

CITY OF ST. LOUIS

Gratiot County, Michigan

FINANCIAL STATEMENTS

June 30, 2012

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financing reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012 on our consideration of the City of St. Louis's 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 10), schedule of pension plan funding progress (page 44), and budgetary comparison information (pages 45 and 46) 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

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

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of St. Louis's financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Bethhume & Co.

Saginaw, Michigan
October 3, 2012



MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 year ended June 30, 2012. 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 assets of the City exceeded its liabilities at the close of the most recent year by \$40,029,576 (net assets). Of this amount, \$5,307,945 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and others.

During the year, the City's total net assets decreased by \$142,391. Governmental activities decreased \$358,571, while business-type activities increased \$216,180.

At the end of the current year, the City's governmental funds reported combined ending fund balances of \$1,641,797, an increase of \$2,338 in comparison with prior year. Of the total governmental fund balance, 13 percent or \$223,159 is nonspendable, 28 percent of this total or \$460,105 is restricted for various purposes, and 17 percent or \$274,382 is assigned for various purposes. The remaining 42 percent or \$684,151 is unassigned.

The \$684,151 of unassigned fund balance is in the General Fund. The unassigned balance is 42 percent of the General Fund's annual expenditures. Total fund balance of the General Fund was \$785,359 or 48% of the General Fund's annual expenditures.

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 supplemental information and other supplemental 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, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (for example, earned but unused vacation leave).

The government-wide financial statements can be found on pages 12 through 13 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

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

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

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

The City maintains eight (8) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Major Street Fund, which are considered to be major funds. Data from the other six (6) governmental 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. A budgetary comparison statement has been provided for the General Fund and the Major Street Fund, the City's only major governmental funds, to demonstrate compliance with that budget.

In the prior year, the St. Louis Housing Commission was reported as a component unit of the City with the "discrete presentation method". During the current year, the Housing Commission is no longer a component unit of the City. This is explained further in the notes to the financial statements.

Proprietary Funds – The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for the Electric Fund, Water and Sewer Fund and the Solid Waste Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an Internal Service Fund to account for equipment rental charges and related expenses for the motor pool.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Electric Fund, Water and Sewer Fund, and Solid Waste Fund and totals for the Internal Service Funds. Individual fund data for each of the internal service funds is provided elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 18 through 22 of this report.

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 those 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 supplemental information concerning the City.

The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplemental information.

Government-wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For all activities of the City, assets exceeded liabilities by \$40,029,576 at the close of the most recent year. Most of this amount (52 percent) reflects the investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to its citizens; thus, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (35 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net assets (13 percent) may be used to meet the government's ongoing obligations to citizens and others.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of St. Louis' Net Assets

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:						
Current and other assets	\$ 1,965,311	\$ 2,324,663	\$ 17,747,501	\$ 17,637,150	\$ 19,712,812	\$ 19,961,813
Capital assets	<u>7,631,318</u>	<u>8,113,356</u>	<u>14,492,839</u>	<u>14,793,656</u>	<u>22,124,157</u>	<u>22,907,012</u>
Total assets	<u>9,596,629</u>	<u>10,438,019</u>	<u>32,240,340</u>	<u>32,430,806</u>	<u>41,836,969</u>	<u>42,868,825</u>
Liabilities:						
Other liabilities	93,481	529,845	329,644	439,983	423,125	969,828
Long-term liabilities	<u>470,943</u>	<u>517,398</u>	<u>913,325</u>	<u>1,209,632</u>	<u>1,384,268</u>	<u>1,727,030</u>
Total liabilities	<u>564,424</u>	<u>1,047,243</u>	<u>1,242,969</u>	<u>1,649,615</u>	<u>1,807,393</u>	<u>2,696,858</u>
Net assets:						
Invested in capital assets, net of related debt	7,220,238	7,655,472	13,687,839	13,698,656	20,908,077	21,354,128
Restricted	626,782	648,871	13,186,772	12,442,754	13,813,554	13,091,625
Unrestricted	<u>1,185,185</u>	<u>1,086,433</u>	<u>4,122,760</u>	<u>4,639,781</u>	<u>5,307,945</u>	<u>5,726,214</u>
Total net assets	<u>\$ 9,032,205</u>	<u>\$ 9,390,776</u>	<u>\$ 30,997,371</u>	<u>\$ 30,781,191</u>	<u>\$ 40,029,576</u>	<u>\$ 40,171,967</u>

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of St. Louis' Changes in Net Assets

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues						
Charges for services	\$ 531,479	\$ 549,142	\$ 6,751,878	\$ 6,904,060	\$ 7,283,357	\$ 7,453,202
Operating grants	494,536	625,932	-	55,580	494,536	681,512
Capital grants	-	-	122,983	-	122,983	-
General revenues						
Property taxes	734,120	756,082	-	-	734,120	756,082
Franchise fees	17,482	23,440	-	-	17,482	23,440
State revenue sharing	459,571	436,529	-	-	459,571	436,529
Investment earnings	10,300	17,905	30,819	36,075	41,119	53,980
Other	11,388	9,407	-	-	11,388	9,407
Total revenues	<u>2,258,876</u>	<u>2,418,437</u>	<u>6,905,680</u>	<u>6,995,715</u>	<u>9,164,556</u>	<u>9,414,152</u>
Expenses:						
General government	445,622	379,724	-	-	445,622	379,724
Public safety	751,543	943,763	-	-	751,543	943,763
Public works	1,234,183	1,289,546	-	-	1,234,183	1,289,546
Community and economic development	85,786	101,995	-	-	85,786	101,995
Recreation and culture	284,694	287,055	-	-	284,694	287,055
Interest on long-term debt	23,073	67,572	-	-	23,073	67,572
Electric	-	-	4,260,278	3,972,491	4,260,278	3,972,491
Water and Sewer	-	-	1,886,760	1,952,204	1,886,760	1,952,204
Solid Waste	-	-	349,797	339,143	349,797	339,143
Total expenses	<u>2,824,901</u>	<u>3,069,655</u>	<u>6,496,835</u>	<u>6,263,838</u>	<u>9,321,736</u>	<u>9,333,493</u>
Excess of revenues over expenses before other	<u>(566,025)</u>	<u>(651,218)</u>	<u>408,845</u>	<u>731,877</u>	<u>(157,180)</u>	<u>80,659</u>
Other items:						
Settlement from lawsuit, net	-	-	-	12,463,348	-	12,463,348
Contributions to principal	1,825	4,008	-	-	1,825	4,008
Sale of capital assets	8,901	(3,278)	4,063	-	12,964	(3,278)
Transfer of equity-MAGNET	-	(371,294)	-	-	-	(371,294)
Interfund transfers	196,728	159,993	(196,728)	(159,993)	-	-
Total other items	<u>207,454</u>	<u>(210,571)</u>	<u>(192,665)</u>	<u>12,303,355</u>	<u>14,789</u>	<u>12,092,784</u>
Changes in net assets	<u>(358,571)</u>	<u>(861,789)</u>	<u>216,180</u>	<u>13,035,232</u>	<u>(142,391)</u>	<u>12,173,443</u>
Net assets, beginning of year	<u>9,390,776</u>	<u>10,252,565</u>	<u>30,781,191</u>	<u>17,745,959</u>	<u>40,171,967</u>	<u>27,998,524</u>
Net assets, end of year	<u>\$ 9,032,205</u>	<u>\$ 9,390,776</u>	<u>\$30,997,371</u>	<u>\$30,781,191</u>	<u>\$40,029,576</u>	<u>\$40,171,967</u>

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

City Funds Financial Analysis

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

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities. The City's major governmental funds are the General Fund and Major Street Fund. Additionally, the City reports the Electric Fund and Water and Sewer Fund as major enterprise funds.

The General Fund accounts for functions relating to the general government activities of the City, which are financed by property tax levies, distribution of State revenues, and fees charged for various municipal activities and services. Fund balance of the General Fund increased \$45,542 in fiscal year 2012.

The Major Street Fund accounts for functions relating to the City's major street infrastructure, which is financed by State Act 51 distributions. Fund balance of the Major Street Fund decreased \$10,568 in fiscal year 2012.

The Electric Fund covers the operations of the electricity utility system. Net assets of the Electric Fund decreased \$154,166 in fiscal year 2012.

The Water and Sewer Fund covers the operations of the water system and sewage disposal/treatment system. Net assets of the Water and Sewer Fund increased \$404,984 in fiscal year 2012.

General Fund Budgetary Highlights

Over the course of the year, the City Council and City management monitor and amend the budget to account for unanticipated events during the year. Amendments were relatively minor.

The General Fund's actual revenues and other financing sources exceeded the final budget by \$7,844 and actual expenditures were less than the final budget by \$78,105. A budget overage was the result of a clerical error in accumulating the final amendment amount that was approved.

The Major Street Fund's actual revenues were less than the final budget by \$9,894 and actual expenditures were less than the final budget by \$52,854.

A General Fund and Major Street Fund budgetary comparison schedule is presented on pages 45 and 46.

Capital Assets and Debt Administration

Capital Assets – The City's investment in capital assets for governmental and business-type activities as of June 30, 2012 amounts to \$22,124,157 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, vehicles, furniture and equipment, infrastructure, systems, and sidewalks. Governmental activities included additions of \$460,283 for machinery and equipment, sidewalks, and street infrastructure. Business-type activities included additions of \$736,441 in system infrastructure improvements.

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. The Cities of Alma and St. Louis have since formed a joint water supply and treatment authority and is currently in search of additional supply to meet the needs of the Cities collectively.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

A \$26,500,000 settlement of a lawsuit with Velsicol Chemical Company, the Velsicol Trust Funds et al (responsible parties for the contamination) and subsequent events related to terms of the Settlement Agreement has resulted in providing necessary funding to replace the City of St. Louis water supply. This is an ongoing project and there has not been any significant capital outlay to date.

Additional information on the City's capital assets can be found in Note 5 on pages 34 and 35.

Debt – At the end of the current year, the City had total long-term debt outstanding, excluding compensated absences, of \$1,216,080. Of this amount, \$411,080 comprises debt backed by the full faith and credit of the government (general obligation bonds). The remaining of the City's debt of \$805,000 is backed solely by specified revenue sources (revenue bonds).

Additional information can be found in Note 6 on pages 36 and 37.

Economic Factors

Gratiot County (which includes the City of St. Louis and the surrounding incorporated and unincorporated area), has a labor force of 19,007 as of July 2012, which is up from July 2011 by 372. The unemployment rate in the County for July 2012 is 11.0% which is down from the July 2011 rate of 12.2%. Statewide, the seasonally unadjusted unemployment rate in July 2012 was 10.3%. The most recent University of Michigan Research Seminar in Quantitative Economics Report finds that "We do see some pickup in the economy going into 2013 and continuing through 2014; however, job growth accelerates to 1.3 percent during 2013, holding in that neighborhood throughout the year before moving up to 1.6 percent during 2014."

As the State's economy continues to improve from the recent recession, State support to local government continues to decline resulting in job loss and reduction of services in the local government sector. Though the City's central business district suffered during the recent economic downturn, we are beginning to see significant improvement in the local business climate. Subsequent to fiscal year end, a new pharmacy, car wash, sports apparel and physical fitness business, health care business, Chinese restaurant among others have opened or are about to open. 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. Residential growth has seen some improvement over the past year as there have been two new residences constructed.

During the current fiscal year ended June 30, 2012, the unassigned fund balance in the general fund is \$684,151. The City has projected a balanced budget for the upcoming fiscal year. It is intended that the available fund balance will be sufficient to meet any unforeseen changes in the local economy from the time the budget was prepared through the 2012-13 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 ASSETS

June 30, 2012

	<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	\$ 1,569,792	\$ 13,661,216	\$ 15,231,008	\$ 35,591
Receivables	220,582	1,073,412	1,293,994	-
Internal balances	(123,617)	123,617	-	-
Inventory	27,102	253,723	280,825	-
Prepaid expenses	17,535	19,293	36,828	-
Restricted cash and cash equivalents	-	2,616,240	2,616,240	-
Other asset - net pension asset	253,917	-	253,917	-
Capital assets:				
Nondepreciable capital assets	2,653,654	998,935	3,652,589	-
Depreciable capital assets, net	<u>4,977,664</u>	<u>13,493,904</u>	<u>18,471,568</u>	<u>138,356</u>
Total assets	<u>9,596,629</u>	<u>32,240,340</u>	<u>41,836,969</u>	<u>173,947</u>
Liabilities:				
Accounts payable and accrued expenses	93,481	329,644	423,125	63,350
Long-term liabilities:				
Due within one year	123,230	137,823	261,053	-
Due in more than one year	<u>347,713</u>	<u>775,502</u>	<u>1,123,215</u>	<u>-</u>
Total liabilities	<u>564,424</u>	<u>1,242,969</u>	<u>1,807,393</u>	<u>63,350</u>
Net assets:				
Invested in capital assets, net of related debt	7,220,238	13,687,839	20,908,077	138,356
Restricted for:				
Debt service	6,809	336,386	343,195	-
Equipment replacement/improvements	-	12,850,386	12,850,386	-
Library operations	72,616	-	72,616	-
Nonexpendable cemetery principal	166,677	-	166,677	-
Park improvements	4,070	-	4,070	-
Pool and historical	30,283	-	30,283	-
Streets	346,327	-	346,327	-
Unrestricted (deficit)	<u>1,185,185</u>	<u>4,122,760</u>	<u>5,307,945</u>	<u>(27,759)</u>
Total net assets	<u>\$ 9,032,205</u>	<u>\$ 30,997,371</u>	<u>\$ 40,029,576</u>	<u>\$ 110,597</u>

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

CITY OF ST. LOUIS

STATEMENT OF ACTIVITIES Year Ended June 30, 2012

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	\$ 445,622	\$ 353,853	\$ -	\$ -	\$ (91,769)
Public safety	751,543	19,037	49,115	-	(683,391)
Public works	1,234,183	22,816	399,692	-	(811,675)
Community and economic development	85,786	-	18,275	-	(67,511)
Recreation and culture	284,694	135,773	27,454	-	(121,467)
Interest on long-term debt	23,073	-	-	-	(23,073)
Total governmental activities	<u>2,824,901</u>	<u>531,479</u>	<u>494,536</u>	<u>-</u>	<u>(1,798,886)</u>
<i>Business-type activities:</i>					
Electric	4,260,278	4,191,710	-	-	(68,568)
Water and Sewer	1,886,760	2,232,810	-	122,983	469,033
Solid Waste	349,797	327,358	-	-	(22,439)
Total business-type activities	<u>6,496,835</u>	<u>6,751,878</u>	<u>-</u>	<u>122,983</u>	<u>378,026</u>
Total primary government	<u>\$ 9,321,736</u>	<u>\$ 7,283,357</u>	<u>\$ 494,536</u>	<u>\$ 122,983</u>	<u>\$ (1,420,860)</u>
COMPONENT UNIT:					
Downtown Development Authority	<u>\$ 34,371</u>	<u>\$ 5,423</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,948)</u>

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

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (1,798,886)	\$ 378,026	\$ (1,420,860)	\$ (28,948)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	727,957	-	727,957	-
Property taxes, captured by component unit	-	-	-	40,073
Payment in lieu of taxes	6,163	-	6,163	-
Franchise fees	17,482	-	17,482	-
Grants and contributions not restricted to specific programs	459,571	-	459,571	-
Unrestricted investment earnings	10,300	30,819	41,119	157
Other	11,388	-	11,388	-
Contributions to principal of permanent funds	1,825	-	1,825	-
Special items:				
Gain (loss) on sale of capital asset	8,901	4,063	12,964	-
Transfers	196,728	(196,728)	-	-
Total general revenues and other	1,440,315	(161,846)	1,278,469	40,230
Change in net assets	(358,571)	216,180	(142,391)	11,282
Net assets, beginning of year, restated	9,390,776	30,781,191	40,171,967	99,315
Net assets, end of year	\$ 9,032,205	\$ 30,997,371	\$ 40,029,576	\$ 110,597

CITY OF ST. LOUIS

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2012

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total</i>
Assets:				
Cash and investments	\$ 687,566	\$ 252,910	\$ 551,275	\$ 1,491,751
Taxes receivable	15,165	-	373	15,538
Accounts receivable	8,713	-	561	9,274
Notes receivable	13,237	-	-	13,237
Accrued interest receivable	632	-	262	894
Due from other governmental units	108,185	51,979	18,666	178,830
Inventory	14,566	-	-	14,566
Prepaid expenditures	13,568	1,585	1,226	16,379
Total assets	\$ 861,632	\$ 306,474	\$ 572,363	\$ 1,740,469
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 46,836	\$ 1,423	\$ 7,129	\$ 55,388
Accrued expenses	22,474	2,242	1,705	26,421
Due to other funds	6,963	9,585	315	16,863
Total liabilities	76,273	13,250	9,149	98,672
Fund balances:				
Nonspendable:				
Inventory	14,566	-	-	14,566
Prepaid expenditures	13,568	1,585	1,226	16,379
Long-term receivables	25,537	-	-	25,537
Nonexpendable cemetery principal	-	-	166,677	166,677
Restricted for:				
Debt service	-	-	6,809	6,809
Library operations	-	-	72,616	72,616
Park improvements	4,070	-	-	4,070
Pool and historical	30,283	-	-	30,283
Streets	-	291,639	54,688	346,327
Assigned to:				
Capital improvements	-	-	232,360	232,360
Cemetery improvements	13,184	-	-	13,184
Cemetery operations	-	-	28,838	28,838
Unassigned	684,151	-	-	684,151
Total fund balances	785,359	293,224	563,214	1,641,797
Total liabilities and fund balances	\$ 861,632	\$ 306,474	\$ 572,363	\$ 1,740,469

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 ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2012

Total fund balances for governmental funds			\$ 1,641,797
Total net assets reported for governmental activities in the statement of of net assets 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	31,088,453		
Less accumulated depreciation	<u>(23,640,235)</u>	7,448,218	
The net pension asset used in governmental activities is not a financial resource, and therefore not reported in the funds.			253,917
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.			(5,011)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:			
Bonds payable	(395,000)		
Capital lease payable	(16,080)		
Compensated absences payable	<u>(56,055)</u>	(467,135)	
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.			<u>160,419</u>
Net assets of governmental activities			<u>\$ 9,032,205</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, 2012

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total</i>
Revenues:				
Property taxes	\$ 685,409	\$ -	\$ 48,711	\$ 734,120
Licenses and permits	32,785	-	-	32,785
Federal grants	34,015	-	-	34,015
State grants	468,537	290,453	113,405	872,395
Contributions from other units	-	-	20,275	20,275
Charges for services	378,143	-	2,971	381,114
Fines and forfeits	3,734	-	87,079	90,813
Interest and rents	5,151	1,823	3,010	9,984
Other revenue	57,181	-	27,703	84,884
Total revenues	1,664,955	292,276	303,154	2,260,385
Expenditures:				
Current				
General government	423,135	-	-	423,135
Public safety	732,851	-	-	732,851
Public works	131,637	492,721	143,570	767,928
Community and economic development	85,614	-	-	85,614
Recreation and culture	143,521	-	118,147	261,668
Capital outlay	75,052	-	6,835	81,887
Debt service				
Principal	4,340	-	60,000	64,340
Interest and fees	923	-	22,866	23,789
Total expenditures	1,597,073	492,721	351,418	2,441,212
Excess (deficiency) of revenues over expenditures	67,882	(200,445)	(48,264)	(180,827)
Other financing sources (uses):				
Capital lease financing	17,537	-	-	17,537
Transfers from other funds	-	189,877	270,223	460,100
Transfers to other funds	(39,877)	-	(254,595)	(294,472)
Net other financing sources (uses)	(22,340)	189,877	15,628	183,165
Changes in fund balances	45,542	(10,568)	(32,636)	2,338
Fund balances, beginning of year	739,817	303,792	595,850	1,639,459
Fund balances, end of year	\$ 785,359	\$ 293,224	\$ 563,214	\$ 1,641,797

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, 2012

Changes in fund balances - total governmental funds			\$ 2,338
Total change in net assets 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	415,975		
Less depreciation expense	(906,324)		
Less loss on disposal	<u>(4,099)</u>	(494,448)	
Proceeds from capital leasing are revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.			(17,537)
Repayments of principal on long-term obligations are expenditures in governmental funds but the payments reduce long-term liabilities in the statement of net assets.			64,341
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	153		
Change in accrued interest on bonds	716		
Change in net pension asset	<u>51,670</u>	52,539	
The net revenue (expense) of the internal service fund is reported with governmental activities.			<u>34,196</u>
Change in net assets of governmental activities			<u>\$ (358,571)</u>

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2012

	<i>Business-type Activities</i>			<i>Governmental Activities</i>	
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Fund</i>
			<i>Solid Waste Fund</i>		
Assets:					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 814,618	\$ 12,749,965	\$ 96,633	\$ 13,661,216	\$ 78,041
Accounts receivable	574,117	276,219	35,780	886,116	2,809
Accrued interest receivable	-	1,105	-	1,105	-
Due from other governmental units	63,208	122,983	-	186,191	-
Due from other funds	-	-	-	-	27,092
Inventory	197,122	56,601	-	253,723	12,536
Prepaid expenses	7,878	9,687	1,728	19,293	1,156
Total current assets	1,656,943	13,216,560	134,141	15,007,644	121,634
<i>Noncurrent assets:</i>					
Restricted cash and cash equivalents	1,438,231	1,178,009	-	2,616,240	-
Capital assets:					
Nondepreciable capital assets	301,102	697,833	-	998,935	-
Depreciable capital assets, net	5,756,576	7,737,328	-	13,493,904	183,100
Total noncurrent assets	7,495,909	9,613,170	-	17,109,079	183,100
Total assets	9,152,852	22,829,730	134,141	32,116,723	304,734
Liabilities:					
<i>Current liabilities:</i>					
Accounts payable	151,175	79,285	14,730	245,190	5,529
Accrued expenses	14,436	13,240	792	28,468	1,132
Due to other funds	1,409	3,423	5,397	10,229	-
Deposits payable	34,627	15,711	-	50,338	-
Accrued interest payable	-	5,648	-	5,648	-
Current compensated absences	38,062	39,761	-	77,823	3,757
Current portion of long-term debt	-	60,000	-	60,000	-
Total current liabilities	239,709	217,068	20,919	477,696	10,418

continued

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS, CONTINUED

June 30, 2012

	<i>Business-type Activities</i>			<i>Governmental Activities</i>	
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Fund</i>
			<i>Solid Waste Fund</i>		
<i>Noncurrent liabilities:</i>					
Compensated absences payable	17,458	16,204	-	33,662	51
Long-term debt	385,000	356,840	-	741,840	-
Total noncurrent liabilities	402,458	373,044	-	775,502	51
Total liabilities	642,167	590,112	20,919	1,253,198	10,469
<i>Net assets:</i>					
Invested in capital assets, net of related debt	5,672,678	8,015,161	-	13,687,839	183,100
Restricted for:					
Debt service	169,534	166,852	-	336,386	-
Replacement/improvements	1,268,697	1,011,157	-	2,279,854	-
Water supply replacement	-	10,570,532	-	10,570,532	-
Unrestricted	1,399,776	2,475,916	113,222	3,988,914	111,165
Total net assets	<u>\$ 8,510,685</u>	<u>\$ 22,239,618</u>	<u>\$ 113,222</u>	<u>\$ 30,863,525</u>	<u>\$ 294,265</u>
Adjustment to reflect the consolidation of internal service funds				133,846	
Net assets of business-type activities				<u>\$ 30,997,371</u>	

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Year Ended June 30, 2012

	<i>Business-type Activities</i>			<i>Governmental Activities</i>	
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Fund</i>
			<i>Solid Waste Fund</i>		
Operating revenues:					
Charges for services	\$ 4,102,596	\$ 2,161,028	\$ 323,913	\$ 6,587,537	\$ -
Penalties	60,080	17,467	3,445	80,992	-
Equipment rental	-	-	-	-	282,842
Other	24,550	25,019	-	49,569	1,319
Total operating revenues	4,187,226	2,203,514	327,358	6,718,098	284,161
Operating expenses:					
Personnel	668,162	726,315	71,125	1,465,602	72,338
Administrative expense	217,481	98,482	15,183	331,146	-
Purchased energy	2,614,899	-	-	2,614,899	-
Other services and charges	438,098	597,923	259,611	1,295,632	199,290
Depreciation	298,099	434,390	-	732,489	31,898
Total operating expenses	4,236,739	1,857,110	345,919	6,439,768	303,526
Operating income (loss)	(49,513)	346,404	(18,561)	278,330	(19,365)
Non-operating revenues (expenses):					
Interest income	13,785	16,458	576	30,819	316
Rental income	4,484	23,940	-	28,424	-
Gain on disposal of capital assets	4,063	-	-	4,063	13,000
Other income	-	5,356	-	5,356	-
Interest expense	(22,148)	(25,774)	-	(47,922)	-
Net non-operating	184	19,980	576	20,740	13,316
Change in net assets before other	(49,329)	366,384	(17,985)	299,070	(6,049)
Capital contributions-state grant	-	122,983	-	122,983	-
Transfer from (to) other funds	(104,837)	(84,383)	(7,508)	(196,728)	31,100
Change in net assets	(154,166)	404,984	(25,493)	225,325	25,051
Net assets, beginning of year	8,664,851	21,834,634	138,715		269,214
Net assets, end of year	\$ 8,510,685	\$ 22,239,618	\$ 113,222		\$ 294,265
Adjustment to reflect the consolidation of internal service funds				(9,145)	
Change in net assets of business-type activities				\$ 216,180	

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, 2012

	<i>Business-type Activities</i>			<i>Governmental Activities</i>	
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Fund</i>
			<i>Solid Waste Fund</i>		
Cash flows from operating activities:					
Cash received from customers	\$ 4,369,265	\$ 2,162,228	\$ 325,624	\$ 6,857,117	\$ -
Cash received for interfund services	130,541	(104,909)	913	26,545	288,083
Cash payments to employees	(387,755)	(463,664)	(42,781)	(894,200)	(43,095)
Cash payments to suppliers for goods and services	<u>(3,650,384)</u>	<u>(984,083)</u>	<u>(303,636)</u>	<u>(4,938,103)</u>	<u>(230,677)</u>
Net cash provided (used) by operating activities	<u>461,667</u>	<u>609,572</u>	<u>(19,880)</u>	<u>1,051,359</u>	<u>14,311</u>
Cash flows from non-capital financing activities:					
Transfers from (to) other funds	<u>(104,837)</u>	<u>(84,383)</u>	<u>(7,508)</u>	<u>(196,728)</u>	<u>31,100</u>
Net cash provided (used) by non-capital financing activities	<u>(104,837)</u>	<u>(84,383)</u>	<u>(7,508)</u>	<u>(196,728)</u>	<u>31,100</u>
Cash flows from capital and related financing activities:					
State grant	-	122,983	-	122,983	-
Receipts from lawsuit settlement	-	10,500,000	-	10,500,000	-
Other income	-	5,356	-	5,356	-
Acquisition of capital assets	(280,521)	(151,151)	-	(431,672)	(44,308)
Gain on disposal of capital assets	4,063	-	-	4,063	13,000
Principal payments	(145,000)	(145,000)	-	(290,000)	-
Interest paid	<u>(22,148)</u>	<u>(27,213)</u>	<u>-</u>	<u>(49,361)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(443,606)</u>	<u>10,304,975</u>	<u>-</u>	<u>9,861,369</u>	<u>(31,308)</u>
Cash flows from investing activities:					
Interest received	13,785	16,480	576	30,841	316
Rent received	<u>4,484</u>	<u>23,940</u>	<u>-</u>	<u>28,424</u>	<u>-</u>
Net cash provided by investing activities	<u>18,269</u>	<u>40,420</u>	<u>576</u>	<u>59,265</u>	<u>316</u>
Net increase (decrease) in cash and cash equivalents	(68,507)	10,870,584	(26,812)	10,775,265	14,419
Cash and cash equivalents, beginning of year	<u>2,321,356</u>	<u>3,057,390</u>	<u>123,445</u>	<u>5,502,191</u>	<u>63,622</u>
Cash and cash equivalents, end of year	<u>\$ 2,252,849</u>	<u>\$ 13,927,974</u>	<u>\$ 96,633</u>	<u>\$ 16,277,456</u>	<u>\$ 78,041</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, 2012

	<i>Business-type Activities</i>			<i>Governmental Activities</i>	
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Fund</i>
			<i>Solid Waste Fund</i>		
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (49,513)	\$ 346,404	\$ (18,561)	\$ 278,330	\$ (19,365)
Adjustments:					
Depreciation	298,099	434,390	-	732,489	31,898
Change in assets and liabilities:					
Accounts receivable	176,938	81,697	(1,734)	256,901	(268)
Due from other governmental units	5,101	(122,983)	-	(117,882)	-
Due from other funds	-	-	-	-	4,190
Inventory	1,995	(11,522)	-	(9,527)	(862)
Prepaid expenses	(281)	987	(996)	(290)	1,148
Advance to other funds	130,051	-	-	130,051	-
Accounts payable	(111,111)	(8,629)	(34)	(119,774)	(3,302)
Accrued expenses	5,508	3,181	532	9,221	370
Due to other funds	490	142	913	1,545	-
Deposits payable	2,070	80	-	2,150	-
Advance payable to other fund	-	(105,051)	-	(105,051)	-
Compensated absences	2,320	(9,124)	-	(6,804)	502
Net cash provided (used) by operating activities	<u>\$ 461,667</u>	<u>\$ 609,572</u>	<u>\$ (19,880)</u>	<u>\$ 1,051,359</u>	<u>\$ 14,311</u>

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

CITY OF ST. LOUIS

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2012

	<u><i>Agency Funds</i></u>
Assets:	
Cash and cash equivalents	\$ 9,849
Accounts receivable	<u>8,646</u>
Total assets	<u>18,495</u>
Liabilities:	
Accrued liabilities	9,274
Due to other governments	<u>9,221</u>
Total liabilities	<u>18,495</u>
Net Assets:	
Unrestricted	<u>-</u>
Total net assets	<u>\$ -</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, 2012

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, the financial statements of the reporting entity include those of the City and its component units. 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 City (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The component unit discussed below is included in the City’s reporting entity because of its operational or financial relationship with the City.

The following component unit is reported in a separate column in the government-wide financial statements to emphasize that they it is legally separate from the City. The discretely presented component unit is an entity that is legally separate from the City but for which the unit is financially accountable, or its relationship with the City is such that exclusion would cause the financial statements to be misleading or incomplete.

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.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

Joint Ventures

Mid-Michigan Community Fire Board – The City is a member of the Mid-Michigan Community Fire Board (the “Fire Board”), which is a joint venture between the City of St. Louis and the Townships of Bethany, Pine River, and Jasper. The governing Board is comprised of five members consisting of the Supervisor of each of the Townships, the City Manager and the City 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, 2012, was \$81,393. The City maintains the accounting records for the Mid-Michigan Community Fire Board. Separate financial statements for the Fire Board can be obtained at the City of St. Louis administration office.

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

The parties have determined that it is more cost effective to provide such services through a single contracting entity and to share the costs of such services on an equitable basis. The 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 City is a member of the Gratiot Area Water Authority, which 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 City is a member of the Gratiot County Central Dispatch Authority (the “Authority”), which is a joint venture between Gratiot County, the State of Michigan, and the Cities of Alma, St. Louis, Ithaca, and Breckenridge. The Authority provides central dispatch services for police and fire services in Gratiot County. The governing Board is comprised of eleven members. Gratiot County appoints six Board members consisting of the County Sheriff, a representative from the area townships, a representative from the area villages, one county citizen, and two county commissioners. Each of the other units appoints one Board member. The Authority has responsibility for preparing the annual budget, which is approved by Gratiot County, and to carry out all activities of the Authority.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

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

Mid-Michigan Area Cable Communications Consortium – The City is a member of the Mid-Michigan Area Cable Communications Consortium (the “Consortium”), which is a joint venture between nine Mid-Michigan communities with cable franchised agreements granted to Charter Communications. The 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, 2012, amounted to \$15,627. 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 Jan Howard, Executive Director, 312 West Michigan Street, Mt. Pleasant, MI 48860.

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

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

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

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

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions. The government-wide focus is on the sustainability of the City as an entity and the change in the City’s net assets resulting from current year activities.

Fund Financial Statements:

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.

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

Property taxes, franchise fees, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The City reports the following major governmental funds:

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

The **Major Street Fund** is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for maintenance and construction of roads designated as major streets in the City.

The City reports the following nonmajor governmental funds:

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

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

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

The City reports the following major proprietary funds:

The **Electric Fund** accounts for the operation of an electricity utility system.

The **Water and Sewer Fund** accounts for the activities of the City's water system and sewage disposal/treatment system.

The City reports the following nonmajor proprietary fund:

The **Solid Waste Fund** accounts for the activities of the government's solid waste disposal system.

Additionally, the City reports the following funds:

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

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

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

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

Assets, Liabilities and Equity:

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.

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.

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 purchased rather than when consumed. 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 – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after June 30, 2004. 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Deferred Revenue – Governmental and proprietary funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, there was no deferred revenue.

Fund Equity – In the fund financial statements, fund balance is 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).

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. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

When the City incurs expenditures for purposes for which various fund balance classifications can be used, it is the City's policy to use the restricted fund balance first, then committed fund balance, then assigned fund balance, and finally unassigned fund balance.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2012

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 assets 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.

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 2011 taxable valuation of the City totaled \$50,753,564 (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.

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.

Excess of Expenditures over Appropriations in Budgeted Funds:

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

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund:			
Recreation and culture	\$ 135,865	\$ 166,728	\$ 30,863

The budget overage was the result of a clerical error in accumulating the final amendment amount that was approved.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2012

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, 2011	\$ -
Current year building permit revenue	15,303
Related expenses:	
Direct costs	<u>(64,878)</u>
Cumulative surplus at June 30, 2012	<u>\$ -</u>

NOTE 3: DEPOSITS AND INVESTMENTS

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

The investment policy adopted by the 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.

The City's deposits and investments are subject to several types of risk, which are presented in more detail as follows:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. State law does not require and the City does not have a policy for deposit custodial credit risk. At year end, the City had \$18,041,426 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$3,962,030 was covered by federal depository insurance and the remaining \$14,079,396 was uninsured and uncollateralized.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

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 an Electric Fund replacement reserve.

At June 30, 2012 the City had these accounts established and had restricted cash as follows:

	<i>Restricted Cash and Cash Equivalents</i>
Electric Fund:	
Bond reserve	\$ 169,534
Replacement and Improvements	1,268,697
Water and Sewer Fund:	
Bond reserve	166,852
Replacement and Improvements	<u>1,011,157</u>
	<u>\$ 2,616,240</u>

The City also has \$10,570,532 restricted net assets in the Water and Sewer Fund received from a lawsuit settlement to be used for water system replacement costs.

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<i>July 1, 2011</i>	<i>Additions</i>	<i>Retirements</i>	<i>June 30, 2012</i>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 2,307,555	\$ -	\$ -	\$ 2,307,555
Construction in progress	<u>8,719</u>	<u>337,380</u>	<u>-</u>	<u>346,099</u>
Total nondepreciable capital assets	<u>2,316,274</u>	<u>337,380</u>	<u>-</u>	<u>2,653,654</u>
Depreciable capital assets:				
Buildings and improvements	1,901,367	-	-	1,901,367
Equipment and vehicles	2,220,199	102,903	(81,524)	2,241,578
Infrastructure - storm sewer	2,701,677	-	-	2,701,677
Infrastructure - streets	21,888,341	-	-	21,888,341
Infrastructure - sidewalks	<u>948,710</u>	<u>20,000</u>	<u>(7,534)</u>	<u>961,176</u>
Total depreciable capital assets	29,660,294	122,903	(89,058)	29,694,139
Accumulated depreciation	<u>(23,863,212)</u>	<u>(938,222)</u>	<u>84,959</u>	<u>(24,716,475)</u>
Depreciable capital assets, net	<u>5,797,082</u>	<u>(815,319)</u>	<u>(4,099)</u>	<u>4,977,664</u>
Total capital assets, net	<u>\$ 8,113,356</u>	<u>\$ (477,939)</u>	<u>\$ (4,099)</u>	<u>\$ 7,631,318</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 357,118	\$ 22,500	\$ -	\$ 379,618
Construction in progress	<u>622,753</u>	<u>230,395</u>	<u>(233,833)</u>	<u>619,315</u>
Total nondepreciable capital assets	<u>979,871</u>	<u>252,895</u>	<u>(233,833)</u>	<u>998,933</u>
Depreciable capital assets				
Buildings and improvements	1,137,426	211,400	(73,594)	1,275,232
Equipment	10,262,946	-	-	10,262,946
Infrastructure	<u>20,521,689</u>	<u>272,146</u>	<u>-</u>	<u>20,793,835</u>
Total depreciable capital assets	31,922,061	483,546	(73,594)	32,332,013
Accumulated depreciation	<u>(18,108,276)</u>	<u>(732,489)</u>	<u>2,658</u>	<u>(18,838,107)</u>
Depreciable capital assets, net	<u>13,813,785</u>	<u>(248,943)</u>	<u>(70,936)</u>	<u>13,493,906</u>
Total capital assets, net	<u>\$ 14,793,656</u>	<u>\$ 3,952</u>	<u>\$ (304,769)</u>	<u>\$ 14,492,839</u>
Component unit:				
Depreciable capital assets				
Building	\$ 150,934	\$ -	\$ -	\$ 150,934
Accumulated depreciation	<u>(7,547)</u>	<u>(5,031)</u>	<u>-</u>	<u>(12,578)</u>
Depreciable capital assets, net	<u>143,387</u>	<u>(5,031)</u>	<u>-</u>	<u>138,356</u>
Total capital assets, net	<u>\$ 143,387</u>	<u>\$ (5,031)</u>	<u>\$ -</u>	<u>\$ 138,356</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
General government	\$ 62,082	\$ -	\$ -
Public safety	16,665	-	-
Public works	815,419	-	-
Health and welfare	-	-	-
Community and economic development	-	-	5,031
Recreation and culture	12,158	-	-
Electric	-	298,099	-
Water and Sewer	-	434,390	-
Internal Service Fund	<u>31,898</u>	<u>-</u>	<u>-</u>
	<u>\$ 938,222</u>	<u>\$ 732,489</u>	<u>\$ 5,031</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

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.

Long-term obligation activity for the year ended June 30, 2012 is summarized as follows:

	<u>July 1,</u> <u>2011</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>June 30,</u> <u>2012</u>	<u>Due</u> <u>Within</u> <u>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.	\$ 165,000	-	(25,000)	\$ 140,000	\$ 30,000
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.	290,000	-	(35,000)	255,000	35,000
Capital lease with Key Equipment, due in monthly installments of \$335 through March 2012.	2,884	-	(2,884)	-	-
Capital lease with Key Equipment, due in monthly installments of \$562 through May 2015.	-	17,537	(1,457)	16,080	4,799
Compensated absences	59,514	56,975	(56,626)	59,863	53,431
Total Governmental Activities	<u>\$ 517,398</u>	<u>\$ 74,512</u>	<u>\$ (120,967)</u>	<u>\$ 470,943</u>	<u>\$ 123,230</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

	<u>July 1, 2011</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
Business-type Activities:					
1996 Water Supply and Sanitary Sewage Disposal Revenue Bonds, principal due in annual installments of \$90,000 through October 2011 interest of 5.40% due semi-annually	\$ 90,000	-	(90,000)	\$ -	\$ -
1997 Water Supply and Sanitary Sewage Disposal Revenue Bonds, principal due in annual installments of \$55,000 to \$80,000 through October 2018, interest of 5.40% due semi-annually.	475,000	-	(55,000)	420,000	60,000
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.	530,000	-	(145,000)	385,000	-
Less: Deferred charges	(3,657)	-	497	(3,160)	-
Compensated absences	118,289	76,111	(82,915)	111,485	77,823
Total Business-type Activities	<u>\$1,209,632</u>	<u>\$ 76,111</u>	<u>\$ (372,418)</u>	<u>\$ 913,325</u>	<u>\$ 137,823</u>

Annual debt service requirements to maturity for the above obligations (excluding compensated absences) are as follows:

<i>Year Ended</i> <u>June 30,</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 69,799	\$ 21,205	\$ 91,004	\$ 60,000	\$ 30,368	\$ 90,368
2014	75,512	17,094	92,606	135,000	34,797	169,797
2015	85,769	12,715	98,484	140,000	27,912	167,912
2016	85,000	7,992	92,992	150,000	20,532	170,532
2017	45,000	3,541	48,541	155,000	12,672	167,672
2018	50,000	1,225	51,225	165,000	4,328	169,328
	<u>\$ 411,080</u>	<u>\$ 63,772</u>	<u>\$ 474,852</u>	<u>\$ 805,000</u>	<u>\$ 130,609</u>	<u>\$ 935,609</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

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

	<i>Primary Government</i>			<i>Component Units</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Receivables:				
Property taxes	\$ 15,538	\$ -	\$ 15,538	\$ -
Accounts	12,083	886,116	898,199	-
Special assessments	-	-	-	-
Notes	13,237	-	13,237	-
Accrued interest	894	1,105	1,999	-
Intergovernmental	178,830	186,191	365,021	-
Total receivables	<u>\$ 220,582</u>	<u>\$ 1,073,412</u>	<u>\$ 1,293,994</u>	<u>\$ -</u>
Accounts payable and accrued expenses:				
Accounts	\$ 60,917	\$ 245,190	\$ 306,107	\$ 142
Payroll liabilities	27,553	28,468	56,021	-
Deposits payable	-	50,338	50,338	-
Accrued interest	5,011	5,648	10,659	-
Intergovernmental	-	-	-	63,208
Total accounts payable and accrued expenses	<u>\$ 93,481</u>	<u>\$ 329,644</u>	<u>\$ 423,125</u>	<u>\$ 63,350</u>

NOTE 8: INTERFUND BALANCES AND TRANSFERS

<i>Due From Recorded</i>	<i>Due To Recorded</i>	<i>Amount</i>
Internal Service Fund - Motor Pool Fund	General Fund	\$ 6,963
	Electric Fund	1,409
	Water and Sewer Fund	3,423
	Solid Waste Fund	5,397
	Nonmajor Governmental Funds	
	Major Street Fund	9,585
	T.A. Cutler Memorial Library Fund	315
		<u>\$ 27,092</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

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

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund Major Street Fund	\$ 39,877
Nonmajor Governmental Funds Public Improvement Fund	Nonmajor Governmental Funds Major Street Fund Local Street Fund 2002 General Obligation Limited Tax Fund	150,000 40,000 29,900
Nonmajor Governmental Funds T.A. Cutler Memorial Library Fund	Nonmajor Governmental Funds Building Authority Fund	34,695
Electric Fund	Nonmajor Governmental Fund Public Improvement Fund	104,837
Water and Sewer Fund	Nonmajor Governmental Fund Public Improvement Fund	53,283
Water and Sewer Fund	Internal Service Fund	31,100
Solid Waste Fund	Nonmajor Governmental Fund Public Improvement Fund	7,508
		<u>\$ 451,323</u>

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.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

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.

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.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

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, 2010.

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

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

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 2.00-4.88%. 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.

Annual Pension Cost – For year ended June 30, 2012, the City's annual pension cost of \$219,109 for the Plan was greater than the City's required contribution of \$209,579. However, the City's actual contribution was \$270,779. The annual required contribution was determined as part of the December 31, 2009 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 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 28 years.

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

Annual required contribution	\$ 209,579
Interest on net pension asset	(16,180)
Adjustment to annual required contribution	<u>25,710</u>
Annual pension cost	219,109
Contributions made	<u>(270,779)</u>
(Increase) decrease in net pension asset	(51,670)
Net pension (asset), beginning of year	<u>(202,247)</u>
Net pension (asset), end of year	<u>\$ (253,917)</u>

The net pension asset is reported in the government-wide governmental activities.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2012

Three year trend information as of June 30, follows:

<i>Year Ended June 30</i>	<i>Annual Pension Cost</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Asset</i>
2010	\$ 135,770	120%	\$ 138,664
2011	188,624	134%	202,247
2012	219,109	124%	253,917

Funded Status – As of December 31, 2010, the most recent actuarial valuation date, the plan was 73 percent funded. The actuarial accrued liability for benefits was \$7,364,820, and the actuarial value of assets was \$5,370,378, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,994,442. The covered payroll (annual payroll of active employees covered by the plan) was \$620,970, and the ratio of the UAAL to the covered payroll was 321 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.

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 \$76,139 for the year ended June 30, 2012. Employee contributions for the plan were \$28,552 for the year ended June 30, 2012. Plan provisions and contribution requirements are established and may be amended by the City Council.

NOTE 11: PRIOR PERIOD ADJUSTMENT

Change in accounting policy - The St. Louis Housing Commission had been previously reported as a component unit of the City. In the current year, City charter was changed so that the St. Louis Housing Commission is a legally separate entity of the City and not under any influence of the City. Due to this change in policy, the St. Louis Housing Commission is no longer shown in the City's financial statements as a discretely presented component unit. The effect of this change on net assets is as follows:

<u>Government-wide Statements</u>	<u>Component Units</u>		
	<u>Housing Commission</u>	<u>DDA</u>	<u>Total</u>
Net assets, June 30, 2011, previously stated	\$ 1,888,971	\$ 99,315	\$ 1,988,286
Less: St. Louis Housing Commission's net assets	(1,888,971)	-	(1,888,971)
Net assets, June 30, 2011, restated	<u>\$ -</u>	<u>\$ 99,315</u>	<u>\$ 99,315</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ST. LOUIS

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended June 30, 2012

<i>Actuarial Valuation Date</i>	<i>12/31/10</i>	<i>12/31/09</i>	<i>12/31/08</i>
Actuarial Value of Assets	\$ 5,370,378	\$ 5,390,306	\$ 5,508,314
Actuarial Accrued Liability (AAL)	7,364,820	7,149,635	7,133,510
Unfunded AAL (UAAL)	1,994,442	1,759,329	1,625,196
Funded Ratio	73%	75%	77%
Covered Payroll	620,970	662,112	673,346
UAAL as a percentage of covered payroll	321%	266%	241%

CITY OF ST. LOUIS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2012

	<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	\$ 685,385	\$ 683,650	\$ 685,409	\$ 1,759
Licenses and permits	38,385	36,600	32,785	(3,815)
Federal grants	37,700	30,000	34,015	4,015
State grants	431,600	463,290	468,537	5,247
Charges for services	376,846	376,396	378,143	1,747
Fines and forfeits	5,000	3,800	3,734	(66)
Interest and rents	11,030	5,500	5,151	(349)
Other revenue	26,500	57,875	57,181	(694)
Total revenues	1,612,446	1,657,111	1,664,955	7,844
Expenditures:				
Current				
General government	452,120	491,220	451,975	(39,245)
Public safety	807,625	785,993	754,227	(31,766)
Public works	126,550	150,550	133,266	(17,284)
Community and economic development	157,000	105,550	85,614	(19,936)
Recreation and culture	130,250	135,865	166,728	30,863
Debt service	4,200	6,000	5,263	(737)
Total expenditures	1,677,745	1,675,178	1,597,073	(78,105)
Excess (deficiency) of revenues over expenditures	(65,299)	(18,067)	67,882	85,949
Other financing sources (uses):				
Capital lease financing	-	17,500	17,537	37
Transfers to other funds	-	(39,877)	(39,877)	-
Change in fund balance	(65,299)	(40,444)	45,542	85,986
Fund balance, beginning of year	739,817	739,817	739,817	-
Fund balance, end of year	\$ 674,518	\$ 699,373	\$ 785,359	\$ 85,986

CITY OF ST. LOUIS

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2012

	<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:				
State grants	\$ 207,500	\$ 300,170	\$ 290,453	\$ (9,717)
Interest and rents	1,500	2,000	1,823	(177)
Total revenues	<u>209,000</u>	<u>302,170</u>	<u>292,276</u>	<u>(9,894)</u>
Expenditures:				
Current				
Public works	<u>529,320</u>	<u>545,575</u>	<u>492,721</u>	<u>(52,854)</u>
Excess (deficiency) of revenues over expenditures	<u>(320,320)</u>	<u>(243,405)</u>	<u>(200,445)</u>	<u>42,960</u>
Other financing sources (uses):				
Transfers from other funds	<u>150,000</u>	<u>189,877</u>	<u>189,877</u>	<u>-</u>
Change in fund balance	<u>(170,320)</u>	<u>(53,528)</u>	<u>(10,568)</u>	<u>42,960</u>
Fund balance, beginning of year	<u>303,792</u>	<u>303,792</u>	<u>303,792</u>	<u>-</u>
Fund balance, end of year	<u>\$ 133,472</u>	<u>\$ 250,264</u>	<u>\$ 293,224</u>	<u>\$ 42,960</u>

SUPPLEMENTAL INFORMATION

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2012

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		<u>Capital Projects Fund</u>
	<i>Local Street Fund</i>	<i>T.A.Cutler Memorial Library Fund</i>	<i>Building Authority Fund</i>	<i>2002 General Obligation Limited Tax Fund</i>	<i>Public Improvement Fund</i>
Assets:					
Cash and cash equivalents	\$ 38,194	\$ 78,659	\$ 1,328	\$ 5,481	\$ 232,360
Taxes receivable	-	373	-	-	-
Accounts receivable	-	561	-	-	-
Accrued interest receivable	-	-	-	-	-
Due from other governmental units	18,666	-	-	-	-
Prepaid expenditures	638	588	-	-	-
Total assets	\$ 57,498	\$ 80,181	\$ 1,328	\$ 5,481	\$ 232,360
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 1,993	\$ 5,136	\$ -	\$ -	\$ -
Accrued expenses	179	1,526	-	-	-
Due to other funds	-	315	-	-	-
Total liabilities	2,172	6,977	-	-	-
Fund balances:					
Nonspendable:					
Prepaid expenditures	638	588	-	-	-
Nonexpendable cemetery principal	-	-	-	-	-
Restricted for:					
Streets	54,688	-	-	-	-
Library operations	-	72,616	-	-	-
Debt service	-	-	1,328	5,481	-
Assigned to:					
Capital improvements	-	-	-	-	232,360
Cemetery operations	-	-	-	-	-
Total fund balances	55,326	73,204	1,328	5,481	232,360
Total liabilities and fund balances	\$ 57,498	\$ 80,181	\$ 1,328	\$ 5,481	\$ 232,360

**Permanent
Fund**

<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
\$ 195,253	\$ 551,275
-	373
-	561
262	262
-	18,666
-	1,226
<u>\$ 195,515</u>	<u>\$ 572,363</u>

\$ -	\$ 7,129
-	1,705
-	315
-	9,149

-	1,226
166,677	166,677
-	54,688
-	72,616
-	6,809
-	232,360
28,838	28,838
<u>195,515</u>	<u>563,214</u>
<u>\$ 195,515</u>	<u>\$ 572,363</u>

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended June 30, 2012

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		<u>Capital Projects Fund</u>
				2002	
	<u>Local Street Fund</u>	<u>T.A.Cutler Memorial Library Fund</u>	<u>Building Authority Fund</u>	<u>General Obligation Limited Tax Fund</u>	<u>Public Improvement Fund</u>
Revenues:					
Property taxes	\$ -	\$ 48,711	\$ -	\$ -	\$ -
State grants	109,239	4,166	-	-	-
Contributions from other units	-	2,000	-	18,275	-
Charges for services	-	2,971	-	-	-
Fines and forfeits	-	87,079	-	-	-
Interest and rents	162	671	11	17	958
Other revenue	-	25,878	-	-	-
Total revenues	<u>109,401</u>	<u>171,476</u>	<u>11</u>	<u>18,292</u>	<u>958</u>
Expenditures:					
Current					
Public works	143,570	-	-	-	-
Recreation and culture	-	118,147	-	-	-
Capital outlay	-	6,835	-	-	-
Debt service					
Principal	-	-	25,000	35,000	-
Interest and fees	-	-	9,695	13,171	-
Total expenditures	<u>143,570</u>	<u>124,982</u>	<u>34,695</u>	<u>48,171</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(34,169)</u>	<u>46,494</u>	<u>(34,684)</u>	<u>(29,879)</u>	<u>958</u>
Other financing sources (uses):					
Transfers from other funds	40,000	-	34,695	29,900	165,628
Transfers to other funds	-	(34,695)	-	-	(219,900)
Net other financing sources (uses)	<u>40,000</u>	<u>(34,695)</u>	<u>34,695</u>	<u>29,900</u>	<u>(54,272)</u>
Changes in fund balances	5,831	11,799	11	21	(53,314)
Fund balances, beginning of year	<u>49,495</u>	<u>61,405</u>	<u>1,317</u>	<u>5,460</u>	<u>285,674</u>
Fund balances, end of year	<u>\$ 55,326</u>	<u>\$ 73,204</u>	<u>\$ 1,328</u>	<u>\$ 5,481</u>	<u>\$ 232,360</u>

**Permanent
Fund**

**Cemetery
Perpetual
Care
Fund**

	<u>Total</u>
\$ -	\$ 48,711
-	113,405
-	20,275
-	2,971
-	87,079
1,191	3,010
<u>1,825</u>	<u>27,703</u>
<u>3,016</u>	<u>303,154</u>
-	143,570
-	118,147
-	6,835
-	60,000
<u>-</u>	<u>22,866</u>
<u>-</u>	<u>351,418</u>
<u>3,016</u>	<u>(48,264)</u>
-	270,223
<u>-</u>	<u>(254,595)</u>
<u>-</u>	<u>15,628</u>
3,016	(32,636)
<u>192,499</u>	<u>595,850</u>
<u>\$ 195,515</u>	<u>\$ 563,214</u>

CITY OF ST. LOUIS

WATER AND SEWER FUND

STATEMENT OF NET ASSETS

June 30, 2012

	<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	\$ 937,337	\$11,812,628	\$ 12,749,965
Accounts receivable	276,219	-	276,219
Accrued interest receivable	458	647	1,105
Due from other governmental units	122,983	-	122,983
Due from other funds	38,344	(38,344)	-
Inventory	56,601	-	56,601
Prepaid expenses	9,687	-	9,687
Total current assets	<u>1,441,629</u>	<u>11,774,931</u>	<u>13,216,560</u>
<i>Noncurrent assets:</i>			
Restricted cash and cash equivalents	1,178,009	-	1,178,009
<i>Capital assets:</i>			
Nondepreciable capital assets	686,529	11,304	697,833
Depreciable capital assets, net	<u>7,737,328</u>	<u>-</u>	<u>7,737,328</u>
Total noncurrent assets	<u>9,601,866</u>	<u>11,304</u>	<u>9,613,170</u>
Total assets	<u>11,043,495</u>	<u>11,786,235</u>	<u>22,829,730</u>
Liabilities:			
<i>Current liabilities:</i>			
Accounts payable	78,259	1,026	79,285
Accrued expenses	13,240	-	13,240
Due to other funds	3,423	-	3,423
Deposits payable	15,711	-	15,711
Accrued interest payable	5,648	-	5,648
Current compensated absences	39,761	-	39,761
Current long-term debt	<u>60,000</u>	<u>-</u>	<u>60,000</u>
Total current liabilities	<u>216,042</u>	<u>1,026</u>	<u>217,068</u>
<i>Noncurrent liabilities:</i>			
Compensated absences payable	16,204	-	16,204
Long-term debt	<u>356,840</u>	<u>-</u>	<u>356,840</u>
Total noncurrent liabilities	<u>373,044</u>	<u>-</u>	<u>373,044</u>
Total liabilities	<u>589,086</u>	<u>1,026</u>	<u>590,112</u>

continued

CITY OF ST. LOUIS

WATER AND SEWER FUND

STATEMENT OF NET ASSETS, CONTINUED

June 30, 2012

	<i><u>Water and Sewer Fund</u></i>	<i><u>Water Supply Replacement Fund</u></i>	<i><u>Total Water and Sewer Fund</u></i>
Net assets:			
Invested in capital assets, net of related debt	8,003,857	11,304	8,015,161
Restricted for:			
Debt service	166,852	-	166,852
Replacement/improvements	1,011,157	-	1,011,157
Water supply replacement	-	10,570,532	10,570,532
Unrestricted	<u>1,272,543</u>	<u>1,203,373</u>	<u>2,475,916</u>
Total net assets	<u>\$ 10,454,409</u>	<u>\$11,785,209</u>	<u>\$ 22,239,618</u>

CITY OF ST. LOUIS

WATER AND SEWER FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS Year Ended June 30, 2012

	<i>Water and Sewer Fund</i>	<i>Water Supply Replacement Fund</i>	<i>Total Water and Sewer Fund</i>
Operating revenues:			
Charges for services	\$ 2,161,028	\$ -	\$ 2,161,028
Penalties	17,467	-	17,467
Other	25,019	-	25,019
Total operating revenues	<u>2,203,514</u>	<u>-</u>	<u>2,203,514</u>
Operating expenses:			
Personnel	726,315	-	726,315
Administrative expense	98,482	-	98,482
Other services and supplies	597,923	-	597,923
Depreciation	434,390	-	434,390
Total operating expenses	<u>1,857,110</u>	<u>-</u>	<u>1,857,110</u>
Operating income (loss)	<u>346,404</u>	<u>-</u>	<u>346,404</u>
Non-operating revenues (expenses):			
Interest income	7,920	8,538	16,458
Rental income	23,940	-	23,940
Other income	5,356	-	5,356
Interest expense	(25,774)	-	(25,774)
Net non-operating	<u>11,442</u>	<u>8,538</u>	<u>19,980</u>
Change in net assets before other	357,846	8,538	366,384
Capital contributions-state grant	122,983	-	122,983
Transfer to other funds	(84,383)	-	(84,383)
Change in net assets	396,446	8,538	404,984
Net assets, beginning of year	<u>10,057,963</u>	<u>11,776,671</u>	<u>21,834,634</u>
Net assets, end of year	<u>\$ 10,454,409</u>	<u>\$ 11,785,209</u>	<u>\$ 22,239,618</u>

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2012

1996 BUILDING AUTHORITY BONDS (GENERAL OBLIGATION LIMITED TAX)

Issue in the amount of	\$ 425,000
Less: Principal paid in prior years	(260,000)
Principal paid in current year	<u>(25,000)</u>
Balance payable at June 30, 2012	<u>\$ 140,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due October 1</i>	<i>Principal due April 1</i>	<i>Interest due April 1</i>	<i>Total Annual Requirement</i>
2013	5.60%	\$ 3,960	\$ 30,000	\$ 3,960	\$ 37,920
2014	5.60%	3,120	30,000	3,120	36,240
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>\$ 10,500</u>	<u>\$ 140,000</u>	<u>\$ 10,500</u>	<u>\$ 161,000</u>

2002 GENERAL OBLIGATION LIMITED TAX BONDS

Issue in the amount of	\$ 500,000
Less: Principal paid in prior years	(210,000)
Principal paid in current year	<u>(35,000)</u>
Balance payable at June 30, 2012	<u>\$ 255,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Principal due October 1</i>	<i>Interest due October 1</i>	<i>Interest due April 1</i>	<i>Total Annual Requirement</i>
2013	4.50%	\$ 35,000	\$ 6,064	\$ 5,276	\$ 46,340
2014	4.65%	40,000	5,276	4,346	49,622
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>\$ 255,000</u>	<u>\$ 22,623</u>	<u>\$ 16,559</u>	<u>\$ 294,182</u>

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2012

2012 CAPITAL LEASE - COPIER

Issue in the amount of	\$ 17,537
Less: Principal paid in prior years	-
Principal paid in current year	<u>(1,457)</u>
Balance payable at June 30, 2012	<u>\$ 16,080</u>

Balance payable as follows:

<i>Fiscal</i> <u>Year Ended</u>	<i>Interest</i> <u>Rate</u>	<i>Principal due</i>	<i>Interest due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2013	13.9529%	\$ 4,799	\$ 1,945	\$ 6,744
2014	13.9529%	5,512	1,232	6,744
2015	13.9529%	<u>5,769</u>	<u>413</u>	<u>6,182</u>
		<u>\$ 16,080</u>	<u>\$ 3,590</u>	<u>\$ 19,670</u>

CITY OF ST. LOUIS

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2012

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS, SERIES 1997

Issue in the amount of	\$ 995,000
Less: Principal paid in prior years	(520,000)
Principal paid in current year	<u>(55,000)</u>
Balance payable at June 30, 2012	<u>\$ 420,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Principal due October 1</i>	<i>Interest due October 1</i>	<i>Interest due April 1</i>	<i>Total Annual Requirement</i>
2013	5.400%	\$ 60,000	\$ 11,295	\$ 9,705	\$ 81,000
2014	5.400%	60,000	9,705	8,100	77,805
2015	5.400%	65,000	8,100	6,345	79,445
2016	5.400%	75,000	6,345	4,320	85,665
2017	5.400%	80,000	4,320	2,160	86,480
2018	5.400%	<u>80,000</u>	<u>2,160</u>	<u>-</u>	<u>82,160</u>
		<u>\$ 420,000</u>	<u>\$ 41,925</u>	<u>\$ 30,630</u>	<u>\$ 492,555</u>

2001 ELECTRIC REVENUE BONDS

Issue in the amount of	\$ 995,000
Less: Principal paid in prior years	(465,000)
Principal paid in current year	<u>(145,000)</u>
Balance payable at June 30, 2012	<u>\$ 385,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Principal due July 1</i>	<i>Interest due July 1</i>	<i>Interest due January 1</i>	<i>Total Annual Requirement</i>
2013	4.550%	\$ -	\$ -	\$ 9,368	\$ 9,368
2014	4.650%	75,000	9,368	7,624	91,992
2015	4.750%	75,000	7,624	5,843	88,467
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>\$ 385,000</u>	<u>\$ 29,027</u>	<u>\$ 29,027</u>	<u>\$ 443,054</u>



**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 the financial statements of the City of St. Louis as of and for the year ended June 30, 2012, and have issued our report thereon dated October 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

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

Compliance and Other Matters

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

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

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

Berthaume & Co.

Saginaw, Michigan
October 3, 2012





**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, 2012, and we have issued our report thereon dated October 3, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, 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 22, 2011. 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. As described in Note 11, page 42 of the financial statements, the City changed its Reporting Entity policy so that the St. Louis Housing Commission is no longer reported as a *discretely presented* component unit of the City. 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 significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level 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 October 3, 2012.

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, 2012, 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 & Co.

Berthiaume & Company
Certified Public Accountants

Saginaw, Michigan
October 3, 2012

