



**CITY OF BAY CITY, TEXAS**  
**COMPREHENSIVE FINANCIAL REPORT**  
**AS OF SEPTMBER 30, 2012**

**CITY OF BAY CITY, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
*For the fiscal year ended September 30, 2012*

Cathy Ezell  
*Director of Finance*

Mark Bricker  
*Mayor*

Issued By:  
Finance Department

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTORY SECTION</b>	
City Administrators' Letter of Transmittal .....	i
Organizational Chart .....	vii
Directory of Principal Officials .....	viii
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report .....	1
Management's Discussion and Analysis .....	3
<b><u>Basic Financial Statements</u></b>	
Government-wide Financial Statements	
Statement of Net Assets .....	11
Statement of Activities .....	13
Fund Financial Statements	
Balance Sheet - Governmental Funds .....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds .....	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	18
Statement of Net Assets - Proprietary Funds .....	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds .....	21
Statement of Cash Flows - Proprietary Funds .....	23
Statement of Net Assets - Component Units .....	27
Statement of Activities - Component Units .....	28
Notes to Financial Statements .....	30
<b><u>Required Supplementary Information</u></b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget (GAAP Basis) and Actual - General Fund .....	63
Historical Pension Information .....	64
Notes to Required Supplementary Information .....	66
<b><u>Combining and Individual Fund Statements and Schedules</u></b>	
<i>Nonmajor Governmental Funds</i>	
Combining Statements	
Nonmajor Governmental Funds .....	67
Combining Balance Sheet - Nonmajor Governmental Funds .....	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds .....	70

**FINANCIAL SECTION - (Continued)**

**Combining and Individual Fund Statements and Schedules - (Continued)**

Individual Statements and Schedules	
General Fund.....	72
Balance Sheet.....	73
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual .....	74
Nonmajor Debt Service Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual .....	78

**STATISTICAL SECTION ..... 79**

**Financial Trends**

Net Assets by Component.....	80
Changes in Net Assets.....	82
Fund Balances, Governmental Funds.....	86
Changes in Fund Balances, Governmental Funds.....	88
Tax Revenues by Source, Governmental Funds .....	90

**Revenue Capacity**

Assessed and Estimated Actual Value of Taxable Property.....	91
Direct and Overlapping Property Tax Rates.....	92
Principal Property Taxpayers (Unaudited) .....	94
Property Tax Levies and Collections .....	95
Water Produced and Consumed and Wastewater Treated .....	96

**Debt Capacity**

Ratios of Net General Bonded Debt Outstanding .....	97
Direct and Overlapping Governmental Activities Debt (Unaudited) .....	99

**Demographic and Economic Information**

Demographic and Economic Statistics (Unaudited).....	100
Principal Employers (Unaudited).....	101

**STATISTICAL SECTION - (Continued)**

**Operating Information**

Full-Time-Equivalent City Government Employees by Function/Program .....	102
Capital Asset Statistics by Function/Program .....	104
Operating Indicators by Function/Program .....	106

**OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION**

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	110
---	-----

## **INTRODUCTORY SECTION**

# CITY OF BAY CITY

---

**MARK BRICKER**  
MAYOR

**DENTON, NAVARRO, ROCHA & BERNAL**  
CITY ATTORNEY



**CITY COUNCIL**

**PATTI M<sup>c</sup>KELVY**  
MAYOR PRO TEM

**RHONDA CLEGG**  
CITY SECRETARY

**CATHY EZELL**  
FINANCE DIRECTOR

**BILL CORNMAN**  
**JULIE ESTLINBAUM**

**CLARENCE FENNER**  
**CAROLYN THAMES**

March 22, 2013

Honorable Mayor and Members of City Council  
City of Bay City, Texas

State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles ("GAAP") and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, the comprehensive annual financial report of the City of Bay City, Texas (the "City") for the fiscal year ended September 30, 2012, is hereby submitted.

The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. The report consists of management's representations concerning the finances of the City. To provide a reasonable basis for making these representations, the City has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management we believe the enclosed data to be accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City's financial statements have been audited by **Harrison, Waldrop, & Uherek, L.L.P.**, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the year ended September 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The financial section includes a Management's Discussion and Analysis (MD&A), basic financial statements and schedules, as well as the auditor's report on the governmental activities, business-type activities, major funds, and the aggregate remaining fund information, as well as budgetary comparison information and combining and individual fund financial statements and

schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The MD&A is a narrative introduction, overview and analysis to accompany the basic financial statements. The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Bay City's MD&A can be found immediately following the report of our independent auditors.

In addition to the MD&A described above, this annual report includes government-wide financial statements, prepared using accrual accounting for all of our financial activities.

These government-wide financial statements help users:

- Assess the finances of the government in its entirety, including the year's operating results
- Determine whether the government's overall financial position improved or deteriorated
- Evaluate whether the government's current-year revenues were sufficient to pay for current-year services
- See the Cost of providing services to its citizenry
- See how the government finances its programs-through user fees and other program revenue versus general tax revenues
- Understand the extent to which the government has invested in capital assets, including streets, bridges, and other infrastructure assets.
- Make better comparisons between governments.

## **PROFILE OF THE GOVERNMENT**

The City, incorporated in 1902, is located in Matagorda County, currently occupies a land area of 8.92 square miles and serves a population of 17,614. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, if deemed appropriate by the City Council.

The City of Bay City has adopted a Mayor-Council form of government. The Council, vested with policy-making and legislative authority, is comprised of a Mayor and five Council members. The Mayor is elected to a three-year term and Council members are elected at large for a two-year term, all with no term limits. The City Council is responsible, among other things, for passing ordinances, adopting the budget and the hiring of the City's management and attorney.

The City provides a full range of municipal services: public safety (police and fire protection), public improvements, water and wastewater utilities, repairs and maintenance of infrastructure, recreation, sanitation and general administrative services. In addition, the City owns and operates a general aviation airport. As an independent political subdivision of the State of Texas governed by an elected Mayor and Council, the City is considered a primary government. In accordance with standards established by the Governmental Accounting Standards Board, the City reports all funds for which the City, as the primary government, is accountable.

The annual budget serves as the foundation for the City's financial planning and control. Department heads are required to submit requests for appropriation to the Finance Director in April of each year.

The Finance Director then presents the proposed budget to the Council for review. The Council is required to hold a public hearing on the proposed final budget and to adopt a final budget by no later than September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund and department (e.g. police). Transfer of appropriations within a department and between departments requires the approval of Council. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. The City has adopted a budget for the General, Special Revenue Funds, Capital Project Funds, Enterprise Funds and Internal Service Funds. Monthly financial and capital project reports are presented to Council to aid in accomplishing budgetary control.

### **LOCAL ECONOMY**

The City of Bay City is home to a diversified group of industries. Major industries and business activities in the area include nuclear power generation, healthcare, metals, oil and gas services and a variety of general retail operations. This diversification is evident in the fact that no single tax payer represents more than 1.4% of assessed valuation in the City.

The City is also a major retail trade area for antiques, building materials, general merchandise, food stores, automotive, and restaurants.

Net taxable value for all residential and commercial property in the City exceeded \$654 million for fiscal year 2012, which is a 0.84% decrease for fiscal year 2011.

### **ACCOUNTING SYSTEMS AND BUDGETING CONTROL**

#### **Accounting Systems**

The City's accounting records for general governmental operations are maintained on a modified accrual basis with the revenues recorded when available and measurable and expenditures recorded when the services and goods are received and the liabilities are incurred. Accounting records for the City's proprietary activities are maintained on the accrual basis.

Consideration of adequate internal accounting controls has been made in designing the City's accounting system. Internal accounting controls, instituted by the Finance Department as part of the accounting system, are designed to provide reasonable assurances that assets are properly safeguarded against loss from unauthorized use or disposition, that financial records used in preparation of the financial statements are reliable, and that accountability for the City's assets is maintained. The concept of reasonable assurance in relation to internal controls recognizes that the cost of the process should not exceed the benefits derived from the performance of related procedures and that the City's management must make estimates and judgments in evaluating the cost and benefit relationships relating to internal control processes and procedures that become part of the City's accounting system.

#### **Budgetary Compliance**

Because budgetary compliance is significant in managing governmental activities, budgetary compliance controls are critical. The objective of these controls is to ensure compliance with legal spending limits in annual or project appropriated budgets approved by City Council. The City Charter provides that the City Councils shall adopt an annual and project budgets every fiscal year for all City funds. The budgets are prepared and maintained by City management.

The objective of budgetary controls is to ensure compliance with legal provisions contained in the annual appropriated budget approved by the City Council. Annual appropriated budgets are adopted for all funds. The original budget is adopted by the City Council prior to the beginning of the fiscal year. Expenditures may not legally exceed budgeted appropriations at the department level. Expenditure requests, which would require an increase in total budgeted appropriations, must be approved by City Council through a formal budget amendment. At any time in the fiscal year, City Council may make emergency appropriations to meet a pressing need for public expenditures in order to protect the public health, safety, or welfare. City Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

### **Budgetary Controls**

During the year, expenditure controls are maintained by each department with review of the budget provided by the Finance Director and overall exercised by City Council. Constant review of revenue and expenditure estimates is performed to assure the integrity of the adopted budget and to assure funds are available to meet current obligations. As a result of this review, it is possible to exercise administrative budgetary controls throughout the year. As demonstrated by the financial statements presented in this report, the City continues to meet responsibility for sound financial management.

## **FINANCIAL CONDITION**

### **Cash Management**

Cash temporarily idle during the year is deposited into various types of investments. Cash balances are monitored on a daily basis to ensure that sufficient funds are available. The City Council reviews and adopts the City's Investment Policy annually.

### **Risk Management**

The City is exposed to a variety of accidental losses and has established a risk management strategy that attempts to minimize losses and the cost of insurance.

Risk control techniques have been established to reasonably assure that the City's employees are aware of their responsibilities regarding loss exposure related to their duties. In a similar manner, risk control techniques have been established to reduce possible losses to property owned or under the control of the City.

### **Long-Term Financial Planning**

The City of Bay City maintains sufficient cash reserves and unreserved fund balances/unrestricted net assets in its general and utility funds to avoid borrowing for general operating purposes and to handle emergency situations, while providing quality service levels to the public.

During fiscal year 2003, the City refunded the 1992 certificates of obligation, 1993 certificates of obligation, and 1994 certificates of obligation. This advance refunding was undertaken to reduce total debt service payments over a ten year period. The cumulative savings were \$317,559 and present value savings were \$313,399.

During fiscal year 2004, the City obtained certificates of obligation for \$6 million. These funds were used for improving City streets. These improvements were completed in 2006.

During fiscal year 2009, the City refunded the 1999 general obligation refunding bonds. This advance refunding was undertaken to reduce total debt service payments over a five year period. The cumulative savings were \$134,988 and the present value savings were \$124,794. Also, during fiscal year 2009, the City obtained certificates of obligation for \$5 million. These funds were used for renovating the Civic Center, Public Safety Facilities, Airport, Water and Sewer Facilities, the acquisition of rolling stock and equipment for City Services and Public Works, Technology Upgrades, and working capital related to the City's provision of Sanitation Services. There is still funding to purchase rolling stock for Public Works in the amount of \$22,801.

During fiscal year 2010, the City obtained certificates of obligation for \$3.3 million. These funds will be used for Street and Drainage improvements, Airport Improvements, Park improvements, Service Center improvements, Hazmat equipment and Recycling facility improvements. As of September 30, 2012, the following funding is still available for the projects: Street and Drainage improvements \$357,546; Airport improvements \$108,762; Park Improvements \$207,306; Civic Center improvements \$80,039; Service Center Improvements \$9,107; Recycling Center improvements \$13,097; and Hazmat equipment \$25,000.

During fiscal year 2012, the City obtained certificates of obligation for \$9.53 million. These funds will be used for the construction of improvements to and the equipment of the City's water and sewer system, the construction of improvements to and the equipment of lighting systems at City facilities, the construction of improvements to and the equipment of the City's street lighting system, the construction of improvements to and the equipment of the domestic water system at City facilities, and the construction of improvements to and the equipment of irrigations systems at City parks and recreational facilities. As of September 30, 2012, there is still \$3,858,374 of funding to complete these projects.

### **MAJOR INITIATIVES**

The City began energy efficiency projects with Siemens. They include replacing lighting fixtures, replacing domestic water fixtures, installing a sprinkler system at the Sports Complex, installing new utility billing software and an automated meter reading system, and major renovation of the Wastewater Treatment Plant. As of September 30, 2012 the entire project was 64% complete. This project will help improve the operation of the City.

The City received a Community Block Grant to replace sewer lines on Moore Street. The engineering phase of the project began in fiscal year 2012 and the project should be completed in fiscal year 2013.

### **AWARDS AND ACKNOWLEDGEMENTS**

In order to be awarded the Certificate of Achievement for Excellence in Financial Reporting, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The City will apply for this prestigious award with the presented Comprehensive Annual Financial Report.

In closing, without the dedication of the employees and the direction of the members of City Council, preparation of this report would not have been possible. We would like to express our sincere appreciation to our employees, who have continually demonstrated their professionalism and abilities in the management of the finance function. We also want to thank the Members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



---

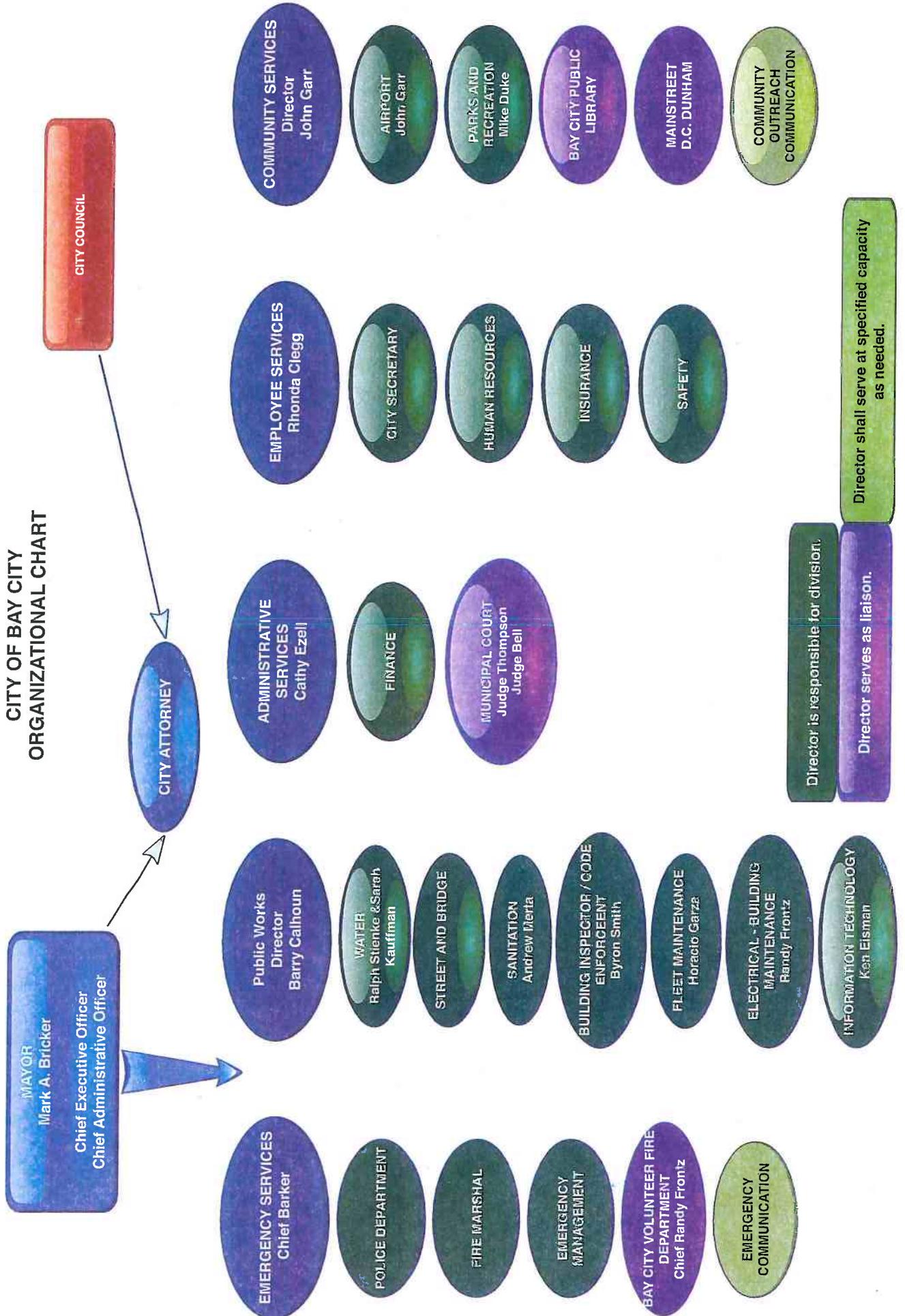
Mark Bricker  
Mayor



---

Cathy Ezell, CGFO  
Finance Director

# CITY OF BAY CITY ORGANIZATIONAL CHART



# CITY OF BAY CITY, TEXAS

## PRINCIPAL OFFICIALS

September 30, 2012

<u>City Officials</u>	<u>Elective Position</u>	<u>Term Expires</u>
Mark Bricker	Mayor	2013
Julie Estlinbaum	Council Member – Position #1	2014
William Cornman	Council Member – Position #2	2014
Patti McKelvy	Council Member – Position #3	2013
Clarence Fenner	Council Member – Position #4	2013
Carolyn Thames	Council Member – Position #5	2013

<u>Key Staff</u>	<u>Position</u>
George Hyde	City Attorney
Barry Calhoun	Public Works Director
Cathy Ezell	Finance Director
Roger Barker	Police Chief
Rhonda Clegg	City Secretary
Suzan Thompson	Municipal Court Judge
Jeannette Bell	Municipal Court Judge

## **FINANCIAL SECTION**



CERTIFIED PUBLIC ACCOUNTANTS  
101 S. MAIN, SUITE 400  
VICTORIA, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA  
DENNIS C. CIHAL, CPA  
ERIC L. KUCERA, CPA  
CLAYTON P. VAN PELT, CPA  
ROBERT W. SCHAAR, CPA  
MELISSA M. TERRY, CPA

VOICE: (361) 573-3255  
FAX: (361) 573-9531

## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members  
of the City Council  
City of Bay City, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bay City, Texas (the "City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Bay City Gas Company, which statements reflect total assets of \$4,998,405 as of March 31, 2012, and total revenues of \$2,114,504 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included in the component units column, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards and standards generally accepted in the United States of America 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 basic financial statements are free of material misstatement. The financial statements of the Bay City Gas Company were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Honorable Mayor and Members  
of the City Council

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and historical pension and other postemployment benefits information, as listed in the table of contents, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual major and nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual major and nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Harrison, Waldrop & Ubeck, LLP*

March 22, 2013

As management of the City of Bay City, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$27,270,810 (*net assets*). Of this amount, \$8,006,945 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,108,491, an increase of \$743,591 from the prior year. At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,821,025, or 33.57% of total General Fund expenditures. The increase in fund balance for the City's General Fund is attributable to unexpected reductions in various expenditure categories.
- The City's total net assets of the business-type activities increased \$590,144, or 4.43%. The net assets of the Water and Sewer Fund increased by \$351,164, the Sanitation Fund increased by \$321,745, and the Airport Fund decreased by \$82,765.

**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 financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

**Organization and Flow of Financial Section Information**

**Independent Auditors' Report**

*Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.*

**Management's Discussion and Analysis**

*This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.*

Pages 3 to 10

**Government-wide Financial Statements**

*Provides information on governmental and business-type activities of the primary government.*

Pages 11 to 14

**Fund Financial Statements**

*Provides information on the financial position of specific funds of the primary government.*

Pages 15 to 29

**Notes to Financial Statements**

*Provides a summary of significant accounting policies and related disclosures.*

Pages 30 to 62

---

## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Government-wide Financial Statements**

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

### **Statement of Net Assets**

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

### **Statement of Activities**

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, construction for outside parties, public activities and recreation, and cultural arts and public benefits. The business-type activities of the City include water and sewer, sanitation and airport services.

### **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 and 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 two categories: governmental funds or proprietary 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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of 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 maintained ten individual governmental funds during the 2011-2012 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the 2010 Capital Acquisition Fund,

---

## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Governmental Funds - (Continued)**

which are considered major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. A Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual has been provided to demonstrate compliance with the appropriated budgets.

### **Proprietary Funds**

The City maintains two types of *proprietary funds*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water/wastewater utility service, for its solid waste operations, and for its airport operations. The City uses the internal service fund to account for its equipment maintenance services. Because these services predominantly benefit governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements

Proprietary funds provide the same type of information as the government-wide financial statements, only in a more detailed format. The proprietary fund financial statements provide information for the water/wastewater utility service, the sanitation services, and the airport operation; which are considered to be major funds of the City.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund and historical pension and other post employment benefits information. Required supplementary information can be found on pages 64-68 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 69-97 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets exceeded liabilities by \$27,270,810 at the close of the fiscal year 2012.

By far, the largest portion of the City's net assets (69.13%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment), less a related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**City of Bay City, Texas**

**Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 6,107,650	\$ 5,332,267	\$ 8,110,699	\$ 3,192,039	\$ 14,218,349	\$ 8,524,306
Capital assets (net)	17,190,718	17,723,502	19,885,893	15,865,710	37,076,611	33,589,212
Other noncurrent assets	154,171	169,110	462,262	434,521	616,433	603,631
<b>Total assets</b>	<u>23,452,539</u>	<u>23,224,879</u>	<u>28,458,854</u>	<u>19,492,270</u>	<u>51,911,393</u>	<u>42,717,149</u>
Current liabilities	1,325,164	1,709,091	3,538,044	2,711,176	4,863,208	4,420,267
Noncurrent liabilities	8,757,867	9,223,554	11,019,508	3,469,936	19,777,375	12,693,490
<b>Total liabilities</b>	<u>10,083,031</u>	<u>10,932,645</u>	<u>14,557,552</u>	<u>6,181,112</u>	<u>24,640,583</u>	<u>17,113,757</u>
Invested in capital assets, net of related debt	7,904,146	7,541,744	10,948,774	10,543,619	18,852,920	18,085,363
Restricted	410,945	407,739	-	-	410,945	407,739
Unrestricted	5,054,417	4,373,229	2,952,528	2,767,539	8,006,945	7,140,768
<b>Total net assets</b>	<u>\$ 13,369,508</u>	<u>\$ 12,322,712</u>	<u>\$ 13,901,302</u>	<u>\$ 13,311,158</u>	<u>\$ 27,270,810</u>	<u>\$ 25,633,870</u>

The balance of unrestricted net assets, \$8,006,945, may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets for the primary government as a whole.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

Governmental activities increased the City's net assets by \$1,046,796. Business-type activities increased the City's net assets by \$590,144.

<b>City of Bay City, Texas</b>						
<b>Changes in Net Assets</b>						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 876,876	\$ 1,338,857	\$ 9,393,282	\$ 8,759,076	\$ 10,270,158	\$ 10,097,933
Operating grants and contributions	111,982	334,370	5,000	-	116,982	334,370
Capital grants and contributions	-	-	215,997	123,325	215,997	123,325
General revenues:						
Property taxes	3,728,127	3,724,754	-	-	3,728,127	3,724,754
Sales taxes	3,385,962	3,317,508	-	-	3,385,962	3,317,508
Franchise taxes	1,099,039	794,918	-	-	1,099,039	794,918
Other taxes	474,242	478,484	-	-	474,242	478,484
Unrestricted investment earnings	6,163	7,957	5,422	3,677	11,585	11,634
Miscellaneous	924,999	888,346	3,608	22,977	928,607	911,323
<b>Total revenues</b>	<u>10,607,390</u>	<u>10,885,194</u>	<u>9,623,309</u>	<u>8,909,055</u>	<u>20,230,699</u>	<u>19,794,249</u>
<b>EXPENSES</b>						
General government	1,992,271	2,167,619	-	-	1,992,271	2,167,619
Public safety	4,073,513	4,248,889	-	-	4,073,513	4,248,889
Public works	2,377,316	3,025,285	-	-	2,377,316	3,025,285
Public activities and rec.	1,235,690	1,580,288	-	-	1,235,690	1,580,288
Cultural arts and pub. ben.	684,950	447,854	-	-	684,950	447,854
Interest on long-term debt	331,816	414,438	-	-	331,816	414,438
Water and sewer	-	-	5,026,141	4,958,168	5,026,141	4,958,168
Sanitation	-	-	2,482,660	1,890,468	2,482,660	1,890,468
Airport	-	-	389,402	401,842	389,402	401,842
<b>Total expenses</b>	<u>10,695,556</u>	<u>11,884,373</u>	<u>7,898,203</u>	<u>7,250,478</u>	<u>18,593,759</u>	<u>19,134,851</u>
Change in net assets before transfers	(88,166)	(999,179)	1,725,106	1,658,577	1,636,940	659,398
Transfers	1,134,962	98,338	(1,134,962)	(98,338)	-	-
Change in net assets	1,046,796	(900,841)	590,144	1,560,239	1,636,940	659,398
Net assets - beginning, as restated	<u>12,322,712</u>	<u>13,223,553</u>	<u>13,311,158</u>	<u>11,750,919</u>	<u>25,633,870</u>	<u>24,974,472</u>
Net assets - ending	<u>\$ 13,369,508</u>	<u>\$ 12,322,712</u>	<u>\$ 13,901,302</u>	<u>\$ 13,311,158</u>	<u>\$ 27,270,810</u>	<u>\$ 25,633,870</u>

---

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

### **Governmental Funds**

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,108,491, an increase of \$743,591 from the prior year.

Approximately 55.22% of this total amount, \$2,821,025 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance of \$2,287,466 or 45.78% is either non-spendable, restricted or assigned to indicate that it is not available for spending at the City's discretion

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$2,821,025. Unassigned fund balance represents 33.57% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$831,960 during the current fiscal year. The increase was primarily due to unexpected decreases in various expenditure categories.

The City has in the past included the Bay City Community Development Corporation, (CDC) as a blended component unit for financial reporting purposes. During the 2012 fiscal year, the City and the CDC changed the composition of the governing body whereby the majority of the CDC board is no longer comprised of City Council members. The CDC is now presented as a discretely presented component unit.

### **Proprietary Funds**

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

Unrestricted net assets of the Water and Sewer Fund at the end of the current fiscal year amounted to \$2,387,864, which is a decrease of \$16,863 from the prior year. Unrestricted net assets of the Sanitation Fund amounted to \$492,295 at the end of the current fiscal year, which is an increase of \$205,494 from the prior year. Unrestricted net assets of the Airport Fund amounted to \$72,369 at the end of the current fiscal year, which is an increase of \$31,693 from the prior year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual fiscal year expenditures in the General Fund were \$1,090,567 less than the final budgeted amounts or appropriations. The major differences in expenditures were:

- \$203,371 for the Police department (\$170,164) due to personnel cost savings. These cost savings were due to vacancies within the department and a decrease in the number of employees obtaining health insurance coverage for themselves and dependents from the City offered plan.
- \$273,802 for the Public Works department due to personnel cost savings (\$96,827) and delaying the purchase of equipment (\$123,839). The personnel cost savings were due to a position that was unfilled and a decrease in the number of employees obtaining health insurance coverage for themselves and dependents from the City offered plan. The purchase of the equipment was delayed until an inventory and assessment of the current equipment could be completed.
- \$414,390 for the Parks and Recreation department due to various reasons. There were personnel cost savings (\$38,838) due to a position being unfilled for most of the fiscal year. The capital expense for a pool cover (\$240,000) was not done due to lack of funding. There were savings on the utilities (\$33,658) due to a decrease in use of the baseball facilities during the year. There were also savings due to an overestimation of the costs for the chemicals needed for the swimming pools (\$30,086).
- \$72,219 for the Library department due to a decrease in staffing levels.

---

## **GENERAL FUND BUDGETARY HIGHLIGHTS - (Continued)**

The fiscal year 2012 budget was amended from the original budget adopted by Council. All increases in expenditure accounts were covered by a corresponding revenue or a decrease in another expenditure account.

There was no budgeted draw down on fund balance to fund budget amendments for the General Fund. The following were included in the amendment:

- \$82,600 increase in legal fees;
- \$12,500 increase in Charter review fees
- \$27,455 increase in grant revenue and corresponding personnel expenditures.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$37,076,611 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings and improvements, vehicles, machinery and equipment, water and sewer system, and land structured facilities. The total increase in the City's investment in capital assets was 10.38%.

---

<b>City of Bay City, Texas</b>						
<b>Capital Assets (Net of Depreciation)</b>						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,460,085	\$ 1,460,085	\$ 381,117	\$ 381,117	\$ 1,841,202	\$ 1,841,202
Construction in progress	2,973,884	1,645,439	4,840,814	-	7,814,698	1,645,439
Buildings and improvements	134,260	264,653	725,860	751,072	860,120	1,015,725
Machinery and equipment	1,733,899	2,472,591	2,633,132	2,844,512	4,367,031	5,317,103
Infrastructure	10,888,590	11,880,734	11,304,970	11,889,009	22,193,560	23,769,743
Total	<u>\$17,190,718</u>	<u>\$17,723,502</u>	<u>\$19,885,893</u>	<u>\$15,865,710</u>	<u>\$37,076,611</u>	<u>\$33,589,212</u>

Additional information on the City's capital assets can be found in Note 5 of this report.

### Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$21,990,000. Of this amount, \$9,102,500 represents governmental general obligation debt. The remainder of the City's bonded debt is attributable to the business-type activities amounting to \$12,887,500. The City's bonded debt had a net increase of \$7,430,000 or 51.03% during the fiscal year ended September 30, 2012. The increase included current year payments of principal of \$2,200,000 and the issuance of the 2012 Certificates of Obligations in the amount of \$9,530,000.

Additional information on the City's long-term debt can be found in Note 11.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The following factors will be considered in preparing the City's budget for the 2012-2013 fiscal year.

A nation-wide economic downturn has impacted consumer spending resulting in the City budgeting conservatively. The total sales tax payments received by the City from the State Comptroller in fiscal year 2012 totaled \$4,514,557. This amount is an increase of \$91,212 or .0206% compared to the previous year. For fiscal year 2013 the City has budgeted \$4,390,000 of sales tax revenue, a decrease of 2.76%. For fiscal year 2014 the City plans to budget \$4,500,000 in sales tax revenue if the trend for the past two years continues. Also, sales tax

---

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - (Continued)**

revenue is predicted to increase in 2014 due to the construction of a seamless pipe mill company just outside the City limits. This facility is expected to bring in excess of 2,000 construction employees and in excess of 600 permanent jobs to the community. The new facility is expected to begin operation in 2016.

The certified assessed taxable property valuations for the 2013 fiscal year tax roll total \$655 million with a tax rate of \$0.527 per \$100 valuation for maintenance and operations and \$0.045 per \$100 of valuation for interest and sinking. The certified assessed taxable property valuations increased from the 2012 tax roll by \$811,507 or 0.12%.

The City constructed a particular road in a prior year and due to various construction problems the road was closed for safety reasons in the 2011 fiscal year. The City is in the process of determining the most cost effective method to remediate the condition and restore the road to its intended use. There are varying cost estimates that have been received by the City from their engineering firm but the ultimate cost to remediate has not been determined. The original cost of the road is still recorded as part of the City's infrastructure assets. The amount of the infrastructure impairment, if any, has not been determined at this time.

The City is in the process of determining if the possibility of holding a bond election in November 2013 for street improvements throughout the City.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Office, 1901 Fifth Street, Bay City, Texas 77414.

## **Basic Financial Statements**

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET ASSETS**  
September 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 4,871,362	\$ 6,812,670	\$ 11,684,032	\$ 3,692,806
Investments	-	-	-	1,574,606
Receivables (net)	778,201	1,301,198	2,079,399	207,810
Internal balances	32,156	(32,156)	-	-
Due from other governments	297,295	-	297,295	99,098
Due from employees	-	-	-	17,500
Deferred expenditures	128,636	2,547	131,183	-
Inventory	-	26,440	26,440	34,826
Restricted assets				
Cash and cash equivalents	-	-	-	210,993
Investments	-	-	-	206,655
Total current assets	<u>6,107,650</u>	<u>8,110,699</u>	<u>14,218,349</u>	<u>6,044,294</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	4,433,969	5,221,931	9,655,900	414,352
Buildings, improvements, and equipment (net)	12,756,749	14,663,962	27,420,711	5,782,720
Deferred expenses (net)	154,171	462,262	616,433	-
Total noncurrent assets	<u>17,344,889</u>	<u>20,348,155</u>	<u>37,693,044</u>	<u>6,197,072</u>
<b>Total assets</b>	<u>23,452,539</u>	<u>28,458,854</u>	<u>51,911,393</u>	<u>12,241,366</u>

Primary Government

	Governmental Activities	Business-type Activities	Total	Component Units
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 323,300	\$ 773,190	\$ 1,096,490	\$ 78,748
Accrued expenses	39,890	15,939	55,829	-
Accrued interest payable	32,111	65,637	97,748	-
Due to other governments	28,636	15,941	44,577	-
Deposits	17,248	624,426	641,674	-
Accrued compensated absences	178,704	55,411	234,115	-
Unearned revenue	22,399	-	22,399	-
Current portion of long-term obligations	682,876	1,987,500	2,670,376	252,620
<b>Total current liabilities</b>	<u>1,325,164</u>	<u>3,538,044</u>	<u>4,863,208</u>	<u>331,368</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	8,757,867	11,019,508	19,777,375	3,164,352
<b>Total noncurrent liabilities</b>	<u>8,757,867</u>	<u>11,019,508</u>	<u>19,777,375</u>	<u>3,164,352</u>
<b>Total liabilities</b>	<u>10,083,031</u>	<u>14,557,552</u>	<u>24,640,583</u>	<u>3,495,720</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,904,146	10,948,774	18,852,920	3,148,009
Restricted for:				
Debt service	33,119	-	33,119	-
Special projects - municipal court	139,048	-	139,048	-
Other purposes	238,778	-	238,778	-
Unrestricted net assets	5,054,417	2,952,528	8,006,945	5,597,637
<b>Total net assets</b>	<u>\$ 13,369,508</u>	<u>\$ 13,901,302</u>	<u>\$ 27,270,810</u>	<u>\$ 8,745,646</u>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2012

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 1,992,271	\$ 94,793	\$ -	\$ -
Public safety	4,073,513	620,749	111,982	-
Public works	2,377,316	-	-	-
Public activities and recreation	1,235,690	161,334	-	-
Cultural arts and public benefits	684,950	-	-	-
Interest on long-term debt	331,816	-	-	-
Total governmental activities	<u>10,695,556</u>	<u>876,876</u>	<u>111,982</u>	<u>-</u>
Business-type activities				
Water and sewer	5,026,141	6,521,880	-	-
Sanitation	2,482,660	2,632,229	-	215,997
Airport	389,402	239,173	5,000	-
Total business-type activities	<u>7,898,203</u>	<u>9,393,282</u>	<u>5,000</u>	<u>215,997</u>
Total primary government	<u>\$ 18,593,759</u>	<u>\$ 10,270,158</u>	<u>\$ 116,982</u>	<u>\$ 215,997</u>
<b>Component Units</b>	<u>\$ 3,170,279</u>	<u>\$ 2,183,737</u>	<u>\$ 200,000</u>	<u>\$ -</u>

General revenues:  
Taxes:  
    Property taxes, levied for general purposes  
    Property taxes, levied for debt service  
    Sales taxes  
    Franchise taxes  
    Other taxes and fees  
Unrestricted investment earnings  
Miscellaneous  
Transfers  
Total general revenues and transfers  
Change in net assets  
Net assets - beginning, as restated  
Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (1,897,478)	\$ -	\$ (1,897,478)	\$ -
(3,340,782)	-	(3,340,782)	-
(2,377,316)	-	(2,377,316)	-
(1,074,356)	-	(1,074,356)	-
(684,950)	-	(684,950)	-
(331,816)	-	(331,816)	-
<u>(9,706,698)</u>	<u>-</u>	<u>(9,706,698)</u>	<u>-</u>
-	1,495,739	1,495,739	-
-	365,566	365,566	-
<u>-</u>	<u>(145,229)</u>	<u>(145,229)</u>	<u>-</u>
-	1,716,076	1,716,076	-
<u>(9,706,698)</u>	<u>1,716,076</u>	<u>(7,990,622)</u>	<u>-</u>
-	-	-	(786,542)
3,437,187	-	3,437,187	-
290,940	-	290,940	-
3,385,962	-	3,385,962	1,128,654
1,099,039	-	1,099,039	-
474,242	-	474,242	-
6,163	5,422	11,585	21,558
924,999	3,608	928,607	-
<u>1,134,962</u>	<u>(1,134,962)</u>	<u>-</u>	<u>140,167</u>
<u>10,753,494</u>	<u>(1,125,932)</u>	<u>9,627,562</u>	<u>1,290,379</u>
1,046,796	590,144	1,636,940	503,837
<u>12,322,712</u>	<u>13,311,158</u>	<u>25,633,870</u>	<u>8,241,809</u>
<u>\$ 13,369,508</u>	<u>\$ 13,901,302</u>	<u>\$ 27,270,810</u>	<u>\$ 8,745,646</u>

**CITY OF BAY CITY, TEXAS**

*BALANCE SHEET*

*GOVERNMENTAL FUNDS*

*September 30, 2012*

	General	2010 Capital Acquisition Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 2,436,206	\$ 1,178,903	\$ 1,245,685	\$ 4,860,794
Receivables (net)	689,227	-	88,974	778,201
Due from other governments	297,295	-	-	297,295
Due from other funds	306,098	-	13,609	319,707
Deferred expenditures	108,116	-	20,520	128,636
<b>Total assets</b>	<b>\$ 3,836,942</b>	<b>\$ 1,178,903</b>	<b>\$ 1,368,788</b>	<b>\$ 6,384,633</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 285,100	\$ 17,804	\$ 14,446	\$ 317,350
Accrued expenditures	37,014	-	-	37,014
Security deposits	-	-	17,248	17,248
Due to other funds	-	287,551	-	287,551
Due to other governments	28,636	-	-	28,636
Deferred revenue	549,850	-	38,493	588,343
<b>Total liabilities</b>	<b>900,600</b>	<b>305,355</b>	<b>70,187</b>	<b>1,276,142</b>
<b>Fund balances</b>				
Nonspendable	108,116	-	-	108,116
Restricted	-	873,548	1,298,601	2,172,149
Assigned	7,201	-	-	7,201
Unassigned	2,821,025	-	-	2,821,025
<b>Total fund balances</b>	<b>2,936,342</b>	<b>873,548</b>	<b>1,298,601</b>	<b>5,108,491</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,836,942</b>	<b>\$ 1,178,903</b>	<b>\$ 1,368,788</b>	<b>\$ 6,384,633</b>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS****RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS  
OF GOVERNMENTAL ACTIVITIES**

September 30, 2012

---

<b>Total governmental fund balances</b>		<b>\$ 5,108,491</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
The internal service fund is used by the City to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.		10,924
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and, therefore, are deferred in the funds.		422,765
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.		143,179
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 36,857,755	
Accumulated depreciation of governmental capital assets	<u>(19,683,636)</u>	17,174,119
Issuance cost related to debt is not a financial resource and, therefore, is not reported in the funds. Issuance cost is amortized over the life of the debt.		154,171
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	(9,102,500)	
Premium on bonds payable	(47,782)	
Notes payable	(290,461)	
Accrued interest payable	(32,111)	
Compensated absences	<u>(171,287)</u>	<u>(9,644,141)</u>
<b>Net assets of governmental activities</b>		<b><u>\$ 13,369,508</u></b>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**

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

**GOVERNMENTAL FUNDS**

For the year ended September 30, 2012

	General	2010 Capital Acquisition Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 8,009,720	\$ -	\$ 754,453	\$ 8,764,173
Licenses and permits	8,947	-	-	8,947
Fines and forfeitures	431,881	-	35,089	466,970
Fees and charges for services	196,518	-	212,390	408,908
Intergovernmental	111,982	-	-	111,982
Investment income	3,373	1,339	1,447	6,159
Miscellaneous	909,465	-	44,761	954,226
<b>Total revenues</b>	<u>9,671,886</u>	<u>1,339</u>	<u>1,048,140</u>	<u>10,721,365</u>
<b>EXPENDITURES</b>				
Current				
General government	1,862,353	-	-	1,862,353
Public safety	3,789,386	-	51,381	3,840,767
Public works	979,266	-	1,912	981,178
Public activities and recreation	1,079,833	-	-	1,079,833
Cultural arts and public benefits	172,388	-	512,562	684,950
Debt service				
Principal retirement	313,759	-	340,000	653,759
Interest and fiscal charges	206,281	-	192,473	398,754
Capital outlay	-	467,801	-	467,801
<b>Total expenditures</b>	<u>8,403,266</u>	<u>467,801</u>	<u>1,098,328</u>	<u>9,969,395</u>
Excess (deficiency) of revenues over expenditures	1,268,620	(466,462)	(50,188)	751,970
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	107,333	-	461,160	568,493
Transfers out	(543,993)	-	(32,879)	(576,872)
<b>Total other financing sources (uses)</b>	<u>(436,660)</u>	<u>-</u>	<u>428,281</u>	<u>(8,379)</u>
Net change in fund balances	831,960	(466,462)	378,093	743,591
Fund balances at beginning of year, as restated	<u>2,104,382</u>	<u>1,340,010</u>	<u>920,508</u>	<u>4,364,900</u>
<b>Fund balances at end of year</b>	<u>\$ 2,936,342</u>	<u>\$ 873,548</u>	<u>\$ 1,298,601</u>	<u>\$ 5,108,491</u>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the year ended September 30, 2012*

---

<b>Total net change in fund balances - governmental funds</b>		<b>\$ 743,591</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
The internal service fund is used by the City to charge the costs of insurance and information technology services to individual funds. The net activity of the internal service funds are reported with governmental activities.		10,924
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets.		791,379
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Increase in capital assets	\$ 482,174	
Depreciation expense	<u>(1,822,936)</u>	(1,340,762)
Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:		
Bond principal retirement	605,000	
Note principal retirement	52,674	
Capital lease principal retirement	<u>59,466</u>	717,140
Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.		
Property taxes	530	
Other revenues	<u>(1,477)</u>	(947)
Some items 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. These activities consist of:		
Decrease in compensated absences	62,448	
Decrease in bond premium	23,885	
Decrease in accrued interest	54,077	
Net decrease in bond issue costs	<u>(14,939)</u>	<u>125,471</u>
<b>Change in net assets of governmental activities</b>		<b>\$ <u>1,046,796</u></b>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
September 30, 2012

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 6,490,797	\$ 321,873	\$ -
Receivables (net)	1,014,525	213,754	72,919
Deferred expenses (net)	2,072	-	475
Inventory	-	-	26,440
<b>Total current assets</b>	<u>7,507,394</u>	<u>535,627</u>	<u>99,834</u>
Noncurrent assets			
Land and other assets not being depreciated	5,197,969	-	23,962
Buildings, improvements, and equipment (net)	11,547,201	2,183,769	932,992
Deferred expenses (net)	388,673	73,589	-
<b>Total noncurrent assets</b>	<u>17,133,843</u>	<u>2,257,358</u>	<u>956,954</u>
<b>Total assets</b>	<u>24,641,237</u>	<u>2,792,985</u>	<u>1,056,788</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	690,702	79,261	3,227
Accrued expenses	5,309	9,547	1,083
Due to other funds	13,609	-	18,547
Due to other governments	-	15,941	-
Accrued interest payable	60,911	4,726	-
Customer deposits	619,826	-	4,600
Accrued compensated absences	47,957	7,446	8
Current portion of bonds and certificates payable	1,750,000	237,500	-
<b>Total current liabilities</b>	<u>3,188,314</u>	<u>354,421</u>	<u>27,465</u>
Noncurrent liabilities			
Bonds and certificates payable (net)	9,393,826	1,625,682	-
<b>Total noncurrent liabilities</b>	<u>9,393,826</u>	<u>1,625,682</u>	<u>-</u>
<b>Total liabilities</b>	<u>12,582,140</u>	<u>1,980,103</u>	<u>27,465</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,671,233	320,587	956,954
Unrestricted net assets	2,387,864	492,295	72,369
<b>Total net assets</b>	<u>\$ 12,059,097</u>	<u>\$ 812,882</u>	<u>\$ 1,029,323</u>

The accompanying notes are an integral part of this statement.

<u>Total</u>	<u>Governmental Activities Internal Service Fund</u>
\$ 6,812,670	\$ 10,568
1,301,198	-
2,547	-
26,440	-
<u>8,142,855</u>	<u>10,568</u>
5,221,931	-
14,663,962	16,599
462,262	-
<u>20,348,155</u>	<u>16,599</u>
<u>28,491,010</u>	<u>27,167</u>
773,190	5,950
15,939	2,876
32,156	-
15,941	-
65,637	-
624,426	-
55,411	7,417
1,987,500	-
<u>3,570,200</u>	<u>16,243</u>
11,019,508	-
<u>11,019,508</u>	<u>-</u>
<u>14,589,708</u>	<u>16,243</u>
10,948,774	16,599
<u>2,952,528</u>	<u>(5,675)</u>
<u>\$ 13,901,302</u>	<u>\$ 10,924</u>

**CITY OF BAY CITY, TEXAS**

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

PROPRIETARY FUNDS

For the year ended September 30, 2012

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
<b>OPERATING REVENUES</b>			
Charges for services	\$ 6,329,586	\$ 2,595,466	\$ 238,397
Rents and miscellaneous fees	192,294	36,763	776
<b>Total operating revenues</b>	<u>6,521,880</u>	<u>2,632,229</u>	<u>239,173</u>
<b>OPERATING EXPENSES</b>			
Water and sewer system	4,129,674	-	-
Sanitation expenses	-	2,077,013	-
Airport expenses	-	-	274,944
Equipment maintenance expenses	-	-	-
Depreciation and amortization	803,479	334,844	114,458
<b>Total operating expenses</b>	<u>4,933,153</u>	<u>2,411,857</u>	<u>389,402</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	1,588,727	220,372	(150,229)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	5,065	357	-
Operating contributions	-	-	5,000
Miscellaneous income	-	3,608	-
Interest and fiscal charges	(92,988)	(70,803)	-
<b>Total nonoperating revenues (expenses)</b>	<u>(87,923)</u>	<u>(66,838)</u>	<u>5,000</u>
Income (loss) before contributions and transfers	1,500,804	153,534	(145,229)
Contributions and transfers			
Capital contributions	-	215,997	-
Transfers in	114,931	-	62,464
Transfers out	(1,264,571)	(47,786)	-
<b>Total contributions and transfers</b>	<u>(1,149,640)</u>	<u>168,211</u>	<u>62,464</u>
Change in net assets	351,164	321,745	(82,765)
Total net assets at beginning of year, as restated	<u>11,707,933</u>	<u>491,137</u>	<u>1,112,088</u>
<b>Total net assets at end of year</b>	<u>\$ 12,059,097</u>	<u>\$ 812,882</u>	<u>\$ 1,029,323</u>

The accompanying notes are an integral part of this statement.

<u>Total</u>	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
\$ 9,163,449	\$ -
229,833	1,706
<u>9,393,282</u>	<u>1,706</u>
4,129,674	-
2,077,013	-
274,944	-
-	228,207
1,252,781	1,509
<u>7,734,412</u>	<u>229,716</u>
1,658,870	(228,010)
5,422	4
5,000	-
3,608	-
(163,791)	-
<u>(149,761)</u>	<u>4</u>
1,509,109	(228,006)
215,997	-
177,395	238,930
(1,312,357)	-
<u>(918,965)</u>	<u>238,930</u>
590,144	10,924
<u>13,311,158</u>	<u>-</u>
<u>\$ 13,901,302</u>	<u>\$ 10,924</u>

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2012

	<u>Business-type Activities</u>		
	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Airport</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 6,682,291	\$ 2,385,852	\$ 195,845
Cash paid to suppliers for goods and services	(2,443,531)	(1,592,301)	(248,505)
Cash paid to employees for services	(1,311,376)	(451,144)	(31,421)
<b>Net cash provided (used) by operating activities</b>	<u>2,927,384</u>	<u>342,407</u>	<u>(84,081)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers (to) from other funds	(1,149,640)	(47,786)	62,464
Borrowings (repayments) to other funds	(165,606)	-	16,942
Miscellaneous income (expense)	-	3,608	5,000
Increase (decrease) in customer deposits	<u>76,920</u>	<u>-</u>	<u>(325)</u>
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(1,238,326)</u>	<u>(44,178)</u>	<u>84,081</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(5,074,624)	-	-
Proceeds from long-term debt	9,566,666	-	-
Principal paid on long-term debt	(1,265,000)	(235,098)	-
Interest paid	(83,850)	(60,813)	-
<b>Net cash provided (used) by capital and related financing activities</b>	<u>3,143,192</u>	<u>(295,911)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	<u>5,065</u>	<u>357</u>	<u>-</u>
<b>Net cash provided (used) by investing activities</b>	<u>5,065</u>	<u>357</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	4,837,315	2,675	-
Cash and cash equivalents at beginning of year	<u>1,653,482</u>	<u>319,198</u>	<u>-</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 6,490,797</u>	<u>\$ 321,873</u>	<u>\$ -</u>

<u>Total</u>	<u>Governmental Activities Internal Service Fund</u>
\$ 9,263,988	\$ 1,706
(4,284,337)	(85,310)
<u>(1,793,941)</u>	<u>(126,653)</u>
3,185,710	(210,257)
(1,134,962)	238,930
(148,664)	-
8,608	-
<u>76,595</u>	<u>-</u>
(1,198,423)	238,930
(5,074,624)	(18,108)
9,566,666	-
(1,500,098)	-
<u>(144,663)</u>	<u>-</u>
2,847,281	(18,108)
<u>5,422</u>	<u>3</u>
5,422	3
4,839,990	10,568
<u>1,972,680</u>	<u>-</u>
<u>\$ 6,812,670</u>	<u>\$ 10,568</u>

	<u>Business-type Activities</u>		
	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Airport</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	<u>\$ 1,588,727</u>	<u>\$ 220,372</u>	<u>\$ (150,229)</u>
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	803,479	334,844	114,458
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	160,411	(48,669)	(43,328)
(Increase) decrease in inventory	-	2,271	(619)
(Increase) decrease in deferred expenses	403	-	(475)
Increase (decrease) in accounts payable	428,340	26,995	(1,795)
Increase (decrease) in accrued expenses	(19,262)	6,396	41
Increase (decrease) in unearned revenue	-	(197,708)	-
Increase (decrease) in compensated absences	<u>(34,714)</u>	<u>(2,094)</u>	<u>(2,134)</u>
Total adjustments	<u>1,338,657</u>	<u>122,035</u>	<u>66,148</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 2,927,384</u>	<u>\$ 342,407</u>	<u>\$ (84,081)</u>
<b>Noncash capital and related financing activities</b>			
Assets acquired from contributions	<u>\$ -</u>	<u>\$ 215,997</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

---

<u>Total</u>	<u>Governmental Activities Internal Service Fund</u>
\$ 1,658,870	\$ (228,010)
1,252,781	1,509
68,414	-
1,652	-
(72)	-
453,540	5,950
(12,825)	2,878
(197,708)	-
<u>(38,942)</u>	<u>7,416</u>
<u>1,526,840</u>	<u>17,753</u>
\$ <u>3,185,710</u>	\$ <u>(210,257)</u>
<u>\$ 215,997</u>	<u>\$ -</u>

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
September 30, 2012

	Bay City Community Development Corporation	Bay City Gas Company	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 2,248,882	\$ 1,443,924	\$ 3,692,806
Investments	-	1,574,606	1,574,606
Receivables, net	-	207,810	207,810
Due from other governments	99,098	-	99,098
Due from employees	-	17,500	17,500
Inventory	-	34,826	34,826
Restricted assets			
Cash and cash equivalents	-	210,993	210,993
Investments	-	206,655	206,655
<b>Total current assets</b>	<u>2,347,980</u>	<u>3,696,314</u>	<u>6,044,294</u>
Noncurrent assets			
Capital assets			
Land and improvements	414,352	-	414,352
Other capital assets (net)	4,480,629	1,302,091	5,782,720
Net capital assets	<u>4,894,981</u>	<u>1,302,091</u>	<u>6,197,072</u>
<b>Total noncurrent assets</b>	<u>4,894,981</u>	<u>1,302,091</u>	<u>6,197,072</u>
<b>Total assets</b>	<u>7,242,961</u>	<u>4,998,405</u>	<u>12,241,366</u>
<b>LIABILITIES</b>			
Accounts payable	20,936	57,812	78,748
Long-term liabilities			
Due within one year	252,620	-	252,620
Due in more than one year	2,796,443	367,909	3,164,352
<b>Total liabilities</b>	<u>3,069,999</u>	<u>425,721</u>	<u>3,495,720</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,845,918	1,302,091	3,148,009
Unrestricted net assets	2,327,044	3,270,593	5,597,637
<b>Total net assets</b>	<u>\$ 4,172,962</u>	<u>\$ 4,572,684</u>	<u>\$ 8,745,646</u>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**

STATEMENT OF ACTIVITIES

COMPONENT UNITS

For the year ended September 30, 2012

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Component Units</b>				
Bay City Community Development Corporation	\$ 959,435	\$ 86,169	\$ 200,000	\$ -
Bay City Gas Company	<u>2,210,844</u>	<u>2,097,568</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 3,170,279</u>	<u>\$ 2,183,737</u>	<u>\$ 200,000</u>	<u>\$ -</u>

General revenues:

Taxes:

Sales taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Component Units		
Bay City Community Dev. Corporation	Bay City Gas Company	Total
\$ (673,266)	\$ -	\$ (673,266)
<u>-</u>	<u>(113,276)</u>	<u>(113,276)</u>
<u>(673,266)</u>	<u>(113,276)</u>	<u>(786,542)</u>
1,128,654	-	1,128,654
4,622	16,936	21,558
<u>140,167</u>	<u>-</u>	<u>140,167</u>
<u>1,273,443</u>	<u>16,936</u>	<u>1,290,379</u>
600,177	(96,340)	503,837
<u>3,572,785</u>	<u>4,669,024</u>	<u>8,241,809</u>
<u>\$ 4,172,962</u>	<u>\$ 4,572,684</u>	<u>\$ 8,745,646</u>

INDEX

<u>Note</u>		<u>Page</u>
1	Summary of Significant Accounting Policies .....	31
2	Stewardship, Compliance, and Accountability.....	38
3	Deposits and Investments .....	38
4	Receivables .....	40
5	Capital Assets.....	41
6	Employees' Retirement Plan .....	43
7	Supplemental Death Benefit Plan.....	45
8	Texas Emergency Services Retirement System .....	46
9	Other Postemployment Benefits (OPEB) .....	48
10	Risk Management.....	49
11	Long-Term Debt .....	50
12	Interfund Receivables, Payables, and Transfers.....	53
13	Restatements of Previously Issued Statements .....	54
14	Fund Balances.....	54
15	Subsequent Events.....	54
16	Bay City Gas Company.....	54

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The City of Bay City, Texas (the "City") is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles (GAAP) in the United States of America, these financial statements have been prepared based on considerations regarding the potential for inclusion of component units, which are other entities or organizations that are financially accountable to the City. Blended component units, although legally separate entities, are, in substance, part of the government's operations, and as a result, data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Based on these considerations, the City's financial statements include the Bay City Gas Company (the Company) and the Bay City Community Development Corporation, (the Corporation) as discretely presented component units. The Corporation has a September 30 year-end and the Company has a March 31 year-end. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by GAAP. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally prescribed criteria under GAAP include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Unit

Bay City Community Development Corporation

The Bay City Community Development Corporation (the "Corporation") has been included in the reporting entity as a discretely presented component unit. In 1994, the Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, and developing commercial, industrial and manufacturing enterprises and to promote and encourage employment and public welfare within the City. The Board of Directors consists of seven members, which are appointed by the City Council. Services provided by the Corporation almost exclusively benefit the City in that the development of the area within the community increases the tax bases, resulting in additional tax revenue to the City. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net assets of the Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type. Complete financial statements for the Company may be obtained from its administrative offices

---

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

A. Reporting Entity - (Continued)

Discretely Presented Component Unit

Bay City Gas Company

The Bay City Gas Company (the "Gas Company") has been included in the reporting entity as a discretely presented component unit. The Gas Company provides for the distribution of natural gas services throughout the City, is controlled by a permanent three-person board, which was originally appointed by Victor LeTulle, who contributed the gas distribution system to the City in 1938. The board is comprised of two lifetime members with the City's mayor serving as the third member. The board is self-perpetuating with the lifetime members appointing their successors. The board is responsible for the daily operations and policies of the gas utility. The Gas Company is not separately incorporated and utilizes the City's municipal exemption from property, income and sales tax.

Historically, the Gas Company has made contributions from its profits to the City for capital improvements. Also included as part of these contributions are gas services to City facilities and volunteer firemen, which are not billed by the Gas Company. For the year ended March 31, 2012 these contributions totaled \$417,550. Complete financial statements for the Gas Company may be obtained from its administrative offices.

B. Government-wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

---

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The City has two Capital Project Funds, one of which has been reported as a major fund. The 2010 Capital Acquisition Fund is used to account for the proceeds and expenditures of the 2010 debt issue.

The City reports the following major proprietary funds:

Enterprise Funds are used to account for operations: 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

---

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The Water and Sewer Fund accounts for the activities of the City related to its sewage treatment plant and water distribution system.

The Sanitation Fund accounts for the operation of the City's sanitation service. The principal sources of revenues are charges to customers.

The Airport Fund accounts for the operation of the City's airport.

Additionally, the City reports the following fund types:

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

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City maintains one Internal Service Fund, the Equipment Maintenance Fund.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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 non-operating revenues and expenses.

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

---

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Annual appropriated budgets are adopted for the General Fund and Debt Service Fund using the same basis of accounting as for financial reporting. All annual appropriations lapse at year-end. Expenditures may not legally exceed budgeted appropriations at the department level. Expenditure requests, which would require an increase in the total budgeted appropriations must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function or department, to another activity function, or department, to re-estimate revenues and expenditures, and to amend the budget.

Management has the authority to transfer available funds allocated by the budget from one function or activity to another function or activity within the same department.

In cooperation with the department heads of the City, the City Finance Director prepares an annual budget for the General Fund, certain Special Revenue Funds and the Debt Service Fund for the ensuing fiscal year, in a form and style as deemed desirable by Council. The budgets, as adopted must set forth the appropriations for services, functions, and activities of the various City departments and agencies, and shall meet all fund requirements provided by law and applicable bond covenants.

E. Deposits and Investments

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

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

As of September 30, 2012, the City has adopted a formal investment policy.

---

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes. The allowance on the unpaid property taxes is equal to 10% of the outstanding property taxes and the allowance on the penalties and interest is equal to 70% of the assessed amount.

G. Inventory and Prepaid Items

Inventory is valued at the lower of cost (first-in, first-out) or market. Estimated cost is used when actual cost figures are not available. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as deferred expenditures (governmental funds) or prepaid expenses (proprietary funds) in the fund financial statements and as deferred expenditures/expenses in the government-wide financial statements.

H. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on capital assets of business-type activities when acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred during the period of construction until completion of the project with interest earned on invested proceeds over the same period.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39
Improvements other than buildings	39
Water and wastewater distribution system	25-50
Machinery and equipment	5-15
Public domain infrastructure	25-50

---

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

I. Compensated Absences

The City allows twelve days sick leave per year for each full-time employee and further allows each employee to accumulate an unlimited number of days of sick leave. Upon termination, there is no provision to pay the employee for accumulated sick days.

The City's employees earn vacation which may be either taken or accumulated, up to certain amounts. Only earned leave is paid upon termination or retirement. A liability for this amount is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

All compensated absences pay is accrued when incurred in the government-wide and proprietary fund financial statements.

J. Long-Term Obligations

In the government-wide financial statements, and in proprietary fund types in the 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 type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using 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. Losses or gains on refunding are capitalized and amortized over the shorter life of the new issuance or the life on existing 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.

K. Fund Equity

Fund balances of Governmental Funds classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Council through a resolution. Once the resolution is passed, the commitment remains in place until another resolution is passed to remove or revise the commitment.

Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. The Council has by resolution authorized the Finance Director or his/her designee to assign fund balance. Unlike commitments, assignments generally only exist temporarily and a formal action by the Council does not have to occur in order to remove the assignment.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

L. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

---

**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Compliance

There were two departments where expenditures exceeded the amount appropriated during the fiscal year 2011-2012.

<u>General Fund - Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
City secretary	\$ 247,047	\$ 250,637	\$ 3,590
Debt service	512,724	520,040	7,316

These expenditures were funded by an available fund balance in the General Fund.

**NOTE 3: DEPOSITS AND INVESTMENTS**

The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Public Funds Investment Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City's and the depository bank's agent bank. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance.

As of September 30, 2012, the City had the following investments:

<u>Investment Type</u>	<u>Weighted Average Amortized Cost</u>	<u>Maturity (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 3,403,694	32
TexStar	4,069,889	48

The pools operates in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pool is the State of Texas. The pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. TexPool's weighted average maturity cannot exceed 60 days.

---

**NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**

Credit Risk

The investment pools operate in full compliance with the Public Funds Investment Act. TexPool and TexStar are rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 110 percent of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the City was not exposed to custodial credit risk.

The deposits of the Bay City Community Development Corporation, a discretely presented component unit, were appropriately covered by a depository collateral pledge contract in accordance with the Public Funds Investment Act. It has been determined by the City's management that the FDIC will not honor this agreement since the Corporation does not meet the definition of a public entity. Therefore as of September 30, 2012 the Corporation's deposits were uninsured in the amount of \$1,524,044.

Custodial Credit Risk - Investments

For an investment, this 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. All of the City's investments are invested in TexPool TexStar and it has no custodial credit risk.

**NOTE 4: RECEIVABLES**

Receivables at September 30, 2012, consist of the following:

	<u>General</u>	<u>Water and Sewer</u>	<u>Airport Fund</u>	<u>Sanitation Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:						
Accounts	\$ 36,969	\$ 1,035,188	\$ 84,014	\$ 217,072	\$ 13,495	\$ 1,386,738
Ad valorem taxes	779,081	-	-	-	22,809	801,890
Franchise taxes	97,991	-	-	-	-	97,991
Other	94,441	-	-	-	57,907	152,348
Total gross receivables	1,008,482	1,035,188	84,014	217,072	94,211	2,438,967
Less: allowances	<u>319,255</u>	<u>20,663</u>	<u>11,095</u>	<u>3,318</u>	<u>5,237</u>	<u>359,568</u>
Total net receivables	<u>\$ 689,227</u>	<u>\$ 1,014,525</u>	<u>\$ 72,919</u>	<u>\$ 213,754</u>	<u>\$ 88,974</u>	<u>\$ 2,079,399</u>

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 504,838	\$ -	\$ 504,838
Fines	45,012	-	45,012
Debt Service Fund			
Ad valorem taxes	17,572	-	17,572
Nonmajor special revenue			
Fines and forfeitures	-	20,921	20,921
	<u>\$ 567,422</u>	<u>\$ 20,921</u>	<u>\$ 588,343</u>

The City's property taxes are levied annually on October 1<sup>st</sup> on the basis of the Appraisal District's assessed values as of January 1<sup>st</sup> of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. The City's property taxes are billed and collected by the Matagorda County Tax Office and are due and payable on January 31<sup>st</sup>. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on the property on January 1<sup>st</sup> of the subsequent calendar year.

For the current year, the City levied property taxes of \$0.56981 per \$100 of assessed valuation, for maintenance and operations, \$0.52460 and interest and sinking, \$0.04521. The resulting adjusted total tax levy was \$3,728,504 on the total adjusted taxable valuation of \$654,341,623 for the 2011 tax roll.

**NOTE 5: CAPITAL ASSETS**

The City's capital assets activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,460,085	\$ -	\$ -	\$ 1,460,085
Construction in progress	1,645,439	1,328,445	-	2,973,884
Total capital assets not being depreciated	<u>3,105,524</u>	<u>1,328,445</u>	<u>-</u>	<u>4,433,969</u>
Capital assets, being depreciated				
Machinery and equipment	6,852,972	65,028	396,599	6,521,401
Buildings	2,750,595	11,220	-	2,761,815
Infrastructure	23,158,678	-	-	23,158,678
Total capital assets being depreciated	<u>32,762,245</u>	<u>76,248</u>	<u>396,599</u>	<u>32,441,894</u>
Less accumulated depreciation for				
Machinery and equipment	4,380,381	690,688	283,567	4,787,502
Buildings	2,485,942	302,750	-	2,788,692
Infrastructure	11,277,944	831,007	-	12,108,951
Total accumulated depreciation	<u>18,144,267</u>	<u>1,824,445</u>	<u>283,567</u>	<u>19,685,145</u>
Total capital assets being depreciated, net	<u>14,617,978</u>	<u>(1,748,197)</u>	<u>113,032</u>	<u>12,756,749</u>
Governmental activities capital assets, net	<u>\$ 17,723,502</u>	<u>\$ (419,752)</u>	<u>\$ 113,032</u>	<u>\$17,190,718</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 381,117	\$ -	\$ -	\$ 381,117
Construction in progress	-	4,840,814	-	4,840,814
Total capital assets not being depreciated	<u>381,117</u>	<u>4,840,814</u>	<u>-</u>	<u>5,221,931</u>
Capital assets, being depreciated				
Machinery and equipment	6,006,777	250,203	93,926	6,163,054
Buildings and improvements	1,310,130	-	-	1,310,130
Infrastructure	23,953,861	64,918	-	24,018,779
Total capital assets being depreciated	<u>31,270,768</u>	<u>315,121</u>	<u>93,926</u>	<u>31,491,963</u>
Less accumulated depreciation for				
Machinery and equipment	3,162,265	461,583	93,926	3,529,922
Buildings and improvements	559,058	25,212	-	584,270
Infrastructure	12,064,852	648,957	-	12,713,809
Total accumulated depreciation	<u>15,786,175</u>	<u>1,135,752</u>	<u>93,926</u>	<u>16,828,001</u>
Total capital assets being depreciated, net	<u>15,484,593</u>	<u>(820,631)</u>	<u>-</u>	<u>14,663,962</u>
Business-type activities capital assets, net	<u>\$ 15,865,710</u>	<u>\$ 4,020,183</u>	<u>\$ -</u>	<u>\$19,885,893</u>

**NOTE 5: CAPITAL ASSETS - (Continued)**

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

<b>Governmental activities</b>		
General government		\$ 91,286
Public safety		201,649
Public works		1,423,661
Public activities and recreation		<u>107,849</u>
Total depreciation expense - governmental activities		<u>\$ 1,824,445</u>
<b>Business-type activities</b>		
Water and sewer		\$ 686,450
Sanitation		334,844
Airport		<u>114,458</u>
Total depreciation expense - business-type activities		<u>\$ 1,135,752</u>

The City's capital assets activity for the Bay City Community Development Corporation, a discretely presented component unit for the year ended September 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 414,352	\$ -	\$ -	\$ 414,352
Total capital assets not being depreciated	<u>414,352</u>	<u>-</u>	<u>-</u>	<u>414,352</u>
Capital assets, being depreciated				
Machinery and equipment	132,083	-	-	132,083
Buildings	5,317,088	-	-	5,317,088
Total capital assets being depreciated	<u>5,449,171</u>	<u>-</u>	<u>-</u>	<u>5,449,171</u>
Less accumulated depreciation for				
Machinery and equipment	101,906	25,565	-	127,471
Buildings	705,499	135,572	-	841,071
Total accumulated depreciation	<u>807,405</u>	<u>161,137</u>	<u>-</u>	<u>968,542</u>
Total capital assets being depreciated, net	<u>4,641,766</u>	<u>(161,137)</u>	<u>-</u>	<u>4,480,629</u>
Bay City City Development Corporation capital assets, net	<u>\$ 5,056,118</u>	<u>\$ (161,137)</u>	<u>\$ -</u>	<u>\$ 4,894,981</u>

Depreciation expense of \$161,137 was recorded for the year ended September 30, 2012.

---

**NOTE 6: EMPLOYEES' RETIREMENT PLAN**Plan Description

The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

**NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)**

Contributions - (Continued)

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation (asset) are as follows:

Contributions Required and Contributions Made			
Year Ended September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 626,187	100%	\$ -
2011	685,768	100%	-
2010	635,670	100%	-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

	Actuarial Valuation Information		
	12/31/11	12/31/10	12/31/09
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit
Amortization method	level percent of payroll	level percent of payroll	level percent of payroll
GASB 25 equivalent single amortization period	26.1 years; closed period	27.1 years; closed period	28.2 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Investment rate of return *	7.0%	7.0%	7.5%
Projected salary increases *	varies by age and service	varies by age and service	varies by age and service
*Includes Inflation at Cost of living adjustments	3.0%	3.0%	3.0%
	2.1%	2.1%	2.1%

---

**NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)**

Funded Status and Funding Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
12/31/11	\$ 22,632,103	\$ 26,194,806	\$ 3,562,703	86.40%	\$ 6,363,799	56.00%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1<sup>st</sup> of any year to be effective the following January 1<sup>st</sup>.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retired term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2012, 2011, and 2010 were \$3,131, \$4,114, and \$3,814, respectively, which equaled the required contributions each year.

---

**NOTE 8: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

Plan Description

The Fire Fighters' Pension Commissioner (FFPC) is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. The Office of the FFPC issues a publicly available annual financial report that includes financial statements and required supplementary information (RSI). This report may be obtained by writing to FFPC, 920 Colorado Street, 11<sup>th</sup> Floor, Austin, Texas 78701 in addition, the report is available on FFPC's website at [www.ffpc.state.tx.us](http://www.ffpc.state.tx.us). At August 31, 2010, there were 199 members of fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2010, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,167
Terminated participants entitled to benefits but not yet receiving them	2,106
Active participants (vested and nonvested)	<u>4,371</u>
	<u>8,644</u>

Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005) recodified the provision and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off duty death benefits and on duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contribution provisions were originally established by Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

**NOTE 8: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)**

Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2010, total contributions (dues and prior services) of \$2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The State did not appropriate any maximum state contribution for the fiscal years ending August 31, 2010 and 2011. Total contributions made were equal to the contributions required by the state statute and were equal to the contributions required based on the revised August 31, 2008, actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the financing arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010, revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual state appropriations for the fiscal year ending August 31, 2010, (\$502,941 to help pay for the TESRS's administrative expenses) and with the assumed continuation of legislative appropriations of 1) the maximum state contribution amount in future years for up to 30 years as is necessary for the TESRS to have a 30-year amortization period, and 2) approximately \$500,000 each year to help pay for the TESRS's administrative expenses. Expected contributions for the fiscal year ending August 31, 2011 are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriations process.

Without the expected future annual contributions from the state, TESRS would have an inadequate contribution arrangement.

Three-Year Trend Information - State-wide

Fiscal Year Ending August 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
2010	\$ 2,875,103 <sup>3</sup>	\$ 2,875,103	100%
2009	2,698,271 <sup>3</sup>	2,698,271	100%
2008	3,160,764 <sup>2</sup>	11,239,339 <sup>1</sup>	356%

<sup>1</sup> Includes a state contribution of \$8,800,000.

<sup>2</sup> Based on the August 31, 2006, actuarial valuation.

<sup>3</sup> Based on the August 31, 2008, actuarial valuation.

State contributions to the City's plan for the fiscal year 2012 has been deemed insignificant to the financial statements. Therefore, no amounts have been recognized as revenues and expenditures during the period.

Three-Year Trend Information - City of Bay City, Texas

Year Ended September 30	Annual Required Contributions (ARC)	Percentage Contributed	Net Obligation
2012	\$ 3,600	100%	\$ -
2011	3,600	100%	-
2010	-	100%	-

**NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description

In addition to providing pension benefits, the City provides its retirees with postemployment health care benefits through a single-employer postemployment healthcare plan (the "plan"). A separate audited financial report is not issued on the plan. The plan provides medical benefits to eligible retired City employees and their beneficiaries. A City employee whom retires under a disability retirement is immediately eligible for retiree health care benefits. In order for a City employee to be eligible for this benefit, he or she needs 20 or more years of service. The benefit ceases when the retired employee becomes eligible for Medicare and the retired employee's spouse may continue coverage until he/she becomes Medicare eligible. Spousal benefit ceases upon the death of the retiree.

Funding Policy

Retirees pay 100% of the monthly premium for health coverage. As of October 1, 2011, the retiree premiums are as follows: "Employee Only" - \$708.43, "Employee and Family" - \$1,558.54.

The City is under no obligation, statutory or otherwise, to pay any portion of the cost of postemployment benefits to any retirees. Allocation of City funds to pay other postemployment benefits is determined on an annual basis by the City Council as part of the budget process.

Annual OPEB Expense

For 2012, the City's annual OPEB expense of \$16,115 was equal to the annual required contribution (ARC). The City's annual OPEB expense, the percent of annual OPEB expense contributed to the plan, and the net OPEB obligation for 2012 and 2011 are as follows:

<u>Year End September 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 16,115	0.00%	\$ 32,230
2011	16,115	0.00%	16,115

Funded Status and Funding Progress

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
09/30/2011	\$ -	\$ 95,548	\$ 95,548	0.00%	\$ 6,300,000	1.52%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

---

**NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) - (Continued)**

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

	<u>Actuarial Valuation Information</u>
	<u>12/31/10</u>
Actuarial cost method	projected unit credit
Amortization method	level percent of payroll
Amortization period in years	30 - closed
Asset valuation method	fair value
Healthcare trend rate *	5.00%
Projected salary increases *	3.00%
Investment rate of return *	2.25%

\*Includes an inflation adjustment of 3.00%.

**NOTE 10: RISK MANAGEMENT**

The City is exposed to various risks of loss encompassed in the areas of general liabilities, workers' compensation claims, and employee health related expenses. The City has purchased general liability and workers' compensation insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool for general liability and workers' compensation coverage. Through the payment of contributions to the Texas Municipal League Intergovernmental Risk Pool, the City has transferred these risks to the pool. The City has not retained any risks other than the deductible and is covered up to the limits of coverage after the deductible. Settlements of claims did not exceed insurance coverage for any of the past three years.

The City has also entered into an interlocal agreement with the Texas Municipal League Group Benefits Risk Pool for health insurance for its employees. The City pays the health care premiums for City employees. Employees have the option of paying dependent coverage via payroll deductions. The City has no liability for any claims incurred by participants in this plan.

**NOTE 11: LONG-TERM DEBT**

A. Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Bonds and certificates payable					
General obligation bonds	\$ 4,420,000	\$ -	\$ 265,000	\$ 4,155,000	\$ 275,000
Certificates of obligation	5,287,500	-	340,000	4,947,500	352,500
Plus deferred amounts:					
Bond premium	<u>71,667</u>	<u>-</u>	<u>23,885</u>	<u>47,782</u>	<u>-</u>
Total bonds and certificates payable	<u>9,779,167</u>	<u>-</u>	<u>628,885</u>	<u>9,150,282</u>	<u>627,500</u>
Notes payable	343,135	-	52,674	290,461	55,376
Capital leases	59,466	-	59,466	-	-
Compensated absences	<u>233,735</u>	<u>204,365</u>	<u>266,813</u>	<u>171,287</u>	<u>163,870</u>
Total governmental activity long-term liabilities	<u>\$ 10,415,503</u>	<u>\$ 204,365</u>	<u>\$ 1,007,838</u>	<u>\$ 9,612,030</u>	<u>\$ 846,746</u>
<b>Business-type activities</b>					
Bonds and certificates payable					
General obligation bonds	\$ 2,795,000	\$ -	\$ 1,265,000	\$ 1,530,000	\$ 1,305,000
Certificates of obligation	2,057,500	9,530,000	230,000	11,357,500	682,500
Plus deferred amounts:					
Bond premium	<u>112,436</u>	<u>36,666</u>	<u>29,594</u>	<u>119,508</u>	<u>-</u>
Total bonds and certificates payable	<u>4,964,936</u>	<u>9,566,666</u>	<u>1,524,594</u>	<u>13,007,008</u>	<u>1,987,500</u>
Compensated absences	<u>94,353</u>	<u>45,688</u>	<u>84,630</u>	<u>55,411</u>	<u>94,353</u>
Total business-type activity long-term liabilities	<u>\$ 5,059,289</u>	<u>\$ 9,612,354</u>	<u>\$ 1,609,224</u>	<u>\$ 13,062,419</u>	<u>\$ 2,081,853</u>

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The bonds have been issued for both governmental and business-type activities.

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Refunding Series 2009	2009 - 2014	3.00%	\$ 3,775,000
Refunding Series 2004	2004 - 2024	3.00% - 4.50%	6,000,000
Refunding Series 2003	2004 - 2013	2.00% - 3.00%	1,445,000

---

**NOTE 11: LONG-TERM DEBT - (Continued)**General Obligation Bonds - (Continued)

Annual debt service requirements to maturity for general obligation refunding bonds are as follows:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 275,000	\$ 173,305	\$ 1,305,000	\$ 45,900	\$ 1,799,205
2014	285,000	160,930	225,000	3,710	674,640
2015	295,000	150,812	-	-	445,812
2016	305,000	139,750	-	-	444,750
2017	320,000	128,008	-	-	448,008
2018-2022	1,825,000	431,628	-	-	2,256,628
2023-2025	850,000	57,618	-	-	907,618
	<u>\$ 4,155,000</u>	<u>\$ 1,242,051</u>	<u>\$ 1,530,000</u>	<u>\$ 49,610</u>	<u>\$ 6,976,661</u>

Combination Tax and Revenue Certificates of Obligation

The City also issues combination tax and revenue certificates of obligation (C.O.'s) to provide funds for the acquisition and construction of major capital facilities payable from the proceeds of an annual ad valorem tax and further payable from a junior and subordinate pledge of the net revenues of the City's water and sewer system. The C.O.'s have been issued for both governmental and business-type activities. C.O.'s currently outstanding are as follows:

	Term	Interest Rate	Original Amount
Certificates of Obligation 2009 Series	2009-2019	3.00% - 3.50%	\$ 5,000,000
Certificates of Obligation 2010 Series	2010-2030	4.50%	3,300,000
Certificates of Obligation 2012 Series	2013-2027	0.7% - 3.3%	9,530,000

Annual debt service requirements to maturity for certificates of obligation are as follows:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 352,500	\$ 199,387	\$ 682,500	\$ 361,329	\$ 1,595,716
2014	365,000	187,088	775,000	302,113	1,629,201
2015	377,500	174,338	797,500	284,163	1,633,501
2016	395,000	161,138	825,000	265,687	1,646,825
2017	407,500	147,262	847,500	246,588	1,648,850
2018-2022	1,360,000	520,787	3,745,000	885,987	6,511,774
2023-2027	985,000	295,425	3,685,000	351,650	5,317,075
2028-2030	705,000	64,350	-	-	769,350
	<u>\$ 4,947,500</u>	<u>\$ 1,749,775</u>	<u>\$ 11,357,500</u>	<u>\$ 2,697,517</u>	<u>\$ 20,752,292</u>

---

**NOTE 11: LONG-TERM DEBT - (Continued)**

Notes Payable

The City has entered into a note payable agreement with Prosperity Bank. The proceeds from this note payable were used to renovate the 16<sup>th</sup> Street Swimming Pool. Annual installments on this note are \$53,288 with a maturity date of 2017. The note bears interest at 5.074% and has an outstanding balance of \$229,554 at September 30, 2012. The City has entered into an inter-local agreement with the Bay City Independent School District, in which the Bay City Independent School District is responsible for paying \$16,000 annually of the required installments.

The City has also entered into a note payable agreement with Prosperity Bank. The proceeds of this note were used to purchase various technology equipment. This note bears interest of 5.4%, monthly payments of \$1,377, and a maturity date of 2016. The balance outstanding at September 30, 2012 was \$60,907. The General Fund is responsible for servicing this debt.

Annual debt service requirements to maturity for the notes payable are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2013	\$ 55,376	\$ 14,434	\$ 69,810
2014	58,218	11,592	69,810
2015	61,206	8,605	69,811
2016	64,347	5,464	69,811
2017	51,314	2,479	53,793
	<u>\$ 290,461</u>	<u>\$ 42,574</u>	<u>\$ 333,035</u>

Bay City Community Development Corporation - Note Payable

The Corporation entered into a note agreement with Wells Fargo Bank. The proceeds from this note were used to renovate a training facility. Quarterly installments on this note total \$97,953. The note bears interest of 4.71% and the outstanding balance at September 30, 2012 was \$3,049,063. The Corporation, a discretely presented component unit of the City, is responsible for servicing this debt.

Annual debt service requirements to maturity for the note payable are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2013	\$ 252,620	\$ 139,193	\$ 391,813
2014	264,730	127,082	391,812
2015	277,421	114,392	391,813
2016	290,720	101,092	391,812
2017	304,656	87,156	391,812
2018-2022	<u>1,658,916</u>	<u>202,372</u>	<u>1,861,288</u>
	<u>\$ 3,049,063</u>	<u>\$ 771,287</u>	<u>\$ 3,820,350</u>

**NOTE 12: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2012, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	2010 Capital Acquisition	\$ 287,551
	Airport	18,547
Nonmajor Special Revenue	Water and Sewer	<u>13,609</u>
		<u>\$ 319,707</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise funds to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>					<u>Total</u>
	<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Internal Service Fund</u>	<u>Nonmajor Govt. Funds</u>	
General	\$ -	\$ 114,931	\$ 62,464	\$ 143,358	\$ 223,240	\$ 543,993
Nonmajor Govt. Funds	32,279	-	-	-	600	32,879
Sanitation	-	-	-	47,786	-	47,786
Water and Sewer	<u>75,054</u>	<u>-</u>	<u>-</u>	<u>47,786</u>	<u>237,320</u>	<u>360,160</u>
	<u>\$ 107,333</u>	<u>\$ 114,931</u>	<u>\$ 62,464</u>	<u>\$ 238,930</u>	<u>\$ 461,160</u>	<u>\$ 984,818</u>

The table above does not include \$904,411 of transfers out reported in the Utility Fund since it involves the transfer of capital assets to the governmental funds. The \$904,411 is reported in the government-wide financial statements as a transfer in as part of the overall transfers.

---

**NOTE 13: RESTATEMENTS OF PREVIOUSLY ISSUED STATEMENTS**

There were various restatements made to the beginning balances of the governmental activities. The net effect of the restatement resulted in a decrease in the beginning net assets of \$3,542,307. The restatement was necessary because the Corporation had been reported as a blended component unit in prior years and due to a change in the composition of the governing body the Corporation is now reported as a discretely presented component unit. There was also a restatement to the beginning net assets in the Water and Sewer Fund of \$69,061 which resulted in an increase in the previously reported amount. The correction was a result of an error in reporting the prior year accounts payable.

**NOTE 14: FUND BALANCES**

The following is a detail of the governmental fund balances at September 30, 2012.

	Governmental Fund Balances				
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total</u>
General					
Deferred expenditures	\$ 108,116	\$ -	\$ -	\$ -	\$ 108,116
Employee committee	-	-	7,201	-	7,201
Unassigned	-	-	-	2,821,025	2,821,025
2010 Capital Acquisition Fund	-	873,548	-	-	873,548
Nonmajor Governmental					
Tourism	-	238,778	-	-	238,778
Retirement of long-term debt	-	11,275	-	-	11,275
Municipal court	-	105,786	-	-	105,786
State and federal grant programs	-	407,388	-	-	407,388
Public safety	-	33,262	-	-	33,262
Various capital projects	-	502,112	-	-	502,112
	<u>\$ 108,116</u>	<u>\$ 2,172,149</u>	<u>\$ 7,201</u>	<u>\$ 2,821,025</u>	<u>\$ 5,108,491</u>

**NOTE 15: SUBSEQUENT EVENTS**

In February 2013, the City issued tax notes of \$654,000 for the purchase of a fire truck. The notes are due in annual installments ranging from \$57,000 to \$104,000 through 2019, interest at 1.37%.

In March 2013, the City issued General Obligation Refunding Bonds, Series 2013 in the amount of \$5,125,000. The bonds are due in annual installments ranging from \$330,000 to \$1,130,000 through 2024 with interest varying from 1.00% to 2.00%. The proceeds from the bonds will be used to advance refund \$4,975,000 of the City's Combination Tax and Revenue Certificates of Obligation, Series 2004, the General Obligation Refunding Bonds, Series 2003 and to pay the costs of issuance of the bonds.

**NOTE 16: BAY CITY GAS COMPANY****A. Summary of Significant Accounting Policies**

The combined financial statements of Bay City Gas Company (A Component Unit of the City of Bay City, Texas) (the "Company") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

---

**NOTE 16: BAY CITY GAS COMPANY - (Continued)**

1. Reporting Entity

The Bay City Gas Company is a component unit of the City of Bay City, Texas, and designated profits are used primarily for capital improvements of the City. The Bay City Gas Company is a single purpose government engaged in a business-type activity. The Company has no oversight responsibility for any other governmental entity since no entities are considered to be controlled by or dependent upon them. The Board of Trustees consists of the current Mayor of the City of Bay City, Texas, and two lifetime members. The surviving life trustee appoints the new lifetime member. The Board of Trustees has the authority to significantly influence operations and to hire management. They are responsible and accountable for all fiscal matters.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Governments engaged in a single business-type activity present only the enterprise fund financial statements, as they would only mirror the government-wide statements. The required statements under GASB No. 34 are the statement of net assets, statement of revenues, expenses and changes in fund net assets, and statement of cash flows.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Company is a single purpose enterprise fund.

b. Measurement Focus, Basis of Accounting

Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

When the Company incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Company's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The Company has chosen not to apply future FASB standards.

---

**NOTE 16: BAY CITY GAS COMPANY - (Continued)**

3. Financial Statement Accounts

a. Cash and Investments

The Company's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Public Funds Investment Act and local policy authorizes the Company to invest in obligations of the US Treasury, certificates of deposit, repurchase agreements, commercial paper, mutual funds and public funds investment pools. Investments for the Company are reported at fair value. Public funds investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The Company invested with TexPool, a 2a7-like pool governed by the State Comptroller of Public Accounts.

b. Inventories and Prepaid Items

Inventories on the balance sheet are stated at latest cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$2,500 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Utility system	20-40
Buildings	40
Furniture and fixtures	7-10
Vehicles	5-10
Equipment	3-10

d. Receivable and Payable Balances

The Company believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. The accounts receivable have been reduced by \$17,620 in allowance for uncollectible accounts.

There are no significant receivables which are not scheduled for collection within one year of year-end.

---

**NOTE 16: BAY CITY GAS COMPANY - (Continued)**

e. Compensated Absences

It is the policy of the Company to permit employees to accrue paid time off based on years of service. Unused paid time off may accumulate and carry forward up to a maximum of 280 hours which is paid upon termination. At March 31, 2012 the amount of accrued paid time off was determined to be immaterial to these financial statements and thus not recorded.

f. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. Compliance and Accountability

Budgetary Data

Although proprietary funds are not required to adopt an annual budget, the Company has chosen to prepare and adopt annual budgets to aid in planning and monitoring of its activities. There were some insignificant variances in budget to actual as shown in the supplementary schedule.

C. Deposits and Investments

The Company's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Company's agent bank approved pledged securities in an amount sufficient to protect Company funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At March 31, 2012, the carrying amount of the Company's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,010,543 and the bank balance was \$3,028,338. The Company's cash deposits at March 31, 2012 and during the year ended March 31, 2012, were not entirely covered by FDIC insurance or by pledged collateral held by the Company's agent bank in the Company's name as noted below under investments.

---

**NOTE 16: BAY CITY GAS COMPANY - (Continued)****C. Deposits and Investments - (Continued)**

The Company's investments at March 31, 2012 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Rating</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
Certificates of Deposit - Participating	>1 yr < 3 yrs	FDIC	\$ 948,645	53.26%
Certificates of Deposit - Nonparticipating	>1 yr < 3 yrs	FDIC	409,129	22.97%
Federal Home Loan Bank	>1 yr < 5 yrs	Aaa	301,468	16.92%
GE Cap Corp Sr Notes	> 5 years	A1	78,120	4.39%
GNMA Pool	> 5 years	Not Rated	4,074	0.23%
UBS Ag PfdTr IV	> 5 years	Baa3	<u>39,825</u>	<u>2.24%</u>
Total Investments			<u>\$ 1,781,261</u>	<u>100.00%</u>

**Included in Cash:**

TexPool	N/A	Aaa	\$ 856
Capital One brokerage	N/A	FDIC	117,212
UBS Money Market Funds	N/A	FDIC	250,000
UBS Money Market Funds	N/A	Unins/Uncoll	566,779
Edward Jones Money Market Funds	N/A	SIPC	<u>171,385</u>
			<u>\$ 1,106,232</u>

**Analysis of Specific Deposit and Investment Risks:**

GASB Statement No. 40 requires a determination as to whether the Company was exposed to the following specific investment risks at year-end and if so, the reporting of certain related disclosures:

**a. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The Company policy is to exercise judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of principal as well as the probable income to be derived. The ratings for investments owned at year-end are included in the table above.

**b. Concentration of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is Company policy to diversify investments based on maturity and type of instrument. The Company policy places no limit on the amount that may be invested in any one issuer. At year end, the Company had several investments in excess of 5% as shown in the table above.

**NOTE 16: BAY CITY GAS COMPANY - (Continued)**

B. Deposits and Investments - (Continued)

c. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company limits its exposure to interest rate risk by diversifying its investments by security type and institution. It restricts maturities to three years on certificates of deposit, ninety days on money market mutual funds, less than two years on most other investments, with the exception of obligation of governmental entities or their agencies, which can be up to thirty years.

d. Custodial Credit Risk

This is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company's deposit policy is to use only federal or state chartered depositories for its funds and investments domiciled in the State of Texas in which deposits are insured by federal agencies that secure bank deposits. At March 31, 2012, \$566,779 of the Company's \$3,028,338 in bank deposits were uninsured and uncollateralized.

D. Capital Assets

Capital asset activity for the year ended March 31, 2012, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets, being depreciated:</i>				
Utility plant	\$2,107,118	\$ -	\$ -	\$2,107,118
Buildings and improvements	520,800	-	-	520,800
Equipment	343,438	34,545	-	377,983
Vehicles	181,362	18,171	-	199,533
Total capital assets being depreciated	<u>3,152,718</u>	<u>52,716</u>	<u>-</u>	<u>3,205,434</u>
Less accumulated depreciation for:				
Utility plant	(1,224,181)	(52,678)	-	(1,276,859)
Buildings and improvements	(285,180)	(13,140)	-	(298,320)
Equipment	(199,241)	(18,752)	-	(217,993)
Vehicles	(93,073)	(17,098)	-	(110,171)
Total accumulated depreciation	<u>(1,801,675)</u>	<u>(101,668)</u>	<u>-</u>	<u>(1,903,343)</u>
Total capital assets being depreciated, net	<u>1,351,043</u>	<u>(48,952)</u>	<u>-</u>	<u>1,302,091</u>
Business-type activities capital assets, net	<u>\$1,351,043</u>	<u>\$ (48,952)</u>	<u>\$ -</u>	<u>\$1,302,091</u>

Depreciation of \$101,668 was charged to the only function of providing natural gas.

**NOTE 16: BAY CITY GAS COMPANY - (Continued)**

E. Risk Management

The Company is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the Company purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

F. Pension Plan

1. Plan Description

The Company provides pension and supplemental death benefits for all of its eligible employees by participating in the City of Bay City's non-traditional, joint contributory, hybrid defined benefit plan with the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the Company are within the options available in the governing state statutes of TMRS.

Since the Company participates with the City of Bay City, information related to the actuarial valuation of assets, accrued liability, funded ratio, unfunded liability, covered payroll and unfunded actuarial liability as a percentage of covered payroll is included in the totals for the City of Bay City, Texas. This information may be obtained by writing the City of Bay City, Texas, 1901 5th Street, Bay City, Texas 77414.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the Company, within the options available in the state statutes governing TMRS. Plan provisions for the Company were as follows:

	Plan Year 2011	Plan Year 2010
Employee deposit rate	5.0%	5.0%
Matching ratio (Company to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

**NOTE 16: BAY CITY GAS COMPANY - (Continued)**

F. Pension Plan - (Continued)

2. Contributions

Under the state law governing TMRS, the contribution rate for each Company is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that Company. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The Company contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the Company make contributions monthly. Since the Company needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	29 years, closed period	28.2 years, closed period	27.1 years, closed period
Asset Valuation Method	amort cost	amort cost	10-yr smoothed
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%

The current contribution rate for the employer is 11.11% of annual covered payroll and 5% for employees. The Company's contributions to the TMRS for the years ending March 31, 2012, 2011 and 2010 were \$48,614, \$52,768 and \$47,328, respectively, and were equal to the required contributions for each year.

---

**NOTE 16: BAY CITY GAS COMPANY - (Continued)**

G. Health Reimbursement Arrangement

In an effort to keep health insurance premiums at a reasonable level, the Company chose to go with a higher deductible plan at \$4,000 per employee. As a result of the higher deductible, they established a health reimbursement arrangement under section 105 of the Internal Revenue Code in which they contribute an actuarial determined amount per month to be used to meet an employee's deductible beyond the first \$1,000 and up to the \$4,000 deductible. The plan may be terminated by the Company at anytime with any excess contributions reverting back to the Company. The plan is administered independently of the Company by TPA Systems, Inc.

H. Restricted Assets

Cash has been restricted for the payment of customer deposits.

J. Nonmonetary Transactions

It is Company policy to donate gas consumed by City owned property. At March 31, 2012, the amount of gas at retail prices consumed by City property was \$21,944.

**Required Supplementary Information**

**CITY OF BAY CITY, TEXAS****MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>REVENUES</b>				
Taxes				
Ad valorem taxes	\$ 3,478,500	\$ 3,478,500	\$ 3,507,341	\$ 28,841
Other taxes	4,412,900	4,412,900	4,502,379	89,479
Licenses and permits	10,395	10,395	8,947	(1,448)
Fines and forfeitures	447,100	447,100	431,881	(15,219)
Fees and charges for services	191,950	197,463	196,518	(945)
Intergovernmental	140,605	143,156	111,982	(31,174)
Investment income	-	-	3,373	3,373
Miscellaneous	798,261	988,527	909,465	(79,062)
<b>Total revenues</b>	<u>9,479,711</u>	<u>9,678,041</u>	<u>9,671,886</u>	<u>(6,155)</u>
<b>EXPENDITURES</b>				
Current				
General government	1,929,281	1,929,245	1,862,353	66,892
Public safety	3,983,528	4,017,717	3,789,386	228,331
Public works	1,116,442	1,253,068	979,266	273,802
Public activities and recreation	1,602,147	1,600,149	1,079,833	520,316
Cultural arts and public benefits	151,380	180,930	172,388	8,542
Debt service	512,724	512,724	520,040	(7,316)
<b>Total expenditures</b>	<u>9,295,502</u>	<u>9,493,833</u>	<u>8,403,266</u>	<u>1,090,567</u>
Excess (deficiency) of revenues over expenditures	184,209	184,208	1,268,620	1,084,412
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	369,829	371,638	107,333	(264,305)
Transfers out	(576,707)	(576,707)	(543,993)	32,714
<b>Total other financing sources (uses)</b>	<u>(206,878)</u>	<u>(205,069)</u>	<u>(436,660)</u>	<u>(231,591)</u>
Net change in fund balance	(22,669)	(20,861)	831,960	852,821
Fund balance at beginning of year, as restated	<u>2,104,382</u>	<u>2,104,382</u>	<u>2,104,382</u>	<u>-</u>
<b>Fund balance at end of year</b>	<u>\$ 2,081,713</u>	<u>\$ 2,083,521</u>	<u>\$ 2,936,342</u>	<u>\$ 852,821</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

**CITY OF BAY CITY, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HISTORICAL PENSION INFORMATION**  
September 30, 2012

**TEXAS MUNICIPAL RETIREMENT SYSTEM**

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
12/31/11	\$ 22,632,103	\$ 26,194,806	\$ 3,562,703	86.40%	\$ 6,363,799	55.98%
12/31/10	21,658,759	25,352,756	3,693,997	85.40%	6,293,635	58.69%
12/31/09	11,981,037	17,718,960	5,737,923	67.62%	6,061,315	94.66%
12/31/08	11,436,920	16,659,204	5,222,284	68.65%	5,501,961	94.92%
12/31/07	11,448,750	16,546,570	5,097,820	69.19%	5,436,124	93.78%
12/31/06	11,966,670	15,066,481	3,099,811	79.43%	4,851,045	63.90%

**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

	Actuarial Valuation Information	
	8/31/08	8/31/10
Actuarial cost method	entry age	entry age
Amortization method	level dollar, open	level dollar, open
Amortization period	6 years	30 years
Asset valuation method	market value smoothed by a 5-year deferred recognition method with a 90% - 110% corridor on market value	market value smoothed by a 5-year deferred recognition method with a 80% - 120% corridor on market value
Investment rate of return *	8.00%, net of expenses	7.75%, net of expenses
Projected salary increases	n/a	n/a
* Includes inflation at	3.50%	3.50%
Cost of living adjustment	none	none

**CITY OF BAY CITY, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**HISTORICAL PENSION INFORMATION**  
September 30, 2012

**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability <sup>1</sup> (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL per Member Covered (b-a)/(c)
8/31/2006	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8,061	\$ 1,962
8/31/2008 <sup>2</sup>	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/2010 <sup>3</sup>	64,113,803	79,953,215	15,839,412	80.2%	8,708	1,819

<sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.

<sup>2</sup> Changes in actuarial assumptions and methods, as well as benefit and contribution provisions, were first reflected in this valuation.

<sup>3</sup> Changes in actuarial assumptions were reflected in this valuation.

Three-Year Trend Information - State-wide

Fiscal Year Ending August 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
2010	\$ 2,875,103 <sup>3</sup>	\$ 2,875,103	100%
2009	2,698,271 <sup>3</sup>	2,698,271	100%
2008	3,160,764 <sup>2</sup>	11,239,339 <sup>1</sup>	356%

<sup>1</sup> Includes a state contribution of \$8,800,000.

<sup>2</sup> Based on the August 31, 2006, actuarial valuation.

<sup>3</sup> Based on the August 31, 2008, actuarial valuation.

State contributions to the City's plan for the fiscal year 2012 has been deemed insignificant to the financial statements. Therefore, no amounts have been recognized as revenues and expenditures during the period.

Three-Year Trend Information - City of Bay City, Texas

Year Ended September 30	Annual Required Contributions (ARC)	Percentage Contributed	Net Obligation
2012	\$ 36,593	100%	\$ -
2011	39,584	100%	-
2010	32,892	100%	-

**OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
09/30/2011	\$ -	\$ 95,548	\$ 95,548	0.00%	\$ 6,300,000	1.52%

**CITY OF BAY CITY, TEXAS**  
*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*  
*September 30, 2012*

---

**NOTE 1: BUDGETARY BASIS OF ACCOUNTING**

The City annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

**NOTE 2: BUDGETARY LEGAL COMPLIANCE**

For the year ended September 30, 2012 the City complied with budgetary restrictions at all departmental levels except the following. The following table details these variances:

<u>General Fund - Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
City secretary	\$ 247,047	\$ 250,637	\$ 3,590
Debt service	512,724	520,040	7,316

**Combining and Individual Fund Statements and Schedules**

## NONMAJOR GOVERNMENTAL FUNDS

**Special Revenue Funds** are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

**Civic and Cultural Arts** - Accounts for the collection of hotel and motel taxes collected within the City.

**Donation Fund** - Accounts for various fund raising activities of the City.

**Police Forfeiture Fund** - Accounts for items seized by the City through the police department as a result of criminal investigations. The funds are used for one-time equipment purchases and other purchases to assist in police activities.

**Court Building Security Fund** - Account for funds received in addition to municipal court fines to enhance these specific areas.

**Court Technology Fund** - Account for funds received in addition to municipal court fines to enhance these specific areas.

**Disaster Recovery Fund** - Accounts for funds to be held in reserve for an emergency or disaster.

**Capital Project Fund** - Accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets. The Capital Project Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

**Debt Service Fund** - Account for and report financial resources that are restricted, committed or assigned to expenditure for general government debt principal and interest.

**CITY OF BAY CITY, TEXAS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
September 30, 2012

Special Revenue Funds

	Civic and Cultural Arts Fund	Donation Fund	Forfeiture Fund	Court Building Security Fund	Court Technology Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ 193,197	\$ 38,366	\$ 54,183	\$ 48,070	\$ 56,564
Receivables (net)					
Taxes	57,907	-	-	-	-
Accounts	-	-	-	-	-
Deferred expenditures	19,212	-	-	-	1,308
Due from other funds	-	-	-	-	-
<b>Total assets</b>	<u>\$ 270,316</u>	<u>\$ 38,366</u>	<u>\$ 54,183</u>	<u>\$ 48,070</u>	<u>\$ 57,872</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 14,290	\$ -	\$ -	\$ 82	\$ 74
Security deposits	17,248	-	-	-	-
Deferred revenue	-	-	20,921	-	-
<b>Total liabilities</b>	<u>31,538</u>	<u>-</u>	<u>20,921</u>	<u>82</u>	<u>74</u>
Fund balances					
Restricted	238,778	38,366	33,262	47,988	57,798
<b>Total fund balances</b>	<u>238,778</u>	<u>38,366</u>	<u>33,262</u>	<u>47,988</u>	<u>57,798</u>
<b>Total liabilities and fund balances</b>	<u>\$ 270,316</u>	<u>\$ 38,366</u>	<u>\$ 54,183</u>	<u>\$ 48,070</u>	<u>\$ 57,872</u>

---

<u>Special Revenue Fund</u>			
<u>Disaster Recovery Fund</u>	<u>Capital Project Fund</u>	<u>Debt Service</u>	<u>Total</u>
\$ 380,284	\$ 463,746	\$ 11,275	\$ 1,245,685
-	-	17,572	75,479
13,495	-	-	13,495
-	-	-	20,520
13,609	-	-	13,609
<u>\$ 407,388</u>	<u>\$ 463,746</u>	<u>\$ 28,847</u>	<u>\$ 1,368,788</u>
\$ -	\$ -	\$ -	\$ 14,446
-	-	-	17,248
-	-	17,572	38,493
-	-	17,572	70,187
407,388	463,746	11,275	1,298,601
<u>407,388</u>	<u>463,746</u>	<u>11,275</u>	<u>1,298,601</u>
<u>\$ 407,388</u>	<u>\$ 463,746</u>	<u>\$ 28,847</u>	<u>\$ 1,368,788</u>

**CITY OF BAY CITY, TEXAS**

*NONMAJOR GOVERNMENTAL FUNDS*

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

*For the year ended September 30, 2012*

	Special Revenue Funds				
	Civic and Cultural Arts Fund	Donation Fund	Forfeiture Fund	Court Building Security Fund	Court Technology Fund
<b>REVENUES</b>					
Taxes					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Hotel - motel tax	456,864	-	-	-	-
Fines and forfeitures	-	-	19,606	6,635	8,848
Fees and charges for services	63,882	-	-	-	-
Investment income					
Interest	222	42	40	52	68
Miscellaneous	3,972	40,789	-	-	-
<b>Total revenues</b>	<u>524,940</u>	<u>40,831</u>	<u>19,646</u>	<u>6,687</u>	<u>8,916</u>
<b>EXPENDITURES</b>					
Current					
Cultural arts and public benefits	483,669	28,893	-	-	-
Public safety	-	-	17,404	13,370	19,020
Public works	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
<b>Total expenditures</b>	<u>483,669</u>	<u>28,893</u>	<u>17,404</u>	<u>13,370</u>	<u>19,020</u>
Excess (deficiency) of revenues over expenditures	41,271	11,938	2,242	(6,683)	(10,104)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	600	-	-	-	-
Transfers out	(32,279)	(600)	-	-	-
<b>Total other financing sources (uses)</b>	<u>(31,679)</u>	<u>(600)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	9,592	11,338	2,242	(6,683)	(10,104)
Fund balances at beginning of year	<u>229,186</u>	<u>27,028</u>	<u>31,020</u>	<u>54,671</u>	<u>67,902</u>
<b>Fund balances at end of year</b>	<u>\$ 238,778</u>	<u>\$ 38,366</u>	<u>\$ 33,262</u>	<u>\$ 47,988</u>	<u>\$ 57,798</u>

Special Revenue Fund			
Disaster Recovery Fund	Capital Project Fund	Debt Service Fund	Total
\$ -	\$ -	\$ 297,589	\$ 297,589
-	-	-	456,864
-	-	-	35,089
148,508	-	-	212,390
336	373	314	1,447
-	-	-	44,761
<u>148,844</u>	<u>373</u>	<u>297,903</u>	<u>\$ 1,048,140</u>
-	-	-	\$ 512,562
1,587	-	-	51,381
-	1,912	-	1,912
-	-	340,000	340,000
-	-	192,473	192,473
<u>1,587</u>	<u>1,912</u>	<u>532,473</u>	<u>1,098,328</u>
147,257	(1,539)	(234,570)	(50,188)
-	225,000	235,560	461,160
-	-	-	(32,879)
-	<u>225,000</u>	<u>235,560</u>	<u>428,281</u>
147,257	223,461	990	378,093
<u>260,131</u>	<u>240,285</u>	<u>10,285</u>	<u>920,508</u>
<u>\$ 407,388</u>	<u>\$ 463,746</u>	<u>\$ 11,275</u>	<u>\$ 1,298,601</u>

## **GENERAL FUND**

The General Fund is the City's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for and reported in another fund.

**CITY OF BAY CITY, TEXAS**  
**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND**  
**BALANCE SHEET**  
*September 30, 2012*  
*With comparative totals for September 30, 2011*

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,436,206	\$ 2,017,095
Receivables (net)		
Accounts	36,969	113,135
Taxes	607,246	605,513
Fines	45,012	52,961
Due from other governments	297,295	283,447
Due from other funds	306,098	12,770
Deferred expenditures	<u>108,116</u>	<u>53,128</u>
<b>Total assets</b>	<u>\$ 3,836,942</u>	<u>\$ 3,138,049</u>
 <b>LIABILITIES AND FUND BALANCES</b>		
Liabilities		
Accounts payable	\$ 285,100	\$ 381,583
Accrued expenditures	37,014	49,922
Due to other governments	28,636	46,959
Deferred revenue	<u>549,850</u>	<u>555,203</u>
<b>Total liabilities</b>	<u>900,600</u>	<u>1,033,667</u>
 Fund balances		
Nonspendable	108,116	53,128
Assigned	7,201	7,201
Unassigned	<u>2,821,025</u>	<u>2,044,053</u>
<b>Total fund balances</b>	<u>2,936,342</u>	<u>2,104,382</u>
 <b>Total liabilities and fund balances</b>	<u>\$ 3,836,942</u>	<u>\$ 3,138,049</u>

**CITY OF BAY CITY, TEXAS***MAJOR GOVERNMENTAL FUNDS - GENERAL FUND**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**BUDGET (GAAP BASIS) AND ACTUAL**For the year ended September 30, 2012**With comparative totals for the year ended September 30, 2011*

	2012			2011
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>REVENUES</b>				
Taxes				
Property tax	\$ 3,478,500	\$ 3,507,341	\$ 28,841	\$ 3,490,843
Sales tax	3,295,000	3,385,962	90,962	3,317,509
Mixed beverage tax	10,750	17,378	6,628	12,870
Franchise tax	1,107,150	1,099,039	(8,111)	794,919
Total taxes	<u>7,891,400</u>	<u>8,009,720</u>	<u>118,320</u>	<u>7,616,141</u>
Other revenues				
Licenses and permits	10,395	8,947	(1,448)	9,335
Fines and forfeitures	447,100	431,881	(15,219)	469,839
Fees and charges for services	197,463	196,518	(945)	312,590
Intergovernmental	143,156	111,982	(31,174)	286,020
Investment income	-	3,373	3,373	3,845
Miscellaneous	988,527	909,465	(79,062)	831,960
Total other revenues	<u>1,786,641</u>	<u>1,662,166</u>	<u>(124,475)</u>	<u>1,913,589</u>
<b>Total revenues</b>	<u>9,678,041</u>	<u>9,671,886</u>	<u>(6,155)</u>	<u>9,529,730</u>
<b>EXPENDITURES</b>				
<b>General government</b>				
City secretary				
Personnel services	171,401	161,874	9,527	170,593
Supplies	19,721	22,617	(2,896)	22,545
Other services and charges	55,925	66,146	(10,221)	59,285
Total city secretary	<u>247,047</u>	<u>250,637</u>	<u>(3,590)</u>	<u>252,423</u>
City general services				
Personnel services	6,250	8,889	(2,639)	7,228
Supplies	5,150	4,099	1,051	3,607
Repairs and maintenance	11,500	10,048	1,452	16,479
Other services and charges	859,778	842,727	17,051	1,038,366
Total city general services	<u>882,678</u>	<u>865,763</u>	<u>16,915</u>	<u>1,065,680</u>
Administration and council				
Personnel services	193,592	186,542	7,050	195,264
Supplies	3,300	2,305	995	4,464
Repairs and maintenance	-	-	-	133
Other services and charges	6,586	5,669	917	13,356
Total administration and council	<u>203,478</u>	<u>194,516</u>	<u>8,962</u>	<u>213,217</u>

(continued)

**CITY OF BAY CITY, TEXAS****MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2012

With comparative totals for the year ended September 30, 2011

	2012			2011
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES - (CONTINUED)</b>				
<b>General government - (continued)</b>				
Main Street				
Personnel services	\$ 23,625	\$ 18,339	\$ 5,286	\$ 19,980
Supplies	2,300	1,391	909	3,011
Other services and charges	17,850	10,584	7,266	30,387
Total Main Street	43,775	30,314	13,461	53,378
Municipal court				
Personnel services	162,891	151,785	11,106	158,460
Supplies	8,700	8,559	141	10,188
Repairs and maintenance	6,500	3,252	3,248	4,854
Other services and charges	117,050	113,841	3,209	95,550
Total municipal court	295,141	277,437	17,704	269,052
Finance				
Personnel services	240,688	228,155	12,533	224,353
Supplies	6,180	6,262	(82)	6,011
Other services and charges	9,887	8,997	890	11,257
Capital outlay	371	272	99	2,831
Total finance	257,126	243,686	13,440	244,452
Total general government	1,929,245	1,862,353	66,892	2,098,202
<b>Public safety</b>				
Police				
Personnel services	3,275,231	3,105,067	170,164	3,295,543
Supplies	120,315	128,810	(8,495)	125,991
Repairs and maintenance	33,510	26,403	7,107	24,767
Other services and charges	253,248	218,653	34,595	241,795
Capital outlay	-	-	-	90,487
Total police	3,682,304	3,478,933	203,371	3,778,583
Fire				
Personnel services	43,063	42,378	685	43,304
Supplies	11,165	9,108	2,057	7,698
Repairs and maintenance	47,000	43,942	3,058	30,780
Other services and charges	52,265	50,794	1,471	51,975
Debt service	62,492	62,492	-	-
Capital outlay	14,435	5,105	9,330	8,022
Total fire	230,420	213,819	16,601	141,779

(continued)

**CITY OF BAY CITY, TEXAS**

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2012

With comparative totals for the year ended September 30, 2011

	2012			2011
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES - (CONTINUED)</b>				
<b>Public safety - (continued)</b>				
Animal impoundment				
Personnel services	\$ 85,368	\$ 82,148	\$ 3,220	\$ 83,971
Supplies	4,030	2,864	1,166	3,609
Repairs and maintenance	2,275	1,954	321	537
Other services and charges	13,320	9,668	3,652	10,641
Total animal impoundment	104,993	96,634	8,359	98,758
Total public safety	4,017,717	3,789,386	228,331	4,019,120
<b>Public works</b>				
Streets				
Personnel services	766,917	670,090	96,827	797,361
Supplies	149,201	142,896	6,305	107,281
Repairs and maintenance	169,000	128,307	40,693	137,250
Other services and charges	17,035	10,897	6,138	25,209
Capital expenditures	150,915	27,076	123,839	-
Total streets	1,253,068	979,266	273,802	1,067,101
Total public works	1,253,068	979,266	273,802	1,067,101
<b>Public activities and recreation</b>				
City service center				
Personnel services	40,954	37,469	3,485	39,453
Supplies	3,000	1,989	1,011	2,523
Repairs and maintenance	2,500	2,125	375	2,043
Other services and charges	15,810	11,098	4,712	19,246
Total city service center	62,264	52,681	9,583	63,265
Parks and recreation				
Personnel services	342,605	303,767	38,838	337,447
Supplies	52,150	48,684	3,466	36,326
Repairs and maintenance	66,600	32,404	34,196	40,900
Other services and charges	325,005	227,115	97,890	248,062
Other services and charges	240,000	-	240,000	-
Total parks and recreation	1,026,360	611,970	414,390	662,735
Riverside park				
Personnel services	91,261	85,178	6,083	86,635
Supplies	9,850	9,734	116	9,615
Repairs and maintenance	20,720	12,970	7,750	13,458
Other services and charges	49,580	42,383	7,197	37,821
Capital outlay	10,192	8,518	1,674	-
Total riverside park	181,603	158,783	22,820	147,529

(continued)

**CITY OF BAY CITY, TEXAS**

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2012

With comparative totals for the year ended September 30, 2011

	2012			2011
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES - (CONTINUED)</b>				
<b>Public activities and recreation - (continued)</b>				
Library				
Personnel services	\$ 321,922	\$ 249,703	\$ 72,219	\$ 315,657
Total library	321,922	249,703	72,219	315,657
Teen center				
Supplies	7,500	6,349	1,151	14,127
Other services and charges	-	-	-	7,016
Repairs and maintenance	500	347	153	-
Total teen center	8,000	6,696	1,304	21,143
Total public activities and recreation	1,600,149	1,079,833	520,316	1,210,329
<b>Cultural arts and public benefits</b>				
Cultural arts and public benefits				
Other services and charges	180,930	172,388	8,542	-
Total cultural arts and public benefits	180,930	172,388	8,542	-
<b>Debt service</b>				
Principal	324,467	313,759	10,708	358,748
Interest and fiscal charges	188,257	206,281	(18,024)	223,940
Total debt service	512,724	520,040	(7,316)	582,688
<b>Total expenditures</b>	<b>9,493,833</b>	<b>8,403,266</b>	<b>1,090,567</b>	<b>8,977,440</b>
Excess (deficiency) of revenues over expenditures	184,208	1,268,620	1,084,412	552,290
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	371,638	107,333	(264,305)	393,007
Transfers out	(576,707)	(543,993)	32,714	(615,227)
Total other financing sources (uses)	(205,069)	(436,660)	(231,591)	(222,220)
Net change in fund balance	(20,861)	831,960	852,821	330,070
Fund balance at beginning of year, as restated	2,104,382	2,104,382	-	1,774,312
Fund balance at end of year	\$ 2,083,521	\$ 2,936,342	\$ 852,821	\$ 2,104,382

(concluded)

**CITY OF BAY CITY, TEXAS**

## NONMAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

## BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2012

---

	2012		Variance
	Final Budget	Actual	Positive (Negative)
<b>REVENUES</b>			
Ad valorem taxes			
Current taxes	\$ 295,938	\$ 292,940	\$ (2,998)
Penalty and interest	-	4,649	4,649
Investment income	-	314	314
<b>Total revenues</b>	<u>295,938</u>	<u>297,903</u>	<u>1,965</u>
<b>EXPENDITURES</b>			
Debt service			
Principal retirement	340,000	340,000	-
Interest and fiscal charges	<u>192,473</u>	<u>192,473</u>	-
<b>Total expenditures</b>	<u>532,473</u>	<u>532,473</u>	-
Excess (deficiency) of revenues over expenditures	(236,535)	(234,570)	1,965
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	<u>235,560</u>	<u>235,560</u>	-
Net change in fund balances	(975)	990	1,965
Fund balances at beginning of year	<u>10,285</u>	<u>10,285</u>	-
<b>Fund balances at end of year</b>	<u>\$ 9,310</u>	<u>\$ 11,275</u>	<u>\$ 1,965</u>

## STATISTICAL SECTION

This part of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.....	80
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property taxes and water and sewer revenues.....	91
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.....	97
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments .....	100
<b>Operating Information</b> These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs .....	102

**CITY OF BAY CITY, TEXAS**  
**NET ASSETS BY COMPONENT (1)**  
*Last nine fiscal years*

	Fiscal Year		
	2004	2005	2006
<b>Governmental activities</b>			
Invested in capital assets, net of related debt	\$ (337,486)	\$ 2,619,884	\$ 7,499,745
Restricted	2,899,091	2,418,928	1,441,232
Unrestricted	1,914,826	193,976	485,118
<b>Total governmental activities net assets</b>	<b>\$ 4,476,431</b>	<b>\$ 5,232,788</b>	<b>\$ 9,426,095</b>
<b>Business-type activities</b>			
Invested in capital assets, net of related debt	\$ 5,658,337	\$ 4,980,993	\$ 4,957,372
Restricted	-	210,219	210,088
Unrestricted	303,268	1,089,017	2,147,890
<b>Total business-type activities net assets</b>	<b>\$ 5,961,605</b>	<b>\$ 6,280,229</b>	<b>\$ 7,315,350</b>
<b>Primary government</b>			
Invested in capital assets, net of related debt	\$ 5,320,851	\$ 7,600,877	\$ 12,457,117
Restricted	2,899,091	2,629,147	1,651,320
Unrestricted	2,218,094	1,282,993	2,633,008
<b>Total primary government activities net assets</b>	<b>\$ 10,438,036</b>	<b>\$ 11,513,017</b>	<b>\$ 16,741,445</b>

(1) Accrual basis of accounting

NOTE: The City began to report accrual information when it implemented GASB Statement No. 34 in fiscal year 2004.

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 12,496,157	\$ 13,059,039	\$ 11,507,535	\$ 12,166,490	\$ 7,541,744	\$ 7,904,146
1,345,964	2,327,929	3,493,985	-	407,739	410,945
435,647	912,769	1,554,168	4,195,081	4,373,229	5,054,417
<u>\$ 14,277,768</u>	<u>\$ 16,299,737</u>	<u>\$ 16,555,688</u>	<u>\$ 16,361,571</u>	<u>\$ 12,322,712</u>	<u>\$ 13,369,508</u>
\$ 6,655,233	\$ 7,522,741	\$ 9,390,238	\$ 9,836,242	\$ 10,543,619	\$ 10,948,774
542,632	564,651	530,241	548,261	339,292	-
1,447,433	731,981	688,817	1,366,416	2,359,186	2,952,528
<u>\$ 8,645,298</u>	<u>\$ 8,819,373</u>	<u>\$ 10,609,296</u>	<u>\$ 11,750,919</u>	<u>\$ 13,242,097</u>	<u>\$ 13,901,302</u>
\$ 19,151,390	\$ 20,581,780	\$ 20,897,773	\$ 22,002,732	\$ 18,085,363	\$ 18,852,920
1,888,596	2,892,580	4,024,226	548,261	747,031	410,945
1,883,080	1,644,750	2,242,985	5,561,497	6,732,415	8,006,945
<u>\$ 22,923,066</u>	<u>\$ 25,119,110</u>	<u>\$ 27,164,984</u>	<u>\$ 28,112,490</u>	<u>\$ 25,564,809</u>	<u>\$ 27,270,810</u>

**CITY OF BAY CITY, TEXAS**  
**CHANGES IN NET ASSETS (1)**  
*Last nine fiscal years*

	Fiscal Year		
	2004	2005	2006
<b>Governmental activities</b>			
Expenses			
General government	\$ 1,472,500	\$ 1,473,292	\$ 760,200
Public safety	2,783,990	2,971,661	2,861,918
Public works	924,633	871,458	962,368
Construction for outside parties	-	-	-
Public activities and recreation	949,557	1,303,909	579,782
Cultural arts and public benefits	1,280,443	1,088,079	2,190,512
Interest on long-term debt	156,324	272,091	251,275
Total expenses	<u>7,567,447</u>	<u>7,980,490</u>	<u>7,606,055</u>
Program revenues			
Charges for services			
General government	6,960	190,963	171,382
Public safety	185,219	55,218	67,067
Public works	-	5,710	4,618
Construction for outside parties	-	-	-
Public activities and recreation	138,747	167,209	201,303
Cultural arts and public benefits	54,682	-	-
Operating grants and contributions	100,939	1,289,235	1,306,157
Capital grants and contributions	851,610	-	-
Total program revenues	<u>1,338,157</u>	<u>1,708,335</u>	<u>1,750,527</u>
Total governmental activities net program (expense) revenue	(6,229,290)	(6,272,155)	(5,855,528)
General revenues and other changes in net assets			
Taxes			
Property taxes	2,219,056	2,278,325	2,492,991
Sales taxes	3,601,228	3,681,595	3,951,087
Franchise taxes	709,515	854,694	701,272
Other taxes	-	-	-
Investment earnings	62,784	108,794	107,901
Miscellaneous	432,600	-	-
Transfers	(225,723)	(206,482)	100,990
Total general revenues and other changes in net assets	<u>6,799,460</u>	<u>6,716,926</u>	<u>7,354,241</u>
<b>Total governmental activities change in net assets</b>	<u>\$ 570,170</u>	<u>\$ 444,771</u>	<u>\$ 1,498,713</u>

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 1,702,393	\$ 1,942,008	\$ 2,473,385	\$ 2,012,790	\$ 2,592,172	\$ 1,992,271
3,133,963	3,331,324	4,099,853	3,771,477	4,248,889	4,073,513
2,706,333	2,052,743	2,849,343	2,340,844	3,571,109	2,377,316
-	-	-	2,320,411	-	-
1,096,893	1,258,628	1,788,850	1,929,843	1,580,288	1,235,690
3,095,223	1,990,500	1,259,694	643,792	447,854	684,950
332,332	464,827	381,608	583,214	576,214	331,816
<u>12,067,137</u>	<u>11,040,030</u>	<u>12,852,733</u>	<u>13,602,371</u>	<u>13,016,526</u>	<u>10,695,556</u>
150,025	207,903	254,034	240,650	210,778	94,793
65,799	67,302	72,011	406,931	1,139,693	620,749
4,425	6,335	13,033	-	-	-
-	-	-	1,847,562	-	-
209,571	292,469	191,462	203,546	199,657	161,334
-	-	80,088	-	-	-
794,498	2,041,285	2,172,387	439,912	334,370	111,982
-	-	-	-	-	-
<u>1,224,318</u>	<u>2,615,294</u>	<u>2,783,015</u>	<u>3,138,601</u>	<u>1,884,498</u>	<u>988,858</u>
(10,842,819)	(8,424,736)	(10,069,718)	(10,463,770)	(11,132,028)	(9,706,698)
2,594,281	2,761,842	3,059,879	3,414,585	3,724,754	3,728,127
4,817,754	5,239,480	5,076,657	3,986,482	4,423,374	3,385,962
773,840	770,588	756,851	860,750	794,918	1,099,039
-	-	-	432,144	478,484	474,242
125,914	54,491	26,809	14,401	14,914	6,163
1,031,784	1,558,912	514,177	1,014,427	1,100,694	924,999
(160,842)	61,392	(842,299)	74,131	98,338	1,134,962
<u>9,182,731</u>	<u>10,446,705</u>	<u>8,592,074</u>	<u>9,796,920</u>	<u>10,635,476</u>	<u>10,753,494</u>
\$ (1,660,088)	\$ 2,021,969	\$ (1,477,644)	\$ (666,850)	\$ (496,552)	\$ 1,046,796

(continued)

**CITY OF BAY CITY, TEXAS****CHANGES IN NET ASSETS (1)***Last nine fiscal years*

	Fiscal Year		
	2004	2005	2006
<b>Business-type activities</b>			
Expenses			
Water and sewer	\$ 4,749,791	\$ 4,445,354	\$ 4,133,097
Sanitation	-	-	-
Airport	<u>248,234</u>	<u>441,272</u>	<u>467,058</u>
Total expenses	<u>4,998,025</u>	<u>4,886,626</u>	<u>4,600,155</u>
Program revenues			
Charges for services			
Water and sewer	4,043,847	4,575,948	5,361,790
Sanitation	-	-	-
Airport	197,696	293,455	287,323
Operating grants and contributions	139,263	105,638	19,965
Capital grants and contributions	-	-	-
Total program revenues	<u>4,380,806</u>	<u>4,975,041</u>	<u>5,669,078</u>
Total business-type activities net program (expense) revenue	(617,219)	88,415	1,068,923
General revenues and other changes in net assets			
Unrestricted investment earnings	8,501	23,727	67,188
Miscellaneous	25,186	-	-
Transfers	<u>225,723</u>	<u>206,482</u>	<u>(100,990)</u>
Total general revenues and other changes in net assets	<u>259,410</u>	<u>230,209</u>	<u>(33,802)</u>
<b>Total business-type activities change in net assets</b>	<u>\$ (357,809)</u>	<u>\$ 318,624</u>	<u>\$ 1,035,121</u>
<b>Total primary government change in net assets</b>	<u>\$ 212,361</u>	<u>\$ 763,395</u>	<u>\$ 2,533,834</u>

(1) Accrual basis of accounting

NOTE: The City began to report accrual information when it implemented GASB Statement No. 34 in fiscal year 2004.

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 4,563,790	\$ 4,923,927	\$ 4,706,783	\$ 5,258,532	\$ 5,027,229	\$ 5,026,141
-	-	113,933	1,952,979	1,890,468	2,482,660
324,101	420,223	397,202	411,863	401,842	389,402
<u>4,887,891</u>	<u>5,344,150</u>	<u>5,217,918</u>	<u>7,623,374</u>	<u>7,319,539</u>	<u>7,898,203</u>
5,310,276	5,282,569	5,561,610	5,730,656	6,326,946	6,521,880
-	-	-	2,176,550	2,204,210	2,632,229
147,004	186,511	159,161	201,474	227,920	239,173
350,747	13,869	361,082	-	-	220,997
-	-	-	726,097	123,325	-
<u>5,808,027</u>	<u>5,482,949</u>	<u>6,081,853</u>	<u>8,834,777</u>	<u>8,882,401</u>	<u>9,614,279</u>
920,136	138,799	863,935	1,211,403	1,562,862	1,716,076
61,157	36,317	9,639	4,478	3,677	5,422
187,813	60,351	185,058	17,225	22,977	3,608
160,842	(61,392)	842,299	(74,131)	(98,338)	(1,134,962)
<u>409,812</u>	<u>35,276</u>	<u>1,036,996</u>	<u>(52,428)</u>	<u>(71,684)</u>	<u>(1,125,932)</u>
<u>\$ 1,329,948</u>	<u>\$ 174,075</u>	<u>\$ 1,900,931</u>	<u>\$ 1,158,975</u>	<u>\$ 1,491,178</u>	<u>\$ 590,144</u>
<u>\$ (330,140)</u>	<u>\$ 2,196,044</u>	<u>\$ 423,287</u>	<u>\$ 492,125</u>	<u>\$ 994,626</u>	<u>\$ 1,636,940</u>

(concluded)

**CITY OF BAY CITY, TEXAS****FUND BALANCES, GOVERNMENTAL FUNDS (1)***Last nine fiscal years*

	Fiscal Year		
	2004	2005	2006
General Fund			
Nonspendable			
Deferred expenditures	\$ -	\$ -	\$ -
Assigned	-	-	-
Unassigned	-	-	-
Reserved			
Deferred expenditures	11,704	50,000	-
Unreserved	<u>367,126</u>	<u>333,661</u>	<u>504,295</u>
Total general fund	<u>\$ 378,830</u>	<u>\$ 383,661</u>	<u>\$ 504,295</u>
All Other Governmental Funds			
Restricted			
Retirement of long-term debt	\$ -	\$ -	\$ -
Capital project funds	2,864,678	594,957	190,142
Community development	1,309,562	1,517,437	884,152
Special revenue funds	<u>277,284</u>	<u>326,083</u>	<u>384,855</u>
Total all other governmental funds	<u>\$ 4,451,524</u>	<u>\$ 2,438,477</u>	<u>\$ 1,459,149</u>

(1) Modified accrual basis of accounting

NOTE: Due to the changes in the City's fund structure initiated when GASB Statement No. 34 was implemented, the fund balance information is available only beginning in 2004.

The City implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year 2011.

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ -	\$ -	\$ -	\$ -	\$ 53,128	\$ 108,116
-	-	-	-	7,201	7,201
-	-	-	-	2,013,578	2,821,025
-	-	-	24,824	-	-
<u>491,835</u>	<u>955,593</u>	<u>1,622,414</u>	<u>1,708,708</u>	<u>-</u>	<u>-</u>
<u>\$ 491,835</u>	<u>\$ 955,593</u>	<u>\$ 1,622,414</u>	<u>\$ 1,733,532</u>	<u>\$ 2,073,907</u>	<u>\$ 2,936,342</u>
\$ -	\$ -	\$ -	\$ 5,431	\$ 10,285	\$ 11,275
-	-	832,503	3,663,379	1,365,723	1,337,295
659,675	1,204,720	1,356,292	1,810,198	1,806,794	-
<u>733,622</u>	<u>1,190,398</u>	<u>1,325,206</u>	<u>-</u>	<u>884,510</u>	<u>823,579</u>
<u>\$ 1,393,297</u>	<u>\$ 2,395,118</u>	<u>\$ 3,514,001</u>	<u>\$ 5,479,008</u>	<u>\$ 4,067,312</u>	<u>\$ 2,172,149</u>

**CITY OF BAY CITY, TEXAS**

*CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)*

*Last nine fiscal years*

	Fiscal Year		
	2004	2005	2006
Revenues			
Taxes	\$ 6,505,942	\$ 6,780,467	\$ 7,087,728
Licenses and permits	6,960	6,310	4,993
Fines and forfeitures	185,219	190,963	171,382
Fees and charges for services	193,429	221,828	267,995
Intergovernmental	952,549	472,716	321,043
Investment income	62,784	108,794	107,901
Miscellaneous	<u>338,001</u>	<u>816,518</u>	<u>985,113</u>
Total revenues	<u>8,244,884</u>	<u>8,597,596</u>	<u>8,946,155</u>
Expenditures			
Current			
General government	1,489,747	1,447,739	1,571,107
Public safety	2,861,435	2,848,285	2,847,401
Public works	929,531	796,747	848,987
Public activities and recreation	949,157	1,295,179	1,403,702
Cultural arts and public benefits	1,281,451	1,137,233	2,174,859
Capital outlay	3,788,578	2,304,762	901,429
Debt service			
Principal retirement	336,733	308,308	315,447
Interest and fiscal charges	207,048	261,077	252,907
Bond issue costs	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>11,843,680</u>	<u>10,399,330</u>	<u>10,315,839</u>
Excess (deficiency) of revenues over expenditures	(3,598,796)	(1,801,734)	(1,369,684)
Other financing sources (uses)			
Debt issuance	6,000,000	-	410,000
Premium on bonds	-	-	-
Transfers in	823,201	458,630	1,140,669
Transfers out	<u>(954,325)</u>	<u>(665,112)</u>	<u>(1,039,679)</u>
Total other financing sources (uses)	<u>5,868,876</u>	<u>(206,482)</u>	<u>510,990</u>
Changes in fund balances	<u>\$ 2,270,080</u>	<u>\$ (2,008,216)</u>	<u>\$ (858,694)</u>
Debt service as a percentage of noncapital expenditures	<u>6.75%</u>	<u>7.03%</u>	<u>6.04%</u>

(1) Modified accrual basis of accounting

NOTE: Due to the changes in the City's fund structure initiated when GASB Statement No. 34 was implemented, the changes in fund balance information is available only beginning in 2004.

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 8,247,870	\$ 8,793,242	\$ 8,892,810	\$ 8,646,929	\$ 9,398,598	\$ 8,764,173
4,425	6,335	13,033	9,813	9,335	8,947
150,025	207,903	254,034	402,318	736,614	466,970
275,369	359,771	263,473	2,286,558	751,218	408,908
572,709	610,382	399,741	156,826	334,370	111,982
125,914	54,491	26,809	14,401	14,914	6,159
<u>1,253,574</u>	<u>2,989,815</u>	<u>2,446,952</u>	<u>1,174,532</u>	<u>1,102,026</u>	<u>954,226</u>
<u>10,629,886</u>	<u>13,021,939</u>	<u>12,296,852</u>	<u>12,691,377</u>	<u>12,347,075</u>	<u>10,721,365</u>
1,734,186	1,903,178	2,048,581	2,114,190	2,553,230	1,862,353
3,111,551	3,205,678	3,301,382	3,692,061	4,074,012	3,840,767
964,075	979,730	1,071,482	1,050,523	1,617,989	981,178
1,046,249	1,189,963	1,158,364	1,594,677	1,210,329	1,079,833
1,083,632	988,541	1,056,464	643,792	447,854	684,950
6,031,745	2,548,637	2,502,372	3,569,151	2,351,256	467,801
327,694	357,054	529,847	771,731	883,784	653,759
302,916	444,971	428,781	484,390	622,147	398,754
20,174	-	122,550	90,183	-	-
<u>14,622,222</u>	<u>11,617,752</u>	<u>12,219,823</u>	<u>14,010,698</u>	<u>13,760,601</u>	<u>9,969,395</u>
(3,992,336)	1,404,187	77,029	(1,319,321)	(1,413,526)	751,970
4,127,000	-	2,500,000	3,300,000	-	-
-	-	50,974	-	-	-
5,379,746	1,214,833	439,236	510,232	1,271,561	568,493
<u>(5,540,588)</u>	<u>(1,153,441)</u>	<u>(1,281,535)</u>	<u>(436,101)</u>	<u>(1,173,223)</u>	<u>(576,872)</u>
<u>3,966,158</u>	<u>61,392</u>	<u>1,708,675</u>	<u>3,374,131</u>	<u>98,338</u>	<u>(8,379)</u>
\$ <u>(26,178)</u>	\$ <u>1,465,579</u>	\$ <u>1,785,704</u>	\$ <u>2,054,810</u>	\$ <u>(1,315,188)</u>	\$ <u>743,591</u>
<u>7.34%</u>	<u>8.84%</u>	<u>9.87%</u>	<u>12.03%</u>	<u>13.20%</u>	<u>11.09%</u>

**CITY OF BAY CITY, TEXAS****TAX REVENUES BY SOURCE, GOVERNMENTAL FUNDS (1)***Last nine fiscal years\**

---

<u>Fiscal Year</u>	<u>Property</u>	<u>Franchise</u>	<u>Sales</u>	<u>Other</u>	<u>Total</u>
2004	\$ 2,219,056	\$ 709,515	\$ 3,601,228	\$ -	\$ 6,529,799
2005	2,278,325	854,694	3,681,595	-	6,814,614
2006	2,492,991	701,272	3,951,087	-	7,145,350
2007	2,594,281	773,840	4,817,754	-	8,185,875
2008**	2,761,842	770,588	5,218,435	21,045	8,771,910
2009	3,059,879	756,851	5,058,673	17,984	8,893,387
2010	3,414,585	860,750	3,986,482	432,144	8,693,961
2011	3,724,754	794,918	4,423,374	478,484	9,421,530
2012	3,804,930	1,099,039	3,385,962	474,242	8,764,173

(1) Modified accrual basis of accounting

\*The requirement for statistical data is ten years; only nine years are available at this time.

\*\*Prior to fiscal year 2008, the city reported other taxes with sales taxes.

**CITY OF BAY CITY, TEXAS****ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY***Last ten fiscal years*

<u>Fiscal Year</u>	<u>Tax Roll</u>	<u>Residential Property</u>	<u>Commercial and Industrial Property</u>	<u>Personal Property</u>	<u>Less: Tax-Exempt Real Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>
2003	2002	\$ 252,195,082	\$ 156,827,930	\$ 65,545,234	\$ 81,415,894	\$ 393,152,352	\$ 0.51132
2004	2003	281,112,399	185,476,173	65,328,960	112,321,188	419,596,344	0.51132
2005	2004	282,892,640	186,052,492	64,969,467	107,349,527	426,565,072	0.51132
2006	2005	302,070,059	198,116,842	63,450,950	111,205,955	452,431,896	0.51132
2007	2006	324,883,782	229,169,949	63,687,770	118,880,723	498,860,778	0.51132
2008	2007	297,803,190	269,820,743	78,319,795	109,393,757	536,549,971	0.51132
2009	2008	299,647,821	331,396,398	82,412,631	111,046,253	602,410,597	0.50570
2010	2009	300,788,222	366,471,169	79,533,050	110,153,022	636,639,419	0.52934
2011	2010	312,638,392	381,341,753	77,386,950	111,494,200	659,872,895	0.56424
2012	2011	321,373,344	373,573,725	72,696,140	113,301,648	654,341,561	0.56981

(1) Includes tax-exempt property

NOTE: Property in the City is reassessed annually. The City assesses property at 100% of actual taxable value for all types of real and personal property. Tax rates are per \$100 of assessed value.

SOURCE: Matagorda County Appraisal District

**CITY OF BAY CITY, TEXAS****DIRECT AND OVERLAPPING PROPERTY TAX RATES****PER \$100 OF ASSESSED VALUE***Last ten fiscal years*

---

<u>Fiscal Year</u>	<u>City Direct Rates</u>			<u>Overlapping Rates</u>		
	<u>Debt Service</u>	<u>General Fund</u>	<u>Total</u>	<u>Bay City ISD</u>	<u>Matagorda County</u>	<u>Port of Bay City</u>
2003	\$ -	\$ 0.51132	\$ 0.51132	\$ 1.65000	\$ 0.32160	\$ 0.04237
2004	-	0.51132	0.51132	1.65000	0.31837	0.04138
2005	-	0.51132	0.51132	1.65000	0.31837	0.04047
2006	-	0.51132	0.51132	1.65000	0.30852	0.03607
2007	-	0.51132	0.51132	1.52000	0.26829	0.03269
2008	-	0.51132	0.51132	1.32000	0.27590	0.03475
2009	-	0.50570	0.50570	1.31380	0.27518	0.03420
2010	0.03000	0.49934	0.52934	1.32000	0.27498	0.03245
2011	0.04510	0.51914	0.56424	1.32000	0.27478	0.03116
2012	0.04521	0.52460	0.56981	1.32000	0.28162	0.03175

SOURCE: Tax department records of the various taxing authorities

---

Overlapping Rates

---

<u>Matagorda Co. Hospital District</u>	<u>Matagorda Co. Drainage District #1</u>	<u>Matagorda Co. Conservation &amp; Reclaim. Distr.</u>	<u>Total</u>
\$ 0.15070	\$ 0.14235	\$ 0.00729	\$ 2.82563
0.16140	0.13549	0.00713	2.82509
0.20999	0.13500	0.00682	2.87197
0.21240	0.12241	0.00604	2.84676
0.17214	0.10355	0.05080	2.65879
0.17724	0.09919	0.00525	2.42365
0.17864	0.09221	0.00521	2.40494
0.18588	0.09329	0.00497	2.44091
0.18851	0.09627	0.00481	2.47977
0.20003	0.09628	0.00456	2.50405

**CITY OF BAY CITY, TEXAS**  
**PRINCIPAL PROPERTY TAXPAYERS**  
**(UNAUDITED)**  
*Current Year and Nine Years Ago*

2012

Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
Wal-Mart Real Estate Business Trust	\$ 8,859,870	1.35%
Wal-Mart Store #01-1405	7,815,610	1.19%
Nichols Square Partners LLC	4,913,340	0.75%
AEP Texas Central Co.	4,517,400	0.69%
W R H Bay City LTD	4,088,890	0.62%
H E Butt Grocery Company	3,596,290	0.55%
H E Butt Grocery Co	3,460,800	0.53%
Fortress Lodging LLC	3,252,880	0.50%
Barretts Minerals Inc	2,885,270	0.44%
Pasupatinath LLC	2,800,000	0.43%
	<u>\$ 46,190,350</u>	<u>7.05%</u>

2003

Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
AEP Texas Central Company	\$ 5,657,300	1.44%
Southwestern Bell Telephone	4,703,370	1.20%
H E Butt Grocery Co	4,415,120	1.12%
AGL Properties	4,240,000	1.08%
W R H Bay City LTD	2,761,320	0.70%
Don Davis Buick Pontiac Olds	2,431,080	0.62%
H E Butt Grocery Company	2,001,400	0.51%
Walton Place Limited Partnership	1,770,960	0.45%
Heritage-Riverway LP	1,694,790	0.43%
Baywood Square of B.C. LLC	1,650,240	0.42%
	<u>\$ 31,325,580</u>	<u>7.97%</u>

SOURCE: Matagorda Central Appraisal District

**CITY OF BAY CITY, TEXAS**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
*Last ten fiscal years*

<u>Fiscal Year</u>	<u>Taxes Levied for the Fiscal Year (Original Levy)</u>	<u>Collections within the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2003	\$ 2,010,267	\$ 1,936,001	96.31%	\$ 74,266	\$ 2,010,267	100.00%
2004	2,145,480	2,047,880	95.45%	77,189	2,125,069	99.05%
2005	2,181,113	2,090,348	95.84%	90,765	2,181,113	100.00%
2006	2,313,375	2,252,304	97.36%	61,071	2,313,375	100.00%
2007	2,553,038	2,489,828	97.52%	63,210	2,553,038	100.00%
2008	2,746,433	2,640,817	96.15%	81,031	2,721,848	99.10%
2009	3,049,571	2,923,979	95.88%	76,593	3,000,572	98.39%
2010	3,369,687	3,196,750	94.87%	99,689	3,296,439	97.83%
2011	3,723,267	3,577,925	96.10%	123,896	3,701,821	99.42%
2012	3,729,188	3,605,518	96.68%	-	3,605,518	96.68%

SOURCES: Tax assessor/collector's records

**CITY OF BAY CITY, TEXAS****WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED***Last ten fiscal years*

---

<u>Fiscal Year</u>	<u>Gallons of Water Produced</u>	<u>Gallons of Water Consumed</u>	<u>Gallons of Water Unbilled</u>	<u>Average Percent Unbilled</u>	<u>Gallons of Wastewater Treated</u>
2003	890,244,000	663,014,100	227,229,900	25.52%	N/A
2004	935,102,000	664,892,900	270,209,100	28.90%	837,680,000
2005	907,796,000	662,808,600	244,987,400	26.99%	850,374,000
2006	817,903,300	635,455,100	182,448,200	22.31%	882,079,000
2007	752,369,000	600,756,200	151,612,800	20.15%	1,098,387,000
2008	860,144,000	651,039,200	209,104,800	24.31%	792,502,000
2009	913,706,000	709,826,800	203,879,200	22.31%	785,700,000
2010	695,911,000	605,383,800	90,527,200	13.01%	716,328,000
2011	820,538,000	732,557,300	87,980,700	10.72%	574,870,000
2012	809,245,000	749,527,000	59,718,000	7.38%	573,170,000

Note: The City switched Utility Billing Software in July 2012 and the water consumed numbers are not available.

**CITY OF BAY CITY, TEXAS***RATIOS OF OUTSTANDING DEBT BY TYPE**Last nine fiscal years*

Fiscal Year	Governmental Activities				Business-type Activities	
	Certificates of Obligation	General Obligation Bonds	Notes Payable	Capital Leases	Certificates of Obligation	General Obligation Bonds
2004	\$ -	\$ 6,000,000	\$ 198,900	\$ 402,439	\$ -	\$ 10,410,000
2005	-	5,800,000	132,600	360,431	-	9,420,000
2006	-	5,595,000	476,300	316,284	-	8,405,000
2007	-	5,380,000	4,527,837	269,890	-	7,375,000
2008	-	5,155,000	4,434,167	221,134	-	6,305,000
2009	2,500,000	4,920,000	4,179,741	169,897	2,500,000	5,220,000
2010	5,582,500	4,675,000	3,913,401	116,052	2,282,500	4,025,000
2011	5,287,500	4,420,000	3,633,262	59,466	2,057,500	2,795,000
2012	4,947,500	4,155,000	290,461	-	11,357,500	1,530,000

NOTES: Details regarding the City's outstanding debt can be found in the notes to financial statements.

N/A denotes information not available.

The requirement for statistical data is ten years; only nine years are available at this time.

---

<u>Notes Payable</u>	<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
\$ 189,548	\$ 17,200,887	N/A	\$ 936
111,774	15,824,805	N/A	861
34,851	14,827,435	N/A	807
-	17,552,727	N/A	955
-	16,115,301	N/A	877
-	19,489,638	N/A	1,044
-	20,594,453	N/A	1,648
-	18,252,728	N/A	1,460
	22,280,461	N/A	1,265

**CITY OF BAY CITY, TEXAS****RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING***Last nine fiscal years*

---

Fiscal Year	General Bonded Debt Outstanding			Debt Service Monies Available	Net Bonded Debt
	Certificates of Obligation	General Obligation Bonds	Total		
2004	\$ -	\$ 16,410,000	\$ 16,410,000	\$ -	\$ 16,410,000
2005	-	15,220,000	15,220,000	-	15,220,000
2006	-	14,000,000	14,000,000	-	14,000,000
2007	-	12,755,000	12,755,000	-	12,755,000
2008	-	11,460,000	11,460,000	-	11,460,000
2009	5,000,000	10,140,000	15,140,000	-	15,140,000
2010	7,865,000	8,700,000	16,565,000	4,854	16,560,146
2011	7,345,000	7,215,000	14,560,000	10,285	14,549,715
2012	16,305,000	5,685,000	21,990,000	11,275	21,978,725

NOTES: Details regarding the City's outstanding debt can be found in the notes to financial statements.

The requirement for statistical data is ten years; only nine years are available at this time.

---

<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
100.00%	\$ 326
100.00%	316
100.00%	304
100.00%	293
100.00%	280
100.00%	241
100.00%	1,325
100.00%	1,164
100.00%	1,248

**CITY OF BAY CITY, TEXAS**

*DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT*

*(UNAUDITED)*

*September 30, 2012*

	<u>Gross Debt Outstanding</u>		<u>Percentage Applicable To City</u>	<u>Amount Applicable To City</u>
	<u>Date</u>	<u>Amount</u>		
Direct Debt:				
City of Bay City (1)	9/30/2012	<u>\$ 22,280,461</u>	100.00%	<u>\$ 22,280,461</u>
Overlapping Debt:				
Matagorda County	12/31/2011	1,013,820	26.00%	263,593
Bay City Independent School District	6/30/2012	<u>25,351,063</u>	42.31%	<u>10,726,035</u>
Total Overlapping Debt		<u>26,364,883</u>		<u>10,989,628</u>
Total		<u>\$ 48,645,344</u>		<u>\$ 33,270,089</u>

(1) Figures do not include accrued compensated absences.

NOTE: There is no legal debt limit for the City. Texas municipalities are not bound by any direct constitutional or statutory maximums as to the amount of obligation bonds which may be issued; however, all local bonds must be submitted to and approved by the State Attorney General. It is the established practice of the Attorney General not to approve a prospective bond issue if it will result in a tax levy for general bonded debt of over \$1.00 for cities under 5,000 population, or \$1.50 for cities over 5,000 population.

SOURCES: Bay City Independent School District  
Matagorda County

**CITY OF BAY CITY, TEXAS**

*DEMOGRAPHIC AND ECONOMIC STATISTICS*

*(UNAUDITED)*

*Last ten fiscal years*

<u>Fiscal Year</u>	<u>(1) Population</u>	<u>(4) Personal Income</u>	<u>(1) Per Capita Personal Income</u>	<u>(1) Median Age</u>	<u>(2) School Enrollment</u>	<u>(3) Unemployment Rate</u>
2003	18,667	\$ 494,866,864	\$ 26,510	30	1,420	5.9%
2004	18,381	521,219,237	28,356	30	1,388	5.1%
2005	18,381	548,254,974	29,827	30	1,343	5.2%
2006	18,822	561,413,093	29,827	32	4,140	7.0%
2007	19,273	574,887,007	29,829	32	4,410	5.9%
2008	19,735	588,684,295	29,829	32	4,140	7.0%
2009	18,667	568,335,482	30,446	32	4,140	11.2%
2010	17,614	N/A	21,773	33	3,797	11.2%
2011	17,663	N/A	21,773	33	3,772	11.6%
2012	17,663	N/A	22,000	33	3,770	10.1%

NOTES: Personal income figures for 2010 through 2012 are not available.  
 The unemployment rates are a twelve-month average from October through September.  
 N/A denotes information not available

SOURCES: (1) Bureau of the Census  
 (2) Bay City Independent School District  
 (3) Texas Workforce Commission  
 (4) Personal income information is a total for the year

**CITY OF BAY CITY, TEXAS**

*PRINCIPAL EMPLOYERS*

*(UNAUDITED)*

*Current Year*

---

2012

---

<u>Employer</u>	<u>Employees</u>
South Texas Project (STP)	1,200
Bay City ISD	820
Wal-Mart	305
Matagorda County General Hospital	300
H.E.B.	250
Lyondell	220
Valerus	188
City of Bay City	175
OXEА	140
Henerson	26
	<u>3,624</u>

NOTES: This requires current year and nine years ago. This is the only information that is currently available.

**CITY OF BAY CITY, TEXAS**

*FULL-TIME-EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM*

*Last ten fiscal years*

Function/Program	Fiscal Year				
	2003	2004	2005	2006	2007
General government	44.00	45.00	46.00	46.00	51.00
Public safety					
Police					
Officers	30.00	31.00	31.00	31.00	30.00
Civilians	12.00	14.00	14.00	14.00	21.00
Fire					
Firefighters	46.00	46.00	44.00	44.00	35.00
Civilians	4.00	4.00	4.00	4.00	3.00
Public works					
Streets/maintenance	21.00	20.00	20.00	20.00	24.00
Public activities and recreation	8.00	8.00	8.00	8.00	5.00
Water and sewer	22.00	21.00	21.00	21.00	23.00
Airport	-	-	-	-	-
Equipment Maintenance	-	-	-	-	-
Sanitation	-	-	-	-	-
<b>Total</b>	<u>187.00</u>	<u>189.00</u>	<u>188.00</u>	<u>188.00</u>	<u>192.00</u>

NOTES: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave).

Full-time-equivalent employment is calculated by dividing total labor hours by 2,080.

---

Fiscal Year				
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
35.00	35.00	24.29	25.29	25.29
37.00	35.00	35.00	35.00	35.00
18.00	20.19	20.19	20.19	20.19
37.00	36.00	34.00	34.00	34.00
1.00	1.00	1.00	1.00	1.00
18.00	35.00	19.00	19.00	16.00
11.00	11.00	11.76	11.76	11.76
32.00	29.00	43.00	44.00	39.00
-	-	2.00	2.00	1.00
-	-	-	-	4.00
-	<u>10.00</u>	<u>11.00</u>	<u>11.00</u>	<u>16.28</u>
<u>189.00</u>	<u>212.19</u>	<u>201.24</u>	<u>203.24</u>	<u>203.52</u>

**CITY OF BAY CITY, TEXAS**

*CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM*

*Last ten fiscal years*

Function/Program	Fiscal Year			
	2003	2004	2005	2006
Public safety				
Police				
Stations	1	1	1	1
Patrol units	28	28	28	29
Fire				
Fire stations	1	1	1	1
Public works				
Streets				
Streets (miles)	n/a	n/a	n/a	n/a
Parks				
Acreage	187	187	187	207
Parks	19	19	19	20
Swimming pools	2	2	2	2
Water and wastewater				
Water				
Water mains (miles)	n/a	n/a	n/a	90
Fire hydrants	n/a	n/a	n/a	600
Maximum daily capacity (thousands of gallons)	n/a	n/a	n/a	4
Wastewater				
Sanitary sewers (miles)	n/a	n/a	n/a	85
Storm sewers (miles)	n/a	n/a	n/a	70
Maximum daily treatment capacity (thousands of gallons)	n/a	n/a	n/a	4
Sanitation				
Collection trucks	n/a	n/a	n/a	n/a

SOURCE: Various City departments

n/a - information not available

Fiscal Year						
2007	2008	2009	2010	2011	2012	
1	1	1	1	1	1	1
30	30	32	31	31	31	31
1	1	1	1	1	1	1
n/a	n/a	95	109	109	109	109
207	207	186	185	185	185	185
20	20	22	16	16	16	16
2	2	2	2	2	2	2
90	90	94	94	94	94	94
600	600	600	600	600	600	600
4	4	4	4	4	4	4
85	85	88	88	88	88	88
70	70	80	80	80	80	80
4	4	4	4.3	4.3	4.3	4.3
n/a	n/a	8	8	8	8	8

**CITY OF BAY CITY, TEXAS**

*OPERATING INDICATORS BY FUNCTION/PROGRAM*

*Last nine fiscal years*

Function/Program	Fiscal Year			
	2004	2005	2006	2007
General government				
Building permits issued*	N/A	N/A	N/A	N/A
Building inspections conducted*	N/A	N/A	N/A	N/A
Fire inspection conducted*	N/A	N/A	N/A	N/A
Public safety				
Police				
Arrests	3,011	3,321	2,539	1,846
Accident Reports	677	638	514	566
Citations	5,324	3,689	1,404	2,522
Offense reports	4,593	4,273	3,534	4,259
Calls for service	18,762	17,801	15,622	26,557
Fire				
Emergency responses	265	283	237	282
Fire incidents	80	83	80	83
Service calls and other calls	155	167	138	135
Automatic aid, mutual aid given	30	33	19	63
Streets and highways				
Street resurfacing (miles)*	-	-	-	-
Water and wastewater				
Water				
Average daily consumption (millions)	2.562	2.487	2.241	2.061
Total consumption (millions)	935.102	907.796	817.903	752.369
Peak daily consumption (millions)	3.783	4.044	4.620	4.823
Wastewater				
Average daily sewage treatment (mil)	2.295	2.330	2.417	3.009
Total consumption (millions)	837.680	850.374	882.079	1,098.387
Peak daily consumption (millions)	N/A	N/A	N/A	17.123

NOTES: N/A denotes information not available

The requirement for statistical data is ten years; only nine years are available at this time.

\*Denotes only three years of data available at this time.

SOURCE: Various City departments

---

Fiscal Year				
2008	2009	2010	2011	2012
N/A	N/A	442	310	231
N/A	N/A	222	691	431
N/A	N/A	13	5	6
1,399	1,513	1,934	1,730	893
235	425	452	416	199
2,175	2,791	4,484	3,223	1,196
22,827	7,222	3,017	2,734	1,327
22,461	27,968	32,296	33,453	19,333
264	219	165	220	175
112	133	71	132	95
95	75	94	88	80
57	19	22	27	39
-	-	-	-	-
2.357	2.503	1.907	2.248	2.217
860.144	913.706	695.911	820.538	809.245
3.686	4.608	3.516	4.395	3.799
2.000	2.153	1.963	1.575	1.570
729.502	785.700	716.328	574.870	573.170
7.117	5.100	13.556	9.758	11.916

**OVERALL COMPLIANCE AND  
INTERNAL CONTROL SECTION**



CERTIFIED PUBLIC ACCOUNTANTS  
101 S. MAIN, SUITE 400  
VICTORIA, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA  
DENNIS C. CIHAL, CPA  
ERIC L. KUCERA, CPA  
CLAYTON P. VAN PELT, CPA  
ROBERT W. SCHAAR, CPA  
MELISSA M. TERRY, CPA

VOICE: (361) 573-3255  
FAX: (361) 573-9531

**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**

The Honorable Mayor and Members  
of the City Council  
City of Bay City, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay City, Texas (the "City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

The Honorable Mayor and Members  
of the City Council

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

*Harrison, Waldrop & Uheuk, LLP*

March 22, 2013