

**CITY OF BAY CITY, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
*For the fiscal year ended September 30, 2013*

Phill Conner  
*Director of Finance*

Mark Bricker  
*Mayor*

Issued By:  
Finance Department

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## **INTRODUCTORY SECTION**

# CITY OF BAY CITY

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**MARK BRICKER**  
MAYOR



**CITY COUNCIL**  
**CAROLYN THAMES**  
MAYOR PRO TEM

**GEORGE HYDE**  
CITY ATTORNEY

**RHONDA CLEGG**  
CITY SECRETARY

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

**CHRYSTAL FOLSE**  
**STEVEN JOHNSON**

May 28, 2014

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

State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles ("GAAP") and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, the comprehensive annual financial report of the City of Bay City, Texas (the "City") for the fiscal year ended September 30, 2013, is hereby submitted.

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

The City's financial statements have been audited by **Harrison, Waldrop, & Uherek, L.L.P.**, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the year ended September 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

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

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

These government-wide financial statements help users:

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

## **PROFILE OF THE GOVERNMENT**

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

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

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

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

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

### **LOCAL ECONOMY**

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

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

Net taxable value for all residential and commercial property in the City exceeded \$655 million for fiscal year 2013, which is a 0.12% increase from fiscal year 2012.

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

#### **Accounting Systems**

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

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

#### **Budgetary Compliance**

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

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

#### **Budgetary Controls**

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

#### **FINANCIAL CONDITION**

##### **Cash Management**

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

##### **Risk Management**

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

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

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

The City of Bay City maintains sufficient cash reserves and unreserved fund balances/unrestricted net assets in its general and utility funds to avoid borrowing for general operating purposes and to handle emergency situations, while providing quality service levels to the public. In 2011 the City adopted a fund balance policy which requires the City to maintain a minimum unassigned fund balance in its General Fund ranging from 15% to 20%.

In fiscal year 2013, the City adopted a five year Capital Improvements Plan. This gives the City a five year outlook on possible capital projects to maintain the City's infrastructure and operations.

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

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

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

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

### **MAJOR INITIATIVES**

The City began energy efficiency projects with Siemens. They include replacing lighting fixtures, replacing domestic water fixtures, installing a sprinkler system at the Sports Complex, installing new utility billing software and an automated meter reading system, and major renovation of the Wastewater Treatment Plant. This project was completed in fiscal year 2013 and will help improve the operation of the City.

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



### **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bay City for its comprehensive annual financial report for the fiscal year ended September 30, 2012. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to express our sincere appreciation to the City's employees for their dedication and commitment to the City. We also want to thank the Members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner. Their support is critical in budget preparation, implementation and review. Also we would like to thank the City Council for their input throughout the year.

Respectfully submitted,

  
\_\_\_\_\_  
Mark Bricker  
Mayor  
\_\_\_\_\_  
Phill Conner  
Finance Director



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Bay City  
Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2012**

A handwritten signature in black ink, reading "Jeffrey R. Enos".

Executive Director/CEO



MAYOR & COUNCIL

MAYOR  
Chief Executive Officer  
Chief Administrative Officer  
Mark A. Bricker

# CITY OF BAY CITY



Director shall serve at specified capacity as needed.

Director serves as liaison.

Director is responsible for division.

MARK A. BRICKER  
May 27, 2014

**CITY OF BAY CITY, TEXAS**  
*DIRECTORY OF PRINCIPAL OFFICIALS*  
*September 30, 2013*

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<b>City Officials</b>	<b>Elective Position</b>	<b>Term Expires</b>
Mark Bricker	Mayor	2016
Julie Estlinbaum	Council Member – Position #1	2016
William Cornman	Council Member – Position #2	2016
Chrystal Folse	Council Member – Position #3	2015
Stephen Johnson	Council Member – Position #4	2015
Carolyn Thames	Council Member – Position #5	2015

<b>Key Staff</b>	<b>Position</b>
George Hyde	City Attorney
Barry Calhoun	Public Works Director
Phill Conner	Finance Director
Roger Barker	Police Chief
Rhonda Clegg	City Secretary
Suzan Thompson	Municipal Court Judge

## **FINANCIAL SECTION**



CERTIFIED PUBLIC ACCOUNTANTS  
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VICTORIA, TEXAS 77901-8142

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## **INDEPENDENT AUDITORS' REPORT**

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bay City, Texas (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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

### Opinions

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

### Other Matters

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Harrison, Waldrop & Uherek, LLP". The signature is written in a cursive, flowing style.

HARRISON, WALDROP & UHEREK, L.L.P.  
Certified Public Accountants

May 28, 2014

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, 2013.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$27,215,813 (*net position*). Of this amount, \$6,533,886 (*unrestricted net position*) 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 \$4,934,952, a decrease of \$173,539 from the prior year. At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,719,997, or 31.52% of total General Fund expenditures. The decrease in fund balance for the City's General Fund is attributable to reductions in various revenue categories.
- The City's total net position of the business-type activities increased \$1,462,546, or 10.87%. The net position of the Water and Sewer Fund increased by \$1,133,293, the Sanitation Fund increased by \$236,705, and the Airport Fund increased by \$92,548.

### **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 supplementary 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 4 to 11

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

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

Pages 12 to 15

##### **Fund Financial Statements**

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

Pages 16 to 30

##### **Notes to Financial Statements**

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

Pages 31 to 70

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## **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 Position**

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

#### **Statement of Activities**

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future 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 twelve individual governmental funds during the 2012-2013 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the 2010 Capital Acquisition Fund, which are considered major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation.



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

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

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

### **Proprietary Funds**

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

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

### **Notes to Financial Statements**

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

### **Other Information**

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund and historical pension and other post employment benefits information. Required supplementary information can be found on pages 71-75 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 76-92 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$27,215,813 at the close of the fiscal year 2013.

By far, the largest portion of the City's net position (75.51%) 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.

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

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**City of Bay City, Texas****Net Position**

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	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 6,061,792	\$ 6,107,650	\$ 3,699,191	\$ 8,247,417	\$ 9,760,983	\$ 14,355,067
Capital assets (net)	<u>16,663,776</u>	<u>17,190,718</u>	<u>23,179,704</u>	<u>19,760,893</u>	<u>39,843,480</u>	<u>36,951,611</u>
<b>Total assets</b>	<u>22,725,568</u>	<u>23,298,368</u>	<u>26,878,895</u>	<u>28,008,310</u>	<u>49,604,463</u>	<u>51,306,678</u>
<b>Total deferred outflow of resources</b>	<u>-</u>	<u>-</u>	<u>53,402</u>	<u>-</u>	<u>53,402</u>	<u>-</u>
Current liabilities	1,474,092	1,325,164	1,997,056	3,538,044	3,471,148	4,863,208
Noncurrent liabilities	<u>8,879,242</u>	<u>8,757,867</u>	<u>10,021,937</u>	<u>11,019,508</u>	<u>18,901,179</u>	<u>19,777,375</u>
<b>Total liabilities</b>	<u>10,353,334</u>	<u>10,083,031</u>	<u>12,018,993</u>	<u>14,557,552</u>	<u>22,372,327</u>	<u>24,640,583</u>
<b>Total deferred inflow of resources</b>	<u>69,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,725</u>	<u>-</u>
Net investment in						
Capital assets	8,304,758	7,904,146	12,245,026	10,948,774	20,549,784	18,852,920
Restricted	132,143	410,945	-	-	132,143	410,945
Unrestricted	<u>3,865,608</u>	<u>4,900,246</u>	<u>2,668,278</u>	<u>2,501,984</u>	<u>6,533,886</u>	<u>7,402,230</u>
<b>Total net position</b>	<u>\$ 12,302,509</u>	<u>\$ 13,215,337</u>	<u>\$ 14,913,304</u>	<u>\$ 13,450,758</u>	<u>\$ 27,215,813</u>	<u>\$ 26,666,095</u>

The balance of unrestricted net position, \$6,533,886 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 position for the primary government as a whole.

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

Governmental activities decreased the City's net position by \$912,828. Business-type activities increased the City's net position by \$1,462,546.

<b>City of Bay City, Texas</b>						
<b>Changes in Net Position</b>						
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 834,369	\$ 876,876	\$ 9,386,033	\$ 9,393,282	\$ 10,220,402	\$ 10,270,158
Operating grants and contributions	281,587	111,982	27,468	5,000	309,055	116,982
Capital grants and contributions	-	-	584,651	215,997	584,651	215,997
General revenues:						
Property taxes	3,769,351	3,728,127	-	-	3,769,351	3,728,127
Sales taxes	3,440,988	3,385,962	-	-	3,440,988	3,385,962
Franchise taxes	1,087,598	1,099,039	-	-	1,087,598	1,099,039
Other taxes	497,136	474,242	-	-	497,136	474,242
Unrestricted investment earnings	5,779	6,163	3,507	5,422	9,286	11,585
Miscellaneous	685,286	924,999	3,487	3,608	688,773	928,607
<b>Total revenues</b>	<u>10,602,094</u>	<u>10,607,390</u>	<u>10,005,146</u>	<u>9,623,309</u>	<u>20,607,240</u>	<u>20,230,699</u>
<b>EXPENSES</b>						
General government	2,328,020	1,992,271	-	-	2,328,020	1,992,271
Public safety	4,319,067	4,073,513	-	-	4,319,067	4,073,513
Public works	2,765,580	2,377,316	-	-	2,765,580	2,377,316
Public activities and rec.	1,235,719	1,235,690	-	-	1,235,719	1,235,690
Cultural arts and pub. ben.	872,918	684,950	-	-	872,918	684,950
Interest on long-term debt	495,527	331,816	-	-	495,527	331,816
Water and sewer	-	-	5,134,720	5,026,141	5,134,720	5,026,141
Sanitation	-	-	2,446,553	2,482,660	2,446,553	2,482,660
Airport	-	-	459,418	389,402	459,418	389,402
<b>Total expenses</b>	<u>12,016,831</u>	<u>10,695,556</u>	<u>8,040,691</u>	<u>7,898,203</u>	<u>20,057,522</u>	<u>18,593,759</u>
Change in net position before transfers	(1,414,737)	(88,166)	1,964,455	1,725,106	549,718	1,636,940
Transfers	501,909	1,134,962	(501,909)	(1,134,962)	-	-
Change in net position	(912,828)	1,046,796	1,462,546	590,144	549,718	1,636,940
Net position - beginning, as restated	13,215,337	12,168,541	13,450,758	12,860,614	27,270,810	25,029,155
Net position - ending	<u>\$ 12,302,509</u>	<u>\$ 13,215,337</u>	<u>\$ 14,913,304</u>	<u>\$ 13,450,758</u>	<u>\$ 27,820,528</u>	<u>\$ 26,666,095</u>

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## **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 \$4,934,952, a decrease of \$173,539 from the prior year.

Approximately 55.12% of this total amount, \$2,719,997 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance of \$2,214,955 or 44.88% 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 \$2,719,876. Unassigned fund balance represents 31.52% of total General Fund expenditures.

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

The City has in the past included the Bay City Community Development Corporation, (CDC) as a blended component unit for financial reporting purposes. During the 2013 fiscal year, the City and the CDC changed the composition of the governing body whereby the majority of the CDC board is no longer comprised of City Council members. The CDC is now presented as a discretely presented component unit.

### **Proprietary Funds**

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

Unrestricted net position of the Water and Sewer Fund at the end of the current fiscal year amounted to \$2,072,389, which is a decrease of \$315,475 from the prior year. Unrestricted net position of the Sanitation Fund amounted to \$540,936 at the end of the current fiscal year, which is an increase of \$48,641 from the prior year. Unrestricted net position of the Airport Fund amounted to \$54,953 at the end of the current fiscal year, which is a decrease of \$17,416 from the prior year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual fiscal year expenditures in the General Fund were \$367,910 less than the final budgeted amounts or appropriations. The major differences in expenditures were:

- \$104,873 for the Municipal Court due to certain capital projects not being completed.
- (\$137,533) for the Public Works department due to the purchase of equipment.
- \$116,630 for the Parks and Recreation department due to various reasons.
- (\$80,840) in the Street Department resulting from various equipment purchases.

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## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's investment in capital assets for its governmental and business-type activities amounts to \$16,663,776 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings and improvements, vehicles, machinery and equipment, water and sewer system, and land structured facilities. The total increase in the City's investment in capital assets was \$2,766,869.

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<b>City of Bay City, Texas</b>						
<b>Capital Assets (Net of Depreciation)</b>						
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,460,085	\$ 1,460,085	\$ 381,117	\$ 381,117	\$ 1,841,202	\$ 1,841,202
Construction in progress	1,554,938	2,973,884	169,300	4,840,814	1,724,238	7,814,698
Buildings and improvements	369,394	134,260	10,711,809	725,860	11,081,203	860,120
Machinery and equipment	3,003,381	1,733,899	695,793	2,633,132	3,699,174	4,367,031
Infrastructure	10,275,978	10,888,590	11,221,685	11,304,970	21,497,663	22,193,560
Total	<u>\$16,663,776</u>	<u>\$17,190,718</u>	<u>\$23,179,704</u>	<u>\$19,885,893</u>	<u>\$39,843,480</u>	<u>\$37,076,611</u>

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

### **Long-Term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$19,490,000. Of this amount, \$4,220,000 represents governmental general obligation debt and certificates of obligation totaled \$15,270,000. The City's bonded debt had a net decrease of \$2,500,000 or 11.37% during the fiscal year ended September 30, 2013. The decrease included current year payments of principal of \$2,500,000 including the issuance of the 2013 Refunding General Obligations Bonds in the amount of \$5,125,000.

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

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

The following factors will be considered in preparing the City's budget for the 2014-2015 fiscal year.

Although consumer spending has started to rebound from the nation-wide economic slowdown, the City continues to budget conservatively. The total sales tax payments received by the City from the State Comptroller in fiscal year 2013 equaled \$4,591,566. This amount is an increase of \$100,715 or 2.24% compared to the previous year. For fiscal year 2014 the City has budgeted \$4,530,000 of sales tax revenue, an increase of 2.89%. For fiscal year 2015 the City plans to budget \$4,750,000 in sales tax revenue if the trend for the past two years continues. Also, sales tax is predicted to increase beginning in 2014 due to the construction of a seamless pipe mill company just outside of the City limits. This facility is expected to bring in excess of 2,000 construction employees and in excess of 600 permanent jobs to the community. The new facility is expected to begin operation in 2016.

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

The certified assessed taxable property valuations for the 2014 fiscal year tax roll total \$661 million with a tax rate of \$0.508 per \$100 valuation for maintenance and operations and \$0.060 per \$100 valuation for the interest and sinking fund. The certified assessed taxable property valuations increased from the 2013 tax roll by \$5,380,696 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 will be issuing Certificates of Obligation in the summer of 2014. The proceeds from these Certificates will be used for street improvements as well as water and sewer infrastructure improvements throughout the City.

### **Requests for Information**

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

## **Basic Financial Statements**

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
September 30, 2013

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 4,969,529	\$ 2,362,750	\$ 7,332,279	\$ 3,245,956
Investments	-	-	-	1,985,992
Receivables (net)	704,509	1,318,059	2,022,568	301,309
Internal balances	13,609	(13,609)	-	-
Due from other governments	294,608	-	294,608	98,203
Due from employees	-	-	-	18,909
Prepaid items	79,537	1,050	80,587	-
Inventory	-	30,941	30,941	36,967
Restricted assets				
Cash and cash equivalents	-	-	-	218,210
Investments	-	-	-	207,006
Total current assets	<u>6,061,792</u>	<u>3,699,191</u>	<u>9,760,983</u>	<u>6,112,552</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	3,015,023	550,417	3,565,440	353,914
Buildings, improvements, and equipment (net)	<u>13,648,753</u>	<u>22,629,287</u>	<u>36,278,040</u>	<u>5,551,713</u>
Total noncurrent assets	<u>16,663,776</u>	<u>23,179,704</u>	<u>39,843,480</u>	<u>5,905,627</u>
<b>Total assets</b>	<u>22,725,568</u>	<u>26,878,895</u>	<u>49,604,463</u>	<u>12,018,179</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred amount on refunding	-	53,402	53,402	-
<b>Total deferred outflows of resources</b>	<u>-</u>	<u>53,402</u>	<u>53,402</u>	<u>-</u>



Primary Government

	Governmental Activities	Business-type Activities	Total	Component Units
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 426,082	\$ 262,978	\$ 689,060	\$ 161,746
Accrued expenses	84,683	26,276	110,959	-
Accrued interest payable	45,258	24,500	69,758	-
Due to other governments	24,992	16,444	41,436	-
Deposits	21,098	663,096	684,194	-
Accrued compensated absences	24,909	3,762	28,671	-
Current portion of long-term obligations	847,070	1,000,000	1,847,070	294,893
Total current liabilities	<u>1,474,092</u>	<u>1,997,056</u>	<u>3,471,148</u>	<u>456,639</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	8,879,242	10,021,937	18,901,179	2,901,321
Total noncurrent liabilities	<u>8,879,242</u>	<u>10,021,937</u>	<u>18,901,179</u>	<u>2,901,321</u>
<b>Total liabilities</b>	<u>10,353,334</u>	<u>12,018,993</u>	<u>22,372,327</u>	<u>3,357,960</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenue	69,725	-	69,725	-
<b>Total deferred inflows of resources</b>	<u>69,725</u>	<u>-</u>	<u>69,725</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	8,304,758	12,245,026	20,549,784	3,062,436
Restricted for:				
Debt service	30,568	-	30,568	-
Special projects - municipal court	101,575	-	101,575	-
Unrestricted net position	<u>3,865,608</u>	<u>2,668,278</u>	<u>6,533,886</u>	<u>5,597,783</u>
<b>Total net position</b>	<u>\$ 12,302,509</u>	<u>\$ 14,913,304</u>	<u>\$ 27,215,813</u>	<u>\$ 8,660,219</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, 2013

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 2,328,020	\$ 81,818	\$ -	\$ -
Public safety	4,319,067	538,848	64,223	-
Public works	2,765,580	59,130	-	-
Public activities and recreation	1,235,719	154,573	217,364	-
Cultural arts and public benefits	872,918	-	-	-
Interest on long-term debt	495,527	-	-	-
Total governmental activities	<u>12,016,831</u>	<u>834,369</u>	<u>281,587</u>	<u>-</u>
Business-type activities				
Water and sewer	5,134,720	6,367,177	-	360,163
Sanitation	2,446,553	2,768,743	-	12,567
Airport	459,418	250,113	27,468	211,921
Total business-type activities	<u>8,040,691</u>	<u>9,386,033</u>	<u>27,468</u>	<u>584,651</u>
Total primary government	<u>\$ 20,057,522</u>	<u>\$ 10,220,402</u>	<u>\$ 309,055</u>	<u>\$ 584,651</u>
<b>Component Units</b>	<u>\$ 3,483,349</u>	<u>\$ 2,325,559</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 position

Net position - beginning, as restated

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position Primary Government			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (2,246,202)	\$ -	\$ (2,246,202)	\$ -
(3,715,996)	-	(3,715,996)	-
(2,706,450)	-	(2,706,450)	-
(863,782)	-	(863,782)	-
(872,918)	-	(872,918)	-
(495,527)	-	(495,527)	-
(10,900,875)	-	(10,900,875)	-
-	1,592,620	1,592,620	-
-	334,757	334,757	-
-	30,084	30,084	-
-	1,957,461	1,957,461	-
(10,900,875)	1,957,461	(8,943,414)	-
-	-	-	(1,157,790)
3,470,920	-	3,470,920	-
298,431	-	298,431	-
3,440,988	-	3,440,988	1,146,996
1,087,598	-	1,087,598	-
497,136	-	497,136	-
5,779	3,507	9,286	17,977
685,286	3,487	688,773	8,693
501,909	(501,909)	-	-
9,988,047	(494,915)	9,493,132	1,173,666
(912,828)	1,462,546	549,718	15,876
13,215,337	13,450,758	26,666,095	8,644,343
\$ 12,302,509	\$ 14,913,304	\$ 27,215,813	\$ 8,660,219

**CITY OF BAY CITY, TEXAS****BALANCE SHEET****GOVERNMENTAL FUNDS**

September 30, 2013

	General	Capital Acquisition Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 2,054,376	\$ 1,188,367	\$ 1,683,049	\$ 4,925,792
Receivables (net)	598,782	-	105,727	704,509
Due from other governments	294,608	-	-	294,608
Due from other funds	670,643	-	13,609	684,252
Prepaid items	16,879	-	14,717	31,596
<b>Total assets</b>	<u>\$ 3,635,288</u>	<u>\$ 1,188,367</u>	<u>\$ 1,817,102</u>	<u>\$ 6,640,757</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 272,083	\$ 30,065	\$ 43,679	\$ 345,827
Accrued expenditures	76,866	-	2,765	79,631
Deposits	-	-	21,098	21,098
Due to other funds	-	670,643	-	670,643
Due to other governments	24,992	-	-	24,992
Unearned revenue	49,540	-	20,185	69,725
<b>Total liabilities</b>	<u>423,481</u>	<u>700,708</u>	<u>87,727</u>	<u>1,211,916</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	474,931	-	18,958	493,889
<b>Total deferred inflows of resources</b>	<u>474,931</u>	<u>-</u>	<u>18,958</u>	<u>493,889</u>
<b>FUND BALANCES</b>				
Nonspendable	16,879	-	-	16,879
Restricted	-	487,659	1,710,417	2,198,076
Unassigned	2,719,997	-	-	2,719,997
<b>Total fund balances</b>	<u>2,736,876</u>	<u>487,659</u>	<u>1,710,417</u>	<u>4,934,952</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 3,635,288</u>	<u>\$ 1,188,367</u>	<u>\$ 1,817,102</u>	<u>\$ 6,640,757</u>

The accompanying notes are an integral part of this statement.

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

September 30, 2013

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<b>Total governmental fund balances</b>		<b>\$ 4,934,952</b>
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
The internal service funds are used by the City to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		
		118,079
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and, therefore, are reported as "unavailable" in the funds.		
		376,497
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.		
		5,684
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 38,294,113	
Accumulated depreciation of governmental capital assets	<u>(21,630,337)</u>	16,663,776
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	(8,590,000)	
Premium on bonds payable	(92,872)	
Notes payable	(819,255)	
Accrued interest payable	(45,258)	
Compensated absences	<u>(249,094)</u>	<u>(9,796,479)</u>
<b>Net position of governmental activities</b>		<b>\$ <u>12,302,509</u></b>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS***For the year ended September 30, 2013*

	General	Capital Acquisition Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 8,073,385	\$ -	\$ 771,706	\$ 8,845,091
Licenses and permits	5,706	-	-	5,706
Fines and forfeitures	330,637	-	47,818	378,455
Fees and charges for services	168,396	-	276,512	444,908
Intergovernmental	121,587	-	160,000	281,587
Investment income	2,867	1,385	1,521	5,773
Miscellaneous	630,695	10,000	72,923	713,618
<b>Total revenues</b>	<u>9,333,273</u>	<u>11,385</u>	<u>1,330,480</u>	<u>10,675,138</u>
<b>EXPENDITURES</b>				
Current				
General government	2,031,233	-	-	2,031,233
Public safety	4,080,637	-	38,335	4,118,972
Public works	1,082,257	2,305	57,901	1,142,463
Public activities and recreation	996,117	-	-	996,117
Cultural arts and public benefits	-	-	872,918	872,918
Debt service				
Principal	330,207	-	445,500	775,707
Interest and fiscal charges	107,444	-	241,067	348,511
Paying agents' fees and issue costs	-	31,750	122,499	154,249
Capital outlay	-	1,005,219	-	1,005,219
<b>Total expenditures</b>	<u>8,627,895</u>	<u>1,039,274</u>	<u>1,778,220</u>	<u>11,445,389</u>
Excess (deficiency) of revenues over expenditures	705,378	(1,027,889)	(447,740)	(770,251)
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt issued	-	642,000	4,030,000	4,672,000
Premium on issuance of bonds	-	-	65,470	65,470
Payment to escrow	-	-	(3,960,250)	(3,960,250)
Transfers in	112,358	-	761,961	874,319
Transfers out	(1,017,202)	-	(37,625)	(1,054,827)
<b>Total other financing sources (uses)</b>	<u>(904,844)</u>	<u>642,000</u>	<u>859,556</u>	<u>596,712</u>
Net change in fund balances	(199,466)	(385,889)	411,816	(173,539)
Fund balances at beginning of year	<u>2,936,342</u>	<u>873,548</u>	<u>1,298,601</u>	<u>5,108,491</u>
<b>Fund balances at end of year</b>	<u>\$ 2,736,876</u>	<u>\$ 487,659</u>	<u>\$ 1,710,417</u>	<u>\$ 4,934,952</u>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS****RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES***For the year ended September 30, 2013*

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<b>Total net change in fund balances - governmental funds</b>	<b>\$</b>	<b>(173,539)</b>
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*Amounts reported for governmental activities in the statement of activities are different because:*

The internal service funds are used by the City to charge the costs of equipment maintenance and information technology services to individual funds. The net activity of the internal service funds are reported with governmental activities.		(575,262)
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net position.		(995)
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Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Increase in capital assets	\$	1,433,179	
Depreciation expense		<u>(1,959,126)</u>	(525,947)

Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:

Bond principal retirement	1,304,491	
Note principal retirement	<u>(113,206)</u>	1,191,285

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	42,525	
Other revenues	<u>(2,721)</u>	39,804

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:

Increase in compensated absences	(77,807)	
Bond proceeds	(4,672,000)	
Payment to escrow	3,960,250	
Bond premium	(65,470)	
Increase in accrued interest	<u>(13,147)</u>	(868,174)

<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>(912,828)</u></b>
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The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
September 30, 2013

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,889,497	\$ 445,059	\$ 28,194
Receivables (net)	1,073,556	236,838	7,665
Prepaid items	1,050	-	-
Inventory	-	-	30,941
Total current assets	<u>2,964,103</u>	<u>681,897</u>	<u>66,800</u>
Noncurrent assets			
Land and other assets not being depreciated	357,155	-	193,262
Buildings, improvements, and equipment (net)	<u>19,699,984</u>	<u>2,055,647</u>	<u>873,656</u>
Total noncurrent assets	<u>20,057,139</u>	<u>2,055,647</u>	<u>1,066,918</u>
<b>Total assets</b>	<u>23,021,242</u>	<u>2,737,544</u>	<u>1,133,718</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amount on refunding	<u>53,402</u>	<u>-</u>	<u>-</u>
<b>Total deferred outflows of resources</b>	<u>53,402</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	149,143	109,855	3,980
Accrued expenses	16,628	8,449	1,199
Due to other funds	13,609	-	-
Due to other governments	-	16,444	-
Accrued interest payable	20,345	4,155	-
Deposits	657,766	-	5,330
Accrued compensated absences	3,422	206	134
Current portion of bonds and certificates payable	<u>755,000</u>	<u>245,000</u>	<u>-</u>
Total current liabilities	<u>1,615,913</u>	<u>384,109</u>	<u>10,643</u>
Noncurrent liabilities			
Accrued compensated absences	30,801	1,852	1,204
Bonds and certificates payable (net of unamortized deferred amounts)	<u>8,612,495</u>	<u>1,375,585</u>	<u>-</u>
Total noncurrent liabilities	<u>8,643,296</u>	<u>1,377,437</u>	<u>1,204</u>
<b>Total liabilities</b>	<u>10,259,209</u>	<u>1,761,546</u>	<u>11,847</u>
<b>NET POSITION</b>			
Net investment in capital assets	10,743,046	435,062	1,066,918
Unrestricted net position	<u>2,072,389</u>	<u>540,936</u>	<u>54,953</u>
<b>Total net position</b>	<u>\$ 12,815,435</u>	<u>\$ 975,998</u>	<u>\$ 1,121,871</u>

The accompanying notes are an integral part of this statement.



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		Governmental Activities
	Total	Internal Service Funds
\$	2,362,750	\$ 43,737
	1,318,059	-
	1,050	47,941
	30,941	-
	<u>3,712,800</u>	<u>91,678</u>
	550,417	35,123
	<u>22,629,287</u>	<u>98,321</u>
	<u>23,179,704</u>	<u>133,444</u>
	<u>26,892,504</u>	<u>225,122</u>
	<u>53,402</u>	<u>-</u>
	<u>53,402</u>	<u>-</u>
	262,978	80,255
	26,276	5,052
	13,609	-
	16,444	-
	24,500	-
	663,096	-
	3,762	2,174
	<u>1,000,000</u>	<u>-</u>
	<u>2,010,665</u>	<u>87,481</u>
	33,857	19,562
	<u>9,988,080</u>	<u>-</u>
	<u>10,021,937</u>	<u>19,562</u>
	<u>12,032,602</u>	<u>107,043</u>
	12,245,026	133,444
	<u>2,668,278</u>	<u>(15,365)</u>
\$	<u>14,913,304</u>	<u>\$ 118,079</u>

**CITY OF BAY CITY, TEXAS****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION****PROPRIETARY FUNDS***For the year ended September 30, 2013*

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
<b>OPERATING REVENUES</b>			
Charges for services	\$ 6,288,584	\$ 2,741,123	\$ 163,991
Rents and miscellaneous fees	78,593	27,620	86,122
<b>Total operating revenues</b>	<u>6,367,177</u>	<u>2,768,743</u>	<u>250,113</u>
<b>OPERATING EXPENSES</b>			
Water and sewer system	3,685,606	-	-
Sanitation expenses	-	2,076,308	-
Airport expenses	-	-	342,484
Equipment maintenance expenses	-	-	-
Information technology expenses	-	-	-
Depreciation and amortization	<u>1,143,118</u>	<u>370,245</u>	<u>116,934</u>
<b>Total operating expenses</b>	<u>4,828,724</u>	<u>2,446,553</u>	<u>459,418</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	1,538,453	322,190	(209,305)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	3,226	281	-
Operating contributions	-	-	27,468
Miscellaneous income	-	3,487	-
Interest and fiscal charges	<u>(305,996)</u>	<u>-</u>	<u>-</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(302,770)</u>	<u>3,768</u>	<u>27,468</u>
Income (loss) before contributions and transfers	1,235,683	325,958	(181,837)
Contributions and transfers			
Capital contributions	360,163	12,567	211,921
Transfers in	162,234	-	62,464
Transfers out	<u>(624,787)</u>	<u>(101,820)</u>	<u>-</u>
Total contributions and transfers	<u>(102,390)</u>	<u>(89,253)</u>	<u>274,385</u>
Change in net position	1,133,293	236,705	92,548
Total net position at beginning of year, as restated	<u>11,682,142</u>	<u>739,293</u>	<u>1,029,323</u>
<b>Total net position at end of year</b>	<u>\$ 12,815,435</u>	<u>\$ 975,998</u>	<u>\$ 1,121,871</u>

The accompanying notes are an integral part of this statement.

---

	Governmental Activities
Total	Internal Service Funds
\$ 9,193,698	\$ -
192,335	2,700
<u>9,386,033</u>	<u>2,700</u>
3,685,606	-
2,076,308	-
342,484	-
-	215,326
-	356,315
<u>1,630,297</u>	<u>6,327</u>
<u>7,734,695</u>	<u>577,968</u>
1,651,338	(575,268)
3,507	6
27,468	-
3,487	-
<u>(305,996)</u>	<u>-</u>
<u>(271,534)</u>	<u>6</u>
1,379,804	(575,262)
584,651	-
224,698	682,417
<u>(726,607)</u>	<u>-</u>
<u>82,742</u>	<u>682,417</u>
1,462,546	107,155
<u>13,450,758</u>	<u>10,924</u>
<u>\$ 14,913,304</u>	<u>\$ 118,079</u>

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2013

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 6,342,968	\$ 2,749,146	\$ 315,367
Cash paid to suppliers for goods and services	(2,701,357)	(1,250,465)	(262,810)
Cash paid to employees for services	(1,562,023)	(801,232)	(81,501)
<b>Net cash provided (used) by operating activities</b>	<u>2,079,588</u>	<u>697,449</u>	<u>(28,944)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers (to) from other funds	(462,553)	(101,820)	62,464
Borrowings (repayments) to other funds	-	-	(18,547)
Noncapital contributions	-	-	27,468
Increase (decrease) in customer deposits	<u>37,940</u>	<u>-</u>	<u>730</u>
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(424,613)</u>	<u>(101,820)</u>	<u>72,115</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(4,136,609)	(229,556)	(14,977)
Proceeds from long-term debt	1,095,000	-	-
Principal paid on long-term debt	(2,845,000)	(237,500)	-
Interest paid	<u>(372,892)</u>	<u>(5,668)</u>	<u>-</u>
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(6,259,501)</u>	<u>(472,724)</u>	<u>(14,977)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	<u>3,226</u>	<u>281</u>	<u>-</u>
<b>Net cash provided (used) by investing activities</b>	<u>3,226</u>	<u>281</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(4,601,300)	123,186	28,194
Cash and cash equivalents at beginning of year	<u>6,490,797</u>	<u>321,873</u>	<u>-</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,889,497</u>	<u>\$ 445,059</u>	<u>\$ 28,194</u>

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	Governmental Activities
Total	Internal Service Funds
\$ 9,407,481	\$ 2,700
(4,214,632)	(106,551)
<u>(2,444,756)</u>	<u>(422,231)</u>
2,748,093	(526,082)
(501,909)	682,417
(18,547)	-
27,468	-
<u>38,670</u>	<u>-</u>
(454,318)	682,417
(4,381,142)	(123,172)
1,095,000	-
(3,082,500)	-
<u>(378,560)</u>	<u>-</u>
(6,747,202)	(123,172)
<u>3,507</u>	<u>6</u>
3,507	6
(4,449,920)	33,169
<u>6,812,670</u>	<u>10,568</u>
<u>\$ 2,362,750</u>	<u>\$ 43,737</u>

(continued)

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2013

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 1,538,453	\$ 322,190	\$ (209,305)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,143,118	370,245	116,934
Miscellaneous nonoperating income	-	3,487	-
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(59,031)	(23,084)	65,254
(Increase) decrease in inventory	-	-	(4,501)
(Increase) decrease in prepaid items	1,022	-	475
Increase (decrease) in accounts payable	(541,559)	30,594	753
Increase (decrease) in accrued expenses	11,319	(1,098)	116
Increase (decrease) in due to other governments	-	503	-
Increase (decrease) in compensated absences	(13,734)	(5,388)	1,330
Total adjustments	541,135	375,259	180,361
<b>Net cash provided (used) by operating activities</b>	<u>\$ 2,079,588</u>	<u>\$ 697,449</u>	<u>\$ (28,944)</u>
<b>Noncash capital and related financing activities</b>			
Assets acquired from contributions	<u>\$ 360,163</u>	<u>\$ 12,567</u>	<u>\$ 211,921</u>

The accompanying notes are an integral part of this statement.

---

	Governmental Activities
<u>Total</u>	<u>Internal Service Funds</u>
\$ 1,651,338	\$ (575,268)
1,630,297	6,327
3,487	-
(16,861)	-
(4,501)	-
1,497	(47,941)
(510,212)	74,305
10,337	2,176
503	-
(17,792)	14,319
<u>1,096,755</u>	<u>49,186</u>
<u>\$ 2,748,093</u>	<u>\$ (526,082)</u>
<u>\$ 584,651</u>	<u>\$ -</u>

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**COMPONENT UNITS**  
September 30, 2013

	Bay City Community Development Corporation	Bay City Gas Company	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,465,968	\$ 1,779,988	\$ 3,245,956
Investments	1,427,462	558,530	1,985,992
Receivables, net	288,910	12,399	301,309
Due from other governments	-	98,203	98,203
Due from employees	18,909	-	18,909
Inventory	36,967	-	36,967
Restricted assets			
Cash and cash equivalents	218,210	-	218,210
Investments	207,006	-	207,006
Total current assets	<u>3,663,432</u>	<u>2,449,120</u>	<u>6,112,552</u>
Noncurrent assets			
Capital assets			
Land and improvements	-	353,914	353,914
Other capital assets (net)	1,250,808	4,300,905	5,551,713
Net capital assets	<u>1,250,808</u>	<u>4,654,819</u>	<u>5,905,627</u>
Total noncurrent assets	<u>1,250,808</u>	<u>4,654,819</u>	<u>5,905,627</u>
<b>Total assets</b>	<u>4,914,240</u>	<u>7,103,939</u>	<u>12,018,179</u>
<b>LIABILITIES</b>			
Accounts payable	125,872	35,874	161,746
Long-term liabilities			
Due within one year	-	294,893	294,893
Due in more than one year	365,214	2,536,107	2,901,321
<b>Total liabilities</b>	<u>491,086</u>	<u>2,866,874</u>	<u>3,357,960</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	1,250,809	1,811,627	3,062,436
Unrestricted net position	3,172,345	2,425,438	5,597,783
<b>Total net position</b>	<u>\$ 4,423,154</u>	<u>\$ 4,237,065</u>	<u>\$ 8,660,219</u>

The accompanying notes are an integral part of this statement.



**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
*For the year ended September 30, 2013*

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Component Units</b>				
Bay City Community Development Corporation	\$1,070,862	\$ 75,600	\$ -	\$ -
Bay City Gas Company	<u>2,412,487</u>	<u>2,249,959</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 3,483,349</u>	<u>\$ 2,325,559</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Sales taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

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Net (Expense) Revenue and Changes in Net Position		
Component Units		
Bay City Community Dev. Corporation	Bay City Gas Company	Total
\$ (995,262)	\$ -	\$ (995,262)
<u>-</u>	<u>(162,528)</u>	<u>(162,528)</u>
<u>(995,262)</u>	<u>(162,528)</u>	<u>(1,157,790)</u>
1,146,996	-	1,146,996
4,978	12,999	17,977
<u>8,693</u>	<u>-</u>	<u>8,693</u>
<u>1,160,667</u>	<u>12,999</u>	<u>1,173,666</u>
165,405	(149,529)	15,876
<u>4,071,660</u>	<u>4,572,683</u>	<u>8,644,343</u>
<u>\$ 4,237,065</u>	<u>\$ 4,423,154</u>	<u>\$ 8,660,219</u>

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

**A. Reporting Entity**

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

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

**Discretely Presented Component Unit**

**Bay City Community Development Corporation**

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

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

A. Reporting Entity - (Continued)

Discretely Presented Component Unit - (Continued)

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, 2013 these contributions totaled \$417,550. Complete financial statements for the Gas Company may be obtained from its administrative offices.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) 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.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)****C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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.

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**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 the 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, 2013, the City has adopted a formal investment policy.



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**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 position. 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

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

The statement of net position reports a separate section for deferred outflows of resources which follows the asset section. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred amount on refunding reported in the government-wide statement of net position. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)****K. Deferred Outflows/Inflows of Resources - (Continued)**

In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that is considered a deferred inflow of resources. The item that arises under a modified accrual basis of accounting is *unavailable revenue* and is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from a variety of sources and are further defined in Note 4. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**L. Fund Equity**

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

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

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

**M. Use of Estimates**

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

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

There were two departments where expenditures exceeded the amount appropriated during the fiscal year 2012-2013.

<u>General Fund - Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
City secretary	\$ 230,834	\$ 250,290	\$ 19,456
Police	3,723,372	3,786,571	63,199
Animal impoundment	99,889	100,264	375
Streets	1,001,417	1,082,257	80,840
Transfers out	987,452	1,017,202	29,750

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

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**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, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Weighted Average</u>	
	<u>Amortized Cost</u>	<u>Maturity (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 3,406,923	38
TexStar	39,629	50

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

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

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

**Concentration of Credit Risk**

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

**Custodial Credit Risk - Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 110% 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.

**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 TexStar and it has no custodial credit risk.

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**NOTE 4: RECEIVABLES**

Receivables at September 30, 2013, consist of the following:

	<u>General</u>	<u>Water and Sewer</u>	<u>Airport Fund</u>	<u>Sanitation Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:						
Accounts	\$ 17,477	\$ 1,098,486	\$ 7,665	\$ 244,829	\$ 14,880	\$ 1,383,337
Ad valorem taxes	660,629	-	-	-	24,969	685,598
Franchise taxes	99,452	-	-	-	-	99,452
Occupancy taxes	-	-	-	-	71,889	71,889
Municipal court fines	79,425	-	-	-	-	79,425
Other	<u>6,922</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,922</u>
Total gross receivables	863,905	1,098,486	7,665	244,829	111,738	2,326,623
Less: allowances	<u>265,123</u>	<u>24,930</u>	<u>-</u>	<u>7,991</u>	<u>6,011</u>	<u>304,055</u>
Total net receivables	<u>\$ 598,782</u>	<u>\$ 1,073,556</u>	<u>\$ 7,665</u>	<u>\$ 236,838</u>	<u>\$ 105,727</u>	<u>\$ 2,022,568</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	\$ 435,219	\$ -	\$ 435,219
Fines	39,712	-	39,712
Grants and contributions	-	49,540	49,540
Nonmajor Funds			
Ad valorem taxes	18,958	-	18,958
Fines and forfeitures	-	15,012	15,012
Grants and contributions	<u>-</u>	<u>5,173</u>	<u>5,173</u>
	<u>\$ 493,889</u>	<u>\$ 69,725</u>	<u>\$ 563,614</u>

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

For the current year, the City levied property taxes of \$0.56981 per \$100 of assessed valuation, for maintenance and operations, \$0.52460 and interest and sinking, \$0.04521. The resulting adjusted total tax levy was \$3,739,303 on the total adjusted taxable valuation of \$655,273,183 for the 2012 tax roll.

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**NOTE 5: CAPITAL ASSETS**

The City's capital assets activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 1,460,085	\$ -	\$ -	\$ 1,460,085
Construction in progress	2,973,884	53,843	1,472,789	1,554,938
Total capital assets not being depreciated	4,433,969	53,843	1,472,789	3,015,023
Capital assets, being depreciated				
Machinery and equipment	6,521,401	2,098,589	14,929	8,605,061
Buildings	2,761,815	737,146	-	3,498,961
Infrastructure	23,158,678	16,390	-	23,175,068
Total capital assets being depreciated	32,441,894	2,852,125	14,929	35,279,090
Less accumulated depreciation for				
Machinery and equipment	4,787,502	828,112	13,934	5,601,680
Buildings	2,788,692	340,875	-	3,129,567
Infrastructure	12,108,951	790,139	-	12,899,090
Total accumulated depreciation	19,685,145	1,959,126	13,934	21,630,337
Total capital assets being depreciated, net	12,756,749	892,999	995	13,648,753
Governmental activities capital assets, net	\$ 17,190,718	\$ 946,842	\$ 1,473,784	\$ 16,663,776
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 381,117	\$ -	\$ -	\$ 381,117
Construction in progress	4,840,814	169,300	4,840,814	169,300
Total capital assets not being depreciated	5,221,931	169,300	4,840,814	550,417
Capital assets, being depreciated				
Machinery and equipment	6,038,054	9,003,342	-	15,041,396
Buildings and improvements	1,310,130	-	-	1,310,130
Infrastructure	24,018,779	633,964	-	24,652,743
Total capital assets being depreciated	31,366,963	9,637,306	-	41,004,269
Less accumulated depreciation for				
Machinery and equipment	3,529,922	799,665	-	4,329,587
Buildings and improvements	584,270	30,067	-	614,337
Infrastructure	12,713,809	717,249	-	13,431,058
Total accumulated depreciation	16,828,001	1,546,981	-	18,374,982
Total capital assets being depreciated, net	14,538,962	8,090,325	-	22,629,287
Business-type activities capital assets, net	\$ 19,760,893	\$ 8,259,625	\$ 4,840,814	\$ 23,179,704

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

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

**Governmental activities**

General government	\$ 96,484
Public safety	216,714
Public works	1,530,022
Public activities and recreation	<u>115,906</u>

Total depreciation expense - governmental activities	<u>\$ 1,959,126</u>
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**Business-type activities**

Water and sewer	\$ 1,059,802
Sanitation	370,245
Airport	<u>116,934</u>

Total depreciation expense - business-type activities	<u>\$ 1,546,981</u>
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**NOTE 6: EMPLOYEES' RETIREMENT PLAN****Plan Description**

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

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

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

	Plan Year 2012	Plan Year 2013
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

**Contributions**

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

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

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

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

Contributions Required and Contributions Made			
Year Ended September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	\$ 643,699	100%	\$ -
2012	626,187	100%	-
2011	685,768	100%	-

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

	Actuarial Valuation Information		
	12/31/12	12/31/11	12/31/10
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit
Amortization method	level percent of payroll	level percent of payroll	level percent of payroll
GASB 25 equivalent single amortization period	25.2 years; closed period	26.1 years; closed period	27.12 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Investment rate of return *	7.0%	7.0%	7.5%
Projected salary increases *	varies by age and service	varies by age and service	varies by age and service
*Includes Inflation at	3.0%	3.0%	3.0%
Cost of living adjustments	2.1%	2.1%	2.1%

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**NOTE 6: EMPLOYEES' RETIREMENT PLAN - (Continued)****Funded Status and Funding Progress**

The funded status as of December 31, 2012, the most recent actuarial valuation date, 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)
12/31/12	\$ 23,793,217	\$ 26,942,560	\$ 3,149,343	88.3%	\$ 6,151,052	51.2%

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

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

**NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN**

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2013, 2012, and 2011 were \$3,219, \$3,131, and \$4,114, respectively, which equaled the required contributions each year.

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

The Fire Fighters' Pension Commissioner (FFPC) is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. The Office of the FFPC issues a publicly available annual financial report that includes financial statements and required supplementary information (RSI). This report may be obtained by writing to FFPC, 920 Colorado Street, 11<sup>th</sup> Floor, Austin, Texas 78701, in addition, the report is available on FFPC's website at [www.ffpc.state.tx.us](http://www.ffpc.state.tx.us). At August 31, 2012, there were 188 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, 2012, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,750
Terminated participants entitled to benefits but not yet receiving them	2,252
Active participants (vested and nonvested)	<u>4,446</u>
	<u>9,448</u>

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

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

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

Funding Policy

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

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**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, 2012, total contributions (dues and prior services) of \$3,517,455 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, 2012 and 2013. 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, 2010, 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, 2012, 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, 2012, (\$528,538 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 \$530,000 each year to help pay for the TESRS's administrative expenses.

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>
2012	\$ 4,423,898 <sup>1,2</sup>	\$ 3,517,455	80%
2011	3,125,329 <sup>2</sup>	3,125,329	100%
2010	2,875,103 <sup>3</sup>	2,875,103	100%

<sup>1</sup> Includes a requested state contribution of \$906,443.

<sup>2</sup> Based on the revised August 31, 2010 actuarial valuation.

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

State contributions to the City's plan for the fiscal year 2013 has been deemed insignificant to the financial statements. Therefore, no amounts have been recognized as revenues and expenditures during the period.

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

<u>Year Ended September 30</u>	<u>Annual Required Contributions (ARC)</u>	<u>Percentage Contributed</u>	<u>Net Obligation</u>
2013	\$ 3,600	100%	\$ -
2012	3,600	100%	-
2011	3,600	100%	-

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

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

Funding Policy

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

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

Annual OPEB Expense

For 2013, the City's annual OPEB expense of \$16,115 was equal to the annual required contribution (ARC). The City's annual OPEB expense, the percent of annual OPEB expense contributed to the plan, and the net OPEB obligation for 2013 and 2012 are as follows:

<u>Year End September 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 16,115	0.00%	\$ 32,230
2012	16,115	0.00%	32,230

Funded Status and Funding ProgressSchedule of Funding Progress

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

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

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**NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) - (Continued)****Actuarial Methods and Assumptions**

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

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

\*Includes an inflation adjustment of 3.00%.

**NOTE 10: RISK MANAGEMENT**

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

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

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**NOTE 11: LONG-TERM DEBT****A. Changes in Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Bonds and certificates payable					
General obligation bonds	\$ 4,155,000	\$ 4,030,000	\$ 4,190,000	\$ 3,995,000	\$ 330,000
Certificates of obligation	4,947,500	-	352,500	4,595,000	365,000
Plus deferred amounts:					
Bond premium	<u>47,782</u>	<u>65,470</u>	<u>20,380</u>	<u>92,872</u>	<u>-</u>
Total bonds and certificates payable	<u>9,150,282</u>	<u>4,095,470</u>	<u>4,562,880</u>	<u>8,682,872</u>	<u>695,000</u>
Tax notes	-	642,000	58,000	584,000	94,000
Notes payable	290,461	-	55,206	235,255	58,070
Compensated absences	<u>171,287</u>	<u>269,508</u>	<u>191,701</u>	<u>249,094</u>	<u>24,909</u>
Total governmental activity long-term liabilities	<u>\$ 9,612,030</u>	<u>\$ 5,006,978</u>	<u>\$ 4,867,787</u>	<u>\$ 9,751,221</u>	<u>\$ 871,979</u>
<b>Business-type activities</b>					
Bonds and certificates payable					
General obligation bonds	\$ 1,530,000	\$ 1,095,000	\$ 2,400,000	\$ 225,000	\$ 225,000
Certificates of obligation	11,357,500	-	682,500	10,675,000	775,000
Plus deferred amounts:					
Bond premium	<u>119,508</u>	<u>-</u>	<u>31,428</u>	<u>88,080</u>	<u>-</u>
Total bonds and certificates payable	<u>13,007,008</u>	<u>1,095,000</u>	<u>3,113,928</u>	<u>10,988,080</u>	<u>1,000,000</u>
Compensated absences	<u>55,411</u>	<u>41,827</u>	<u>59,619</u>	<u>37,619</u>	<u>3,762</u>
Total business-type activity long-term liabilities	<u>\$ 13,062,419</u>	<u>\$ 1,136,827</u>	<u>\$ 3,173,547</u>	<u>\$ 11,025,699</u>	<u>\$ 1,003,762</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 2013	2013 - 2024	3.00% - 4.50%	4,975,000



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

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

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2014	\$ 330,000	\$ 69,850	\$ 225,000	\$ 3,710	\$ 628,560
2015	335,000	66,550	-	-	401,550
2016	340,000	63,200	-	-	403,200
2017	345,000	59,800	-	-	404,800
2018	355,000	52,900	-	-	407,900
2019-2023	1,885,000	155,300	-	-	2,040,300
2024	405,000	8,100	-	-	413,100
	<u>\$ 3,995,000</u>	<u>\$ 475,700</u>	<u>\$ 225,000</u>	<u>\$ 3,710</u>	<u>\$ 4,699,410</u>

**Combination Tax and Revenue Certificates of Obligation**

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

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

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

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2014	\$ 365,000	\$ 168,473	\$ 775,000	\$ 302,113	\$ 1,610,586
2015	377,500	157,523	797,500	284,163	1,616,686
2016	395,000	146,198	825,000	265,687	1,631,885
2017	407,500	133,673	847,500	246,587	1,635,260
2018	422,500	119,410	877,500	225,625	1,645,035
2019-2023	1,117,500	419,463	3,562,500	773,813	5,873,276
2024-2028	1,030,000	228,000	2,990,000	238,200	4,486,200
2029-2030	480,000	30,450	-	-	510,450
	<u>\$ 4,595,000</u>	<u>\$ 1,403,190</u>	<u>\$ 10,675,000</u>	<u>\$ 2,336,188</u>	<u>\$ 19,009,378</u>

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

The City has entered into a note payable agreement with Prosperity Bank. The proceeds from this note payable were used to renovate the 16<sup>th</sup> Street Swimming Pool. Annual installments on this note are \$53,288 with a maturity date of 2017. The note bears interest at 5.074% and has an outstanding balance of \$187,914 at September 30, 2013. 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, 2013 was \$47,341. The General Fund is responsible for servicing this debt.

The City has also entered into a note payable agreement with Houston Community Bank. The proceeds of this note were used to purchase various fire suppression equipment. This note bears interest of 1.37%, annual payments of approximately \$102,000, and a maturity date of 2018. The balance outstanding at September 30, 2013 was \$584,000. The General Fund is responsible for servicing this debt.

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

<u>Year</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2014	\$ 152,070	\$ 19,741	\$ 171,811
2015	156,084	15,441	171,525
2016	161,252	10,970	172,222
2017	149,849	6,623	156,472
2018	99,000	2,740	101,740
2019	101,000	1,384	102,384
	<u>\$ 819,255</u>	<u>\$ 56,899</u>	<u>\$ 876,154</u>

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**NOTE 12: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS****A. Interfund Receivables and Payables**

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2013, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Acquisition	\$ 670,643
Nonmajor Special Revenue		
Disaster Recovery	Water and Sewer	<u>13,609</u>
		<u>\$ 684,252</u>

**B. Interfund Transfers**

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

<u>Transfers Out</u>	<u>Transfers In</u>					<u>Total</u>
	<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Internal Service Funds</u>	<u>Nonmajor Govt. Funds</u>	
General	\$ -	\$ 162,234	\$ 62,464	\$ 362,624	\$ 429,880	\$ 1,017,202
Nonmajor Govt. Funds	37,625	-	-	-	-	37,625
Sanitation	-	-	-	42,832	58,988	101,820
Water and Sewer	<u>74,733</u>	<u>-</u>	<u>-</u>	<u>276,961</u>	<u>273,093</u>	<u>624,787</u>
	<u>\$ 112,358</u>	<u>\$ 162,234</u>	<u>\$ 62,464</u>	<u>\$ 682,417</u>	<u>\$ 761,961</u>	<u>\$ 1,781,434</u>

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**NOTE 13: FUND BALANCES**

The following is a detail of the governmental fund balances at September 30, 2013.

	Governmental Fund Balances				Total
	Nonspendable	Restricted	Assigned	Unassigned	
General					
Deferred expenditures	\$ 16,879	\$ -	\$ -	\$ -	\$ 16,879
Employee committee	-	-	-	-	-
Unassigned	-	-	-	2,719,997	2,719,997
2010 Capital Acquisition Fund	-	487,659	-	-	487,659
Nonmajor Governmental					
Tourism	-	221,561	-	-	221,561
Retirement of long-term debt	-	30,568	-	-	30,568
Municipal court	-	101,575	-	-	101,575
Culture and recreation programs	-	42,270	-	-	42,270
Public safety	-	610,912	-	-	610,912
Various capital projects	-	703,531	-	-	703,531
	<u>\$ 16,879</u>	<u>\$ 2,198,076</u>	<u>\$ -</u>	<u>\$ 2,719,997</u>	<u>\$ 4,934,952</u>

**NOTE 14: ACCOUNTING CHANGES AND ACCOUNTING STANDARDS**

In fiscal year 2013, the City implemented GASB Statement No. 63 *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* and GASB Statement No. 65 *"Items Previously Reported as Assets and Liabilities"*. GASB Statement No. 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. The objective of GASB Statement No. 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The implementation of GASB Statement No. 65 resulted in the adjustment to the beginning net position of the business-type activities in the government-wide and Utility Fund financial statements. The deferred charges for issuance costs were reclassified as expense of prior periods which resulted in a decrease of \$154,171 for the governmental activities and \$450,544 for the business type activities, to the September 30, 2012 unrestricted net position.

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**NOTE 15: BAY CITY COMMUNITY DEVELOPMENT CORPORATION****A. Organization**

Bay City Community Development Corporation (CDC) is a public instrumentality and nonprofit economic development corporation under Section 4A of the Development Corporation Act of 1979, Article 5190.6 of the Revised Civil Statutes of Texas (the "Act") on March 13, 1998. Under the Act, the Board of Directors consists of five members appointed by and who serve at the pleasure of the City Council of the City of Bay City, Texas (the "City") for two-year terms. CDC is reported as a component unit of the City of Bay City, Texas in accordance with Governmental Accounting Standards Board Statement No. 14.

CDC is organized exclusively for the purpose of benefiting and accomplishing public purposes of the City, by promoting, assisting and enhancing economic development activities for the City.

CDC prepares annual financial statements as of September 30 of each year. CDC reports its financial results as a governmental type entity.

**B. Summary of Significant Accounting Policies**

The accounting and reporting policies of CDC conform to generally accepted accounting principles (GAAP), as applicable to governmental units. The more significant of CDC's accounting policies are described below.

**1. Reporting Entity - Component Unit Status**

CDC meets the criteria established by the Governmental Accounting Standards Board (GASB) to be a component unit of the City, due to the fact that the City Council of Bay City appoints each member of its Board of Directors. CDC is included in the City's annual financial statements as a discretely presented component unit.

**2. Government-wide and Fund Accounting**

The combined government-wide and fund financial statements (i.e., the Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance) report information on all activities of CDC.

The combined Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance demonstrate the degree to which the direct expenses of CDC are offset by program revenues. Direct expenses are those that are clearly identifiable with CDC's specific function, that of economic development. 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.

The government-wide and fund financial statements are provided for CDC with a column for adjustments between the two statements.

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**NOTE 15: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

**B. Summary of Significant Accounting Policies - (Continued)**

**3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide information (i.e., the columns labeled "Statement of Net Position" and "Statement of Activities") in the financial statements is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund (i.e., the column labeled "General 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, CDC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred.

Sales taxes and interest revenue 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 CDC receives cash.

CDC reports the following major governmental fund:

General Fund - The General Fund is CDC's operating fund. All financial resources are accounted for in the General Fund. The General Fund's transactions consist primarily of revenues realized from the collection of sales tax revenue dedicated to the purpose of economic development and income received on operating leases.

CDC reports no other funds.

**4. Budgets and Budgetary Accounting**

In accordance with CDC's articles of incorporation, the budget for the forthcoming fiscal year shall be submitted to, and approved by, the Board of Directors, and the City Council of the City. In submitting the budget to the City Council, the Board of Directors shall submit the budget on forms prescribed by the City Manager and in accordance with the annual budget preparation schedule as set forth by the City Manager. The budget shall be submitted to the City Manager for inclusion in the annual budget presentation to the City Council. The budget proposed for adoption shall include the projected operating expenses, and such other budgetary information as shall be useful to or appropriate for the Board of Directors and the City Council of the City.

The budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by functions/categories. Expenditures may not exceed appropriations in total, which is the legal level of control. Within these above control levels, the Board of Directors may transfer appropriations without approval by the City. Any unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

For the year ended September 30, 2013, the budget anticipated \$237,446 more in revenues than expenditures. Actual expenditures, however, were more than budgetary estimates by \$2,985,719. This amount was funded by other financing sources.

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**NOTE 15: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)****B. Summary of Significant Accounting Policies - (Continued)****5. Deposits and Investments**

CDC'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.

CDC may invest its excess funds in certain instruments authorized by the Public Funds Investment Act (Chapter 2256.001 Texas Government Code). CDC limits the investment of excess funds to certificates of deposit issued by banking institutions and credit unions with office locations within the city limits of Bay City, Texas and Texas Local Government Investment Pool money market mutual fund. Investment balances with bank institutions should not exceed the limits of the Federal Deposit Insurance Corporation (FDIC).

CDC has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. Except as noted below, the investments of CDC are in compliance with CDC's investment policy.

**6. Capital Assets**

CDC's capital assets, which consist of land, buildings, and office equipment, are recorded at cost. Depreciation has been charged against these assets using the straight-line method of 40 years for buildings and seven years for office equipment.

**7. Long-Term Obligations**

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activities statement of net position.

**8. Compensated Absences**

CDC offers to full-time employees vacation, sick, and emergency leave. Leave time is accrued at different rates and no payment is made by CDC in lieu of taking the time off. However, in the case of termination, only accrued vacation time through the date of termination will be paid upon approval of the Board of Directors. Accumulated vacation time benefits payable were not considered material to the accompanying financial statements. As such, no liability for these benefits has been reported as of September 30, 2013.

**C. Deposits and Investments**

As of September 30, 2013, CDC had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity</u>
Public Fund Investment Pool-TexPool	\$ 10,698	55 Days
Certificates of Deposit	\$ 558,530	11.95 Months

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**NOTE 15: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)****C. Deposits and Investments - (Continued)**

The investment 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 position to compute share prices. Accordingly, the fair value of the position in the pool is the same as the value of the shares in the pool.

**Interest Rate Risk**

In accordance with CDC's investment policy, CDC manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 36 months or less. CDC's certificates of deposits have original maturities that are 9 to 18 months.

**Credit Risk**

Credit risk is the risk that an issuer or 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. CDC was not exposed to credit risk.

**Concentration of Credit Risk**

CDC'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, CDC was not exposed to concentration of credit risk.

**Custodial Credit Risk - Deposits**

CDC's custodial credit risk refers to the risk that in the event of a bank failure, CDC's deposits may not be returned to it. CDC's investment policies require that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to CDC by the depository in an amount equal to at least 102% of the carrying value of deposits held.

As of September 30, 2013, CDC had deposits in three local financial institutions and the deposits were FDIC insured at each institution up to \$250,000. At September 30, 2013, \$2,328,962 of the CDC's bank balance of \$2,356,303 was properly collateralized per the CDC investment policy by securities pledged to CDC by the financial institution.

It is managements' recent understanding that the CDC and any other 4A and 4B economic development entity is not considered a "political subdivision" as defined by Section 330.15 of the FDIC's regulation. Therefore, CDC's bank deposits may not be insured above \$250,000 even though they are secured by a pledged collateral agreement.

**Custodial Credit Risk - Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, CDC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. CDC was not exposed to custodial credit risk.



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**NOTE 15: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)****D. Sales Taxes**

CDC, by law, is to receive one-fourth of the sales tax earned by the City and paid monthly to the City by the State of Texas. CDC's outstanding receivable of the sales tax earned by the City for the year ended September 30, 2013, was \$98,203. The City collects the sales tax from the State of Texas and then pays CDC's portion monthly when collected.

**E. Capital Assets**

CDC's capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 353,914	\$ -	\$ -	\$ 353,914
Total capital assets not being depreciated	<u>353,914</u>	<u>-</u>	<u>-</u>	<u>353,914</u>
Capital assets being depreciated				
Machinery and equipment	132,083	-	-	132,083
Buildings	<u>5,235,648</u>	<u>-</u>	<u>-</u>	<u>5,235,648</u>
Total capital assets being depreciated	<u>5,367,731</u>	<u>-</u>	<u>-</u>	<u>5,367,731</u>
Less accumulated depreciation for				
Machinery and equipment	127,471	4,612	-	132,083
Buildings	<u>800,495</u>	<u>134,248</u>	<u>-</u>	<u>934,743</u>
Total accumulated depreciation	<u>927,966</u>	<u>138,860</u>	<u>-</u>	<u>1,066,826</u>
Total capital assets being depreciated, net	<u>4,439,765</u>	<u>(138,860)</u>	<u>-</u>	<u>4,300,905</u>
Governmental activities capital assets, net	<u>\$ 4,793,679</u>	<u>\$ (138,860)</u>	<u>\$ -</u>	<u>\$ 4,654,819</u>

**F. Long-term Debt**

Long-term liability activity for the year ended September 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable	\$ 3,049,063	\$ 2,798,000	\$ 3,016,063	\$ 2,831,000	\$ 294,893
	<u>\$ 3,049,063</u>	<u>\$ 2,798,000</u>	<u>\$ 3,016,063</u>	<u>\$ 2,831,000</u>	<u>\$ 294,893</u>

In July 2013, CDC refinanced their 2007 Training Center note payable with Wells Fargo Bank. Terms of the note agreement call for interest at 2.280% with quarterly payments of \$89,452 until January 2022 and a final payment April 2022 of \$94,541. The loan is secured by a pledge of CDC sales tax revenues and requires a minimum Debt Service Coverage Ratio greater than or equal to 1.15. CDC is also required to maintain an unencumbered fund balance of not less than the Average Annual Debt Service.

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**NOTE 15: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)****F. Long-term Debt - (Continued)**

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 294,893	\$ 62,914	\$ 357,807
2015	301,770	56,037	357,807
2016	308,674	49,133	357,807
2017	316,004	41,803	357,807
2018	323,372	34,434	357,806
Thereafter	<u>1,286,287</u>	<u>60,578</u>	<u>1,346,865</u>
Totals	<u>\$ 2,831,000</u>	<u>\$ 304,899</u>	<u>\$ 3,135,899</u>

**G. Lessor Agreements**

CDC leases a commercial building to two unrelated third parties. CDC pays all utility bills then invoices its tenants for reimbursement of their portion. The variable costs, which are insurance and maintenance, are not reimbursed. CDC receives \$75,600 in rental fees each year.

**H. Restatement of Previously Issued Statements**

There were various restatements made to the beginning balances of certain capital assets. The effect of this restatement resulted in a decrease in the beginning net position of \$101,302. The restatement was necessary because CDC had been reporting capital assets on their books that actually belonged to the City.

**I. Fund Balances**

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The CDC did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2013. This Statement did not have an impact on the CDC's functions, financial position or results of operations.

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**NOTE 15: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)****J. Accounting Changes and Accounting Standards**

In fiscal year 2013, CDC implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”* and Statement No. 65, *“Items Previously Reported as Assets and Liabilities”*. Statement No. 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government’s net position. The objective of Statement No. 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The implementation of Statement No. 65 resulted in no adjustment to the beginning net position of the governmental activities in the government-wide financial statements.

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

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

**1. Reporting Entity**

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

**2. Basis of Presentation, Basis of Accounting****a. Basis of Presentation**

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

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**NOTE 16: BAY CITY GAS COMPANY - (Continued)****A. Summary of Significant Accounting Policies - (Continued)****2. Basis of Presentation, Basis of Accounting - (Continued)****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 Investments**

The Company's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Public Funds Investment Act and local policy authorizes the Company to invest in obligations of the United States Treasury, certificates of deposit, repurchase agreements, commercial paper, mutual funds and public funds investment pools. Investments for the Company are reported at fair value. Public funds investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The Company invested with TexPool, a 2(a)(7)-like pool governed by the State Comptroller of Public Accounts.

**b. Inventories and Prepaid Items**

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

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

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**NOTE 16: 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.

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

**e. Compensated Absences**

It is the policy of the Company to permit employees to accrue paid time off based on years of service. Unused paid time off may accumulate and carry forward up to a maximum of 160 hours which is paid upon termination. At March 31, 2013 the amount of accrued paid time off was determined to be immaterial to these financial statements and thus not recorded.

**f. Use of Estimates**

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

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**NOTE 16: BAY CITY GAS COMPANY - (Continued)****B. Compliance and Accountability****Budgetary Data**

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

**C. Deposits and Investments**

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

The Company's investments at March 31, 2013 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	1-5 years	FDIC	\$ 1,080,500	66.11%
Certificates of Deposit - Nonparticipating	1-5 years	FDIC	409,784	25.07%
Federal Home Loan Mortgage	1-5 years	Aaa	100,524	6.15%
GNMA Pool	> 5 years	Not Rated	3,660	22.00%
UBS ag ofd tr IV	1-5 years	Baa3	40,000	2.45%
Total Investments			<u>\$ 1,634,468</u>	<u>100.00%</u>

**Money market funds included in cash**

Texpool	90 days	Aaam	\$ 856
Capital One brokerage	90 days	Unin/uncoll	117,249
UBS financial services	90 days	FDIC	250,000
UBS financial services	90 days	Unin/uncoll	170,872
Edward Jones Money Market Funds	60 days	Aaam	664,815
			<u>\$ 1,203,792</u>

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

C. 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:

a. Credit Risk

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

b. Concentration of Credit Risk

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

c. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company limits its exposure to interest rate risk by diversifying its investments by security type and institution. It restricts maturities to three years on certificates of deposit, 90 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.

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**NOTE 16: BAY CITY GAS COMPANY - (Continued)****D. Capital Assets**

Capital asset activity for the year ended March 31, 2013, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Business-type activities:</b>				
Capital assets, being depreciated:				
Utility plant	\$ 2,107,118	\$ 23,838	\$ -	\$ 2,130,956
Buildings and improvements	520,800	-	-	520,800
Equipment	377,983	26,253	-	404,236
Vehicles	199,533	2,604	-	202,137
Total capital assets being depreciated	<u>3,205,434</u>	<u>52,695</u>	<u>-</u>	<u>3,258,129</u>
Less accumulated depreciation for:				
Utility plant	(1,276,859)	(52,727)	-	(1,329,586)
Buildings and improvements	(298,320)	(13,140)	-	(311,460)
Equipment	(217,993)	(21,304)	-	(239,297)
Vehicles	(110,171)	(16,806)	-	(126,977)
Total accumulated depreciation	<u>(1,903,343)</u>	<u>(103,977)</u>	<u>-</u>	<u>(2,007,320)</u>
Business-type activities capital assets, net	<u>\$ 1,302,091</u>	<u>\$ (51,282)</u>	<u>\$ -</u>	<u>\$ 1,250,809</u>

Depreciation of \$103,977 was charged to the only function of providing natural gas.

**E. Risk Management**

The Company is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2013, the Company purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

**F. Pension Plan****1. Plan Description**

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

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



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**NOTE 16: BAY CITY GAS COMPANY - (Continued)****F. Pension Plan - (Continued)****1. Plan Description - (Continued)**

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

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

	Plan Year 2012	Plan Year 2011	Plan Year 2010
Employee deposit rate	5.0%	5.0%	5.0%
Matching ratio (Company to employee)	2 to 1	2 to 1	2 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating	70% of CPI Repeating

**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.

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**NOTE 16: BAY CITY GAS COMPANY - (Continued)****F. Pension Plan - (Continued)****2. Contributions - (Continued)**

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	<u>12/31/2011</u>	<u>12/31/2010</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	26.1 closed period	27.1 closed period	28.2 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 11.35% of annual covered payroll and 5% for employees. The Company's contributions to the TMRS for the years ending March 31, 2013, 2012 and 2011 were \$51,568, \$48,614 and \$52,768, respectively, and were equal to the required contributions for each year.

**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 \$5,000 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 \$2,000 and up to the \$5,000 deductible. The plan may be terminated by the Company at anytime with any excess contributions reverting back to the Company. The plan is administered independently of the Company by TPA Systems, Inc.

**H. Restricted Assets**

Cash has been restricted for the payment of customer deposits.

**I. Nonmonetary Transactions**

It is Company policy to donate gas consumed by City owned property. At March 31, 2013, the amount of gas at retail prices consumed by City property was \$18,514.

**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, 2013**With comparative totals for the year ended September 30, 2012*

	2013				2012
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>REVENUES</b>					
Taxes					
Ad valorem taxes	\$ 3,528,000	\$ 3,528,000	\$ 3,521,985	\$ (6,015)	\$ 3,507,341
Other taxes	4,436,400	4,436,400	4,551,400	115,000	4,502,379
Licenses and permits	9,000	9,000	5,706	(3,294)	8,947
Fines and forfeitures	454,500	454,500	330,637	(123,863)	431,881
Fees and charges for services	194,950	194,950	168,396	(26,554)	196,518
Intergovernmental	105,170	105,170	121,587	16,417	111,982
Investment income	1,000	1,000	2,867	1,867	3,373
Miscellaneous	736,143	736,143	630,695	(105,448)	909,465
<b>Total revenues</b>	<u>9,465,163</u>	<u>9,465,163</u>	<u>9,333,273</u>	<u>(131,890)</u>	<u>9,671,886</u>
<b>EXPENDITURES</b>					
Current					
General government	2,210,882	2,210,882	2,031,233	179,649	1,862,353
Public safety	4,031,025	4,031,025	4,080,637	(49,612)	3,789,386
Public works	1,001,417	1,001,417	1,082,257	(80,840)	979,266
Public activities and recreation	1,287,653	1,287,653	996,117	291,536	1,079,833
Cultural arts and public benefits	-	-	-	-	172,388
Debt service	464,828	464,828	437,651	27,177	520,040
<b>Total expenditures</b>	<u>8,995,805</u>	<u>8,995,805</u>	<u>8,627,895</u>	<u>367,910</u>	<u>8,403,266</u>
Excess (deficiency) of revenues over expenditures	469,358	469,358	705,378	236,020	1,268,620
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	120,033	120,033	112,358	(7,675)	107,333
Transfers out	(987,452)	(987,452)	(1,017,202)	(29,750)	(543,993)
<b>Total other financing sources (uses)</b>	<u>(867,419)</u>	<u>(867,419)</u>	<u>(904,844)</u>	<u>(37,425)</u>	<u>(436,660)</u>
Net change in fund balance	(398,061)	(398,061)	(199,466)	198,595	831,960
Fund balance at beginning of year	<u>2,936,342</u>	<u>2,936,342</u>	<u>2,936,342</u>	<u>-</u>	<u>2,104,382</u>
<b>Fund balance at end of year</b>	<u>\$ 2,538,281</u>	<u>\$ 2,538,281</u>	<u>\$ 2,736,876</u>	<u>\$ 198,595</u>	<u>\$ 2,936,342</u>

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

**CITY OF BAY CITY, TEXAS****REQUIRED SUPPLEMENTARY INFORMATION****HISTORICAL PENSION INFORMATION**

September 30, 2013

**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 (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as of Percentage of Covered Payroll ((b-a)/c)
12/31/12	\$ 23,793,217	\$ 26,942,560	\$ 3,149,343	88.31%	\$ 6,151,052	51.20%
12/31/11	22,632,103	26,194,806	3,565,703	86.40%	6,363,799	55.98%
12/31/10	21,658,759	25,352,756	3,693,997	85.40%	6,293,635	58.69%
12/31/09	11,981,037	17,718,960	5,737,923	67.62%	6,061,315	94.66%
12/31/08	11,436,920	16,659,204	5,222,284	68.65%	5,501,961	94.92%
12/31/07	11,448,750	16,546,570	5,097,820	69.19%	5,436,124	93.78%

**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

	Actuarial Valuation Information	
	8/31/10	8/31/12
Actuarial cost method	entry age	entry age
Amortization method	level dollar, open	level dollar, open
Amortization period	30 years	Infinity
Asset valuation method	market value smoothed by a 5-year deferred recognition method with a 80% - 120% 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 *	7.75%, 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, 2013

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

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability <sup>1</sup> (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL per Member Covered ((b-a)/c)
8/31/2006	\$ 42,268,305	\$ 58,082,828	\$ 15,814,523	72.8%	8,061	\$ 1,962
8/31/2008 <sup>2</sup>	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/2010 <sup>3</sup>	64,113,803	81,264,230	17,150,427	78.9%	8,644	1,984
8/31/2012 <sup>2</sup>	67,987,487	101,856,042	33,868,555	66.7%	9,448	3,585

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

<sup>2</sup> Changes in actuarial assumptions were reflected in this valuation.

<sup>3</sup> Changes in actuarial assumption and method were reflected in this valuation.

Three-Year Trend Information - State-wide			
Fiscal Year Ending August 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
2012	\$ 4,423,898 <sup>1,2</sup>	\$ 3,517,455	80%
2011	3,125,329 <sup>2</sup>	3,125,329	100%
2010	2,875,103 <sup>3</sup>	2,875,103	100%

<sup>1</sup> Includes a requested state contribution of \$906,443.

<sup>2</sup> Based on the revised August 31, 2010 actuarial valuation.

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

State contributions to the City's plan for the fiscal year 2013 has been deemed insignificant to the financial statements. Therefore, no amounts have been recognized as revenues and expenditures during the period.

Three-Year Trend Information - City of Bay City, Texas			
Year Ended September 30	Annual Required Contributions (ARC)	Percentage Contributed	Net Obligation
2013	\$ 3,600	100%	\$ -
2012	3,600	100%	-
2011	3,600	100%	-

**CITY OF BAY CITY, TEXAS****REQUIRED SUPPLEMENTARY INFORMATION****HISTORICAL PENSION INFORMATION***September 30, 2013***OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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

**CITY OF BAY CITY, TEXAS****NOTES TO REQUIRED SUPPLEMENTARY INFORMATION***September 30, 2013*

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**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, 2013 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	\$ 230,834	\$ 250,290	\$ 19,456
Police	3,723,372	3,786,571	63,199
Animal impoundment	99,889	100,264	375
Streets	1,001,417	1,082,257	80,840
Transfers out	987,452	1,017,202	29,750



**Combining and Individual Fund Statements and Schedules**

## **NONMAJOR GOVERNMENTAL FUNDS**

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

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

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

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

**Police Task Force Fund** - Accounts for funds received from governmental entities participating in the task force to be used to improve activities related to the prevention of illegal narcotics use, including drug education programs and law enforcement equipment.

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

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

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

**Library Fund** - Accounts for funds received to support the Bay City Public Library which its mission is "to serve as a community resource that expands and enriches the lives of residents by providing and promoting the use of the library system's information, education, and recreation resources."

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

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

**CITY OF BAY CITY, TEXAS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**September 30, 2013**

Special Revenue Funds

	Civic and Cultural Arts Fund	Donation Fund	Forfeiture Fund	Police Task Force Fund	Court Building Security Fund
<b>ASSETS</b>					
Cash and cash equivalents	\$ 181,964	\$ 72,230	\$ 61,036	\$ 10,773	\$ 47,704
Receivables (net)					
Taxes	71,889	-	-	-	-
Accounts	-	-	-	-	-
Due from other funds	-	-	-	-	-
Prepaid items	11,917	-	-	-	-
<b>Total assets</b>	<u>\$ 265,770</u>	<u>\$ 72,230</u>	<u>\$ 61,036</u>	<u>\$ 10,773</u>	<u>\$ 47,704</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 23,111	\$ -	\$ -	\$ -	\$ -
Accrued expenditures	-	-	-	-	-
Deposits	21,098	-	-	-	-
Unearned revenue	-	-	15,012	806	-
<b>Total liabilities</b>	<u>44,209</u>	<u>-</u>	<u>15,012</u>	<u>806</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue	-	-	-	-	-
<b>Total deferred inflows of resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted	221,561	72,230	46,024	9,967	47,704
<b>Total fund balances</b>	<u>221,561</u>	<u>72,230</u>	<u>46,024</u>	<u>9,967</u>	<u>47,704</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 265,770</u>	<u>\$ 72,230</u>	<u>\$ 61,036</u>	<u>\$ 10,773</u>	<u>\$ 47,704</u>

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Special Revenue Funds					
Court Technology Fund	Disaster Recovery Fund	Library Fund	Capital Project Fund	Debt Service Fund	Total
\$ 52,610	\$ 526,455	\$ 68,408	\$ 631,301	\$ 30,568	\$ 1,683,049
-	-	-	-	18,958	90,847
-	14,857	23	-	-	14,880
-	13,609	-	-	-	13,609
1,372	-	1,428	-	-	14,717
<u>\$ 53,982</u>	<u>\$ 554,921</u>	<u>\$ 69,859</u>	<u>\$ 631,301</u>	<u>\$ 49,526</u>	<u>\$ 1,817,102</u>
\$ 111	\$ -	\$ 20,457	\$ -	\$ -	\$ 43,679
-	-	2,765	-	-	2,765
-	-	-	-	-	21,098
-	-	4,367	-	-	20,185
<u>111</u>	<u>-</u>	<u>27,589</u>	<u>-</u>	<u>-</u>	<u>87,727</u>
-	-	-	-	18,958	18,958
-	-	-	-	18,958	18,958
53,871	554,921	42,270	631,301	30,568	1,710,417
<u>53,871</u>	<u>554,921</u>	<u>42,270</u>	<u>631,301</u>	<u>30,568</u>	<u>1,710,417</u>
<u>\$ 53,982</u>	<u>\$ 554,921</u>	<u>\$ 69,859</u>	<u>\$ 631,301</u>	<u>\$ 49,526</u>	<u>\$ 1,817,102</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, 2013

	Special Revenue Funds				
	Civic and Cultural Arts Fund	Donation Fund	Forfeiture Fund	Police Task Force Fund	Court Building Security Fund
<b>REVENUES</b>					
Taxes					
Ad valorem tax	\$ -	\$ -	\$ -	\$ -	\$ -
Hotel - motel tax	474,322	-	-	-	-
Fines and forfeitures	-	-	30,145	-	5,041
Fees and charges for services	69,084	-	-	-	-
Intergovernmental	-	-	-	10,000	-
Investment income					
Interest	162	69	28	4	39
Miscellaneous	4,696	39,230	-	-	-
<b>Total revenues</b>	<u>548,264</u>	<u>39,299</u>	<u>30,173</u>	<u>10,004</u>	<u>5,080</u>
<b>EXPENDITURES</b>					
Current					
Public safety	-	4,384	17,411	10,037	5,364
Public works	-	-	-	-	-
Cultural arts and public benefits	527,856	1,051	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Paying agents' fees and issue costs	-	-	-	-	-
<b>Total expenditures</b>	<u>527,856</u>	<u>5,435</u>	<u>17,411</u>	<u>10,037</u>	<u>5,364</u>
Excess (deficiency) of revenues over expenditures	20,408	33,864	12,762	(33)	(284)
<b>OTHER FINANCING SOURCES (USES)</b>					
Refunding bonds issued	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to escrow	-	-	-	-	-
Transfers in	-	-	-	10,000	-
Transfers out	(37,625)	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>(37,625)</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
Net change in fund balances	(17,217)	33,864	12,762	9,967	(284)
Fund balances at beginning of year	<u>238,778</u>	<u>38,366</u>	<u>33,262</u>	<u>-</u>	<u>47,988</u>
<b>Fund balances at end of year</b>	<u>\$ 221,561</u>	<u>\$ 72,230</u>	<u>\$ 46,024</u>	<u>\$ 9,967</u>	<u>\$ 47,704</u>

Special Revenue Funds					
Court Technology Fund	Disaster Recovery Fund	Library Fund	Capital Project Fund	Debt Service Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ 297,384	\$ 297,384
-	-	-	-	-	474,322
6,723	-	5,909	-	-	47,818
-	148,298	59,130	-	-	276,512
-	-	150,000	-	-	160,000
44	374	71	456	274	1,521
-	-	28,997	-	-	72,923
6,767	148,672	244,107	456	297,658	\$ 1,330,480
-	1,139	-	-	-	38,335
-	-	-	57,901	-	57,901
10,694	-	333,317	-	-	872,918
-	-	-	-	445,500	445,500
-	-	-	-	241,067	241,067
-	-	-	-	122,499	122,499
10,694	1,139	333,317	57,901	809,066	1,778,220
(3,927)	147,533	(89,210)	(57,445)	(511,408)	(447,740)
-	-	-	-	4,030,000	4,030,000
-	-	-	-	65,470	65,470
-	-	-	-	(3,960,250)	(3,960,250)
-	-	131,480	225,000	395,481	761,961
-	-	-	-	-	(37,625)
-	-	131,480	225,000	530,701	859,556
(3,927)	147,533	42,270	167,555	19,293	411,816
57,798	407,388	-	463,746	11,275	1,298,601
\$ 53,871	\$ 554,921	\$ 42,270	\$ 631,301	\$ 30,568	\$ 1,710,417

## **GENERAL FUND**

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

**CITY OF BAY CITY, TEXAS****MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****BALANCE SHEET**

September 30, 2013

With comparative totals for September 30, 2012

	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,054,376	\$ 2,436,206
Receivables (net)		
Accounts	17,477	36,969
Taxes	541,593	607,246
Fines	39,712	45,012
Due from other governments	294,608	297,295
Due from other funds	670,643	306,098
Prepaid items	16,879	108,116
<b>Total assets</b>	<u>\$ 3,635,288</u>	<u>\$ 3,836,942</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 272,083	\$ 285,100
Accrued expenditures	76,866	37,014
Due to other governments	24,992	28,636
Unearned revenue	49,540	-
<b>Total liabilities</b>	<u>423,481</u>	<u>350,750</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue	474,931	548,850
<b>Total deferred inflows of resources</b>	<u>474,931</u>	<u>548,850</u>
<b>FUND BALANCES</b>		
Nonspendable	16,879	108,116
Assigned	-	7,201
Unassigned	2,719,997	2,821,025
<b>Total fund balances</b>	<u>2,736,876</u>	<u>2,936,342</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 3,635,288</u>	<u>\$ 3,835,942</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, 2013

With comparative totals for the year ended September 30, 2012

	2013			2012
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>REVENUES</b>				
Taxes				
Ad valorem tax	\$ 3,528,000	\$ 3,521,985	\$ (6,015)	\$ 3,507,341
Sales tax	3,295,000	3,440,988	145,988	3,385,962
Mixed beverage tax	12,500	22,814	10,314	17,378
Franchise tax	1,128,900	1,087,598	(41,302)	1,099,039
Total taxes	7,964,400	8,073,385	108,985	8,009,720
Other revenues				
Licenses and permits	9,000	5,706	(3,294)	8,947
Fines and forfeitures	454,500	330,637	(123,863)	431,881
Fees and charges for services	194,950	168,396	(26,554)	196,518
Intergovernmental	105,170	121,587	16,417	111,982
Investment income	1,000	2,867	1,867	3,373
Miscellaneous	736,143	630,695	(105,448)	909,465
Total other revenues	1,500,763	1,259,888	(240,875)	1,662,166
<b>Total revenues</b>	<b>9,465,163</b>	<b>9,333,273</b>	<b>(131,890)</b>	<b>9,671,886</b>
<b>EXPENDITURES</b>				
Current				
General government				
City secretary				
Personnel services	164,959	179,787	(14,828)	161,874
Supplies	27,575	25,553	2,022	22,617
Other services and charges	38,300	44,950	(6,650)	66,146
Total city secretary	230,834	250,290	(19,456)	250,637
City general services				
Personnel services	6,250	8,569	(2,319)	8,889
Supplies	7,100	9,145	(2,045)	4,099
Repairs and maintenance	20,500	28,190	(7,690)	10,048
Other services and charges	1,063,270	982,544	80,726	842,727
Total city general services	1,097,120	1,028,448	68,672	865,763
Administration and council				
Personnel services	214,261	197,176	17,085	186,542
Supplies	4,150	2,067	2,083	2,305
Other services and charges	6,036	7,967	(1,931)	5,669
Total administration and council	224,447	207,210	17,237	194,516

(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, 2013

With comparative totals for the year ended September 30, 2012

	2013			2012
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES - (Continued)</b>				
Current - (Continued)				
General government - (Continued)				
Main Street				
Personnel services	\$ 22,720	\$ 17,294	\$ 5,426	\$ 18,339
Supplies	3,150	2,791	359	1,391
Other services and charges	19,430	17,585	1,845	10,584
Total Main Street	45,300	37,670	7,630	30,314
Municipal court				
Personnel services	158,318	147,421	10,897	151,785
Supplies	9,300	7,083	2,217	8,559
Repairs and maintenance	6,500	3,840	2,660	3,252
Other services and charges	86,990	101,678	(14,688)	113,841
Capital outlay	111,725	7,938	103,787	-
Total municipal court	372,833	267,960	104,873	277,437
Finance				
Personnel services	227,098	227,209	(111)	228,155
Supplies	6,100	6,951	(851)	6,262
Other services and charges	7,150	5,495	1,655	8,997
Capital outlay	-	-	-	272
Total finance	240,348	239,655	693	243,686
Total general government	2,210,882	2,031,233	179,649	1,862,353
Public safety				
Police				
Personnel services	3,099,222	3,183,967	(84,745)	3,105,067
Supplies	137,150	120,981	16,169	128,810
Repairs and maintenance	43,110	36,375	6,735	26,403
Other services and charges	233,090	210,198	22,892	218,653
Capital outlay	210,800	235,050	(24,250)	-
Total police	3,723,372	3,786,571	(63,199)	3,478,933
Fire				
Personnel services	56,499	54,578	1,921	42,378
Supplies	16,165	10,783	5,382	9,108
Repairs and maintenance	49,000	39,037	9,963	43,942
Other services and charges	86,100	76,604	9,496	50,794
Debt service	-	-	-	62,492
Capital outlay	-	12,800	(12,800)	5,105
Total fire	207,764	193,802	13,962	213,819

(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, 2013

With comparative totals for the year ended September 30, 2012

	2013			2012
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES - (Continued)</b>				
Current - (Continued)				
Public safety - (Continued)				
Animal impoundment				
Personnel services	\$ 81,399	\$ 84,219	\$ (2,820)	\$ 82,148
Supplies	4,900	3,308	1,592	2,864
Repairs and maintenance	1,540	1,326	214	1,954
Other services and charges	12,050	11,411	639	9,668
Total animal impoundment	99,889	100,264	(375)	96,634
Total public safety	4,031,025	4,080,637	(49,612)	3,789,386
Public works				
Streets				
Personnel services	693,917	653,073	40,844	670,090
Supplies	121,250	116,588	4,662	142,896
Repairs and maintenance	171,000	161,269	9,731	128,307
Other services and charges	15,250	13,794	1,456	10,897
Capital outlay	-	137,533	(137,533)	27,076
Total streets	1,001,417	1,082,257	(80,840)	979,266
Total public works	1,001,417	1,082,257	(80,840)	979,266
Public activities and recreation				
City service center				
Personnel services	36,966	39,201	(2,235)	37,469
Supplies	3,000	1,447	1,553	1,989
Repairs and maintenance	2,500	2,468	32	2,125
Other services and charges	17,800	11,521	6,279	11,098
Total city service center	60,266	54,637	5,629	52,681
Parks and recreation				
Personnel services	350,145	336,745	13,400	303,767
Supplies	53,720	44,977	8,743	48,684
Repairs and maintenance	66,300	47,334	18,966	32,404
Other services and charges	324,725	255,141	69,584	227,115
Capital outlay	45,000	39,063	5,937	-
Total parks and recreation	839,890	723,260	116,630	611,970
Riverside park				
Personnel services	79,834	83,272	(3,438)	85,178
Supplies	9,350	9,927	(577)	9,734
Repairs and maintenance	19,220	15,491	3,729	12,970
Other services and charges	50,450	38,998	11,452	42,383
Capital outlay	-	-	-	8,518
Total riverside park	158,854	147,688	11,166	158,783

(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, 2013

With comparative totals for the year ended September 30, 2012

	2013			2012
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>EXPENDITURES - (Continued)</b>				
Current - (Continued)				
Public activities and recreation - (Continued)				
Library				
Personnel services	\$ 220,143	\$ 64,833	\$ 155,310	\$ 249,703
Total library	220,143	64,833	155,310	249,703
Teen center				
Supplies	-	-	-	6,349
Repairs and maintenance	500	-	500	347
Other services and charges	8,000	5,699	2,301	-
Total teen center	8,500	5,699	2,801	6,696
Total public activities and recreation	1,287,653	996,117	291,536	1,079,833
Cultural arts and public benefits				
Public benefits				
Other services and charges	-	-	-	172,388
Total cultural arts and public benefits	-	-	-	172,388
Debt service				
Principal	288,806	330,207	(41,401)	313,759
Interest and fiscal charges	176,022	107,444	68,578	206,281
Total debt service	464,828	437,651	27,177	520,040
<b>Total expenditures</b>	<b>8,995,805</b>	<b>8,627,895</b>	<b>367,910</b>	<b>8,403,266</b>
Excess (deficiency) of revenues over expenditures	469,358	705,378	236,020	1,268,620
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	120,033	112,358	(7,675)	107,333
Transfers out	(987,452)	(1,017,202)	(29,750)	(543,993)
<b>Total other financing sources (uses)</b>	<b>(867,419)</b>	<b>(904,844)</b>	<b>(37,425)</b>	<b>(436,660)</b>
Net change in fund balance	(398,061)	(199,466)	198,595	831,960
Fund balance at beginning of year	2,936,342	2,936,342	-	2,104,382
<b>Fund balance at end of year</b>	<b>\$ 2,538,281</b>	<b>\$ 2,736,876</b>	<b>\$ 198,595</b>	<b>\$ 2,936,342</b>

(concluded)

### **NONMAJOR DEBT SERVICE FUND**

The Debt Service Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for general government debt principal and interest.

**CITY OF BAY CITY, TEXAS****NONMAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended September 30, 2013

With comparative totals for the year ended September 30, 2012

	2013			2012
	Final Budget	Actual	Variance Positive (Negative)	Actual
<b>REVENUES</b>				
Ad valorem taxes				
Current taxes	\$ 295,938	\$ 292,584	\$ (3,354)	\$ 292,940
Penalty and interest	-	4,800	4,800	4,649
Investment income	-	274	274	314
<b>Total revenues</b>	<u>295,938</u>	<u>297,658</u>	<u>1,720</u>	<u>297,903</u>
<b>EXPENDITURES</b>				
Debt service				
Principal retirement	590,000	445,500	144,500	340,000
Interest and fiscal charges	239,185	241,067	(1,882)	192,473
Paying agents' fees and issue costs	1,000	122,499	(121,499)	-
<b>Total expenditures</b>	<u>830,185</u>	<u>809,066</u>	<u>21,119</u>	<u>532,473</u>
Excess (deficiency) of revenues over expenditures	(534,247)	(511,408)	22,839	(234,570)
<b>OTHER FINANCING SOURCES (USES)</b>				
Refunding bonds issued	-	4,030,000	4,030,000	-
Premium on issuance of bonds	-	65,470	65,470	-
Payment to escrow	-	(3,960,250)	(3,960,250)	-
Transfers in	535,168	395,481	(139,687)	235,560
<b>Total other financing sources (uses)</b>	<u>535,168</u>	<u>530,701</u>	<u>(4,467)</u>	<u>235,560</u>
Net change in fund balances	921	19,293	18,372	990
Fund balances at beginning of year	<u>11,275</u>	<u>11,275</u>	<u>-</u>	<u>10,285</u>
<b>Fund balances at end of year</b>	<u>\$ 12,196</u>	<u>\$ 30,568</u>	<u>\$ 18,372</u>	<u>\$ 11,275</u>

### **INTERNAL SERVICE FUNDS**

Internal Service Funds are used to account for financing of goods or services provided by one department or agency of a government to other departments or agencies on a cost reimbursement basis. The City maintains two Internal Service Funds: Equipment Maintenance and Information Technology.

**Equipment Maintenance Fund** - The Equipment Maintenance Fund was created to provide maintenance on City owned equipment and vehicles.

**Information Technology Fund** - The Information Technology Fund was created to provide computer maintenance and purchases for all departments of the City.

**CITY OF BAY CITY, TEXAS**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET POSITION**  
**September 30, 2013**

---

	Equipment Maintenance	Information Technology	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 12,840	\$ 30,897	\$ 43,737
Prepaid items	-	47,941	47,941
Total current assets	<u>12,840</u>	<u>78,838</u>	<u>91,678</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	-	35,123	35,123
Buildings, improvements, and equipment (net)	<u>12,977</u>	<u>85,344</u>	<u>98,321</u>
Total noncurrent assets	<u>12,977</u>	<u>120,467</u>	<u>133,444</u>
<b>Total assets</b>	<u>25,817</u>	<u>199,305</u>	<u>225,122</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	7,788	72,467	80,255
Accrued expenses	2,280	2,772	5,052
Accrued compensated absences	<u>916</u>	<u>1,258</u>	<u>2,174</u>
Total current liabilities	<u>10,984</u>	<u>76,497</u>	<u>87,481</u>
Noncurrent liabilities			
Accrued compensated absences	<u>8,243</u>	<u>11,319</u>	<u>19,562</u>
<b>Total liabilities</b>	<u>19,227</u>	<u>87,816</u>	<u>107,043</u>
<b>NET POSITION</b>			
Net investment in capital assets	12,977	120,467	133,444
Unrestricted	<u>(6,387)</u>	<u>(8,978)</u>	<u>(15,365)</u>
<b>Total net position</b>	<u>\$ 6,590</u>	<u>\$ 111,489</u>	<u>\$ 118,079</u>



**CITY OF BAY CITY, TEXAS****INTERNAL SERVICE FUNDS****COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION***For the year ended September 30, 2013*

---

	Equipment Maintenance	Information Technology	Total
<b>OPERATING REVENUES</b>			
Miscellaneous	\$ 454	\$ 2,246	\$ 2,700
<b>Total operating revenues</b>	<u>454</u>	<u>2,246</u>	<u>2,700</u>
<b>OPERATING EXPENSES</b>			
Equipment maintenance expenses	215,326	-	215,326
Information technology expenses	-	356,315	356,315
Depreciation	<u>3,622</u>	<u>2,705</u>	<u>6,327</u>
<b>Total operating expenses</b>	<u>218,948</u>	<u>359,020</u>	<u>577,968</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	(218,494)	(356,774)	(575,268)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	<u>3</u>	<u>3</u>	<u>6</u>
Income (loss) before transfers	(218,491)	(356,771)	(575,262)
Transfers			
Transfers in	<u>214,157</u>	<u>468,260</u>	<u>682,417</u>
Change in net position	(4,334)	111,489	107,155
Total net position at beginning of year	<u>10,924</u>	<u>-</u>	<u>10,924</u>
<b>Total net position at end of year</b>	<u>\$ 6,590</u>	<u>\$ 111,489</u>	<u>\$ 118,079</u>

**CITY OF BAY CITY, TEXAS**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF CASH FLOWS**  
*For the year ended September 30, 2013*

	Equipment Maintenance	Information Technology	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 454	\$ 2,246	\$ 2,700
Cash paid to suppliers for goods and services	(15,366)	(91,185)	(106,551)
Cash paid to employees for services	(196,976)	(225,255)	(422,231)
<b>Net cash provided (used) by operating activities</b>	<u>(211,888)</u>	<u>(314,194)</u>	<u>(526,082)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers (to) from other funds	214,157	468,260	682,417
<b>Net cash provided (used) by noncapital financing activities</b>	<u>214,157</u>	<u>468,260</u>	<u>682,417</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	-	(123,172)	(123,172)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>-</u>	<u>(123,172)</u>	<u>(123,172)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income	3	3	6
<b>Net cash provided (used) by investing activities</b>	<u>3</u>	<u>3</u>	<u>6</u>
Net increase (decrease) in cash and cash equivalents	2,272	30,897	33,169
Cash and cash equivalents at beginning of year	10,568	-	10,568
<b>Cash and cash equivalents at end of year</b>	<u>\$ 12,840</u>	<u>\$ 30,897</u>	<u>\$ 43,737</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (218,494)	\$ (356,774)	\$ (575,268)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	3,622	2,705	6,327
Changes in assets and liabilities			
(Increase) decrease in prepaid items	-	(47,941)	(47,941)
Increase (decrease) in accounts payable	1,838	72,467	74,305
Increase (decrease) in accrued expenses	(596)	2,772	2,176
Increase (decrease) in accrued compensated absences	1,742	12,577	14,319
Total adjustments	<u>6,606</u>	<u>42,580</u>	<u>49,186</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ (211,888)</u>	<u>\$ (314,194)</u>	<u>\$ (526,082)</u>

## **STATISTICAL SECTION**

## **STATISTICAL SECTION**

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

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b>	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.....	94
<b>Revenue Capacity</b>	
These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property taxes and water and sewer revenues.....	105
<b>Debt Capacity</b>	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future .....	111
<b>Demographic and Economic Information</b>	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments .....	116
<b>Operating Information</b>	
These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs .....	118

**CITY OF BAY CITY, TEXAS****NET POSITION BY COMPONENT (1)***Last ten fiscal years*

	Fiscal Year			
	2004	2005	2006	2007
Governmental activities				
Net investment in capital assets	\$ (337,486)	\$ 2,619,884	\$ 7,499,745	\$ 12,496,157
Restricted	2,899,091	2,418,928	1,441,232	1,345,964
Unrestricted	1,914,826	193,976	485,118	435,647
Total governmental activities net position	<u>\$ 4,476,431</u>	<u>\$ 5,232,788</u>	<u>\$ 9,426,095</u>	<u>\$ 14,277,768</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 5,658,337	\$ 4,980,993	\$ 4,957,372	\$ 6,655,233
Restricted	-	210,219	210,088	542,632
Unrestricted	303,268	1,089,017	2,147,890	1,447,433
Total business-type activities net position	<u>\$ 5,961,605</u>	<u>\$ 6,280,229</u>	<u>\$ 7,315,350</u>	<u>\$ 8,645,298</u>
Primary government				
Invested in capital assets, net of related debt	\$ 5,320,851	\$ 7,600,877	\$ 12,457,117	\$ 19,151,390
Restricted	2,899,091	2,629,147	1,651,320	1,888,596
Unrestricted	2,218,094	1,282,993	2,633,008	1,883,080
Total primary government activities net position	<u>\$ 10,438,036</u>	<u>\$ 11,513,017</u>	<u>\$ 16,741,445</u>	<u>\$ 22,923,066</u>

(1) Accrual basis of accounting

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

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 13,059,039	\$ 11,507,535	\$ 12,166,490	\$ 7,541,744	\$ 7,904,146	\$ 8,304,758
2,327,929	3,493,985	-	407,739	410,945	132,143
912,769	1,554,168	4,195,081	4,373,229	5,054,417	3,865,608
<u>\$ 16,299,737</u>	<u>\$ 16,555,688</u>	<u>\$ 16,361,571</u>	<u>\$ 12,322,712</u>	<u>\$ 13,369,508</u>	<u>\$ 12,302,509</u>
\$ 7,522,741	\$ 9,390,238	\$ 9,836,242	\$ 10,543,619	\$ 10,948,774	\$ 12,245,026
564,651	530,241	548,261	339,292	-	-
731,981	688,817	1,366,416	2,359,186	2,952,528	2,668,278
<u>\$ 8,819,373</u>	<u>\$ 10,609,296</u>	<u>\$ 11,750,919</u>	<u>\$ 13,242,097</u>	<u>\$ 13,901,302</u>	<u>\$ 14,913,304</u>
\$ 20,581,780	\$ 20,897,773	\$ 22,002,732	\$ 18,085,363	\$ 18,852,920	\$ 20,549,784
2,892,580	4,024,226	548,261	747,031	410,945	132,143
1,644,750	2,242,985	5,561,497	6,732,415	8,006,945	6,533,886
<u>\$ 25,119,110</u>	<u>\$ 27,164,984</u>	<u>\$ 28,112,490</u>	<u>\$ 25,564,809</u>	<u>\$ 27,270,810</u>	<u>\$ 27,215,813</u>

**CITY OF BAY CITY, TEXAS**  
**CHANGES IN NET POSITION (1)**  
*Last ten fiscal years*

	Fiscal Year			
	2004	2005	2006	2007
<b>Governmental activities</b>				
Expenses				
General government	\$ 1,472,500	\$ 1,473,292	\$ 760,200	\$ 1,702,393
Public safety	2,783,990	2,971,661	2,861,918	3,133,963
Public works	924,633	871,458	962,368	2,706,333
Construction for outside parties	-	-	-	-
Public activities and recreation	949,557	1,303,909	579,782	1,096,893
Cultural arts and public benefits	1,280,443	1,088,079	2,190,512	3,095,223
Interest on long-term debt	156,324	272,091	251,275	332,332
Total expenses	<u>7,567,447</u>	<u>7,980,490</u>	<u>7,606,055</u>	<u>12,067,137</u>
Program revenues				
Charges for services				
General government	6,960	190,963	171,382	150,025
Public safety	185,219	55,218	67,067	65,799
Public works	-	5,710	4,618	4,425
Construction for outside parties	-	-	-	-
Public activities and recreation	138,747	167,209	201,303	209,571
Cultural arts and public benefits	54,682	-	-	-
Operating grants and contributions	100,939	1,289,235	1,306,157	794,498
Capital grants and contributions	851,610	-	-	-
Total program revenues	<u>1,338,157</u>	<u>1,708,335</u>	<u>1,750,527</u>	<u>1,224,318</u>
Total governmental activities net program (expense) revenue	(6,229,290)	(6,272,155)	(5,855,528)	(10,842,819)
General revenues and other changes in net position				
Taxes				
Property taxes	2,219,056	2,278,325	2,492,991	2,594,281
Sales taxes	3,601,228	3,681,595	3,951,087	4,817,754
Franchise taxes	709,515	854,694	701,272	773,840
Other taxes	-	-	-	-
Investment earnings	62,784	108,794	107,901	125,914
Miscellaneous	432,600	-	-	1,031,784
Transfers	(225,723)	(206,482)	100,990	(160,842)
Total general revenues and other changes in net position	<u>6,799,460</u>	<u>6,716,926</u>	<u>7,354,241</u>	<u>9,182,731</u>
<b>Total governmental activities change in net position</b>	<u>\$ 570,170</u>	<u>\$ 444,771</u>	<u>\$ 1,498,713</u>	<u>\$ (1,660,088)</u>

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 1,942,008	\$ 2,473,385	\$ 2,012,790	\$ 2,592,172	\$ 1,992,271	\$ 2,328,020
3,331,324	4,099,853	3,771,477	4,248,889	4,073,513	4,319,067
2,052,743	2,849,343	2,340,844	3,571,109	2,377,316	2,765,580
-	-	2,320,411	-	-	-
1,258,628	1,788,850	1,929,843	1,580,288	1,235,690	1,235,719
1,990,500	1,259,694	643,792	447,854	684,950	872,918
464,827	381,608	583,214	576,214	331,816	495,527
<u>11,040,030</u>	<u>12,852,733</u>	<u>13,602,371</u>	<u>13,016,526</u>	<u>10,695,556</u>	<u>12,016,831</u>
207,903	254,034	240,650	210,778	94,793	81,818
67,302	72,011	406,931	1,139,693	620,749	538,848
6,335	13,033	-	-	-	-
-	-	1,847,562	-	-	59,130
292,469	191,462	203,546	199,657	161,334	154,573
-	80,088	-	-	-	-
2,041,285	2,172,387	439,912	334,370	111,982	281,587
-	-	-	-	-	-
<u>2,615,294</u>	<u>2,783,015</u>	<u>3,138,601</u>	<u>1,884,498</u>	<u>988,858</u>	<u>1,115,956</u>
(8,424,736)	(10,069,718)	(10,463,770)	(11,132,028)	(9,706,698)	(10,900,875)
2,761,842	3,059,879	3,414,585	3,724,754	3,728,127	3,769,351
5,239,480	5,076,657	3,986,482	4,423,374	3,385,962	3,440,988
770,588	756,851	860,750	794,918	1,099,039	1,087,598
-	-	432,144	478,484	474,242	497,136
54,491	26,809	14,401	14,914	6,163	5,779
1,558,912	514,177	1,014,427	1,100,694	924,999	685,286
61,392	(842,299)	74,131	98,338	1,134,962	501,909
<u>10,446,705</u>	<u>8,592,074</u>	<u>9,796,920</u>	<u>10,635,476</u>	<u>10,753,494</u>	<u>9,988,047</u>
\$ <u>2,021,969</u>	\$ <u>(1,477,644)</u>	\$ <u>(666,850)</u>	\$ <u>(496,552)</u>	\$ <u>1,046,796</u>	\$ <u>(912,828)</u>

(continued)



**CITY OF BAY CITY, TEXAS**  
**CHANGES IN NET POSITION (1)**  
*Last ten fiscal years*

	Fiscal Year			
	2004	2005	2006	2007
<b>Business-type activities</b>				
Expenses				
Water and sewer	\$ 4,749,791	\$ 4,445,354	\$ 4,133,097	\$ 4,563,790
Sanitation	-	-	-	-
Airport	248,234	441,272	467,058	324,101
Total expenses	4,998,025	4,886,626	4,600,155	4,887,891
Program revenues				
Charges for services				
Water and sewer	4,043,847	4,575,948	5,361,790	5,310,276
Sanitation	-	-	-	-
Airport	197,696	293,455	287,323	147,004
Operating grants and contributions	139,263	105,638	19,965	350,747
Capital grants and contributions	-	-	-	-
Total program revenues	4,380,806	4,975,041	5,669,078	5,808,027
Total business-type activities net program (expense) revenue	(617,219)	88,415	1,068,923	920,136
General revenues and other changes in net position				
Unrestricted investment earnings	8,501	23,727	67,188	61,157
Miscellaneous	25,186	-	-	187,813
Transfers	225,723	206,482	(100,990)	160,842
Total general revenues and other changes in net position	259,410	230,209	(33,802)	409,812
<b>Total business-type activities change in net position</b>	<b>\$ (357,809)</b>	<b>\$ 318,624</b>	<b>\$ 1,035,121</b>	<b>\$ 1,329,948</b>
<b>Total primary government change in net position</b>	<b>\$ 212,361</b>	<b>\$ 763,395</b>	<b>\$ 2,533,834</b>	<b>\$ (330,140)</b>

(1) Accrual basis of accounting

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

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 4,923,927	\$ 4,706,783	\$ 5,258,532	\$ 5,027,229	\$ 5,026,141	\$ 5,134,720
-	113,933	1,952,979	1,890,468	2,482,660	2,446,553
420,223	397,202	411,863	401,842	389,402	459,418
5,344,150	5,217,918	7,623,374	7,319,539	7,898,203	8,040,691
5,282,569	5,561,610	5,730,656	6,326,946	6,521,880	6,367,177
-	-	2,176,550	2,204,210	2,632,229	2,768,743
186,511	159,161	201,474	227,920	239,173	250,113
13,869	361,082	-	-	220,997	27,468
-	-	726,097	123,325	-	584,651
5,482,949	6,081,853	8,834,777	8,882,401	9,614,279	9,998,152
138,799	863,935	1,211,403	1,562,862	1,716,076	1,957,461
36,317	9,639	4,478	3,677	5,422	3,507
60,351	185,058	17,225	22,977	3,608	3,487
(61,392)	842,299	(74,131)	(98,338)	(1,134,962)	(501,909)
35,276	1,036,996	(52,428)	(71,684)	(1,125,932)	(494,915)
\$ 174,075	\$ 1,900,931	\$ 1,158,975	\$ 1,491,178	\$ 590,144	\$ 1,462,546
\$ 2,196,044	\$ 423,287	\$ 492,125	\$ 994,626	\$ 1,636,940	\$ 549,718

(concluded)

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

	Fiscal Year			
	2004	2005	2006	2007
General Fund				
Nonspendable				
Deferred expenditures	\$ -	\$ -	\$ -	\$ -
Assigned	-	-	-	-
Unassigned	-	-	-	-
Reserved				
Deferred expenditures	11,704	50,000	-	-
Unreserved	<u>367,126</u>	<u>333,661</u>	<u>504,295</u>	<u>491,835</u>
Total general fund	<u>\$ 378,830</u>	<u>\$ 383,661</u>	<u>\$ 504,295</u>	<u>\$ 491,835</u>
All Other Governmental Funds				
Restricted				
Retirement of long-term debt	\$ -	\$ -	\$ -	\$ -
Capital project funds	2,864,678	594,957	190,142	-
Community development	1,309,562	1,517,437	884,152	659,675
Special revenue funds	<u>277,284</u>	<u>326,083</u>	<u>384,855</u>	<u>733,622</u>
Total all other governmental funds	<u>\$ 4,451,524</u>	<u>\$ 2,438,477</u>	<u>\$ 1,459,149</u>	<u>\$ 1,393,297</u>

(1) Modified accrual basis of accounting

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

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

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ -	\$ -	\$ -	\$ 53,128	\$ 108,116	\$ 16,879
-	-	-	7,201	7,201	-
-	-	-	2,013,578	2,821,025	2,719,997
-	-	24,824	-	-	-
955,593	1,622,414	1,708,708	-	-	-
<u>\$ 955,593</u>	<u>\$ 1,622,414</u>	<u>\$ 1,733,532</u>	<u>\$ 2,073,907</u>	<u>\$ 2,936,342</u>	<u>\$ 2,736,876</u>
\$ -	\$ -	\$ 5,431	\$ 10,285	\$ 11,275	\$ 30,568
-	832,503	3,663,379	1,365,723	1,337,295	487,659
1,204,720	1,356,292	1,810,198	1,806,794	-	-
1,190,398	1,325,206	-	884,510	823,579	1,679,849
<u>\$ 2,395,118</u>	<u>\$ 3,514,001</u>	<u>\$ 5,479,008</u>	<u>\$ 4,067,312</u>	<u>\$ 2,172,149</u>	<u>\$ 2,198,076</u>

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

	Fiscal Year			
	2004	2005	2006	2007
Revenues				
Taxes	\$ 6,505,942	\$ 6,780,467	\$ 7,087,728	\$ 8,247,870
Licenses and permits	6,960	6,310	4,993	4,425
Fines and forfeitures	185,219	190,963	171,382	150,025
Fees and charges for services	193,429	221,828	267,995	275,369
Intergovernmental	952,549	472,716	321,043	572,709
Investment income	62,784	108,794	107,901	125,914
Miscellaneous	338,001	816,518	985,113	1,253,574
Total revenues	<u>8,244,884</u>	<u>8,597,596</u>	<u>8,946,155</u>	<u>10,629,886</u>
Expenditures				
Current				
General government	1,489,747	1,447,739	1,571,107	1,734,186
Public safety	2,861,435	2,848,285	2,847,401	3,111,551
Public works	929,531	796,747	848,987	964,075
Public activities and recreation	949,157	1,295,179	1,403,702	1,046,249
Cultural arts and public benefits	1,281,451	1,137,233	2,174,859	1,083,632
Capital outlay	3,788,578	2,304,762	901,429	6,031,745
Debt service				
Principal retirement	336,733	308,308	315,447	327,694
Interest and fiscal charges	207,048	261,077	252,907	302,916
Bond issue costs	-	-	-	20,174
Total expenditures	<u>11,843,680</u>	<u>10,399,330</u>	<u>10,315,839</u>	<u>14,622,222</u>
Excess (deficiency) of revenues over expenditures	(3,598,796)	(1,801,734)	(1,369,684)	(3,992,336)
Other financing sources (uses)				
Debt issuance	6,000,000	-	410,000	4,127,000
Premium on bonds	-	-	-	-
Payment to escrow	-	-	-	-
Transfers in	823,201	458,630	1,140,669	5,379,746
Transfers out	(954,325)	(665,112)	(1,039,679)	(5,540,588)
Total other financing sources (uses)	<u>5,868,876</u>	<u>(206,482)</u>	<u>510,990</u>	<u>3,966,158</u>
Changes in fund balances	<u>\$ 2,270,080</u>	<u>\$ (2,008,216)</u>	<u>\$ (858,694)</u>	<u>\$ (26,178)</u>
Debt service as a percentage of noncapital expenditures	<u>6.75%</u>	<u>7.03%</u>	<u>6.04%</u>	<u>7.34%</u>

(1) Modified accrual basis of accounting

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

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 8,793,242	\$ 8,892,810	\$ 8,646,929	\$ 9,398,598	\$ 8,764,173	\$ 8,845,091
6,335	13,033	9,813	9,335	8,947	5,706
207,903	254,034	402,318	736,614	466,970	378,455
359,771	263,473	2,286,558	751,218	408,908	444,908
610,382	399,741	156,826	334,370	111,982	281,587
54,491	26,809	14,401	14,914	6,159	5,773
2,989,815	2,446,952	1,174,532	1,102,026	954,226	713,618
13,021,939	12,296,852	12,691,377	12,347,075	10,721,365	10,675,138
1,903,178	2,048,581	2,114,190	2,553,230	1,862,353	2,031,233
3,205,678	3,301,382	3,692,061	4,074,012	3,840,767	4,118,972
979,730	1,071,482	1,050,523	1,617,989	981,178	1,142,463
1,189,963	1,158,364	1,594,677	1,210,329	1,079,833	996,117
988,541	1,056,464	643,792	447,854	684,950	872,918
2,548,637	2,502,372	3,569,151	2,351,256	467,801	1,005,219
357,054	529,847	771,731	883,784	653,759	775,707
444,971	428,781	484,390	622,147	398,754	348,511
-	122,550	90,183	-	-	154,249
11,617,752	12,219,823	14,010,698	13,760,601	9,969,395	11,445,389
1,404,187	77,029	(1,319,321)	(1,413,526)	751,970	(770,251)
-	2,500,000	3,300,000	-	-	4,672,000
-	50,974	-	-	-	65,470
-	-	-	-	-	(3,960,250)
1,214,833	439,236	510,232	1,271,561	568,493	874,319
(1,153,441)	(1,281,535)	(436,101)	(1,173,223)	(576,872)	(1,054,827)
61,392	1,708,675	3,374,131	98,338	(8,379)	596,712
\$ 1,465,579	\$ 1,785,704	\$ 2,054,810	\$ (1,315,188)	\$ 743,591	\$ (173,539)
8.84%	9.87%	12.03%	13.20%	11.09%	10.25%

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

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<u>Fiscal Year</u>	<u>Property</u>	<u>Franchise</u>	<u>Sales</u>	<u>Other</u>	<u>Total</u>
2004	\$ 2,219,056	\$ 709,515	\$ 3,601,228	\$ -	\$ 6,529,799
2005	2,278,325	854,694	3,681,595	-	6,814,614
2006	2,492,991	701,272	3,951,087	-	7,145,350
2007	2,594,281	773,840	4,817,754	-	8,185,875
2008**	2,761,842	770,588	5,218,435	21,045	8,771,910
2009	3,059,879	756,851	5,058,673	17,984	8,893,387
2010	3,414,585	860,750	3,986,482	432,144	8,693,961
2011	3,724,754	794,918	4,423,374	478,484	9,421,530
2012	3,804,930	1,099,039	3,385,962	474,242	8,764,173
2013	3,819,370	1,087,598	3,440,987	22,814	8,370,769

(1) Modified accrual basis of accounting

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

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


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<u>Fiscal Year</u>	<u>Tax Roll</u>	<u>Residential Property</u>	<u>Commercial and Industrial Property</u>	<u>Personal Property</u>	<u>Less: Tax-Exempt Real Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>
2003	2002	\$ 252,195,082	\$ 156,827,930	\$ 65,545,234	\$ 81,415,894	\$ 393,152,352	\$ 0.51132
2004	2003	281,112,399	185,476,173	65,328,960	112,321,188	419,596,344	0.51132
2005	2004	282,892,640	186,052,492	64,969,467	107,349,527	426,565,072	0.51132
2006	2005	302,070,059	198,116,842	63,450,950	111,205,955	452,431,896	0.51132
2007	2006	324,883,782	229,169,949	63,687,770	118,880,723	498,860,778	0.51132
2008	2007	297,803,190	269,820,743	78,319,795	109,393,757	536,549,971	0.51132
2009	2008	299,647,821	331,396,398	82,412,631	111,046,253	602,410,597	0.50570
2010	2009	300,788,222	366,471,169	79,533,050	110,153,022	636,639,419	0.52934
2011	2010	312,638,392	381,341,753	77,386,950	111,494,200	659,872,895	0.56424
2012	2011	321,373,344	373,573,725	72,696,140	113,301,648	654,341,561	0.56981
2013	2012	317,325,756	375,135,265	69,127,650	106,208,499	655,380,172	0.57191

(1) Includes tax-exempt property

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

SOURCE: Matagorda County Appraisal District



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


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<u>Fiscal Year</u>	<u>City Direct Rates</u>			<u>Overlapping Rates</u>		
	<u>Debt Service</u>	<u>General Fund</u>	<u>Total</u>	<u>Bay City ISD</u>	<u>Matagorda County</u>	<u>Port of Bay City</u>
2003	\$ -	\$ 0.51132	\$ 0.51132	\$ 1.65000	\$ 0.32160	\$ 0.04237
2004	-	0.51132	0.51132	1.65000	0.31837	0.04138
2005	-	0.51132	0.51132	1.65000	0.31837	0.04047
2006	-	0.51132	0.51132	1.65000	0.30852	0.03607
2007	-	0.51132	0.51132	1.52000	0.26829	0.03269
2008	-	0.51132	0.51132	1.32000	0.27590	0.03475
2009	-	0.50570	0.50570	1.31380	0.27518	0.03420
2010	0.03000	0.49934	0.52934	1.32000	0.27498	0.03245
2011	0.04510	0.51914	0.56424	1.32000	0.27478	0.03116
2012	0.04521	0.52460	0.56981	1.32000	0.28162	0.03175
2013	0.04516	0.52675	0.57191	1.32000	0.29878	0.03284

SOURCE: Tax department records of the various taxing authorities

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Overlapping Rates			
<u>Matagorda Co. Hospital District</u>	<u>Matagorda Co. Drainage District #1</u>	<u>Matagorda Co. Conservation &amp; Reclaim. Distr.</u>	<u>Total</u>
\$ 0.15070	\$ 0.14235	\$ 0.00729	\$ 2.82563
0.16140	0.13549	0.00713	2.82509
0.20999	0.13500	0.00682	2.87197
0.21240	0.12241	0.00604	2.84676
0.17214	0.10355	0.05080	2.65879
0.17724	0.09919	0.00525	2.42365
0.17864	0.09221	0.00521	2.40494
0.18588	0.09329	0.00497	2.44091
0.18851	0.09627	0.00481	2.47977
0.20003	0.09628	0.00456	2.50405
0.23163	0.09524	0.00470	2.55510

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

2013		
Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
Wal-Mart Real Estate Business Trust	\$ 8,846,870	1.35%
Wal-Mart Store #01-1405	7,559,070	1.16%
Fortress Lodging LLC	6,335,110	0.97%
AEP Texas Central Co.	5,832,220	0.89%
Blue Valley Apartment INC	4,913,340	0.75%
W R H Bay City LTD	4,076,040	0.62%
H E Butt Grocery Company	3,596,290	0.55%
Bay City Accommodations LTD	3,309,930	0.51%
Pasupatinath LLC	3,266,380	0.50%
H E Butt Grocery Co	3,093,170	0.47%
	<u>\$ 50,828,420</u>	<u>7.77%</u>

2003		
Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
AEP Texas Central Company	\$ 5,657,300	1.44%
Southwestern Bell Telephone	4,703,370	1.20%
H E Butt Grocery Co	4,415,120	1.12%
AGL Properties	4,240,000	1.08%
W R H Bay City LTD	2,761,320	0.70%
Don Davis Buick Pontiac Olds	2,431,080	0.62%
H E Butt Grocery Company	2,001,400	0.51%
Walton Place Limited Partnership	1,770,960	0.45%
Heritage-Riverway LP	1,694,790	0.43%
Baywood Square of B.C. LLC	1,650,240	0.42%
	<u>\$ 31,325,580</u>	<u>7.97%</u>

SOURCE: Matagorda Central Appraisal District

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


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<u>Fiscal Year</u>	<u>Taxes Levied for the Fiscal Year (Original Levy)</u>	<u>Collections within the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2003	\$ 2,010,267	\$ 1,936,001	96.31%	\$ 74,266	\$ 2,010,267	100.00%
2004	2,145,480	2,047,880	95.45%	77,189	2,125,069	99.05%
2005	2,181,113	2,090,348	95.84%	90,765	2,181,113	100.00%
2006	2,313,375	2,252,304	97.36%	61,071	2,313,375	100.00%
2007	2,553,038	2,489,828	97.52%	63,210	2,553,038	100.00%
2008	2,746,433	2,640,817	96.15%	81,031	2,721,848	99.10%
2009	3,049,571	2,923,979	95.88%	76,593	3,000,572	98.39%
2010	3,369,687	3,196,750	94.87%	99,689	3,296,439	97.83%
2011	3,723,267	3,577,925	96.10%	123,896	3,701,821	99.42%
2012	3,729,188	3,605,518	96.68%	-	3,605,518	96.68%
2013	3,747,573	3,634,938	96.99%	113,000	3,747,938	100.01%

SOURCES: Tax assessor/collector's records

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

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<u>Fiscal Year</u>	<u>Gallons of Water Produced</u>	<u>Gallons of Water Consumed</u>	<u>Gallons of Water Unbilled</u>	<u>Average Percent Unbilled</u>	<u>Gallons of Wastewater Treated</u>
2003	890,244,000	663,014,100	227,229,900	25.52%	N/A
2004	935,102,000	664,892,900	270,209,100	28.90%	837,680,000
2005	907,796,000	662,808,600	244,987,400	26.99%	850,374,000
2006	817,903,300	635,455,100	182,448,200	22.31%	882,079,000
2007	752,369,000	600,756,200	151,612,800	20.15%	1,098,387,000
2008	860,144,000	651,039,200	209,104,800	24.31%	792,502,000
2009	913,706,000	709,826,800	203,879,200	22.31%	785,700,000
2010	695,911,000	605,383,800	90,527,200	13.01%	716,328,000
2011	820,538,000	732,557,300	87,980,700	10.72%	574,870,000
2012	809,245,000	749,527,000	59,718,000	7.38%	573,170,000
2013	798,353,000	725,058,000	73,295,000	9.18%	571,850,000

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

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


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Fiscal Year	Governmental Activities			
	Certificates of Obligation	General Obligation Bonds	Notes Payable	Capital Leases
2004	\$ -	\$ 6,000,000	\$ 198,900	\$ 402,439
2005	-	5,800,000	132,600	360,431
2006	-	5,595,000	476,300	316,284
2007	-	5,380,000	4,527,837	269,890
2008	-	5,155,000	4,434,167	221,134
2009	2,500,000	4,920,000	4,179,741	169,897
2010	5,582,500	4,675,000	3,913,401	116,052
2011	5,287,500	4,420,000	3,633,262	59,466
2012	4,947,500	4,155,000	290,461	-
2013	4,595,000	3,995,000	584,000	-

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

N/A denotes information not available.

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Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
Certificates of Obligation	General Obligation Bonds	Notes Payable			
\$ -	\$ 10,410,000	\$ 189,548	\$ 17,200,887	N/A	\$ 936
-	9,420,000	111,774	15,824,805	N/A	861
-	8,405,000	34,851	14,827,435	N/A	807
-	7,375,000	-	17,552,727	N/A	955
-	6,305,000	-	16,115,301	N/A	877
2,500,000	5,220,000	-	19,489,638	N/A	1,044
2,282,500	4,025,000	-	20,594,453	N/A	1,648
2,057,500	2,795,000	-	18,252,728	N/A	1,460
11,357,500	1,530,000	-	22,280,461	N/A	1,265
10,675,000	225,000	-	20,074,000	N/A	1,140

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


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Fiscal Year	General Bonded Debt Outstanding			Debt Service Monies Available	Net Bonded Debt
	Certificates of Obligation	General Obligation Bonds	Total		
2004	\$ -	\$ 16,410,000	\$ 16,410,000	\$ -	\$ 16,410,000
2005	-	15,220,000	15,220,000	-	15,220,000
2006	-	14,000,000	14,000,000	-	14,000,000
2007	-	12,755,000	12,755,000	-	12,755,000
2008	-	11,460,000	11,460,000	-	11,460,000
2009	5,000,000	10,140,000	15,140,000	-	15,140,000
2010	7,865,000	8,700,000	16,565,000	4,854	16,560,146
2011	7,345,000	7,215,000	14,560,000	10,285	14,549,715
2012	16,305,000	5,685,000	21,990,000	11,275	21,978,725
2013	15,270,000	4,220,000	19,490,000	30,567	19,459,433

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



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Percentage of Actual Taxable Value of Property	Per Capita
100.00%	\$ 326
100.00%	316
100.00%	304
100.00%	293
100.00%	280
100.00%	241
100.00%	1,325
100.00%	1,164
100.00%	1,248
100.00%	1,105

**CITY OF BAY CITY, TEXAS****DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT****(UNAUDITED)****September 30, 2013**

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	<u>Gross Debt Outstanding</u>		<u>Percentage</u>	<u>Amount</u>
	<u>Date</u>	<u>Amount</u>	<u>Applicable</u>	<u>Applicable</u>
			<u>To City</u>	<u>To City</u>
Direct Debt:				
City of Bay City (1)	9/30/2013	<u>\$ 20,074,000</u>	100.00%	<u>\$ 20,074,000</u>
Overlapping Debt:				
Matagorda County	12/31/2013	520,000	14.36%	74,672
Bay City Independent School District	6/30/2013	<u>15,933,484</u>	66.50%	<u>10,595,767</u>
Total Overlapping Debt		<u>16,453,484</u>		<u>10,670,439</u>
Total		<u>\$ 36,527,484</u>		<u>\$ 30,744,439</u>

(1) Figures do not include accrued compensated absences.

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

SOURCES: Bay City Independent School District  
Matagorda County

**CITY OF BAY CITY, TEXAS****DEMOGRAPHIC AND ECONOMIC STATISTICS****(UNAUDITED)***Last ten fiscal years*


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<u>Fiscal Year</u>	<u>(1) Population</u>	<u>(4) Personal Income</u>	<u>(1) Per Capita Personal Income</u>	<u>(1) Median Age</u>	<u>(2) School Enrollment</u>	<u>(3) Unemployment Rate</u>
2003	18,667	\$ 494,866,864	\$ 26,510	30	1,420	5.9%
2004	18,381	521,219,237	28,356	30	1,388	5.1%
2005	18,381	548,254,974	29,827	30	1,343	5.2%
2006	18,822	561,413,093	29,827	32	4,140	7.0%
2007	19,273	574,887,007	29,829	32	4,410	5.9%
2008	19,735	588,684,295	29,829	32	4,140	7.0%
2009	18,667	568,335,482	30,446	32	4,140	11.2%
2010	17,614	N/A	21,773	33	3,797	11.2%
2011	17,663	N/A	21,773	33	3,772	11.6%
2012	17,663	N/A	22,000	33	3,770	10.1%
2013	17,476	N/A	22,000	33	3,860	9.80%

NOTES: Personal income figures for 2010 through 2012 are not available.

The unemployment rates are a twelve-month average from October through September.

N/A denotes information not available

SOURCES: (1) Bureau of the Census

(2) Bay City Independent School District

(3) Texas Workforce Commission

(4) Personal income information is a total for the year

**CITY OF BAY CITY, TEXAS****PRINCIPAL EMPLOYERS****(UNAUDITED)***Current Year*

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2013

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<u>Employer</u>	<u>Employees</u>
South Texas Project (STP)	1,163
Bay City ISD	534
Matagorda County General Hospital	246
Valerus	175
City of Bay City	160
OXEA	150
Lyondell	143
Wal-Mart	125
H.E.B.	107
McAda Drilling Fluids	<u>66</u>
	<u>2,869</u>

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

**CITY OF BAY CITY, TEXAS****FULL-TIME-EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM***Last ten fiscal years*

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

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

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

City took on Library Operations during FY 12/13

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Fiscal Year					
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
35.00	35.00	24.29	25.29	25.29	23.00
37.00	35.00	35.00	35.00	35.00	37.00
18.00	20.19	20.19	20.19	20.19	18.00
37.00	36.00	34.00	34.00	34.00	35.00
1.00	1.00	1.00	1.00	1.00	1.00
18.00	35.00	19.00	19.00	16.00	18.00
11.00	11.00	11.76	11.76	11.76	10.00
-	-	-	-	-	8.00
32.00	29.00	43.00	44.00	39.00	21.00
-	-	2.00	2.00	1.00	2.00
-	-	-	-	4.00	9.00
-	10.00	11.00	11.00	16.28	13.00
<u>189.00</u>	<u>212.19</u>	<u>201.24</u>	<u>203.24</u>	<u>203.52</u>	<u>195.00</u>

**CITY OF BAY CITY, TEXAS****CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM***Last ten fiscal years*

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

SOURCE: Various City departments

n/a - information not available

Fiscal Year						
2007	2008	2009	2010	2011	2012	2013
1	1	1	1	1	1	1
30	30	32	31	31	31	35
1	1	1	1	1	1	1
n/a	n/a	95	109	109	109	109
207	207	186	185	185	185	185
20	20	22	16	16	16	16
2	2	2	2	2	2	2
90	90	94	94	94	94	94
600	600	600	600	600	600	600
4	4	4	4	4	4	4
85	85	88	88	88	88	88
70	70	80	80	80	80	80
4	4	4	4.3	4.3	4.3	4.3
n/a	n/a	8	8	8	8	8



**CITY OF BAY CITY, TEXAS****OPERATING INDICATORS BY FUNCTION/PROGRAM***Last ten fiscal years*

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

NOTES: N/A denotes information not available

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

SOURCE: Various City departments

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Fiscal Year					
2008	2009	2010	2011	2012	2013
N/A	N/A	442	310	231	459
N/A	N/A	222	691	431	1,222
N/A	N/A	13	5	6	22
1,399	1,513	1,934	1,730	893	1,722
235	425	452	416	199	304
2,175	2,791	4,484	3,223	1,196	1,621
22,827	7,222	3,017	2,734	1,327	2,669
22,461	27,968	32,296	33,453	19,333	32,155
264	219	165	220	175	233
112	133	71	132	95	101
95	75	94	88	80	132
57	19	22	27	39	21
-	-	-	-	-	-
2.357	2.503	1.907	2.248	2.217	2.187
860.144	913.706	695.911	820.538	809.245	798.353
3.686	4.608	3.516	4.395	3.799	3.485
2.000	2.153	1.963	1.575	1.570	1.566
729.502	785.700	716.328	574.870	573.170	571.850
7.117	5.100	13.556	9.758	11.916	11.755

**OVERALL COMPLIANCE AND  
INTERNAL CONTROL SECTION**



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

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bay City, Texas (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 28, 2014. The financial statements of the Bay City Economic Development Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

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*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Harrison, Waldrop & Uherek, LLP". The signature is written in a cursive, flowing style.

HARRISON, WALDROP & UHEREK, L.L.P.  
Certified Public Accountants

May 28, 2014