

CITY OF BAY CITY, TEXAS

ANNUAL FINANCIAL REPORT

For the year ended September 30, 2011

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FINANCIAL SECTION



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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, 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, 2011, 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 \$5,101,847 as of March 31, 2011, and total revenues of \$2,360,508 for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included in the component unit 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, each major fund, and the aggregate remaining fund information of the City as of September 30, 2011, 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 June 5, 2012, 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 benefits information on pages 3 through 9 and 54 through 57 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 combining and individual major and nonmajor fund financial statements and schedules 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.

Harrison, Waldrop & Uheuk, LLP

June 5, 2012

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, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$29,107,116 (*net assets*). Of this amount, \$8,747,360 (*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 \$6,141,219, a decrease of \$1,315,188 from the prior year. At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,013,578, or 22.35% of total General Fund expenditures. The increase in fund balance for the City's General Fund is attributable to an increase in tax revenues.
- The City's total net assets of the business-type activities increased \$1,491,178, or 12.69%. The net assets of the Water and Sewer Fund increased by \$1,251,744, the Sanitation Fund increased by \$299,091, and the Airport Fund decreased by \$59,657.

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 9

Government-wide Financial Statements

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

Pages 10 to 13

Fund Financial Statements

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

Pages 14 to 25

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 26 to 55

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 thirteen individual governmental funds during the 2010-2011 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, Community Construction Projects Fund, 2010 Capital Acquisition Fund, 2009 Capital Acquisition Fund, and the Community Development

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Governmental Funds - (Continued)

Corporation 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

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.

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

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 \$29,107,116 at the close of the fiscal year 2011.

By far, the largest portion of the City's net assets (68.78%) 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	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 7,340,558	\$ 8,908,963	\$ 3,192,039	\$ 2,512,155	\$ 10,532,597	\$ 11,421,118
Capital assets (net)	22,779,620	22,905,138	15,865,710	16,285,160	38,645,330	39,190,298
Other noncurrent assets	169,110	179,539	434,521	576,638	603,631	756,177
Total assets	30,289,288	31,993,640	19,492,270	19,373,953	49,781,558	51,367,593
Current liabilities	1,910,588	2,086,196	2,780,237	2,086,196	4,690,825	4,172,392
Noncurrent liabilities	12,513,681	11,113,796	3,469,936	5,018,918	15,983,617	16,132,714
Total liabilities	14,424,269	13,199,992	6,250,173	7,105,114	20,674,442	20,305,106
Invested in capital assets, net of related debt	9,476,845	12,166,490	10,543,619	9,836,242	20,020,464	22,002,732
Restricted	-	-	339,292	548,261	339,292	548,261
Unrestricted	6,388,174	4,195,081	2,359,186	1,366,416	8,747,360	5,561,497
Total net assets	\$ 15,865,019	\$ 16,361,571	\$ 13,242,097	\$ 11,750,919	\$ 29,107,116	\$ 28,112,490

The balance of unrestricted net assets, \$8,747,360, 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 decreased the City's net assets by \$496,552. Business-type activities increased the City's net assets by \$1,491,178.

City of Bay City, Texas						
Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program revenues:						
Charges for services	\$ 1,550,128	\$ 2,698,689	\$ 8,759,076	\$ 8,108,680	\$ 10,309,204	\$ 10,807,369
Operating grants and contributions	334,370	439,912	-	-	334,370	439,912
Capital grants and contributions	-	-	123,325	726,097	123,325	726,097
General revenues:						
Property taxes	3,724,754	3,414,585	-	-	3,724,754	3,414,585
Sales taxes	4,423,374	3,986,482	-	-	4,423,374	3,986,482
Franchise taxes	794,918	860,750	-	-	794,918	860,750
Other taxes	478,484	432,144	-	-	478,484	432,144
Unrestricted investment earnings	14,914	14,401	3,677	4,478	18,591	18,879
Miscellaneous	1,100,694	1,014,427	22,977	17,225	1,123,671	1,031,652
Total revenues	<u>12,421,636</u>	<u>12,861,390</u>	<u>8,909,055</u>	<u>8,856,480</u>	<u>21,330,691</u>	<u>21,717,870</u>
EXPENSES						
General government	2,592,172	2,012,790	-	-	2,592,172	2,012,790
Public safety	4,248,889	3,771,477	-	-	4,248,889	3,771,477
Public works	3,571,109	2,340,844	-	-	3,571,109	2,340,844
Const. for outside parties	-	2,320,411	-	-	-	2,320,411
Public activities and rec.	1,580,288	1,929,843	-	-	1,580,288	1,929,843
Cultural arts and pub. ben.	447,854	643,792	-	-	447,854	643,792
Interest on long-term debt	576,214	583,214	-	-	576,214	583,214
Water and sewer	-	-	5,027,229	5,258,532	5,027,229	5,258,532
Sanitation	-	-	1,890,468	1,952,979	1,890,468	1,952,979
Airport	-	-	401,842	411,863	401,842	411,863
Total expenses	<u>13,016,526</u>	<u>13,602,371</u>	<u>7,319,539</u>	<u>7,623,374</u>	<u>20,336,065</u>	<u>21,225,745</u>
Change in net assets before transfers	(594,890)	(740,981)	1,589,516	1,233,106	994,626	492,125
Transfers	98,338	74,131	(98,338)	(74,131)	-	-
Change in net assets	(496,552)	(666,850)	1,491,178	1,158,975	994,626	492,125
Net assets - beginning, as restated	<u>16,361,571</u>	<u>17,028,421</u>	<u>11,750,919</u>	<u>10,591,944</u>	<u>28,112,490</u>	<u>27,620,365</u>
Net assets - ending	<u>\$ 15,865,019</u>	<u>\$ 16,361,571</u>	<u>\$ 13,242,097</u>	<u>\$ 11,750,919</u>	<u>\$ 29,107,116</u>	<u>\$ 28,112,490</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 \$6,141,219, a decrease of \$1,315,188 from the prior year.

Approximately 32.79% of this total amount, \$2,013,578 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance of \$4,127,641 or 67.21% 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 \$2,013,578. Unassigned fund balance represents 22.35% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$299,595 during the current fiscal year. The increase was primarily due to the increase in tax revenue.

The Community Construction Projects Fund was eliminated during the 2011 fiscal year. The City has two Capital Projects Funds that have ongoing projects from debt issues in 2009 and 2010. The City also accounts for the Bay City Community Development Corporation (BCCDC) as a blended 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 \$2,031,709, which is an increase of \$737,472 from the prior year. Unrestricted net assets of the Sanitation Fund amounted to \$286,801 at the end of the current fiscal year, which is an increase of \$303,360 from the prior year. Unrestricted net assets of the Airport Fund amounted to \$40,676 at the end of the current fiscal year, which is a decrease of \$48,062 from the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$38,645,330 (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 decrease in the City's investment in capital assets was 1.39%.

City of Bay City, Texas						
Capital Assets (Net of Depreciation)						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 1,874,437	\$ 1,874,437	\$ 381,117	\$ 381,117	\$ 2,255,554	\$ 2,255,554
Construction in progress	1,645,439	1,181,298	-	189,443	1,645,439	1,370,741
Buildings and improvements	4,876,242	5,198,187	751,072	480,760	5,627,314	5,678,947
Machinery and equipment	2,502,768	1,994,686	2,844,512	3,035,698	5,347,280	5,030,384
Infrastructure	11,880,734	12,656,530	11,889,009	12,198,142	23,769,743	24,854,672
Total	<u>\$ 22,779,620</u>	<u>\$ 22,905,138</u>	<u>\$ 15,865,710</u>	<u>\$ 16,285,160</u>	<u>\$ 38,645,330</u>	<u>\$ 39,190,298</u>

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

CAPITAL ASSETS AND DEBT ADMINISTRATION - (Continued)

Long-Term Debt

The City retired \$2,341,725 of the prior outstanding debt issues. The total outstanding debt of the governmental activities, excluding compensated absences as of September 30, 2011 amounted to \$13,471,885. The total outstanding debt of the business-type activities, excluding compensated absences, as of September 30, 2011 amounted to \$4,964,936.

Additional information on the City's long-term debt can be found in Note 10.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the City's budget for the 2011-2012 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 2011 totaled \$4,423,374. This amount is an increase of \$436,892 or 10.96% compared to the previous year. For fiscal year 2012 the City has budgeted \$4,390,000 of sales tax revenue, an increase of .75%.

The certified assessed taxable property valuations for the 2011 tax roll total \$654 million with a tax rate of \$0.525 per \$100 valuation for maintenance and operations and \$0.045 per \$100 of valuation for interest and sinking. The certified assessed taxable property valuations decreased from the 2010 tax roll by \$5 million or 0.82%.

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 planning to issue debt in the 2012 fiscal year of approximately \$9 million dollars for various capital improvements.

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, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Bay City Gas Company
ASSETS				
Current assets				
Cash and cash equivalents	\$ 6,020,498	\$ 1,972,680	\$ 7,993,178	\$ 1,751,319
Investments	-	-	-	1,275,918
Receivables (net)	851,820	1,204,527	2,056,347	257,657
Internal balances	15,735	(15,735)	-	-
Due from other governments	376,604	-	376,604	-
Prepays	75,901	2,475	78,376	15,975
Inventory	-	28,092	28,092	43,191
Restricted assets				
Cash and cash equivalents	-	-	-	201,156
Investments	-	-	-	205,588
Total current assets	<u>7,340,558</u>	<u>3,192,039</u>	<u>10,532,597</u>	<u>3,750,804</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	3,519,876	381,117	3,900,993	-
Buildings, improvements, and equipment (net)	19,259,744	15,484,593	34,744,337	1,351,043
Deferred expenses (net)	169,110	434,521	603,631	-
Total noncurrent assets	<u>22,948,730</u>	<u>16,300,231</u>	<u>39,248,961</u>	<u>1,351,043</u>
Total assets	<u>30,289,288</u>	<u>19,492,270</u>	<u>49,781,558</u>	<u>5,101,847</u>

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Bay City Gas Company
LIABILITIES				
Current liabilities				
Accounts payable	\$ 480,865	\$ 388,711	\$ 869,576	\$ 80,570
Accrued expenses	88,739	31,022	119,761	-
Accrued interest payable	89,188	11,929	101,117	-
Due to other governments	46,959	13,683	60,642	-
Deposits	12,898	547,831	560,729	-
Accrued compensated absences	233,735	94,353	328,088	-
Unearned revenue	-	197,708	197,708	-
Current portion of long-term obligations	958,204	1,495,000	2,453,204	-
Total current liabilities	<u>1,910,588</u>	<u>2,780,237</u>	<u>4,690,825</u>	<u>80,570</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	12,513,681	3,469,936	15,983,617	352,253
Total noncurrent liabilities	<u>12,513,681</u>	<u>3,469,936</u>	<u>15,983,617</u>	<u>352,253</u>
Total liabilities	<u>14,424,269</u>	<u>6,250,173</u>	<u>20,674,442</u>	<u>432,823</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,476,845	10,543,619	20,020,464	1,351,042
Restricted for debt service	-	339,292	339,292	-
Unrestricted net assets	6,388,174	2,359,186	8,747,360	3,317,982
Total net assets	<u>\$ 15,865,019</u>	<u>\$ 13,242,097</u>	<u>\$ 29,107,116</u>	<u>\$ 4,669,024</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, 2011

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 2,592,172	\$ 210,778	\$ -	\$ -
Public safety	4,248,889	1,139,693	334,370	-
Public works	3,571,109	-	-	-
Public activities and recreation	1,580,288	199,657	-	-
Cultural arts and public benefits	447,854	-	-	-
Interest on long-term debt	576,214	-	-	-
Total governmental activities	<u>13,016,526</u>	<u>1,550,128</u>	<u>334,370</u>	<u>-</u>
Business-type activities				
Water and sewer	5,027,229	6,326,946	-	-
Sanitation	1,890,468	2,204,210	-	23,000
Airport	401,842	227,920	-	100,325
Total business-type activities	<u>7,319,539</u>	<u>8,759,076</u>	<u>-</u>	<u>123,325</u>
Total primary government	<u>\$ 20,336,065</u>	<u>\$ 10,309,204</u>	<u>\$ 334,370</u>	<u>\$ 123,325</u>
Component Unit				
Bay City Gas Company	<u>\$ 2,445,592</u>	<u>\$ 2,360,508</u>	<u>\$ -</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			Component Unit
Primary Government			
Governmental Activities	Business- type Activities	Total	Bay City Gas Company
\$ (2,381,394)	\$ -	\$ (2,381,394)	\$ -
(2,774,826)	-	(2,774,826)	-
(3,571,109)	-	(3,571,109)	-
(1,380,631)	-	(1,380,631)	-
(447,854)	-	(447,854)	-
(576,214)	-	(576,214)	-
<u>(11,132,028)</u>	<u>-</u>	<u>(11,132,028)</u>	<u>-</u>
-	1,299,717	1,299,717	-
-	336,742	336,742	-
-	(73,597)	(73,597)	-
-	<u>1,562,862</u>	<u>1,562,862</u>	-
<u>(11,132,028)</u>	<u>1,562,862</u>	<u>(9,569,166)</u>	-
-	-	-	<u>(85,084)</u>
3,428,708	-	3,428,708	-
296,046	-	296,046	-
4,423,374	-	4,423,374	-
794,918	-	794,918	-
478,484	-	478,484	-
14,914	3,677	18,591	26,244
1,100,694	22,977	1,123,671	-
98,338	(98,338)	-	-
<u>10,635,476</u>	<u>(71,684)</u>	<u>10,563,792</u>	<u>26,244</u>
(496,552)	1,491,178	994,626	(58,840)
<u>16,361,571</u>	<u>11,750,919</u>	<u>28,112,490</u>	<u>4,727,864</u>
<u>\$ 15,865,019</u>	<u>\$ 13,242,097</u>	<u>\$ 29,107,116</u>	<u>\$ 4,669,024</u>

CITY OF BAY CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2011

	General	Community Construction Projects Fund	2010 Capital Acquisition Fund
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,017,095	\$ -	\$ 1,177,563
Receivables (net)	771,609	-	40,000
Due from other governments	283,447	-	-
Due from other funds	12,770	-	140,167
Deferred expenditures	53,128	-	-
Total assets	\$ 3,138,049	\$ -	\$ 1,357,730
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 412,058	\$ -	\$ 6,555
Accrued expenditures	49,922	-	-
Security deposits	-	-	-
Due to other funds	-	-	11,165
Due to other governments	46,959	-	-
Deferred revenue	555,203	-	-
Total liabilities	1,064,142	-	17,720
Fund balances			
Nonspendable	53,128	-	-
Restricted	-	-	1,340,010
Assigned	7,201	-	-
Unassigned	2,013,578	-	-
Total fund balances	2,073,907	-	1,340,010
Total liabilities and fund balances	\$ 3,138,049	\$ -	\$ 1,357,730

The accompanying notes are an integral part of this statement.

2009 Capital Acquisition Fund	Community Development Corporation	Other Governmental Funds	Total Governmental Funds
\$ 26,388	\$ 1,915,134	\$ 884,318	\$ 6,020,498
-	-	40,211	851,820
-	93,157	-	376,604
-	-	14,130	167,067
-	-	22,773	75,901
<u>\$ 26,388</u>	<u>\$ 2,008,291</u>	<u>\$ 961,432</u>	<u>\$ 7,491,890</u>
\$ 675	\$ 23,130	\$ 38,447	\$ 480,865
-	38,200	617	88,739
-	-	12,898	12,898
-	140,167	-	151,332
-	-	-	46,959
-	-	14,675	569,878
<u>675</u>	<u>201,497</u>	<u>66,637</u>	<u>1,350,671</u>
-	-	-	53,128
25,713	1,806,794	894,795	4,067,312
-	-	-	7,201
-	-	-	2,013,578
<u>25,713</u>	<u>1,806,794</u>	<u>894,795</u>	<u>6,141,219</u>
<u>\$ 26,388</u>	<u>\$ 2,008,291</u>	<u>\$ 961,432</u>	<u>\$ 7,491,890</u>

CITY OF BAY CITY, TEXAS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES**

September 30, 2011

Total governmental fund balances		\$ 6,141,219
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Property taxes, fines and weedy lot receivables 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.		569,878
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$41,731,292 and the accumulated depreciation is \$18,951,672		22,779,620
Other noncurrent assets (for example, debt issuance costs) used in governmental activities are not financial resources, and therefore are not reported in governmental funds. The cost of these assets is \$194,478 and the accumulated amortization is \$25,368.		169,110
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	\$ (9,779,157)	
Notes payable	(3,633,262)	
Accrued interest payable	(89,188)	
Capital leases payable	(59,466)	
Compensated absences	<u>(233,735)</u>	<u>(13,794,808)</u>
Net assets of governmental activities		<u>\$ 15,865,019</u>

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, 2011

	General	Community Construction Projects Fund	2010 Capital Acquisition Fund
REVENUES			
Taxes	\$ 7,616,141	\$ -	\$ -
Licenses and permits	9,335	-	-
Fines and forfeitures	469,839	-	-
Fees and charges for services	312,590	210,629	-
Intergovernmental	286,020	-	48,350
Investment income	3,845	60	3,204
Miscellaneous	831,960	-	40,000
Total revenues	<u>9,529,730</u>	<u>210,689</u>	<u>91,554</u>
EXPENDITURES			
Current			
General government	2,128,677	-	-
Public safety	4,019,120	-	-
Public works	1,067,101	-	-
Public activities and recreation	1,210,329	-	-
Cultural arts and public benefits	-	-	-
Debt service			
Principal retirement	358,748	-	-
Interest and fiscal charges	223,940	-	-
Capital outlay	-	436,644	1,662,973
Total expenditures	<u>9,007,915</u>	<u>436,644</u>	<u>1,662,973</u>
Excess (deficiency) of revenues over expenditures	521,815	(225,955)	(1,571,419)
OTHER FINANCING SOURCES (USES)			
Transfers in	393,007	-	188,697
Transfers out	(615,227)	(417,829)	-
Total other financing sources (uses)	<u>(222,220)</u>	<u>(417,829)</u>	<u>188,697</u>
Net change in fund balances	299,595	(643,784)	(1,382,722)
Fund balances at beginning of year, as restated	<u>1,774,312</u>	<u>643,784</u>	<u>2,722,732</u>
Fund balances at end of year	<u>\$ 2,073,907</u>	<u>\$ -</u>	<u>\$ 1,340,010</u>

The accompanying notes are an integral part of this statement.

2009 Capital Acquisition Fund	Community Development Corporation	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 1,105,866	\$ 676,591	\$ 9,398,598
-	-	-	9,335
-	211,271	55,504	736,614
-	-	227,999	751,218
-	-	-	334,370
21	6,957	827	14,914
-	212,348	17,718	1,102,026
<u>21</u>	<u>1,536,442</u>	<u>978,639</u>	<u>12,347,075</u>
-	424,553	-	2,553,230
-	-	54,892	4,074,012
-	545,824	5,064	1,617,989
-	-	-	1,210,329
-	-	447,854	447,854
-	230,036	295,000	883,784
-	161,776	236,431	622,147
251,639	-	-	2,351,256
<u>251,639</u>	<u>1,362,189</u>	<u>1,039,241</u>	<u>13,760,601</u>
(251,618)	174,253	(60,602)	(1,413,526)
-	-	689,857	1,271,561
-	(140,167)	-	(1,173,223)
-	(140,167)	689,857	98,338
(251,618)	34,086	629,255	(1,315,188)
<u>277,331</u>	<u>1,772,708</u>	<u>265,540</u>	<u>7,456,407</u>
<u>\$ 25,713</u>	<u>\$ 1,806,794</u>	<u>\$ 894,795</u>	<u>\$ 6,141,219</u>

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, 2011

Total net change in fund balances - governmental funds		\$ (1,315,188)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2010/2011 capital outlays is to increase net assets.		1,800,980
Depreciation is not recognized as an expense on the governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(1,926,498)
Current year proceeds and payments on long-term debt are other financing sources and expenditures in the fund financial statements, but they serve to increase or reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:		
Bond and certificate principal retirement	\$ 550,000	
Note payable principal retirement	280,139	
Capital lease principal retirement	<u>56,586</u>	886,725
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	22,932	
Other revenues	<u>51,629</u>	74,561
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 debt issue costs	(10,429)	
Decrease in accrued interest	29,536	
Decrease in bond premium	23,885	
Increase in compensated absences	<u>(60,124)</u>	<u>(17,132)</u>
Change in net assets of governmental activities		\$ <u>(496,552)</u>

The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2011

	Business-type Activities			
	Water and Sewer	Sanitation	Airport	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,653,482	\$ 319,198	\$ -	\$ 1,972,680
Receivables (net)	1,174,936	-	29,591	1,204,527
Due from other funds	-	165,085	-	165,085
Deferred expenses (net)	2,475	-	-	2,475
Inventory	-	2,271	25,821	28,092
Total current assets	<u>2,830,893</u>	<u>486,554</u>	<u>55,412</u>	<u>3,372,859</u>
Noncurrent assets				
Land and other assets not being depreciated	357,155	-	23,962	381,117
Buildings, improvements, and equipment (net)	12,134,527	2,302,616	1,047,450	15,484,593
Deferred expenses (net)	350,419	84,102	-	434,521
Total noncurrent assets	<u>12,842,101</u>	<u>2,386,718</u>	<u>1,071,412</u>	<u>16,300,231</u>
Total assets	<u>15,672,994</u>	<u>2,873,272</u>	<u>1,126,824</u>	<u>19,673,090</u>
LIABILITIES				
Current liabilities				
Accounts payable	331,423	52,266	5,022	388,711
Accrued expenses	24,571	5,409	1,042	31,022
Due to other funds	179,215	-	1,605	180,820
Due to other governments	-	13,683	-	13,683
Accrued interest payable	6,680	5,249	-	11,929
Customer deposits	542,906	-	4,925	547,831
Accrued compensated absences	82,671	9,540	2,142	94,353
Unearned revenue	-	197,708	-	197,708
Current portion of bonds and certificates payable	1,265,000	230,000	-	1,495,000
Total current liabilities	<u>2,432,466</u>	<u>513,855</u>	<u>14,736</u>	<u>2,961,057</u>
Noncurrent liabilities				
Bonds and certificates payable (net)	1,601,656	1,868,280	-	3,469,936
Total noncurrent liabilities	<u>1,601,656</u>	<u>1,868,280</u>	<u>-</u>	<u>3,469,936</u>
Total liabilities	<u>4,034,122</u>	<u>2,382,135</u>	<u>14,736</u>	<u>6,430,993</u>
NET ASSETS				
Invested in capital assets, net of related debt	9,267,871	204,336	1,071,412	10,543,619
Restricted for debt service	339,292	-	-	339,292
Unrestricted net assets	2,031,709	286,801	40,676	2,359,186
Total net assets	<u>\$ 11,638,872</u>	<u>\$ 491,137</u>	<u>\$ 1,112,088</u>	<u>\$ 13,242,097</u>

The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS

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

PROPRIETARY FUNDS

For the year ended September 30, 2011

	Business-type Activities			
	Water and Sewer	Sanitation	Airport	Total
OPERATING REVENUES				
Charges for services	\$ 6,268,663	\$ 2,204,210	\$ 153,208	\$ 8,626,081
Rents and miscellaneous fees	58,283	-	74,712	132,995
Total operating revenues	<u>6,326,946</u>	<u>2,204,210</u>	<u>227,920</u>	<u>8,759,076</u>
OPERATING EXPENSES				
Water and sewer system	4,259,583	-	-	4,259,583
Sanitation expenses	-	1,524,715	-	1,524,715
Airport expenses	-	-	289,922	289,922
Depreciation and amortization	647,918	288,268	111,920	1,048,106
Total operating expenses	<u>4,907,501</u>	<u>1,812,983</u>	<u>401,842</u>	<u>7,122,326</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	1,419,445	391,227	(173,922)	1,636,750
NONOPERATING REVENUES (EXPENSES)				
Investment income	3,489	182	6	3,677
Miscellaneous income	22,810	167	-	22,977
Interest and fiscal charges	(119,728)	(77,485)	-	(197,213)
Total nonoperating revenues (expenses)	<u>(93,429)</u>	<u>(77,136)</u>	<u>6</u>	<u>(170,559)</u>
Income (loss) before contributions and transfers	1,326,016	314,091	(173,916)	1,466,191
Contributions and transfers				
Capital contributions	-	23,000	100,325	123,325
Transfers in	136,605	-	62,464	199,069
Transfers out	(210,877)	(38,000)	(48,530)	(297,407)
Total contributions and transfers	<u>(74,272)</u>	<u>(15,000)</u>	<u>114,259</u>	<u>24,987</u>
Change in net assets	1,251,744	299,091	(59,657)	1,491,178
Total net assets at beginning of year	<u>10,387,128</u>	<u>192,046</u>	<u>1,171,745</u>	<u>11,750,919</u>
Total net assets at end of year	<u>\$ 11,638,872</u>	<u>\$ 491,137</u>	<u>\$ 1,112,088</u>	<u>\$ 13,242,097</u>

The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2011

	Business-type Activities			
	Water and Sewer	Sanitation	Airport	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 6,134,706	\$ 2,226,244	\$ 244,704	\$ 8,605,654
Cash paid to suppliers for goods and services	(1,825,418)	(912,736)	(220,157)	(2,958,311)
Cash paid to employees for services	(2,348,210)	(628,171)	(82,215)	(3,058,596)
Net cash provided (used) by operating activities	<u>1,961,078</u>	<u>685,337</u>	<u>(57,668)</u>	<u>2,588,747</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (to) from other funds	(74,272)	(38,000)	13,934	(98,338)
Borrowings (repayments) to other funds	(21,460)	(42,000)	1,605	(61,855)
Miscellaneous income (expense)	22,810	22,810	-	45,620
Increase (decrease) in customer deposits	46,004	-	320	46,324
Net cash provided (used) by noncapital financing activities	<u>(26,918)</u>	<u>(57,190)</u>	<u>15,859</u>	<u>(68,249)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(368,764)	(53,901)	-	(422,665)
Principal paid on long-term debt	(1,230,000)	(225,000)	-	(1,455,000)
Interest paid	(120,719)	(72,283)	-	(193,002)
Net cash provided (used) by capital and related financing activities	<u>(1,719,483)</u>	<u>(351,184)</u>	<u>-</u>	<u>(2,070,667)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	3,489	181	6	3,676
Net cash provided (used) by investing activities	<u>3,489</u>	<u>181</u>	<u>6</u>	<u>3,676</u>
Net increase (decrease) in cash and cash equivalents	218,166	277,144	(41,803)	453,507
Cash and cash equivalents at beginning of year	1,435,316	42,054	41,803	1,519,173
Cash and cash equivalents at end of year	<u>\$ 1,653,482</u>	<u>\$ 319,198</u>	<u>\$ -</u>	<u>\$ 1,972,680</u>

	Business-type Activities			
	Water and Sewer	Sanitation	Airport	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 1,419,445	\$ 391,227	\$ (173,922)	\$ 1,636,750
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	647,918	288,268	111,920	1,048,106
Changes in assets and liabilities				
(Increase) decrease in accounts receivable	(192,240)	22,034	16,784	(153,422)
(Increase) decrease in inventory	-	-	(8,625)	(8,625)
(Increase) decrease in deferred expenses	(2,475)	-	-	(2,475)
Increase (decrease) in accounts payable	129,389	(24,442)	(3,497)	101,450
Increase (decrease) in accrued expenses	(65,126)	(15,971)	(1,635)	(82,732)
Increase (decrease) in unearned revenue	-	19,106	-	19,106
Increase (decrease) in compensated absences	24,167	5,115	1,307	30,589
Total adjustments	541,633	294,110	116,254	951,997
Net cash provided (used) by operating activities	\$ 1,961,078	\$ 685,337	\$ (57,668)	\$ 2,588,747
Noncash capital and related financing activities				
Assets acquired from contributions	\$ -	\$ 23,000	\$ 100,325	\$ 123,325

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

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. The City considers the Bay City Community Development Corporation a blended component unit. Discretely presented component units, on the other hand, 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 as a discretely presented component unit. The City's blended component unit has a September 30 year-end and the City's discretely presented component unit 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.

Blended Component Unit

Bay City Community Development Corporation

The Bay City Community Development Corporation (the "Corporation") has been included in the reporting entity as a blended 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, four of 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.

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, 2011 these contributions totaled \$444,331. 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 four Capital Project Funds, three of which have been reported as major funds. The Community Construction Projects Fund is used to account for the various construction projects within the City. The 2010 Capital Acquisition Fund is used to account for the proceeds and expenditures of the 2010 debt issue. Finally, the 2009 Capital Acquisition Fund is used to account for the expenditures related to the 2009 debt issue.

The Community Development Corporation accounts for the resources used to finance community and economic development projects within the City. The principal source of revenue of this fund are sales taxes.

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.

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, 2011, 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 nonspendable include amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. 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 or by other formal action. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Finance Director or their designee.

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 ACCOUNTABILITYBudgetary Compliance

There were ten departments where expenditures exceeded the amount appropriated during the fiscal year 2010-2011.

<u>General Fund - Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
City secretary	\$ 226,246	\$ 252,423	\$ (26,177)
City general services	1,070,664	1,096,155	(25,491)
Administration and council	199,554	213,217	(13,663)
Main street	47,020	53,378	(6,358)
Municipal court	248,082	269,052	(20,970)
Police	3,629,864	3,778,583	(148,719)
City service center	62,969	63,265	(296)
Library	267,570	315,657	(48,087)
Teen center	8,000	21,143	(13,143)
Transfers out	485,504	615,227	(129,723)

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, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 3,410,504	34

The pool 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 pool uses 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 pool operates in full compliance with the Public Funds Investment Act. TexPool is 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 blended 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, 2011 the Corporation's deposits were uninsured in the amount of \$1,123,251.

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 and it has no custodial credit risk.

NOTE 4: RECEIVABLES

Receivables at September 30, 2011, consist of the following:

	<u>General</u>	<u>2010 Capital Acquisition Fund</u>	<u>Water and Sewer</u>	<u>Airport Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:						
Accounts	\$ 113,135	\$ -	\$ 1,246,921	\$ 40,686	\$ -	\$ 1,400,742
Ad valorem taxes	761,812	-	-	-	18,675	780,487
Franchise taxes	99,999	-	-	-	-	99,999
Other	<u>109,193</u>	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>25,536</u>	<u>174,729</u>
Total gross receivables	1,084,139	40,000	1,246,921	40,686	44,211	2,455,957
Less: allowances	<u>312,530</u>	<u>-</u>	<u>71,985</u>	<u>11,095</u>	<u>4,000</u>	<u>399,610</u>
Total net receivables	<u>\$ 771,609</u>	<u>\$ 40,000</u>	<u>\$ 1,174,936</u>	<u>\$ 29,591</u>	<u>\$ 40,211</u>	<u>\$ 2,056,347</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	\$ 502,242	\$ -	\$ 502,242
Fines	52,961	-	52,961
Debt Service Fund			
Ad valorem taxes	<u>14,675</u>	<u>-</u>	<u>14,675</u>
	<u>\$ 569,878</u>	<u>\$ -</u>	<u>\$ 569,878</u>

The City's property taxes are levied annually on October 1st on the basis of the Appraisal District's assessed values as of January 1st 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 31st. 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 1st of the subsequent calendar year.

For the current year, the City levied property taxes of \$0.56424 per \$100 of assessed valuation, for maintenance and operations, \$0.51914 and interest and sinking, \$0.04510. The resulting adjusted total tax levy was \$3,721,966 on the total adjusted taxable valuation of \$661,800,498 for the 2010 tax roll.

NOTE 5: CAPITAL ASSETS

The City's capital assets activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 1,874,437	\$ -	\$ -	\$ 1,874,437
Construction in progress	<u>1,181,298</u>	<u>1,427,016</u>	<u>962,875</u>	<u>1,645,439</u>
Total capital assets not being depreciated	<u>3,055,735</u>	<u>1,427,016</u>	<u>962,875</u>	<u>3,519,876</u>
Capital assets, being depreciated				
Machinery and equipment	5,933,389	1,051,666	-	6,985,055
Buildings	7,958,159	109,524	-	8,067,683
Infrastructure	<u>22,983,029</u>	<u>175,649</u>	<u>-</u>	<u>23,158,678</u>
Total capital assets being depreciated	<u>36,874,577</u>	<u>1,336,839</u>	<u>-</u>	<u>38,211,416</u>
Less accumulated depreciation for				
Machinery and equipment	3,938,703	543,584	-	4,482,287
Buildings	2,759,972	431,469	-	3,191,441
Infrastructure	<u>10,326,499</u>	<u>951,445</u>	<u>-</u>	<u>11,277,944</u>
Total accumulated depreciation	<u>17,025,174</u>	<u>1,926,498</u>	<u>-</u>	<u>18,951,672</u>
Total capital assets being depreciated, net	<u>19,849,403</u>	<u>(589,659)</u>	<u>-</u>	<u>19,259,744</u>
Governmental activities capital assets, net	<u>\$ 22,905,138</u>	<u>\$ 837,357</u>	<u>\$ 962,875</u>	<u>\$22,779,620</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 381,117	\$ -	\$ -	\$ 381,117
Construction in progress	<u>189,443</u>	<u>-</u>	<u>189,443</u>	<u>-</u>
Total capital assets not being depreciated	<u>570,560</u>	<u>-</u>	<u>189,443</u>	<u>381,117</u>
Capital assets, being depreciated				
Machinery and equipment	5,971,262	35,515	-	6,006,777
Buildings and improvements	1,020,362	289,768	-	1,310,130
Infrastructure	<u>23,587,152</u>	<u>366,709</u>	<u>-</u>	<u>23,953,861</u>
Total capital assets being depreciated	<u>30,578,776</u>	<u>691,992</u>	<u>-</u>	<u>31,270,768</u>
Less accumulated depreciation for				
Machinery and equipment	2,935,564	226,701	-	3,162,265
Buildings and improvements	539,602	19,456	-	559,058
Infrastructure	<u>11,389,010</u>	<u>675,842</u>	<u>-</u>	<u>12,064,852</u>
Total accumulated depreciation	<u>14,864,176</u>	<u>921,999</u>	<u>-</u>	<u>15,786,175</u>
Total capital assets being depreciated, net	<u>15,714,600</u>	<u>(230,007)</u>	<u>-</u>	<u>15,484,593</u>
Business-type activities capital assets, net	<u>\$ 16,285,160</u>	<u>\$ (230,007)</u>	<u>\$ 189,443</u>	<u>\$15,865,710</u>

NOTE 5: CAPITAL ASSETS - (Continued)

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

Governmental activities

General government	\$ 22,708
Public safety	148,972
Public works	1,392,555
Public activities and recreation	<u>362,263</u>
Total depreciation expense - governmental activities	<u>\$ 1,926,498</u>

Business-type activities

Water and sewer	\$ 521,814
Sanitation	288,267
Airport	<u>111,918</u>
Total depreciation expense - business-type activities	<u>\$ 921,999</u>

NOTE 6: EMPLOYEES' RETIREMENT PLAN

A. Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Members can retire at age 60 and above with five or more years of service or with twenty years of service regardless of age. A member is vested after five years.

NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)

B. Contributions

The contribution rate for the employees is 5%, and the City matching percent is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution 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 is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2007, valuation is effective for rates beginning January 2009).

C. Annual Pension Cost

For the employer's fiscal year ending September 30, 2011, the annual pension cost for the TMRS plan for its employees was \$685,768, and the actual contributions were \$685,768. The net pension obligation at the beginning and end of the fiscal year was zero.

D. Actuarial Valuation Information

Following is a tabular summary of actuarial valuation information for the December 31, 2010, December 31, 2009 and December 31, 2008, valuation dates:

	Actuarial Valuation Information			
	12/31/10 Restructured	12/31/10 Prior to Restructuring	12/31/09	12/31/08
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit	projected unit credit
Amortization method	level percent of payroll	level percent of payroll	level percent of payroll	level percent of payroll
GASB 25 equivalent single amortization period	27.1 years; closed period	27.1 years; closed period	28.2 years; closed period	29.0 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years	30 years
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market	amortized cost
Investment rate of return *	7.0%	7.5%	7.5%	7.5%
Projected salary increases *	varies by age and service	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%	3.0%
	2.1%	2.1%	2.1%	2.1%

NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)

Funded Status and Funding Progress

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS's city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations is presented as follows:

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)
12/31/10 ²	\$ 12,236,801	\$ 17,868,944	\$ 5,632,143	68.5%	\$ 6,293,635	89.5%
12/31/10 ¹	21,658,759	25,352,756	3,693,997	85.4%	6,293,635	58.7%

¹ Actuarial valuation performed under the original fund structure

² Actuarial valuation performed under the new fund structure

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 1st of any year to be effective the following January 1st.

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

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, 11th Floor, Austin, Texas 78701 in addition, the report is available on FFPC's website at 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, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th 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, 65th 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

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

¹ Includes a state contribution of \$8,800,000.

² Based on the August 31, 2006, actuarial valuation.

³ Based on the August 31, 2008, actuarial valuation.

State contributions to the City's plan for the fiscal year 2011 has been deemed insignificant to the financial statements. Therefore, no amounts have been recognized as revenues and expenditures during the period.

NOTE 9: 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 10: LONG-TERM DEBT

A. Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds and certificates payable					
General obligation bonds	\$ 4,675,000	\$ -	\$ 255,000	\$ 4,420,000	\$ 265,000
Certificates of obligation	5,582,500	-	295,000	5,287,500	340,000
Plus deferred amounts:					
Bond premium	<u>95,542</u>	<u>-</u>	<u>23,885</u>	<u>71,657</u>	<u>-</u>
Total bonds and certificates payable	<u>10,353,042</u>	<u>-</u>	<u>573,885</u>	<u>9,779,157</u>	<u>605,000</u>
Notes payable	3,913,401	-	280,139	3,633,262	293,738
Capital leases	116,052	-	56,586	59,466	59,466
Compensated absences	<u>173,611</u>	<u>60,124</u>	<u>-</u>	<u>233,735</u>	<u>233,735</u>
Total governmental activity long-term liabilities	<u>\$ 14,556,106</u>	<u>\$ 60,124</u>	<u>\$ 910,610</u>	<u>\$ 13,705,620</u>	<u>\$ 1,191,939</u>
Business-type activities					
Bonds and certificates payable					
General obligation bonds	\$ 4,025,000	\$ -	\$ 1,230,000	\$ 2,795,000	\$ 1,265,000
Certificates of obligation	2,282,500	-	225,000	2,057,500	230,000
Plus deferred amounts:					
Bond premium	<u>141,418</u>	<u>-</u>	<u>28,982</u>	<u>112,436</u>	<u>-</u>
Total bonds and certificates payable	<u>6,448,918</u>	<u>-</u>	<u>1,483,982</u>	<u>4,964,936</u>	<u>1,495,000</u>
Compensated absences	<u>63,764</u>	<u>30,589</u>	<u>-</u>	<u>94,353</u>	<u>94,353</u>
Total business-type activity long-term liabilities	<u>\$ 6,512,682</u>	<u>\$ 30,589</u>	<u>\$ 1,483,982</u>	<u>\$ 5,059,289</u>	<u>\$ 1,589,353</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 10: 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	
2012	\$ 265,000	\$ 185,230	\$ 1,265,000	\$ 83,850	\$ 1,799,080
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
2017-2021	1,750,000	504,213	-	-	2,254,213
2022-2025	1,245,000	113,040	-	-	1,358,040
	<u>\$ 4,420,000</u>	<u>\$ 1,427,280</u>	<u>\$ 2,795,000</u>	<u>\$ 133,460</u>	<u>\$ 8,775,740</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

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

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2012	\$ 340,000	\$ 211,238	\$ 230,000	\$ 65,887	\$ 847,125
2013	352,500	199,387	237,500	58,988	848,375
2014	365,000	187,088	245,000	51,862	848,950
2015	377,500	174,338	252,500	44,513	848,851
2016	395,000	161,138	260,000	36,938	853,076
2017-2021	1,592,500	584,124	832,500	58,974	3,068,098
2022-2026	945,000	337,950	-	-	1,282,950
2027-2030	920,000	105,750	-	-	1,025,750
	<u>\$ 5,287,500</u>	<u>\$ 1,961,013</u>	<u>\$ 2,057,500</u>	<u>\$ 317,162</u>	<u>\$ 9,623,175</u>

NOTE 10: 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 16th 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 \$307,296 at September 30, 2010. 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, 2011 was \$73,762. The General Fund is responsible for servicing this debt.

The City 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, 2011 was \$3,290,127. The Community Development Corporation, a blended component unit of the City, 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>	
2012	\$ 293,738	\$ 167,886	\$ 461,624
2013	307,998	153,627	461,625
2014	322,948	138,674	461,622
2015	338,627	122,997	461,624
2016	355,067	106,556	461,623
2017-2021	1,727,812	285,220	2,013,032
2022-2025	<u>287,072</u>	<u>6,787</u>	<u>293,859</u>
	<u>\$ 3,633,262</u>	<u>\$ 981,747</u>	<u>\$ 4,615,009</u>

Capital Leases

The City entered into a capital lease agreement for the purchase of a fire truck. The capital lease is paid by the General Fund.

The following is a summary of future lease payments due on the fire truck:

<u>Year</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2012	\$ 59,466	\$ 3,027	\$ 62,493
	<u>\$ 59,466</u>	<u>\$ 3,027</u>	<u>\$ 62,493</u>

NOTE 11: 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, 2011, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	2010 Capital Acquisition	\$ 11,165
	Airport	1,605
2010 Capital Acquisition	Community Dev. Corp.	140,167
Disaster Recovery	Water and Sewer	14,130
Sanitation	Water and Sewer	<u>165,085</u>
		<u>\$ 332,152</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>2010 Capital Acquisition Fund</u>	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Nonmajor Govt. Funds</u>	
General	\$ -	\$ -	\$ 98,605	\$ 62,464	\$ 454,158	\$ 615,227
Community Dev. Corp	-	140,167	-	-	-	140,167
Community Projects	317,829	-	-	-	100,000	417,829
Airport	-	-	-	-	48,530	48,530
Sanitation	-	-	38,000	-	-	38,000
Water and Sewer	<u>75,178</u>	<u>48,530</u>	<u>-</u>	<u>-</u>	<u>87,169</u>	<u>210,877</u>
	<u>\$ 393,007</u>	<u>\$ 188,697</u>	<u>\$ 136,605</u>	<u>\$ 62,464</u>	<u>\$ 689,857</u>	<u>\$ 1,470,630</u>

NOTE 12: RESTATEMENT 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 an increase in the beginning net assets of \$243,867. The restatement was necessary to correctly reflect various receivable accounts and recording of cash balances not previously recorded on the City's financial records.

NOTE 13: FUND BALANCES

	Governmental Fund Balances				Total
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Assigned</u>	<u>Unassigned</u>	
General					
Deferred expenditures	\$ 53,128	\$ -	\$ -	\$ -	\$ 53,128
Employee committee	-	-	7,201	-	7,201
Unassigned	-	-	-	2,013,578	2,013,578
2009 Capital Acquisition Fund	-	25,713	-	-	25,713
2010 Capital Acquisition Fund	-	1,340,010	-	-	1,340,010
Community Dev. Corp.	-	1,806,794	-	-	1,806,794
Nonmajor Governmental					
Tourism	-	229,186	-	-	229,186
Retirement of long-term debt	-	10,285	-	-	10,285
Municipal court	-	122,573	-	-	122,573
State and federal grant programs	-	260,131	-	-	260,131
Public safety	-	31,020	-	-	31,020
Various capital projects	-	27,028	-	-	27,028
Street paving	-	214,572	-	-	214,572
	<u>\$ 53,128</u>	<u>\$ 4,067,312</u>	<u>\$ 7,201</u>	<u>\$ 2,013,578</u>	<u>\$ 6,141,219</u>

NOTE 14: 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.

1. Reporting Entity

The Bay City Gas Company is a component unit of the City of Bay City, Texas, and designated profits are used 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 new members. The Board of Trustees has the authority to significantly influence operations and to hire management. They are responsible and accountable for all fiscal matters.

NOTE 14: BAY CITY GAS COMPANY - (Continued)

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.

3. Financial Statement Accounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

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.

NOTE 14: BAY CITY GAS COMPANY - (Continued)

A. Summary of Significant Accounting Policies - (Continued)

3. Financial Statement Accounts - (Continued)

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 \$21,561 in allowance for uncollectible accounts.

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

e. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

4. 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.

B. 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.

NOTE 14: BAY CITY GAS COMPANY - (Continued)**B. Deposits and Investments - (Continued)**Cash Deposits:

At March 31, 2011, the carrying amount of the Company's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$915,871 and the bank balance was \$941,459. The Company's cash deposits at March 31, 2011 and during the year ended March 31, 2011, were entirely covered by FDIC insurance or by pledged collateral held by the Company's agent bank in the Company's name.

Investments:

The Company is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the Company adhered to the requirements of the Act. Additionally, investment practices of the Company were in accordance with local policies.

The Act determines the types of investments, which are allowable for the Company. These include, with certain restrictions, 1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) money market savings accounts, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) common trust funds.

The Company's investments at March 31, 2011 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 year	FDIC	\$ 545,529	36.82%
Certificates of Deposit - Nonparticipating	< 1 year	FDIC	507,845	34.28%
Federal Home Loan Mortgage	> 5 years	Aaa	200,278	13.52%
GE Cap Corp Sr Notes	> 5 years	Aa2	78,303	5.29%
GNMA Pool	> 5 years	Not Rated	4,307	0.29%
Caterpillar Fin Svcs Group		A2	100,105	6.76%
UBS Ag PfdTr IV	N/A	Aa3	<u>45,140</u>	<u>3.05%</u>
Total Investments			<u>\$ 1,481,507</u>	<u>100.00%</u>

Included in Cash:

TexPool	N/A	Aaa	\$ 856
Capital one brokerage	N/A	Bbb	117,212
UBS Money Market Funds	N/A	Aaa-mf	805,243
Edward Jones Money Market Funds	N/A	Aaam	<u>619,388</u>
			<u>\$ 1,542,699</u>

NOTE 14: BAY CITY GAS COMPANY - (Continued)

B. Deposits and Investments - (Continued)

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:

1. 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.

2. 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.

3. 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.

Investment Accounting Policy

The Company's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

NOTE 14: BAY CITY GAS COMPANY - (Continued)

B. Deposits and Investments - (Continued)

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "ACT"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The Company's investments in the Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Texpool is a 2a7-like pool governed by the State Comptroller of Public Accounts.

C. Capital Assets

Capital asset activity for the year ended March 31, 2011, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 4,732	\$ 27,441	\$ 32,173	\$ -
Total capital assets not being depreciated	<u>4,732</u>	<u>27,441</u>	<u>32,173</u>	<u>-</u>
Capital assets, being depreciated:				
Utility plant	2,080,523	32,173	5,578	2,107,118
Buildings and improvements	522,800	-	2,000	520,800
Equipment	376,280	14,675	47,517	343,438
Vehicles	144,737	43,480	6,855	181,362
Total capital assets being depreciated	<u>3,124,340</u>	<u>90,328</u>	<u>61,950</u>	<u>3,152,718</u>
Less accumulated depreciation for:				
Utility plant	(1,173,732)	(52,161)	(1,712)	(1,224,181)
Buildings and improvements	(272,290)	(13,140)	(250)	(285,180)
Equipment	(208,741)	(18,190)	(27,690)	(199,241)
Vehicles	(82,431)	(16,284)	(5,642)	(93,073)
Total accumulated depreciation	<u>(1,737,194)</u>	<u>(99,775)</u>	<u>(35,294)</u>	<u>(1,801,675)</u>
Total capital assets being depreciated, net	<u>1,387,146</u>	<u>(9,447)</u>	<u>26,656</u>	<u>1,351,043</u>
Business-type activities capital assets, net	<u>\$1,391,878</u>	<u>\$ 17,994</u>	<u>\$ 58,829</u>	<u>\$1,351,043</u>

NOTE 14: BAY CITY GAS COMPANY - (Continued)

C. Capital Assets - (Continued)

Depreciation of \$99,775 was charged to the only function of providing natural gas.

D. 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 2011, 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.

E. Pension Plan

1. Plan Description

The Company provides pension 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 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's website at 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 2008	Plan Year 2009
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 14: BAY CITY GAS COMPANY - (Continued)

E. 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 2009 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>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</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	30 years, closed period	29 years, closed period	28 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	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

The current contribution rate for the employer is 11.19% of annual covered payroll and 5% for employees. The Company's contributions to the TMRS for the years ending March 31, 2011, 2010 and 2009 were \$52,768, \$47,328 and \$50,337, respectively, and were equal to the required contributions for each year.

NOTE 14: BAY CITY GAS COMPANY - (Continued)

F. Health Care Coverage

During the year ended March 31, 2011, employees of the Company were covered by a health insurance plan (the Plan). The Company paid premiums of \$501 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the Company and the third party administrator is renewable July 1, 2011, and terms of coverage and premium costs are included in the contractual provisions.

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 any time with any excess contributions reverting back to the Company. The Plan is administered independently of the Company by Total Administrative Services Corporation.

H. Restricted Assets

Cash has been restricted for the payment of customer deposits.

I. Nonmonetary Transactions

It is Company policy to donate gas consumed by City owned property and a fixed amount for volunteer firemen. At March 31, 2011, the amount of gas at retail prices consumed by City property was \$28,331 and the fixed amount donated to the City on behalf of the volunteer firemen amounted to \$16,000 for total donated gas of \$44,331.

J. Prior Period Adjustment

During the fiscal year, the Board of Trustees adopted a capitalization threshold of \$2,500. As a result, assets with a cost of \$61,949, accumulated depreciation of \$35,293 and a net book value of \$26,656 were written off.

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, 2011*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes				
Ad valorem taxes	\$ 3,458,000	\$ 3,458,000	\$ 3,490,843	\$ 32,843
Other taxes	3,973,500	3,973,500	4,125,298	151,798
Licenses and permits	9,300	9,300	9,335	35
Fines and forfeitures	415,600	415,600	469,839	54,239
Fees and charges for services	330,750	330,750	312,590	(18,160)
Intergovernmental	104,707	190,025	286,020	95,995
Investment income	-	-	3,845	3,845
Miscellaneous	723,570	726,572	831,960	105,388
Total revenues	<u>9,015,427</u>	<u>9,103,747</u>	<u>9,529,730</u>	<u>425,983</u>
EXPENDITURES				
Current				
General government	2,172,477	2,073,535	2,128,677	(55,142)
Public safety	3,619,343	3,881,289	4,019,120	(137,831)
Public works	1,208,010	1,173,968	1,067,101	106,867
Public activities and recreation	1,174,453	1,251,880	1,210,329	41,551
Cultural arts and public benefits	93,000	-	-	-
Debt service	583,458	583,458	582,688	770
Total expenditures	<u>8,850,741</u>	<u>8,964,130</u>	<u>9,007,915</u>	<u>(43,785)</u>
Excess (deficiency) of revenues over expenditures	164,686	139,617	521,815	382,198
OTHER FINANCING SOURCES (USES)				
Transfers in	86,180	86,180	393,007	306,827
Transfers out	(466,940)	(485,504)	(615,227)	(129,723)
Total other financing sources (uses)	<u>(380,760)</u>	<u>(399,324)</u>	<u>(222,220)</u>	<u>177,104</u>
Net change in fund balance	(216,074)	(259,707)	299,595	559,302
Fund balance at beginning of year, as restated	<u>1,774,312</u>	<u>1,774,312</u>	<u>1,774,312</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,558,238</u>	<u>\$ 1,514,605</u>	<u>\$ 2,073,907</u>	<u>\$ 559,302</u>

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

CITY OF BAY CITY, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2011

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, 2011 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	\$ 226,246	\$ 252,423	\$ (26,177)
City general services	1,070,664	1,096,155	(25,491)
Administration and council	199,554	213,217	(13,663)
Main street	47,020	53,378	(6,358)
Municipal court	248,082	269,052	(20,970)
Police	3,629,864	3,778,583	(148,719)
City service center	62,969	63,265	(296)
Library	267,570	315,657	(48,087)
Teen center	8,000	21,143	(13,143)
Transfers out	485,504	615,227	(129,723)

CITY OF BAY CITY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
HISTORICAL PENSION INFORMATION
September 30, 2011

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)
12/31/10 ²	\$ 12,236,801	\$ 17,868,944	\$ 5,632,143	68.5%	\$ 6,293,635	89.5%
12/31/10 ¹	21,658,759	25,352,756	3,693,997	85.4%	6,293,635	58.7%
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%

¹Actuarial valuation performed under the original fund structure

²Actuarial valuation performed under the new fund structure

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, 2011

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ¹ (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 ²	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/2010 ³	64,113,803	79,953,215	15,839,412	80.2%	8,708	1,819

¹ The actuarial accrued liability is based upon the entry age actuarial cost method.

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

³ 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 ³	\$ 2,875,103	100%
2009	2,698,271 ³	2,698,271	100%
2008	3,160,764 ²	11,239,339 ¹	356%

¹ Includes a state contribution of \$8,800,000.

² Based on the August 31, 2006, actuarial valuation.

³ Based on the August 31, 2008, actuarial valuation.

Combining and Individual Fund Statements and Schedules

CITY OF BAY CITY, TEXAS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2011

	Special Revenue Funds				
	Civic and Cultural Arts Fund	Donation Fund	Forfeiture Fund	Court Building Security Fund	Court Technology Fund
ASSETS					
Cash and cash equivalents	\$ 215,662	\$ 27,028	\$ 45,968	\$ 56,443	\$ 68,359
Receivables (net)					
Taxes	25,536	-	-	-	-
Deferred expenditures	22,773	-	-	-	-
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 263,971</u>	<u>\$ 27,028</u>	<u>\$ 45,968</u>	<u>\$ 56,443</u>	<u>\$ 68,359</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 21,887	\$ -	\$ 14,948	\$ 1,155	\$ 457
Accrued expenditures	-	-	-	617	-
Security deposits	12,898	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	<u>34,785</u>	<u>-</u>	<u>14,948</u>	<u>1,772</u>	<u>457</u>
Fund balances					
Restricted	229,186	27,028	31,020	54,671	67,902
Total fund balances	<u>229,186</u>	<u>27,028</u>	<u>31,020</u>	<u>54,671</u>	<u>67,902</u>
Total liabilities and fund balances	<u>\$ 263,971</u>	<u>\$ 27,028</u>	<u>\$ 45,968</u>	<u>\$ 56,443</u>	<u>\$ 68,359</u>

<u>Disaster Recovery Fund</u>	<u>Street Maintenance Capital Project Fund</u>	<u>Debt Service</u>	<u>Total</u>
\$ 246,001	\$ 214,572	\$ 10,285	\$ 884,318
-	-	14,675	40,211
-	-	-	22,773
14,130	-	-	14,130
<u>\$ 260,131</u>	<u>\$ 214,572</u>	<u>\$ 24,960</u>	<u>\$ 961,432</u>
\$ -	\$ -	\$ -	\$ 38,447
-	-	-	617
-	-	-	12,898
-	-	14,675	14,675
-	-	14,675	66,637
260,131	214,572	10,285	894,795
<u>260,131</u>	<u>214,572</u>	<u>10,285</u>	<u>894,795</u>
<u>\$ 260,131</u>	<u>\$ 214,572</u>	<u>\$ 24,960</u>	<u>\$ 961,432</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, 2011

	Special Revenue Funds				
	Civic and Cultural Arts Fund	Donation Fund	Forfeiture Fund	Court Building Security Fund	Court Technology Fund
REVENUES					
Taxes					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Hotel - motel tax	381,736	-	-	-	-
Fines and forfeitures	-	-	33,534	9,410	12,560
Fees and charges for services	78,492	-	-	-	-
Investment income					
Interest	326	16	25	13	18
Miscellaneous	-	13,438	4,280	-	-
Total revenues	<u>460,554</u>	<u>13,454</u>	<u>37,839</u>	<u>9,423</u>	<u>12,578</u>
EXPENDITURES					
Current					
Cultural arts and public benefits	441,428	6,426	-	-	-
Public safety	-	-	6,819	29,273	18,800
Public works	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>441,428</u>	<u>6,426</u>	<u>6,819</u>	<u>29,273</u>	<u>18,800</u>
Excess (deficiency) of revenues over expenditures	19,126	7,028	31,020	(19,850)	(6,222)
OTHER FINANCING SOURCES (USES)					
Transfers in	100,000	-	-	74,521	74,124
Total other financing sources (uses)	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>74,521</u>	<u>74,124</u>
Net change in fund balances	119,126	7,028	31,020	54,671	67,902
Fund balances at beginning of year	110,060	20,000	-	-	-
Fund balances at end of year	<u>\$ 229,186</u>	<u>\$ 27,028</u>	<u>\$ 31,020</u>	<u>\$ 54,671</u>	<u>\$ 67,902</u>

<u>Disaster Recovery Fund</u>	<u>Street Maintenance Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
\$ -	\$ -	\$ 294,855	294,855
-	-	-	381,736
-	-	-	55,504
149,507	-	-	227,999
107	104	218	827
-	-	-	17,718
<u>149,614</u>	<u>104</u>	<u>295,073</u>	<u>978,639</u>
-	-	-	447,854
-	-	-	54,892
-	5,064	-	5,064
-	-	295,000	295,000
-	-	236,431	236,431
-	5,064	531,431	1,039,241
149,614	(4,960)	(236,358)	(60,602)
-	200,000	241,212	689,857
-	200,000	241,212	689,857
149,614	195,040	4,854	629,255
110,517	19,532	5,431	265,540
<u>\$ 260,131</u>	<u>\$ 214,572</u>	<u>\$ 10,285</u>	<u>\$ 894,795</u>

CITY OF BAY CITY, TEXAS
MAJOR GOVERNMENTAL FUNDS - GENERAL FUND
BALANCE SHEET
September 30, 2011
With comparative totals for September 30, 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 2,017,095	\$ 1,929,736
Receivables (net)		
Accounts	113,135	68,189
Taxes	605,513	610,365
Fines	52,961	-
Due from other governments	283,447	266,530
Due from other funds	12,770	42,000
Deferred expenditures	53,128	24,824
Total assets	<u>\$ 3,138,049</u>	<u>\$ 2,941,644</u>
 LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 412,058	\$ 376,216
Accrued expenditures	49,922	229,175
Due to other governments	46,959	55,463
Deferred revenue	555,203	506,478
Total liabilities	<u>1,064,142</u>	<u>1,167,332</u>
 Fund balances		
Nonspendable	53,128	24,824
Assigned	7,201	-
Unassigned	2,013,578	1,749,488
Total fund balances	<u>2,073,907</u>	<u>1,774,312</u>
 Total liabilities and fund balances	<u>\$ 3,138,049</u>	<u>\$ 2,941,644</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, 2011

With comparative totals for the year ended September 30, 2010

	2011		Variance	2010
	Final Budget	Actual	Positive (Negative)	Actual
REVENUES				
Taxes				
Property tax	\$ 3,458,000	\$ 3,490,843	\$ 32,843	\$ 3,179,174
Sales tax	3,135,000	3,317,509	182,509	3,052,300
Mixed beverage tax	14,500	12,870	(1,630)	13,443
Franchise tax	824,000	794,919	(29,081)	901,530
Total taxes	7,431,500	7,616,141	184,641	7,146,447
Other revenues				
Licenses and permits	9,300	9,335	35	9,813
Fines and forfeitures	415,600	469,839	54,239	402,318
Fees and charges for services	330,750	312,590	(18,160)	308,136
Intergovernmental	190,025	286,020	95,995	156,826
Investment income	-	3,845	3,845	5,352
Miscellaneous	726,572	831,960	105,388	834,289
Total other revenues	1,672,247	1,913,589	241,342	1,716,734
Total revenues	9,103,747	9,529,730	425,983	8,863,181
EXPENDITURES				
General government				
City secretary				
Personnel services	160,686	170,593	(9,907)	131,469
Supplies	18,313	22,545	(4,232)	22,494
Other services and charges	47,247	59,285	(12,038)	17,869
Capital outlay	-	-	-	27,178
Total city secretary	226,246	252,423	(26,177)	199,010
City general services				
Personnel services	6,000	7,228	(1,228)	15,685
Supplies	9,500	3,607	5,893	6,679
Repairs and maintenance	26,000	16,479	9,521	9,826
Other services and charges	1,029,164	1,068,841	(39,677)	904,206
Total general services	1,070,664	1,096,155	(25,491)	936,396
Administration and council				
Personnel services	188,554	195,264	(6,710)	181,462
Supplies	5,100	4,464	636	6,002
Repairs and maintenance	400	133	267	297
Other services and charges	5,500	13,356	(7,856)	6,637
Total administration and council	199,554	213,217	(13,663)	194,398

(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, 2011

With comparative totals for the year ended September 30, 2010

	2011		Variance Positive (Negative)	2010
	Final Budget	Actual		Actual
EXPENDITURES - (CONTINUED)				
General government - (continued)				
Main Street				
Personnel services	\$ 21,220	\$ 19,980	\$ 1,240	\$ -
Supplies	100	3,011	(2,911)	-
Other services and charges	25,700	30,387	(4,687)	-
Total human resources	47,020	53,378	(6,358)	-
Municipal court				
Personnel services	151,082	158,460	(7,378)	114,558
Supplies	8,000	10,188	(2,188)	6,998
Repairs and maintenance	6,000	4,854	1,146	1,808
Other services and charges	83,000	95,550	(12,550)	123,500
Total municipal court	248,082	269,052	(20,970)	246,864
Finance				
Personnel services	263,619	224,353	39,266	271,164
Supplies	5,600	6,011	(411)	5,916
Other services and charges	7,750	11,257	(3,507)	4,473
Capital outlay	5,000	2,831	2,169	992
Total finance	281,969	244,452	37,517	282,545
Total general government	2,073,535	2,128,677	(55,142)	1,859,213
Public safety				
Police				
Personnel services	3,180,713	3,295,543	(114,830)	3,046,039
Supplies	89,418	125,991	(36,573)	97,488
Repairs and maintenance	34,410	24,767	9,643	23,752
Other services and charges	242,067	241,795	272	247,205
Capital outlay	83,256	90,487	(7,231)	39,317
Total police	3,629,864	3,778,583	(148,719)	3,453,801
Fire				
Personnel services	38,259	43,304	(5,045)	36,372
Supplies	11,150	7,698	3,452	6,738
Repairs and maintenance	34,000	30,780	3,220	29,543
Other services and charges	51,200	51,975	(775)	57,295
Capital outlay	15,000	8,022	6,978	15,281
Total fire	149,609	141,779	7,830	145,229

(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, 2011

With comparative totals for the year ended September 30, 2010

	2011		Variance	2010
	Final Budget	Actual	Positive (Negative)	Actual
EXPENDITURES - (CONTINUED)				
Public safety - (continued)				
Animal impoundment				
Personnel services	\$ 83,434	\$ 83,971	\$ (537)	\$ 74,029
Supplies	3,700	3,609	91	4,319
Repairs and maintenance	1,958	537	1,421	873
Other services and charges	12,724	10,641	2,083	13,810
Total animal impoundment	101,816	98,758	3,058	93,031
Total public safety	3,881,289	4,019,120	(137,831)	3,692,061
Public works				
Streets				
Personnel services	858,293	797,361	60,932	780,401
Supplies	98,900	107,281	(8,381)	93,637
Repairs and maintenance	171,000	137,250	33,750	151,643
Other services and charges	45,775	25,209	20,566	24,842
Total streets	1,173,968	1,067,101	106,867	1,050,523
Total public works	1,173,968	1,067,101	106,867	1,050,523
Public activities and recreation				
City service center				
Personnel services	38,069	39,453	(1,384)	35,791
Supplies	3,000	2,523	477	3,884
Repairs and maintenance	5,000	2,043	2,957	6,652
Other services and charges	16,900	19,246	(2,346)	17,524
Total city service center	62,969	63,265	(296)	63,851
Parks and recreation				
Personnel services	341,692	337,447	4,245	272,640
Supplies	36,900	36,326	574	36,883
Repairs and maintenance	67,800	40,900	26,900	69,976
Other services and charges	306,050	248,062	57,988	300,707
Total parks and recreation	752,442	662,735	89,707	680,206
Riverside park				
Personnel services	81,909	86,635	(4,726)	80,979
Supplies	9,300	9,615	(315)	8,134
Repairs and maintenance	19,220	13,458	5,762	17,461
Other services and charges	50,470	37,821	12,649	38,491
Total riverside park	160,899	147,529	13,370	145,065

(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, 2011

With comparative totals for the year ended September 30, 2010

	2011		Variance Positive (Negative)	2010
	Final Budget	Actual		Actual
EXPENDITURES - (CONTINUED)				
Public activities and recreation - (continued)				
Library				
Personnel services	\$ 267,570	\$ 315,657	\$ (48,087)	\$ 282,363
Total library	267,570	315,657	(48,087)	282,363
Teen center				
Supplies	-	14,127	(14,127)	-
Other services and charges	8,000	7,016	984	10,639
Total teen court	8,000	21,143	(13,143)	10,639
Total public activities and recreation	1,251,880	1,210,329	41,551	1,182,124
Cultural arts and public benefits				
Cultural arts and public benefits				
Other services and charges	-	-	-	98,675
Total cultural arts and public benefits	-	-	-	98,675
Debt service				
Principal	361,686	358,748	2,938	334,719
Interest and fiscal charges	221,772	223,940	(2,168)	231,929
Total debt service	583,458	582,688	770	566,648
Total expenditures	8,964,130	9,007,915	(43,785)	8,449,244
Excess (deficiency) of revenues over expenditures	139,617	521,815	382,198	413,937
OTHER FINANCING SOURCES (USES)				
Transfers in	86,180	393,007	306,827	75,145
Transfers out	(485,504)	(615,227)	(129,723)	(291,341)
Total other financing sources (uses)	(399,324)	(222,220)	177,104	(216,196)
Net change in fund balance	(259,707)	299,595	559,302	197,741
Fund balance at beginning of year, as restated	1,774,312	1,774,312	-	1,576,571
Fund balance at end of year	\$ 1,514,605	\$ 2,073,907	\$ 559,302	\$ 1,774,312

(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, 2011

	2011		Variance Positive (Negative)
	Final Budget	Actual	
REVENUES			
Ad valorem taxes			
Current taxes	\$ 297,638	\$ 290,424	\$ (7,214)
Penalty and interest	-	4,431	4,431
Investment income	-	218	218
Total revenues	<u>297,638</u>	<u>295,073</u>	<u>(2,565)</u>
EXPENDITURES			
Debt service			
Principal retirement	295,000	295,000	-
Interest and fiscal charges	243,850	236,431	7,419
Total expenditures	<u>538,850</u>	<u>531,431</u>	<u>7,419</u>
Excess (deficiency) of revenues over expenditures	(241,212)	(236,358)	4,854
OTHER FINANCING SOURCES (USES)			
Transfers in	241,212	241,212	-
Net change in fund balances	-	4,854	4,854
Fund balances at beginning of year	5,431	5,431	-
Fund balances at end of year	<u>\$ 5,431</u>	<u>\$ 10,285</u>	<u>\$ 4,854</u>

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION



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**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, 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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

June 5, 2012