<i>Water and Sewer Fund</i>	<i>Water Supply Replacement Fund</i>	<i>Total Water and Sewer Fund</i>
Net position:			
Net investment in capital assets	8,810,042	5,853,169	14,663,211
Restricted for:			
Debt service	102,973	-	102,973
Replacement/improvements	1,451,021	-	1,451,021
Water supply replacement	-	11,486,071	11,486,071
Unrestricted	<u>803,559</u>	<u>6,848</u>	<u>810,407</u>
Total net position	<u>\$ 11,167,595</u>	<u>\$ 17,346,088</u>	<u>\$ 28,513,683</u>

CITY OF ST. LOUIS

WATER AND SEWER FUND

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2014

	<i>Water and Sewer Fund</i>	<i>Water Supply Replacement Fund</i>	<i>Total Water and Sewer Fund</i>
Operating revenues:			
Charges for services	\$ 2,383,484	\$ -	\$ 2,383,484
Penalties	35,164	-	35,164
Other	60,728	-	60,728
Total operating revenues	<u>2,479,376</u>	<u>-</u>	<u>2,479,376</u>
Operating expenses:			
Personnel	818,678	-	818,678
Administrative expense	162,196	-	162,196
Other services and supplies	625,879	-	625,879
Depreciation	415,501	-	415,501
Total operating expenses	<u>2,022,254</u>	<u>-</u>	<u>2,022,254</u>
Operating income (loss)	<u>457,122</u>	<u>-</u>	<u>457,122</u>
Non-operating revenues (expenses):			
Interest income	3,754	6,485	10,239
Rental income	29,016	-	29,016
Other income	5,000	-	5,000
Interest expense	(25,741)	-	(25,741)
Net non-operating revenues (expenses)	<u>12,029</u>	<u>6,485</u>	<u>18,514</u>
Change in net position before other	469,151	6,485	475,636
Settlement from lawsuit (from Trust)	-	5,329,266	5,329,266
Capital contributions-federal grant	-	731,021	731,021
Transfer to other funds	<u>(73,289)</u>	<u>-</u>	<u>(73,289)</u>
Change in net position	395,862	6,066,772	6,462,634
Net position, beginning of year	<u>10,771,733</u>	<u>11,279,316</u>	<u>22,051,049</u>
Net position, end of year	<u>\$ 11,167,595</u>	<u>\$ 17,346,088</u>	<u>\$ 28,513,683</u>

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2014

1996 BUILDING AUTHORITY BONDS (GENERAL OBLIGATION LIMITED TAX)

Issue in the amount of	\$	425,000
Less: Principal paid in prior years		(315,000)
Principal paid in current year		<u>(30,000)</u>
Balance payable at June 30, 2014	\$	<u>80,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Interest due</u> <u>October 1</u>	<u>Principal due</u> <u>April 1</u>	<u>Interest due</u> <u>April 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2015	5.70%	\$ 2,280	\$ 40,000	\$ 2,280	\$ 44,560
2016	5.70%	<u>1,140</u>	<u>40,000</u>	<u>1,140</u>	<u>42,280</u>
		<u>\$ 3,420</u>	<u>\$ 80,000</u>	<u>\$ 3,420</u>	<u>\$ 86,840</u>

2002 GENERAL OBLIGATION LIMITED TAX BONDS

Issue in the amount of	\$	500,000
Less: Principal paid in prior years		(280,000)
Principal paid in current year		<u>(40,000)</u>
Balance payable at June 30, 2014	\$	<u>180,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u> <u>October 1</u>	<u>Interest due</u> <u>October 1</u>	<u>Interest due</u> <u>April 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2015	4.75%	\$ 40,000	\$ 4,346	\$ 3,396	\$ 47,742
2016	4.80%	45,000	3,396	2,316	50,712
2017	4.85%	45,000	2,316	1,225	48,541
2018	4.90%	<u>50,000</u>	<u>1,225</u>	<u>-</u>	<u>51,225</u>
		<u>\$ 180,000</u>	<u>\$ 11,283</u>	<u>\$ 6,937</u>	<u>\$ 198,220</u>

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2014

2012 CAPITAL LEASE - COPIER

Issue in the amount of	\$	17,537
Less: Principal paid in prior years		(6,255)
Principal paid in current year		<u>(5,512)</u>
Balance payable at June 30, 2014	\$	<u>5,770</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u>	<u>Interest due</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2015	13.9529%	\$ <u>5,770</u>	\$ <u>412</u>	\$ <u>6,182</u>

CITY OF ST. LOUIS

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2014

2001 ELECTRIC REVENUE BONDS

Issue in the amount of	\$ 995,000
Less: Principal paid in prior years	(610,000)
Principal paid in current year	<u>(150,000)</u>
Balance payable at June 30, 2014	<u>\$ 235,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u> <u>July 1</u>	<u>Interest due</u> <u>July 1</u>	<u>Interest due</u> <u>January 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2015	4.750%	\$ -	\$ -	\$ 5,843	\$ 5,843
2016	4.850%	75,000	5,843	4,024	84,867
2017	4.950%	75,000	4,024	2,168	81,192
2018	5.100%	<u>85,000</u>	<u>2,168</u>	<u>-</u>	<u>87,168</u>
		<u>\$ 235,000</u>	<u>\$ 12,035</u>	<u>\$ 12,035</u>	<u>\$ 259,070</u>

CITY OF ST. LOUIS

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2014

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BOND, SERIES 2013

Issue in the amount of	\$ 5,445,000
Less: Amount not drawn yet	(3,346,387)
Principal paid in prior years	
Principal paid in current year	<u>-</u>
Balance payable at June 30, 2014	<u>\$ 2,098,613</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Interest due</u> <u>October 1</u>	<u>Principal due</u> <u>April 1</u>	<u>Interest due</u> <u>April 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2015	2.000%	\$ 20,920	\$ 225,000	\$ 54,450	\$ 300,370
2016	2.000%	52,200	230,000	52,200	334,400
2017	2.000%	49,900	235,000	49,900	334,800
2018	2.000%	47,550	240,000	47,550	335,100
2019	2.000%	45,150	245,000	45,150	335,300
2020	2.000%	42,700	245,000	42,700	330,400
2021	2.000%	40,250	250,000	40,250	330,500
2022	2.000%	37,750	255,000	37,750	330,500
2023	2.000%	35,200	260,000	35,200	330,400
2024	2.000%	32,600	270,000	32,600	335,200
2025	2.000%	29,900	275,000	29,900	334,800
2026	2.000%	27,150	280,000	27,150	334,300
2027	2.000%	24,350	285,000	24,350	333,700
2028	2.000%	21,500	290,000	21,500	333,000
2029	2.000%	18,600	295,000	18,600	332,200
2030	2.000%	15,650	300,000	15,650	331,300
2031	2.000%	12,650	305,000	12,650	330,300
2032	2.000%	9,600	315,000	9,600	334,200
2033	2.000%	6,450	320,000	6,450	332,900
2034	2.000%	3,250	325,000	3,250	331,500
		<u>\$ 573,320</u>	<u>\$ 5,445,000</u>	<u>\$ 606,850</u>	<u>\$ 6,625,170</u>
Less: Amount not drawn yet			<u>(3,346,387)</u>		
			<u>\$ 2,098,613</u>		



**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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the 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, 2014, and the related notes to the financial statements, which collectively comprise the City of St. Louis' basic financial statements, and have issued our report thereon dated September 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of St. Louis' internal control over financial reporting (internal controls) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of St. Louis' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of St. Louis' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given those limitations, during our audit we did not identify and deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bethiaume & Co.

Saginaw, Michigan
September 16, 2014





**REQUIRED COMMUNICATION TO THE CITY OF ST. LOUIS
IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

To the City Council
City of St. Louis

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Louis for the year ended June 30, 2014, and we have issued our report thereon dated September 16, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated April 9, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of St. Louis are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no 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 of management. Management has corrected all such misstatements.

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 management representation letter dated September 16, 2014.

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 governmental unit'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.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the 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.

Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally



accepted in the United States of America, the method preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Communication of Internal Control Matters Identified in the Audit

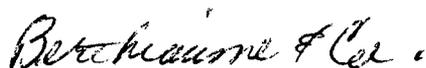
In planning and performing our audit of the financial statements of the City of St. Louis as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City of St. Louis's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of the City management, City Council, and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Berthiaume & Company
Certified Public Accountants

Saginaw, Michigan
September 16, 2014

