

CITY OF ST. LOUIS

Gratiot County, Michigan

FINANCIAL STATEMENTS

June 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of St. Louis as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 9), schedule of pension plan funding progress (page 42), and budgetary comparison information (page 43), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013 on our consideration of the City of Louis' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of St. Louis' internal control over financial reporting and compliance.

Berthiaume & Co.

Saginaw, Michigan
September 25, 2013

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, 2013. 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 \$40,387,226 (net position). Of this amount, \$5,341,374 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and others.

During the year, the City's total net position increased by \$357,650. Governmental activities increased \$1,147,900, while business-type activities decreased \$790,250.

At the end of the current year, the City's governmental funds reported combined ending fund balances of \$3,033,538, an increase of \$1,391,741 in comparison with prior year. Of the total governmental fund balance, seven (7) percent or \$220,787 is nonspendable, 22 percent of this total or \$657,523 is restricted for various purposes, and 47 percent or \$1,414,216 is assigned for various purposes. The remaining 24 percent or \$741,012 is unassigned.

The \$741,012 of unassigned fund balance is in the General Fund. The unassigned balance is 31 percent of the General Fund's annual expenditures. Total fund balance of the General Fund was \$1,302,142 or 55% 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 position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent year. All changes in net position 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 11 and 12 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 nine (9) 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, which is considered to be a major fund. Data from the other eight (8) 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, the City's only major governmental fund, to demonstrate compliance with that budget.

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.

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 17 through 21 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.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For all activities of the City, assets exceeded liabilities by \$40,387,226 at the close of the most recent year. Most of this amount (53 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 position (34 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net position (13 percent) may be used to meet the government's ongoing obligations to citizens and others.

City of St. Louis' Net Position

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets:						
Current and other assets	\$ 3,577,647	\$ 1,965,311	\$ 16,147,734	\$ 17,747,501	\$ 19,725,381	\$ 19,712,812
Capital assets	<u>7,174,599</u>	<u>7,631,318</u>	<u>15,193,454</u>	<u>14,492,839</u>	<u>22,368,053</u>	<u>22,124,157</u>
Total assets	<u>10,752,246</u>	<u>9,596,629</u>	<u>31,341,188</u>	<u>32,240,340</u>	<u>42,093,434</u>	<u>41,836,969</u>
Liabilities:						
Other liabilities	174,164	93,481	283,620	329,644	457,784	423,125
Long-term liabilities	<u>397,977</u>	<u>470,943</u>	<u>850,447</u>	<u>913,325</u>	<u>1,248,424</u>	<u>1,384,268</u>
Total liabilities	<u>572,141</u>	<u>564,424</u>	<u>1,134,067</u>	<u>1,242,969</u>	<u>1,706,208</u>	<u>1,807,393</u>
Net position:						
Net investment in capital assets	6,833,317	7,220,238	14,451,117	13,687,839	21,284,434	20,908,077
Restricted	857,202	626,782	12,904,216	13,186,772	13,761,418	13,813,554
Unrestricted	<u>2,489,586</u>	<u>1,185,185</u>	<u>2,851,788</u>	<u>4,122,760</u>	<u>5,341,374</u>	<u>5,307,945</u>
Total net position	<u>\$ 10,180,105</u>	<u>\$ 9,032,205</u>	<u>\$ 30,207,121</u>	<u>\$ 30,997,371</u>	<u>\$ 40,387,226</u>	<u>\$ 40,029,576</u>

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of St. Louis' Changes in Net Position

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues						
Charges for services	\$ 559,702	\$ 531,479	\$ 6,902,798	\$ 6,751,878	\$ 7,462,500	\$ 7,283,357
Operating grants	476,919	494,536	-	-	476,919	494,536
Capital grants	-	-	675,032	122,983	675,032	122,983
General revenues						
Property taxes	710,882	734,120	-	-	710,882	734,120
Franchise fees	25,885	17,482	-	-	25,885	17,482
State revenue sharing	471,372	459,571	-	-	471,372	459,571
Investment earnings	11,393	10,300	17,231	30,819	28,624	41,119
Other	25,754	11,388	-	-	25,754	11,388
Total revenues	<u>2,281,907</u>	<u>2,258,876</u>	<u>7,595,061</u>	<u>6,905,680</u>	<u>9,876,968</u>	<u>9,164,556</u>
Expenses:						
General government	321,936	445,622	-	-	321,936	445,622
Public safety	800,579	751,543	-	-	800,579	751,543
Public works	1,204,736	1,234,183	-	-	1,204,736	1,234,183
Community and economic development	102,779	85,786	-	-	102,779	85,786
Recreation and culture	279,195	284,694	-	-	279,195	284,694
Interest on long-term debt	21,151	23,073	-	-	21,151	23,073
Electric	-	-	4,567,173	4,260,278	4,567,173	4,260,278
Water and Sewer	-	-	1,897,433	1,886,760	1,897,433	1,886,760
Solid Waste	-	-	334,765	349,797	334,765	349,797
Total expenses	<u>2,730,376</u>	<u>2,824,901</u>	<u>6,799,371</u>	<u>6,496,835</u>	<u>9,529,747</u>	<u>9,321,736</u>
Excess of revenues over expenses before other	<u>(448,469)</u>	<u>(566,025)</u>	<u>795,690</u>	<u>408,845</u>	<u>347,221</u>	<u>(157,180)</u>
Other items:						
Contributions to principal	3,025	1,825	-	-	3,025	1,825
Sale of capital assets	7,404	8,901	-	4,063	7,404	12,964
Interfund transfers	1,585,940	196,728	(1,585,940)	(196,728)	-	-
Total other items	<u>1,596,369</u>	<u>207,454</u>	<u>(1,585,940)</u>	<u>(192,665)</u>	<u>10,429</u>	<u>14,789</u>
Changes in net position	1,147,900	(358,571)	(790,250)	216,180	357,650	(142,391)
Net position, beginning 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>
Net position, end of year	<u>\$10,180,105</u>	<u>\$ 9,032,205</u>	<u>\$30,207,121</u>	<u>\$30,997,371</u>	<u>\$40,387,226</u>	<u>\$40,029,576</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 fund is the General 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 \$516,783 in fiscal year 2013.

The Electric Fund covers the operations of the electricity utility system. Net position of the Electric Fund decreased \$580,624 in fiscal year 2013.

The Water and Sewer Fund covers the operations of the water system and sewage disposal/treatment system. Net position of the Water and Sewer Fund decreased \$188,569 in fiscal year 2013.

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 exceeded the final budget by \$52,863 and actual expenditures were less than the final budget by \$103,832.

A General Fund budgetary comparison schedule is presented on page 43.

Capital Assets and Debt Administration

Capital Assets – The City's investment in capital assets for governmental and business-type activities as of June 30, 2013 amounts to \$22,368,053 (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 \$495,420 for machinery and equipment, sidewalks, and street infrastructure. Business-type activities included additions of \$1,668,925 in land and system infrastructure improvements.

Additional information on the City's capital assets can be found in Note 5 on pages 33 and 34.

Debt – At the end of the current year, the City had total long-term debt outstanding, excluding compensated absences, of \$1,086,282 (not including deferred charges of \$2,663). Of this amount, \$341,282 comprises debt backed by the full faith and credit of the government (general obligation bonds and capital lease). The remaining of the City's debt of \$745,000 is backed solely by specified revenue sources (revenue bonds).

It is the City's intent to pay off the \$360,000 owed on the Sewer/Water Debt by depositing funds into an Escrow Fund to defease the outstanding issue. Potential new debt will be issued in fiscal year 2013-2014 for a sewer project of \$6,500,000 and City Hall construction of \$1,600,000.

Additional information can be found in Note 6 on pages 35 and 36.

CITY OF ST. LOUIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors

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

During fiscal year 2010-2011, litigation was settled against Velsicol Chemical Company, the Velsicol Trust Funds et al (responsible parties for the contamination) in the amount of \$26,500,000. As part of the Settlement Agreement, the City has received payment of \$20,500,000. The remaining \$6,000,000 of the Settlement Agreement is being held in a Successor Liquidation Trust (SLT) that will be reimbursed to the City for replacement of the City water supply. This reimbursement is contingent upon numerous factors that are detailed in the Settlement Agreement. As of June 30, 2013, the City requested reimbursement from the SLT in the amount of \$670,734 and was subsequently reimbursed. The City of St. Louis and the City of Alma jointly formed the Gratiot Area Water Authority to fund improvements to the water supply and treatment system for both of the Cities.

Gratiot County (which includes the City of St. Louis and the surrounding incorporated and unincorporated area), has a labor force of 18,800 as of July 2013, which is up from July 2012 by 150. The unemployment rate in the County for July 2013 is 11.6% which is up minimally from the July 2012 rate of 11.2%. Statewide, the seasonally unadjusted unemployment rate in July 2013 was 9.7%. The most recent University of Michigan Research Seminar in Quantitative Economics Report for Michigan finds that "We are forecasting continued solid job growth over the next two years, but backing off from the pace during 2013. With a strong summer quarter, we see job growth coming in at an annual rate of 2.3 percent for the second half of 2013. Growth then settles back to a more sustainable rate, averaging 1.4 to 1.5 percent during 2014 and 2015, with a little more strength in the latter year...The six-year recovery period through 2015 would return the job count in Michigan to its level in early 2008, prior to the Great Recession."

As the State's economy continues to improve from the recent recession, the State's decline in support to local government, though not to pre-recession levels, has over the current fiscal year seen some improvement. The City's central business district suffered somewhat during the recent economic downturn; however, we are seeing improvement in the local business climate. During the current fiscal year, a new pharmacy, car wash, sports apparel and physical fitness business, health care business, Chinese restaurant among others have opened. Efforts continue to recruit new business to any vacant store front so as to provide residents and visitors a variety of stores, specialty shops, and commercial businesses. The City expects to be able to maintain a healthy downtown with a minimal number of vacant storefronts. Though there were no new residential construction starts over the past year we are seeing the number of vacant homes decline and an increased number of improvements to the existing housing stock.

During the current fiscal year ended June 30, 2013, the unassigned fund balance in the general fund is \$741,012. 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 2013-14 fiscal year.

Contacting the City's Financial Management

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

BASIC FINANCIAL STATEMENTS

CITY OF ST. LOUIS

STATEMENT OF NET POSITION

June 30, 2013

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 2,843,179	\$ 1,589,276	\$ 4,432,455	\$ 40,998
Investments	191,404	365,772	557,176	-
Receivables	200,060	1,548,814	1,748,874	-
Internal balances	(126,237)	126,237	-	-
Inventory	21,790	258,715	280,505	-
Prepaid expenses	30,973	18,426	49,399	-
Restricted cash and cash equivalents	-	11,032,880	11,032,880	-
Restricted investments	-	1,007,614	1,007,614	-
Investment in Water Authority	-	200,000	200,000	-
Other asset - net pension asset	416,478	-	416,478	-
Capital assets:				
Nondepreciable capital assets	2,486,006	2,577,936	5,063,942	-
Depreciable capital assets, net	<u>4,688,593</u>	<u>12,615,518</u>	<u>17,304,111</u>	<u>133,325</u>
Total assets	<u>10,752,246</u>	<u>31,341,188</u>	<u>42,093,434</u>	<u>174,323</u>
Liabilities:				
Accounts payable and accrued expenses	174,164	283,620	457,784	60,900
Long-term liabilities:				
Due within one year	127,205	505,149	632,354	-
Due in more than one year	<u>270,772</u>	<u>345,298</u>	<u>616,070</u>	<u>-</u>
Total liabilities	<u>572,141</u>	<u>1,134,067</u>	<u>1,706,208</u>	<u>60,900</u>
Net position:				
Net investment in capital assets	6,833,317	14,451,117	21,284,434	133,325
Restricted for:				
Debt service	11,436	447,309	458,745	-
Equipment replacement/improvements	-	12,456,907	12,456,907	-
Library operations	75,650	-	75,650	-
Nonexpendable cemetery principal	169,702	-	169,702	-
Park improvements	43,500	-	43,500	-
Pool house improvements	29,977	-	29,977	-
Streets	526,937	-	526,937	-
Unrestricted (deficit)	<u>2,489,586</u>	<u>2,851,788</u>	<u>5,341,374</u>	<u>(19,902)</u>
Total net position	<u>\$ 10,180,105</u>	<u>\$ 30,207,121</u>	<u>\$ 40,387,226</u>	<u>\$ 113,423</u>

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

CITY OF ST. LOUIS

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

	<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>	
Functions/Programs					
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 321,936	\$ 353,896	\$ -	\$ -	\$ 31,960
Public safety	800,579	19,374	25,748	-	(755,457)
Public works	1,204,736	23,892	419,183	-	(761,661)
Community and economic development	102,779	-	16,740	-	(86,039)
Recreation and culture	279,195	162,540	15,248	-	(101,407)
Interest on long-term debt	21,151	-	-	-	(21,151)
Total governmental activities	<u>2,730,376</u>	<u>559,702</u>	<u>476,919</u>	<u>-</u>	<u>(1,693,755)</u>
<i>Business-type activities:</i>					
Electric	4,567,173	4,308,595	-	-	(258,578)
Water and Sewer	1,897,433	2,268,999	-	675,032	1,046,598
Solid Waste	334,765	325,204	-	-	(9,561)
Total business-type activities	<u>6,799,371</u>	<u>6,902,798</u>	<u>-</u>	<u>675,032</u>	<u>778,459</u>
Total primary government	<u>\$ 9,529,747</u>	<u>\$ 7,462,500</u>	<u>\$ 476,919</u>	<u>\$ 675,032</u>	<u>\$ (915,296)</u>
COMPONENT UNIT:					
Downtown Development Authority	<u>\$ 35,332</u>	<u>\$ 5,670</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29,662)</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 position:</i>				
Net (Expense) Revenue	\$ (1,693,755)	\$ 778,459	\$ (915,296)	\$ (29,662)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	704,769	-	704,769	-
Property taxes, captured by component unit	-	-	-	32,430
Payment in lieu of taxes	6,113	-	6,113	-
Franchise fees	25,885	-	25,885	-
Grants and contributions not restricted to specific programs	471,372	-	471,372	-
Unrestricted investment earnings	11,393	17,231	28,624	58
Other	25,754	-	25,754	-
Contributions to principal of permanent funds	3,025	-	3,025	-
Special items:				
Gain (loss) on sale of capital asset	7,404	-	7,404	-
Transfers	<u>1,585,940</u>	<u>(1,585,940)</u>	<u>-</u>	<u>-</u>
Total general revenues and other	<u>2,841,655</u>	<u>(1,568,709)</u>	<u>1,272,946</u>	<u>32,488</u>
Change in net position	1,147,900	(790,250)	357,650	2,826
Net position, beginning of year	<u>9,032,205</u>	<u>30,997,371</u>	<u>40,029,576</u>	<u>110,597</u>
Net position, end of year	<u>\$ 10,180,105</u>	<u>\$ 30,207,121</u>	<u>\$ 40,387,226</u>	<u>\$ 113,423</u>

CITY OF ST. LOUIS

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2013

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total</i>
Assets:			
Cash and cash equivalents	\$ 1,064,134	\$ 1,689,748	\$ 2,753,882
Investments	191,404	-	191,404
Taxes receivable	9,269	613	9,882
Accounts receivable	21,444	285	21,729
Notes receivable	10,691	-	10,691
Accrued interest receivable	-	2,037	2,037
Due from other governmental units	81,025	72,145	153,170
Inventory	11,489	-	11,489
Prepaid expenditures	27,951	1,023	28,974
Total assets	<u>\$ 1,417,407</u>	<u>\$ 1,765,851</u>	<u>\$ 3,183,258</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 44,843	\$ 29,897	\$ 74,740
Accrued expenses	67,310	4,558	71,868
Due to other governmental units	3,112	-	3,112
Total liabilities	<u>115,265</u>	<u>34,455</u>	<u>149,720</u>
Fund balances:			
Nonspendable:			
Inventory	11,489	-	11,489
Prepaid expenditures	27,951	1,023	28,974
Long-term receivables	13,647	-	13,647
Nonexpendable cemetery principal	-	169,702	169,702
Restricted for:			
Debt service	-	11,436	11,436
Library operations	-	75,650	75,650
Park improvements	43,500	-	43,500
Streets	-	526,937	526,937
Assigned to:			
Capital improvements	300,000	302,849	602,849
Cemetery improvements	16,566	-	16,566
Cemetery operations	-	30,622	30,622
City Hall project	-	613,177	613,177
Health insurance deductible funding	18,000	-	18,000
Pool house improvements	29,977	-	29,977
Unfunded pension liability	100,000	-	100,000
Unassigned	741,012	-	741,012
Total fund balances	<u>1,302,142</u>	<u>1,731,396</u>	<u>3,033,538</u>
Total liabilities and fund balances	<u>\$ 1,417,407</u>	<u>\$ 1,765,851</u>	<u>\$ 3,183,258</u>

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

CITY OF ST. LOUIS

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

June 30, 2013

Total fund balances for governmental funds			\$ 3,033,538
Total net position reported for governmental activities in the statement of of net position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	31,513,917		
Less accumulated depreciation	<u>(24,543,226)</u>	6,970,691	
The net pension asset used in governmental activities is not a financial resource, and therefore not reported in the funds.			416,478
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.			(4,198)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:			
Bonds payable	(330,000)		
Capital lease payable	(11,282)		
Compensated absences payable	<u>(54,423)</u>	(395,705)	
The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.			<u>159,301</u>
Net position of governmental activities			<u><u>\$10,180,105</u></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, 2013

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total</i>
Revenues:			
Property taxes	\$ 663,796	\$ 47,086	\$ 710,882
Licenses and permits	15,264	-	15,264
Federal grants	7,112	-	7,112
State grants	484,583	424,232	908,815
Contributions from other units	-	17,740	17,740
Charges for services	409,836	5,791	415,627
Fines and forfeits	4,110	96,611	100,721
Interest and rents	8,265	3,009	11,274
Other revenue	<u>90,032</u>	<u>16,282</u>	<u>106,314</u>
Total revenues	<u>1,682,998</u>	<u>610,751</u>	<u>2,293,749</u>
Expenditures:			
Current			
General government	431,919	140,627	572,546
Public safety	789,654	-	789,654
Public works	132,163	300,940	433,103
Community and economic development	101,514	-	101,514
Recreation and culture	120,567	124,184	244,751
Capital outlay	30,180	224,438	254,618
Debt service			
Principal	4,798	65,000	69,798
Interest and fees	<u>1,945</u>	<u>20,019</u>	<u>21,964</u>
Total expenditures	<u>1,612,740</u>	<u>875,208</u>	<u>2,487,948</u>
Excess (deficiency) of revenues over expenditures	<u>70,258</u>	<u>(264,457)</u>	<u>(194,199)</u>
Other financing sources (uses):			
Transfer from other funds	1,196,525	1,272,315	2,468,840
Transfers to other funds	<u>(750,000)</u>	<u>(132,900)</u>	<u>(882,900)</u>
Net other financing sources (uses)	<u>446,525</u>	<u>1,139,415</u>	<u>1,585,940</u>
Changes in fund balances	516,783	874,958	1,391,741
Fund balances, beginning of year	<u>785,359</u>	<u>856,438</u>	<u>1,641,797</u>
Fund balances, end of year	<u>\$ 1,302,142</u>	<u>\$ 1,731,396</u>	<u>\$ 3,033,538</u>

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

CITY OF ST. LOUIS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Changes in fund balances - total governmental funds			\$ 1,391,741
Total change in net position reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.			
Capital outlay	425,464		
Less depreciation expense	<u>(902,991)</u>	(477,527)	
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.			69,798
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	1,632		
Change in accrued interest on bonds	813		
Change in net pension asset	<u>162,561</u>	165,006	
The net revenue (expense) of the internal service fund is reported with governmental activities.			<u>(1,118)</u>
Change in net position of governmental activities			<u>\$ 1,147,900</u>

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

June 30, 2013

	<i>Business-type Activities</i>			<i>Total</i>	<i>Governmental</i>
					<i>Activities</i>
	<i>Electric</i>	<i>Water and</i>	<i>Nonmajor</i>		<i>Internal</i>
<i>Fund</i>	<i>Sewer</i>	<i>Waste</i>		<i>Service</i>	
	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>		<i>Fund</i>
Assets:					
Current assets:					
Cash and cash equivalents	\$ 293,225	\$ 1,204,135	\$ 91,916	\$ 1,589,276	\$ 89,297
Investments	275,296	90,476	-	365,772	-
Accounts receivable	522,762	261,355	35,395	819,512	2,551
Accrued interest receivable	-	721	-	721	-
Due from other governmental units	57,847	670,734	-	728,581	-
Inventory	200,949	57,766	-	258,715	10,301
Prepaid expenses	8,625	8,801	1,000	18,426	1,999
Total current assets	<u>1,358,704</u>	<u>2,293,988</u>	<u>128,311</u>	<u>3,781,003</u>	<u>104,148</u>
Noncurrent assets:					
Restricted cash and cash equivalents	1,550,372	9,482,508	-	11,032,880	-
Restricted investments	-	1,007,614	-	1,007,614	-
Investment in Water Authority	-	200,000	-	200,000	-
Capital assets:					
Nondepreciable capital assets	337,031	2,240,905	-	2,577,936	-
Depreciable capital assets, net	<u>5,305,699</u>	<u>7,309,819</u>	<u>-</u>	<u>12,615,518</u>	<u>203,908</u>
Total noncurrent assets	<u>7,193,102</u>	<u>20,240,846</u>	<u>-</u>	<u>27,433,948</u>	<u>203,908</u>
Total assets	<u>8,551,806</u>	<u>22,534,834</u>	<u>128,311</u>	<u>31,214,951</u>	<u>308,056</u>
Liabilities:					
Current liabilities:					
Accounts payable	129,657	37,452	27,480	194,589	19,897
Accrued expenses	10,455	11,025	1,057	22,537	349
Deposits payable	35,890	16,383	-	52,273	-
Accrued interest payable	9,368	4,853	-	14,221	-
Current compensated absences	32,980	39,832	-	72,812	2,241
Current portion of long-term debt	<u>75,000</u>	<u>357,337</u>	<u>-</u>	<u>432,337</u>	<u>-</u>
Total current liabilities	<u>293,350</u>	<u>466,882</u>	<u>28,537</u>	<u>788,769</u>	<u>22,487</u>

continued

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION, CONTINUED

June 30, 2013

	<i>Business-type Activities</i>			<i>Total</i>	<i>Governmental</i>
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor</i>		<i>Activities</i>
			<i>Solid Waste Fund</i>		<i>Internal Service Fund</i>
Noncurrent liabilities:					
Compensated absences payable	18,395	16,903	-	35,298	31
Long-term debt	<u>310,000</u>	-	-	<u>310,000</u>	-
Total noncurrent liabilities	<u>328,395</u>	<u>16,903</u>	<u>-</u>	<u>345,298</u>	<u>31</u>
Total liabilities	<u>621,745</u>	<u>483,785</u>	<u>28,537</u>	<u>1,134,067</u>	<u>22,518</u>
Net position:					
Net investment in capital assets	5,257,730	9,193,387	-	14,451,117	203,908
Restricted for:					
Debt service	275,296	172,013	-	447,309	-
Replacement/improvements	1,275,076	1,223,639	-	2,498,715	-
Water supply replacement	-	9,958,192	-	9,958,192	-
Unrestricted	<u>1,121,959</u>	<u>1,503,818</u>	<u>99,774</u>	<u>2,725,551</u>	<u>81,630</u>
Total net position	<u>\$ 7,930,061</u>	<u>\$ 22,051,049</u>	<u>\$ 99,774</u>	<u>\$ 30,080,884</u>	<u>\$ 285,538</u>
Adjustment to reflect the consolidation of internal service fund				<u>126,237</u>	
Net position of business-type activities				<u>\$ 30,207,121</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 FUND NET POSITION Year Ended June 30, 2013

	<i>Business-type Activities</i>			<i>Total</i>	<i>Governmental</i>
					<i>Activities</i>
	<i>Electric Fund</i>	<i>Water and Sewer Fund</i>	<i>Nonmajor Solid Waste Fund</i>		<i>Internal Service Fund</i>
Operating revenues:					
Charges for services	\$ 4,243,006	\$ 2,183,370	\$ 321,216	\$ 6,747,592	\$ -
Penalties	52,572	14,979	3,988	71,539	-
Equipment rental	-	-	-	-	262,594
Other	13,017	14,016	-	27,033	2,265
Total operating revenues	<u>4,308,595</u>	<u>2,212,365</u>	<u>325,204</u>	<u>6,846,164</u>	<u>264,859</u>
Operating expenses:					
Personnel	747,005	749,525	93,971	1,590,501	72,759
Administrative expense	210,000	100,002	15,000	325,002	-
Purchased energy	2,723,151	-	-	2,723,151	-
Other services and charges	557,871	589,500	222,078	1,369,449	172,532
Depreciation	309,236	434,636	-	743,872	35,818
Total operating expenses	<u>4,547,263</u>	<u>1,873,663</u>	<u>331,049</u>	<u>6,751,975</u>	<u>281,109</u>
Operating income (loss)	<u>(238,668)</u>	<u>338,702</u>	<u>(5,845)</u>	<u>94,189</u>	<u>(16,250)</u>
Non-operating revenues (expenses):					
Interest income	6,145	10,954	132	17,231	119
Rental income	-	42,237	-	42,237	-
Gain on disposal of capital assets	-	-	-	-	7,404
Other income	-	14,397	-	14,397	-
Interest expense	<u>(18,735)</u>	<u>(21,052)</u>	<u>-</u>	<u>(39,787)</u>	<u>-</u>
Net non-operating	<u>(12,590)</u>	<u>46,536</u>	<u>132</u>	<u>34,078</u>	<u>7,523</u>
Change in net position before other	(251,258)	385,238	(5,713)	128,267	(8,727)
Settlement from lawsuit (from Trust)	-	670,734	-	670,734	-
Capital contributions-state grant	-	4,298	-	4,298	-
Transfer to General Fund	(224,438)	(1,196,525)	-	(1,420,963)	-
Transfer from (to) other funds	<u>(104,928)</u>	<u>(52,314)</u>	<u>(7,735)</u>	<u>(164,977)</u>	<u>-</u>
Change in net position	(580,624)	(188,569)	(13,448)	(782,641)	(8,727)
Net position, beginning of year	<u>8,510,685</u>	<u>22,239,618</u>	<u>113,222</u>		<u>294,265</u>
Net position, end of year	<u>\$ 7,930,061</u>	<u>\$ 22,051,049</u>	<u>\$ 99,774</u>		<u>\$ 285,538</u>
Adjustment to reflect the consolidation of internal service fund				(7,609)	
Change in net position of business-type activities				<u>\$ (790,250)</u>	

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

CITY OF ST. LOUIS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013

	<i>Business-type Activities</i>			<i>Total</i>	<i>Governmental</i>
					<i>Activities</i>
	<i>Electric</i>	<i>Water and</i>	<i>Nonmajor</i>		<i>Internal</i>
<i>Fund</i>	<i>Sewer</i>	<i>Solid</i>		<i>Service</i>	
	<i>Fund</i>	<i>Waste</i>	<i>Fund</i>		<i>Fund</i>
Cash flows from operating activities:					
Cash received from customers	\$ 4,365,311	\$ 1,679,478	\$ 325,589	\$ 6,370,378	\$ -
Cash received for interfund services	(1,409)	(3,423)	(5,397)	(10,229)	292,209
Cash payments to employees	(397,015)	(455,929)	(55,578)	(908,522)	(45,444)
Cash payments to suppliers for goods and services	<u>(3,873,967)</u>	<u>(1,025,983)</u>	<u>(261,728)</u>	<u>(5,161,678)</u>	<u>(186,406)</u>
Net cash provided (used) by operating activities	<u>92,920</u>	<u>194,143</u>	<u>2,886</u>	<u>289,949</u>	<u>60,359</u>
Cash flows from non-capital financing activities:					
Transfers from (to) other funds	<u>(104,928)</u>	<u>(1,248,839)</u>	<u>(7,735)</u>	<u>(1,361,502)</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	<u>(104,928)</u>	<u>(1,248,839)</u>	<u>(7,735)</u>	<u>(1,361,502)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
State grant	-	4,298	-	4,298	-
Investment in Water Authority	-	(200,000)	-	(200,000)	-
Other income	-	14,397	-	14,397	-
Acquisition of capital assets	(118,726)	(1,550,199)	-	(1,668,925)	(56,626)
Gain on disposal of capital assets	-	-	-	-	7,404
Principal payments	-	(60,000)	-	(60,000)	-
Interest paid	<u>(9,367)</u>	<u>(21,350)</u>	<u>-</u>	<u>(30,717)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(128,093)</u>	<u>(1,142,120)</u>	<u>-</u>	<u>(1,270,213)</u>	<u>(49,222)</u>
Cash flows from investing activities:					
Interest received	6,145	11,338	132	17,615	119
Rent received	<u>-</u>	<u>42,237</u>	<u>-</u>	<u>42,237</u>	<u>-</u>
Net cash provided by investing activities	<u>6,145</u>	<u>53,575</u>	<u>132</u>	<u>59,852</u>	<u>119</u>
Net increase (decrease) in cash and cash equivalents	(133,956)	(2,143,241)	(4,717)	(2,281,914)	11,256
Cash and cash equivalents, beginning 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>
Cash and cash equivalents, end of year	<u>\$ 2,118,893</u>	<u>\$ 11,784,733</u>	<u>\$ 91,916</u>	<u>\$ 13,995,542</u>	<u>\$ 89,297</u>

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, 2013

	<i>Business-type Activities</i>			<i>Total</i>	<i>Governmental</i>
					<i>Activities</i>
	<i>Electric</i>	<i>Water and</i>	<i>Nonmajor</i>		<i>Internal</i>
<i>Fund</i>	<i>Sewer</i>	<i>Solid</i>		<i>Service</i>	
	<i>Fund</i>	<i>Fund</i>	<i>Waste</i>		<i>Fund</i>
			<i>Fund</i>		
Reconciliation of operating income					
(loss) to net cash provided (used) by					
operating activities:					
Operating income (loss)	\$ (238,668)	\$ 338,702	\$ (5,845)	\$ 94,189	\$ (16,250)
Adjustments:					
Depreciation	309,236	434,636	-	743,872	35,818
Change in assets and liabilities:					
Accounts receivable	51,355	14,864	385	66,604	258
Due from other governmental units	5,361	(547,751)	-	(542,390)	-
Due from other funds	-	-	-	-	27,092
Inventory	(3,827)	(1,165)	-	(4,992)	2,235
Prepaid expenses	(747)	886	728	867	(843)
Accounts payable	(21,518)	(41,833)	12,750	(50,601)	14,368
Accrued expenses	(3,981)	(2,215)	265	(5,931)	(783)
Due to other funds	(1,409)	(3,423)	(5,397)	(10,229)	-
Deposits payable	1,263	672	-	1,935	-
Compensated absences	(4,145)	770	-	(3,375)	(1,536)
Net cash provided (used) by operating activities	<u>\$ 92,920</u>	<u>\$ 194,143</u>	<u>\$ 2,886</u>	<u>\$ 289,949</u>	<u>\$ 60,359</u>

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

CITY OF ST. LOUIS

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
June 30, 2013

	<u><i>Agency Funds</i></u>
Assets:	
Cash and cash equivalents	\$ 245,586
Accounts receivable	<u>6,552</u>
Total assets	<u>252,138</u>
Liabilities:	
Accrued liabilities	24,747
Due to other governmental units	<u>227,391</u>
Total liabilities	<u>252,138</u>
Net position:	
Unrestricted	<u>-</u>
Total net position	<u><u>\$ -</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, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Located in Gratiot County, Michigan, St. Louis (the “City”) was settled in 1853 along the banks of the Pine River, became a village in 1868, and was incorporated in 1891 as the City of St. Louis. Organized under Michigan’s Comprehensive Home Rule City Act, the City of St. Louis is governed by a single ward, four member elected City Council and the Mayor. The Mayor is elected by the City at large and the City Council selects the mayor Pro Tem. The City Manager is appointed by the Council to administer the business of the City. The City of St. Louis provides the following services to approximately 7,400 residents as authorized by its charter: public safety (police and fire), highways and streets, electric, water, sewer, sanitation, recreation, public improvements, zoning, planning and general administrative services.

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

Reporting Entity:

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

Blended Component Unit

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

Discretely presented component unit

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

Joint Ventures:

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, 2013, was \$84,846. 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

Joint Ventures, continued:

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.

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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

Joint Ventures, continued:

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, 2013, amounted to \$20,029. The Consortium operates on a calendar year and produces separate financial statements. Copies of the Mid-Michigan Area Cable Communications Consortium financial statements can be obtained by writing to Carey Hammel, Operations and Administrative Director, 312 West Michigan Street, Mt. Pleasant, MI 48860.

Gratiot Community Airport Authority – The 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. 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

The statement of net position and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. 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 position 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 position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. 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 position 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.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

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 fund:

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 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.

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

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.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

The investment policy adopted by the City Council is in accordance with Public Act 20 of 1943, as amended. The City's deposits and investments have been made in accordance with statutory authority.

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

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.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. 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 may be presented in five possible categories, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which amounts can be spent:

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

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

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

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

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

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.

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.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

Eliminations and Reclassifications:

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

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 2012 taxable valuation of the City totaled \$48,269,890 (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 did not incur expenditures in excess of the amounts budgeted.

State Construction Code Act:

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

Cumulative surplus at July 1, 2012	\$	-
Current year building permit revenue		15,264
Related expenses:		
Direct costs		(82,550)
Cumulative surplus at June 30, 2013	\$	-

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

NOTE 3: DEPOSITS AND INVESTMENTS

Following is a reconciliation of deposit and investment balances as of June 30, 2013:

Statement of Net Position

Cash and cash equivalents (included restricted):

Primary Government	\$ 15,465,335
Component Unit	40,998

Investments (including restricted):

Primary Government	1,564,790
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Statement of Fiduciary Net Position

Cash and cash equivalents:

Agency Funds	<u>245,586</u>
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Total	<u>\$ 17,316,709</u>
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Deposits and Investments

Bank Deposits:

Checking/Savings Accounts	15,382,137
Certificates of Deposits	367,624

Investments in Mutual Funds:

Pooled investments - Michigan CLASS	1,564,790
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Cash on Hand	<u>2,158</u>
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Total	<u>\$ 17,316,709</u>
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Interest Rate Risk – Investments – Public Act 196 of 1997 limits the allowable investments and the maturities of some of the allowable investments. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments – Public Act 196 of 1997 authorizes the City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States, in accounts of financial institutions, commercial paper with specific maximum maturities and ratings when purchased, repurchase agreements, bankers acceptances of United States banks, obligations of the State of Michigan or any of its political subdivisions, mutual funds composed of investment vehicles that are legal for direct investment by a public corporation and investments in Michigan government pools. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk and the City does not have a policy. The rating of Michigan Class is AAAM (Standard and Poor’s). The carrying amount (fair value) at year end in Michigan Class is \$1,564,790.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned. State law does not require and the City does not have a deposit policy for custodial credit risk. As of year end, \$15,473,917 of the City’s bank deposits of \$16,056,435 was exposed to custodial credit risk because it was uninsured and uncollateralized. The City’s investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The City analyzes the financial condition of the banks. The City only invests with those institutions with an acceptable estimated risk level for depositories and certificates of deposit.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

There are a number of limitations and restrictions contained in the various bond indentures, including requirements to maintain certain restricted assets. The City is in compliance with all significant provisions of the bond indentures. The City Charter also requires utility replacement reserves. Cash and investments have also been reserved related to a lawsuit settlement to be used for water system replacement costs. At June 30, 2013 the City had these accounts established and had restricted cash as follows:

	<i>Restricted Cash and Investments</i>
Electric Fund:	
Bond reserve	\$ 275,296
Replacement and Improvements	1,275,076
Water and Sewer Fund:	
Bond reserve	172,013
Replacement and Improvements	1,223,639
Water System Replacements	9,094,471
	<u>\$ 12,040,495</u>

The City has an additional \$863,721 restricted net position 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, 2013 was as follows:

	<i>July 1, 2012</i>	<i>Additions</i>	<i>Retirements</i>	<i>June 30, 2013</i>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 2,307,555	\$ 22,500	\$ -	\$ 2,330,055
Construction in progress	346,099	168,157	(358,305)	155,951
Total nondepreciable capital assets	<u>2,653,654</u>	<u>190,657</u>	<u>(358,305)</u>	<u>2,486,006</u>
Depreciable capital assets:				
Buildings and improvements	1,901,367	207,110	-	2,108,477
Equipment and vehicles	2,241,578	77,655	(71,809)	2,247,424
Infrastructure - storm sewer	2,701,677	-	-	2,701,677
Infrastructure - streets	21,888,341	358,305	-	22,246,646
Infrastructure - sidewalks	961,176	19,998	-	981,174
Total depreciable capital assets	29,694,139	663,068	(71,809)	30,285,398
Accumulated depreciation	(24,716,475)	(938,809)	58,479	(25,596,805)
Depreciable capital assets, net	<u>4,977,664</u>	<u>(275,741)</u>	<u>(13,330)</u>	<u>4,688,593</u>
Total capital assets, net	<u>\$ 7,631,318</u>	<u>\$ (85,084)</u>	<u>\$ (371,635)</u>	<u>\$ 7,174,599</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

NOTE 5: CAPITAL ASSETS, CONTINUED

	<u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 379,618	\$ 631,381	\$ (22,500)	\$ 988,499
Construction in progress	619,315	970,122	-	1,589,437
Total nondepreciable capital assets	<u>998,933</u>	<u>1,601,503</u>	<u>(22,500)</u>	<u>2,577,936</u>
Depreciable capital assets				
Buildings and improvements	1,275,232	-	(202,500)	1,072,732
Equipment	10,262,946	-	-	10,262,946
Infrastructure	20,793,835	67,422	-	20,861,257
Total depreciable capital assets	32,332,013	67,422	(202,500)	32,196,935
Accumulated depreciation	<u>(18,838,107)</u>	<u>(743,872)</u>	<u>562</u>	<u>(19,581,417)</u>
Depreciable capital assets, net	<u>13,493,906</u>	<u>(676,450)</u>	<u>(201,938)</u>	<u>12,615,518</u>
Total capital assets, net	<u>\$ 14,492,839</u>	<u>\$ 925,053</u>	<u>\$ (224,438)</u>	<u>\$ 15,193,454</u>
Component unit:				
Depreciable capital assets				
Building	\$ 150,934	\$ -	\$ -	\$ 150,934
Accumulated depreciation	<u>(12,578)</u>	<u>(5,031)</u>	<u>-</u>	<u>(17,609)</u>
Depreciable capital assets, net	<u>138,356</u>	<u>(5,031)</u>	<u>-</u>	<u>133,325</u>
Total capital assets, net	<u>\$ 138,356</u>	<u>\$ (5,031)</u>	<u>\$ -</u>	<u>\$ 133,325</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
General government	\$ 52,707	\$ -	\$ -
Public safety	14,106	-	-
Public works	807,191	-	-
Health and welfare	-	-	-
Community and economic development	-	-	5,031
Recreation and culture	28,987	-	-
Electric	-	309,236	-
Water and Sewer	-	434,636	-
Internal Service Fund	35,818	-	-
	<u>\$ 938,809</u>	<u>\$ 743,872</u>	<u>\$ 5,031</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

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, 2013 is summarized as follows:

	<u>July 1,</u> <u>2012</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>June 30,</u> <u>2013</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.	\$ 140,000	-	(30,000)	\$ 110,000	\$ 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.	255,000	-	(35,000)	220,000	40,000
Capital lease with Key Equipment, due in monthly installments of \$562 through May 2015.	16,080	-	(4,798)	11,282	5,512
Compensated absences	59,863	50,263	(53,431)	56,695	51,693
Total Governmental Activities	<u>\$ 470,943</u>	<u>\$ 50,263</u>	<u>\$ (123,229)</u>	<u>\$ 397,977</u>	<u>\$ 127,205</u>
Business-type Activities:					
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.	\$ 420,000	\$ -	\$ (60,000)	\$ 360,000	\$ 360,000
2001 Electric Revenue Bonds, principal due in annual installments of \$75,000 to \$85,000 through July 2017, interest from 4.55-5.10% due semi-annually.	385,000	-	-	385,000	75,000
Less: Deferred charges	(3,160)	-	497	(2,663)	(2,663)
Compensated absences	111,485	74,448	(77,823)	108,110	72,812
Total Business-type Activities	<u>\$ 913,325</u>	<u>\$ 74,448</u>	<u>\$ (137,326)</u>	<u>\$ 850,447</u>	<u>\$ 505,149</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

NOTE 6: LONG-TERM LIABILITIES, CONTINUED

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

<i>Year Ended</i> <i>June 30,</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
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>\$ 341,281</u>	<u>\$ 42,567</u>	<u>\$ 383,848</u>	<u>\$ 745,000</u>	<u>\$ 100,241</u>	<u>\$ 845,241</u>

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

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

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Receivables:				
Property taxes	\$ 9,882	\$ -	\$ 9,882	\$ -
Accounts	24,280	819,512	843,792	-
Special assessments	-	-	-	-
Notes	10,691	-	10,691	-
Accrued interest	2,037	721	2,758	-
Intergovernmental	<u>153,170</u>	<u>728,581</u>	<u>881,751</u>	<u>-</u>
Total receivables	<u>\$ 200,060</u>	<u>\$ 1,548,814</u>	<u>\$ 1,748,874</u>	<u>\$ -</u>
Accounts payable and accrued expenses:				
Accounts	\$ 94,637	\$ 194,589	\$ 289,226	\$ 3,053
Payroll liabilities	72,217	22,537	94,754	-
Deposits payable	-	52,273	52,273	-
Accrued interest	4,198	14,221	18,419	-
Intergovernmental	<u>3,112</u>	<u>-</u>	<u>3,112</u>	<u>57,847</u>
Total accounts payable and accrued expenses	<u>\$ 174,164</u>	<u>\$ 283,620</u>	<u>\$ 457,784</u>	<u>\$ 60,900</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

NOTE 8: INTERFUND BALANCES AND TRANSFERS

There were no interfund balances outstanding at June 30, 2013.

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

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund City Hall Project Fund	\$ 750,000
Nonmajor Governmental Funds Public Improvement Fund	Nonmajor Governmental Funds Local Street Fund 2002 General Obligation Limited Tax Fund	60,000 34,900
Nonmajor Governmental Funds T.A. Cutler Memorial Library Fund	Nonmajor Governmental Funds Building Authority Fund	38,000
Electric Fund	Nonmajor Governmental Fund Public Improvement Fund City Hall Project Fund	104,929 224,437
Water and Sewer Fund	General Fund Nonmajor Governmental Fund Public Improvement Fund	1,196,525 52,314
Solid Waste Fund	Nonmajor Governmental Fund Public Improvement Fund	7,735
		<u>\$ 2,468,840</u>

The \$750,000 transfer from the General Fund to the City Hall Project Fund was authorized by the City Council for future City Hall capital improvements. The \$1,196,525 transfer from the Water and Sewer Fund to the General Fund was authorized by City Council, which were unrestricted funds from the lawsuit settlement.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

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.

The defined benefit plan was closed to all new employees beginning July 1, 1999.

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

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, 2012.

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, 2013, the City's annual pension cost of \$226,500 for the Plan was less than the City's required contribution of \$229,954. However, the City's actual contribution was \$389,061, which resulted in an increase of \$162,561 in the net pension asset for the year. The annual required contribution was determined as part of the December 31, 2010 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 10 years.

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

Annual required contribution	\$ 229,954
Interest on net pension asset	(20,313)
Adjustment to annual required contribution	<u>16,859</u>
Annual pension cost	226,500
Contributions made	<u>(389,061)</u>
(Increase) decrease in net pension asset	(162,561)
Net pension (asset), beginning of year	<u>(253,917)</u>
Net pension (asset), end of year	<u>\$ (416,478)</u>

CITY OF ST. LOUIS

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2013

Three year trend information as of June 30, follows:

<i>Year Ended June 30</i>	<i>Annual Pension Cost</i>	<i>Actual Contributions</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Asset</i>
2011	\$ 188,624	\$ 252,207	134%	\$ 202,247
2012	219,109	270,779	124%	253,917
2013	226,500	389,061	172%	416,478

Funded Status – As of December 31, 2012, the most recent actuarial valuation date, the plan was 70 percent funded. The actuarial accrued liability for benefits was \$7,761,007, and the actuarial value of assets was \$5,401,671, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,359,336. The covered payroll (annual payroll of active employees covered by the plan) was \$470,555, and the ratio of the UAAL to the covered payroll was 501 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 \$85,252 for the year ended June 30, 2013. Employee contributions for the plan were \$31,969 for the year ended June 30, 2013. Plan provisions and contribution requirements are established and may be amended by the City Council.

NOTE 11: SUBSEQUENT EVENTS

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

Bond Issuance – On July 2, 2013, City passed a resolution which authorized the notice of intent to issue and sell bonds for the New City Hall Project in an amount not to exceed \$1,600,000.

Bond Issuance – On August 7, 2013, the City adopted an ordinance to provide for the acquisition, construction, furnishing and equipping of improvements to the water supply and sewage disposal system of the City and to provide for the issuance and sale of revenue bonds in an amount not to exceed \$6,500,000.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ST. LOUIS

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended June 30, 2013

<i>Actuarial Valuation Date</i>	<i>12/31/12</i>	<i>12/31/11</i>	<i>12/31/10</i>
Actuarial Value of Assets	\$ 5,401,671	\$ 5,378,756	\$ 5,370,378
Actuarial Accrued Liability (AAL)	7,761,007	7,522,522	7,364,820
Unfunded AAL (UAAL)	2,359,336	2,143,766	1,994,442
Funded Ratio	70%	72%	73%
Covered Payroll	470,555	572,413	620,970
UAAL as a percentage of covered payroll	501%	375%	321%

CITY OF ST. LOUIS

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	<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	\$ 653,675	\$ 653,675	\$ 663,796	\$ 10,121
Licenses and permits	14,500	14,500	15,264	764
Federal grants	8,000	8,000	7,112	(888)
State grants	470,210	486,210	484,583	(1,627)
Charges for services	375,900	384,900	409,836	24,936
Fines and forfeits	3,500	3,500	4,110	610
Interest and rents	6,000	6,000	8,265	2,265
Other revenue	45,350	73,350	90,032	16,682
Total revenues	<u>1,577,135</u>	<u>1,630,135</u>	<u>1,682,998</u>	<u>52,863</u>
Expenditures:				
Current				
General government	447,700	481,650	439,097	(42,553)
Public safety	772,347	815,097	804,594	(10,503)
Public works	138,250	150,000	135,828	(14,172)
Community and economic development	111,150	111,150	102,411	(8,739)
Recreation and culture	151,675	151,675	124,067	(27,608)
Debt service	4,600	7,000	6,743	(257)
Total expenditures	<u>1,625,722</u>	<u>1,716,572</u>	<u>1,612,740</u>	<u>(103,832)</u>
Excess (deficiency) of revenues over expenditures	<u>(48,587)</u>	<u>(86,437)</u>	<u>70,258</u>	<u>156,695</u>
Other financing sources (uses):				
Transfer from Water and Sewer Fund	-	1,200,000	1,196,525	(3,475)
Transfers to other funds	-	(750,000)	(750,000)	-
Net other financing sources (uses)	<u>-</u>	<u>450,000</u>	<u>446,525</u>	<u>(3,475)</u>
Change in fund balance	(48,587)	363,563	516,783	153,220
Fund balance, beginning of year	<u>785,359</u>	<u>785,359</u>	<u>785,359</u>	<u>-</u>
Fund balance, end of year	<u>\$ 736,772</u>	<u>\$ 1,148,922</u>	<u>\$ 1,302,142</u>	<u>\$ 153,220</u>

SUPPLEMENTAL INFORMATION

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2013

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>	
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>T.A.Cutler Memorial Library Fund</u>	<u>Building Authority Fund</u>	<u>2002 General Obligation Limited Tax Fund</u>
Assets:					
Cash and cash equivalents	\$ 368,754	\$ 102,105	\$ 79,462	\$ 981	\$ 10,455
Taxes receivable	-	-	613	-	-
Accounts receivable	-	-	285	-	-
Accrued interest receivable	-	-	-	-	-
Due from other governmental units	53,253	18,892	-	-	-
Prepaid expenditures	200	199	624	-	-
Total assets	<u>\$ 422,207</u>	<u>\$ 121,196</u>	<u>\$ 80,984</u>	<u>\$ 981</u>	<u>\$ 10,455</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 10,216	\$ 2,852	\$ 3,318	\$ -	\$ -
Accrued expenses	<u>2,297</u>	<u>702</u>	<u>1,392</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>12,513</u>	<u>3,554</u>	<u>4,710</u>	<u>-</u>	<u>-</u>
Fund balances:					
Nonspendable:					
Prepaid expenditures	200	199	624	-	-
Nonexpendable cemetery principal	-	-	-	-	-
Restricted for:					
Streets	409,494	117,443	-	-	-
Library operations	-	-	75,650	-	-
Debt service	-	-	-	981	10,455
Assigned to:					
Capital improvements	-	-	-	-	-
Cemetery operations	-	-	-	-	-
City Hall project	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>409,694</u>	<u>117,642</u>	<u>76,274</u>	<u>981</u>	<u>10,455</u>
Total liabilities and fund balances	<u>\$ 422,207</u>	<u>\$ 121,196</u>	<u>\$ 80,984</u>	<u>\$ 981</u>	<u>\$ 10,455</u>

<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	
<u>Public Improvement Fund</u>	<u>New City Hall Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
\$ 302,849	\$ 626,855	\$ 198,287	\$ 1,689,748
-	-	-	613
-	-	-	285
-	-	2,037	2,037
-	-	-	72,145
-	-	-	1,023
<u>\$ 302,849</u>	<u>\$ 626,855</u>	<u>\$ 200,324</u>	<u>\$ 1,765,851</u>
\$ -	\$ 13,511	\$ -	\$ 29,897
-	167	-	4,558
-	13,678	-	34,455
-	-	-	1,023
-	-	169,702	169,702
-	-	-	526,937
-	-	-	75,650
-	-	-	11,436
302,849	-	-	302,849
-	-	30,622	30,622
-	613,177	-	613,177
<u>302,849</u>	<u>613,177</u>	<u>200,324</u>	<u>1,731,396</u>
<u>\$ 302,849</u>	<u>\$ 626,855</u>	<u>\$ 200,324</u>	<u>\$ 1,765,851</u>

CITY OF ST. LOUIS

NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended June 30, 2013

	<i>Special Revenue Funds</i>			<i>Debt Service Funds</i>	
	<i>Major Street Fund</i>	<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>
Revenues:					
Property taxes	\$ -	\$ -	\$ 47,086	\$ -	\$ -
State grants	305,085	114,098	5,049	-	-
Contributions from other units	-	-	1,000	-	16,740
Charges for services	-	-	2,766	-	-
Fines and forfeits	-	-	96,611	-	-
Interest and rents	466	77	185	3	3
Other revenue	-	-	12,557	-	-
Total revenues	<u>305,551</u>	<u>114,175</u>	<u>165,254</u>	<u>3</u>	<u>16,743</u>
Expenditures:					
Current					
General government	-	-	-	-	-
Public works	189,081	111,859	-	-	-
Recreation and culture	-	-	124,184	-	-
Capital outlay	-	-	-	-	-
Debt service					
Principal	-	-	-	30,000	35,000
Interest and fees	-	-	-	8,350	11,669
Total expenditures	<u>189,081</u>	<u>111,859</u>	<u>124,184</u>	<u>38,350</u>	<u>46,669</u>
Excess (deficiency) of revenues over expenditures	<u>116,470</u>	<u>2,316</u>	<u>41,070</u>	<u>(38,347)</u>	<u>(29,926)</u>
Other financing sources (uses):					
Transfers from other funds	-	60,000	-	38,000	34,900
Transfers to other funds	-	-	(38,000)	-	-
Net other financing sources (uses)	<u>-</u>	<u>60,000</u>	<u>(38,000)</u>	<u>38,000</u>	<u>34,900</u>
Changes in fund balances	116,470	62,316	3,070	(347)	4,974
Fund balances, beginning of year	<u>293,224</u>	<u>55,326</u>	<u>73,204</u>	<u>1,328</u>	<u>5,481</u>
Fund balances, end of year	<u>\$ 409,694</u>	<u>\$ 117,642</u>	<u>\$ 76,274</u>	<u>\$ 981</u>	<u>\$ 10,455</u>

<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	
<u>Public Improvement Fund</u>	<u>City Hall Project Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 47,086
-	-	-	424,232
-	-	-	17,740
-	-	3,025	5,791
-	-	-	96,611
412	79	1,784	3,009
-	3,725	-	16,282
<u>412</u>	<u>3,804</u>	<u>4,809</u>	<u>610,751</u>
-	140,627	-	140,627
-	-	-	300,940
-	-	-	124,184
-	224,438	-	224,438
-	-	-	65,000
-	-	-	20,019
-	365,065	-	875,208
<u>412</u>	<u>(361,261)</u>	<u>4,809</u>	<u>(264,457)</u>
164,977	974,438	-	1,272,315
(94,900)	-	-	(132,900)
<u>70,077</u>	<u>974,438</u>	<u>-</u>	<u>1,139,415</u>
70,489	613,177	4,809	874,958
232,360	-	195,515	856,438
<u>\$ 302,849</u>	<u>\$ 613,177</u>	<u>\$ 200,324</u>	<u>\$ 1,731,396</u>

CITY OF ST. LOUIS

WATER AND SEWER FUND
STATEMENT OF NET POSITION
 June 30, 2013

	<u><i>Water and Sewer Fund</i></u>	<u><i>Water Supply Replacement Fund</i></u>	<u><i>Total Water and Sewer Fund</i></u>
Assets:			
<i>Current assets:</i>			
Cash and cash equivalents	\$ 1,204,135	\$ -	\$ 1,204,135
Investments	90,476	-	90,476
Accounts receivable	261,355	-	261,355
Accrued interest receivable	721	-	721
Due from other governmental units	-	670,734	670,734
Inventory	57,766	-	57,766
Prepaid expenses	8,801	-	8,801
	<u>1,623,254</u>	<u>670,734</u>	<u>2,293,988</u>
<i>Noncurrent assets:</i>			
Restricted cash and cash equivalents	1,395,651	8,086,857	9,482,508
Restricted investments	-	1,007,614	1,007,614
Investment in Water Authority	-	200,000	200,000
Capital assets:			
Nondepreciable capital assets	926,629	1,314,276	2,240,905
Depreciable capital assets, net	7,309,819	-	7,309,819
	<u>9,632,099</u>	<u>10,608,747</u>	<u>20,240,846</u>
Total noncurrent assets	<u>9,632,099</u>	<u>10,608,747</u>	<u>20,240,846</u>
Total assets	<u>11,255,353</u>	<u>11,279,481</u>	<u>22,534,834</u>
Liabilities:			
<i>Current liabilities:</i>			
Accounts payable	37,287	165	37,452
Accrued expenses	11,025	-	11,025
Deposits payable	16,383	-	16,383
Accrued interest payable	4,853	-	4,853
Current compensated absences	39,832	-	39,832
Current long-term debt	357,337	-	357,337
	<u>466,717</u>	<u>165</u>	<u>466,882</u>
Total current liabilities	<u>466,717</u>	<u>165</u>	<u>466,882</u>
<i>Noncurrent liabilities:</i>			
Compensated absences payable	16,903	-	16,903
	<u>483,620</u>	<u>165</u>	<u>483,785</u>
Total liabilities	<u>483,620</u>	<u>165</u>	<u>483,785</u>

continued

CITY OF ST. LOUIS

WATER AND SEWER FUND

STATEMENT OF NET POSITION, CONTINUED

June 30, 2013

	<i>Water and Sewer Fund</i>	<i>Water Supply Replacement Fund</i>	<i>Total Water and Sewer Fund</i>
Net position:			
Net investment in capital assets	7,879,111	1,314,276	9,193,387
Restricted for:			
Debt service	172,013	-	172,013
Replacement/improvements	1,223,639	-	1,223,639
Water supply replacement	-	9,958,192	9,958,192
Unrestricted	<u>1,496,970</u>	<u>6,848</u>	<u>1,503,818</u>
Total net position	<u>\$ 10,771,733</u>	<u>\$11,279,316</u>	<u>\$ 22,051,049</u>

CITY OF ST. LOUIS

WATER AND SEWER FUND

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

Year Ended June 30, 2013

	<i>Water and Sewer Fund</i>	<i>Water Supply Replacement Fund</i>	<i>Total Water and Sewer Fund</i>
Operating revenues:			
Charges for services	\$ 2,183,370	\$ -	\$ 2,183,370
Penalties	14,979	-	14,979
Other	14,016	-	14,016
Total operating revenues	<u>2,212,365</u>	<u>-</u>	<u>2,212,365</u>
Operating expenses:			
Personnel	749,525	-	749,525
Administrative expense	100,002	-	100,002
Other services and supplies	589,500	-	589,500
Depreciation	434,636	-	434,636
Total operating expenses	<u>1,873,663</u>	<u>-</u>	<u>1,873,663</u>
Operating income (loss)	<u>338,702</u>	<u>-</u>	<u>338,702</u>
Non-operating revenues (expenses):			
Interest income	5,056	5,898	10,954
Rental income	42,237	-	42,237
Other income	14,397	-	14,397
Interest expense	(21,052)	-	(21,052)
Net non-operating	<u>40,638</u>	<u>5,898</u>	<u>46,536</u>
Change in net position before other	379,340	5,898	385,238
Settlement from lawsuit (from Trust)	-	670,734	670,734
Capital contributions-state grant	4,298	-	4,298
Transfer to General Fund - unrestricted lawsuit settlement	-	(1,196,525)	(1,196,525)
Transfer to other funds	(66,314)	14,000	(52,314)
Change in net position	317,324	(505,893)	(188,569)
Net position, beginning of year	<u>10,454,409</u>	<u>11,785,209</u>	<u>22,239,618</u>
Net position, end of year	<u>\$ 10,771,733</u>	<u>\$ 11,279,316</u>	<u>\$ 22,051,049</u>

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2013

1996 BUILDING AUTHORITY BONDS (GENERAL OBLIGATION LIMITED TAX)

Issue in the amount of	\$ 425,000
Less: Principal paid in prior years	(285,000)
Principal paid in current year	<u>(30,000)</u>
Balance payable at June 30, 2013	<u>\$ 110,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Interest due</u> <u>October 1</u>	<u>Principal due</u> <u>April 1</u>	<u>Interest due</u> <u>April 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
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>\$ 6,540</u>	<u>\$ 110,000</u>	<u>\$ 6,540</u>	<u>\$ 123,080</u>

2002 GENERAL OBLIGATION LIMITED TAX BONDS

Issue in the amount of	\$ 500,000
Less: Principal paid in prior years	(245,000)
Principal paid in current year	<u>(35,000)</u>
Balance payable at June 30, 2013	<u>\$ 220,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u> <u>October 1</u>	<u>Interest due</u> <u>October 1</u>	<u>Interest due</u> <u>April 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
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>\$ 220,000</u>	<u>\$ 16,559</u>	<u>\$ 11,283</u>	<u>\$ 247,842</u>

CITY OF ST. LOUIS

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2013

2012 CAPITAL LEASE - COPIER

Issue in the amount of	\$	17,537
Less: Principal paid in prior years		(1,457)
Principal paid in current year		<u>(4,798)</u>
Balance payable at June 30, 2013	\$	<u>11,282</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u>	<u>Interest due</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2014	13.9529%	\$ 5,512	\$ 1,232	\$ 6,744
2015	13.9529%	<u>5,770</u>	<u>412</u>	<u>6,182</u>
		<u>\$ 11,282</u>	<u>\$ 1,644</u>	<u>\$ 12,926</u>

CITY OF ST. LOUIS

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2013

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS, SERIES 1997

Issue in the amount of	\$ 995,000
Less: Principal paid in prior years	(575,000)
Principal paid in current year	<u>(60,000)</u>
Balance payable at June 30, 2013	<u>\$ 360,000</u>

Balance payable as follows:

<u>Fiscal Year Ended</u>	<u>Interest Rate</u>	<u>Principal due October 1</u>	<u>Interest due October 1</u>	<u>Interest due April 1</u>	<u>Total Annual Requirement</u>
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>\$ 360,000</u>	<u>\$ 30,630</u>	<u>\$ 20,925</u>	<u>\$ 411,555</u>

2001 ELECTRIC REVENUE BONDS

Issue in the amount of	\$ 995,000
Less: Principal paid in prior years	(610,000)
Principal paid in current year	<u>-</u>
Balance payable at June 30, 2013	<u>\$ 385,000</u>

Balance payable as follows:

<u>Fiscal Year Ended</u>	<u>Interest Rate</u>	<u>Principal due July 1</u>	<u>Interest due July 1</u>	<u>Interest due January 1</u>	<u>Total Annual Requirement</u>
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>\$ 19,659</u>	<u>\$ 433,686</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of St. Louis, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of St. Louis' basic financial statements, and have issued our report thereon dated September 25, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Berthiaume & Co.

Saginaw, Michigan
September 25, 2013