

CITY OF BAY CITY, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended September 30, 2014

Phill Conner
Director of Finance

Mark Bricker
Mayor

Issued By:
Finance Department

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INTRODUCTORY SECTION

CITY OF BAY CITY

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

July 2, 2015

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, 2014, 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, 2014, 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, 2014, 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 \$660 million for fiscal year 2014, which is a 0.80% increase from fiscal year 2013.

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.

During fiscal year 2010, the City obtained certificates of obligation for \$3.3 million. These funds were used for Street and Drainage improvements, Airport Improvements, Park improvements, Service Center improvements, Hazmat equipment and Recycling facility improvements.

During fiscal year 2012, the City obtained certificates of obligation for \$9.53 million. These funds were 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.

MAJOR INITIATIVES

The City issued \$3,995,000 in certificates of obligation during fiscal year 2014. The funds will be used for street rehabilitation and reconstruction, repairing and/or replacing water and sewer lines and to purchase equipment. Phase I of the Street Rehabilitation project is expected to be completed in fiscal year 2015. Phase II is expected to be completed in fiscal year 2016.

During fiscal year 2014, the City sold its solid waste collection equipment and contracted with a private corporation to provide the service for the citizens of Bay City. The proceeds from this sale are being used to fund Phase I of the Street Rehabilitation project.

AWARDS AND ACKNOWLEDGEMENTS

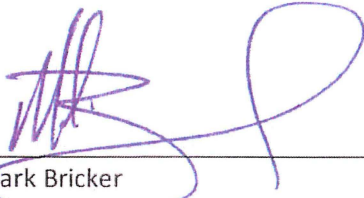
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bay City for its comprehensive annual financial report for the fiscal year ended September 30, 2013. In order to be awarded a Certificate 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**

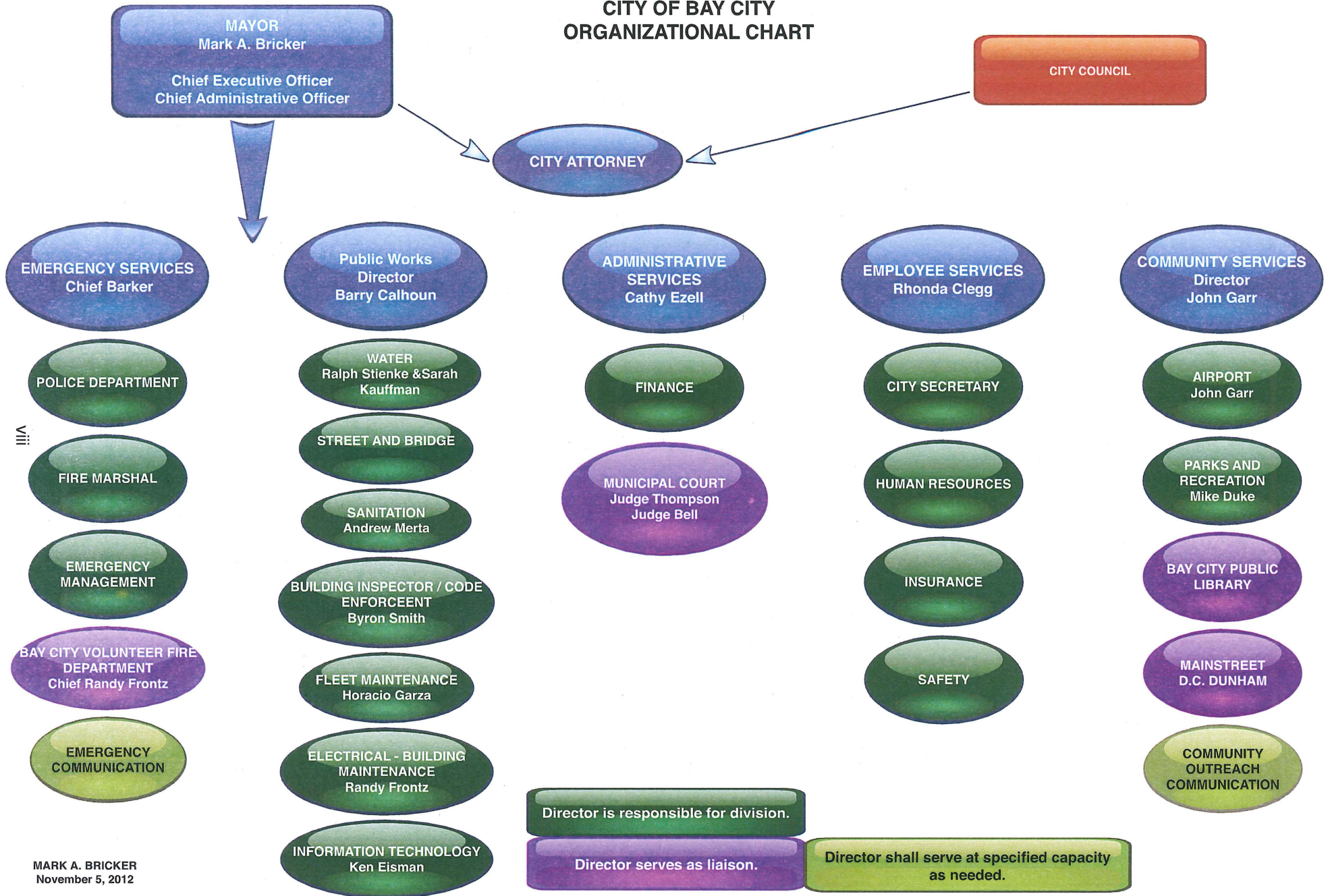
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2013



Executive Director/CEO

CITY OF BAY CITY ORGANIZATIONAL CHART



CITY OF BAY CITY, TEXAS
DIRECTORY OF PRINCIPAL OFFICIALS
September 30, 2014

City Officials	Elective Position	Term Expires
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

Key Staff	Position
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
101 S. MAIN, SUITE 400
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, 2014, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Bay City Gas Company, which represent 40 percent, 48 percent, and 69 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions insofar as it relates to the amounts included in the Bay City Gas Company, is based solely on the reports of the other auditors. 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. The financial statements of the Bay City Gas Company and the Bay City Community Development Corporation were not audited in accordance with *Government Auditing Standards*.

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.

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

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

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2014, 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 and other auditors 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 combining and individual nonmajor fund financial statements 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements 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 July 2, 2015, 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.

Harrison, Waldrop & Uherek, LLP

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

July 2, 2015

CITY OF BAY CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 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, 2014.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$26,831,241 (*net position*). Of this amount, \$9,025,443 (*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 \$5,400,637, an increase of \$465,685 from the prior year. At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,727,220, or 16.08% of total General Fund expenditures. The decrease in fund balance for the City's General Fund is attributable to increases in various expenditure categories and transfers to other funds.
- The City's total net position of the business-type activities increased \$986,553, or 6.62%. The net position of the Water and Sewer Fund increased by \$774,482, the Sanitation Fund increased by \$83,945, and the Airport Fund increased by \$128,126.

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

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 thirteen individual governmental funds during the 2013-2014 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 Project Fund, which are considered major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation.

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 internal service funds to account for equipment maintenance and information technology services. Because these services predominantly benefit governmental rather than business-type functions, they have 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 76-93 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 exceeded liabilities by \$26,831,241 at the close of the fiscal year 2014.

By far, the largest portion of the City's net position (62.36%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment), less a related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Bay City, Texas

Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013*	2014	2013	2014	2013*
Current and other assets	\$ 7,280,132	\$ 6,061,792	\$ 7,896,534	\$ 3,699,191	\$ 15,176,666	\$ 9,760,983
Capital assets (net)	15,610,741	16,803,961	22,136,538	23,179,704	37,747,279	39,983,665
Total assets	22,890,873	22,865,753	30,033,072	26,878,895	52,923,945	49,744,648
Total deferred outflow of resources	-	-	-	53,402	-	53,402
Current liabilities	2,607,555	1,543,817	2,760,552	1,997,056	5,368,107	3,540,873
Noncurrent liabilities	9,627,691	8,879,242	11,372,663	10,021,937	21,000,354	18,901,179
Total liabilities	12,235,246	10,423,059	14,133,215	12,018,993	26,368,461	22,442,052
Net investment in capital assets	7,050,325	8,444,943	9,681,894	12,245,026	16,732,219	20,689,969
Restricted	1,073,579	132,143	-	-	1,073,579	132,143
Unrestricted	2,807,480	3,865,608	6,217,963	2,668,278	9,025,443	6,533,886
Total net position	\$ 10,931,384	\$ 12,442,694	\$ 15,899,857	\$ 14,913,304	\$ 26,831,241	\$ 27,355,998

*Net capital assets and net position of the 2013 governmental activities have been restated. See Note 5 of this report.

The balance of unrestricted net position, \$9,025,443 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 \$1,511,310. Key elements of this decrease are as follows: Public works expenses increased \$3,198,338 or 120.42% from prior year as well as charges for services-sanitation revenues increased \$1,746,189 due to the City contracting out the sanitation services during fiscal year 2014 and accounting for it within the governmental activities; public safety expenses increased \$359,387 or 8.35% from prior year; and transfers to business-type activities increased \$190,568 from prior year. Business-type activities increased the City's net position by \$986,553. This increase in net position corresponds with the decrease in net position for the governmental activities because of the sanitation services.

City of Bay City, Texas						
Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2014	2013*	2014	2013	2014	2013*
REVENUES						
Program revenues:						
Charges for services	\$ 3,241,279	\$ 834,369	\$ 7,359,927	\$ 9,386,033	\$ 10,601,206	\$ 10,220,402
Operating grants and contributions	280,889	281,587	10,914	27,468	291,803	309,055
Capital grants and contributions	-	-	975,226	584,651	975,226	584,651
General revenues:						
Property taxes	3,749,040	3,769,351	-	-	3,749,040	3,769,351
Sales taxes	3,469,272	3,440,988	-	-	3,469,272	3,440,988
Franchise taxes	984,607	1,087,598	-	-	984,607	1,087,598
Other taxes	614,073	497,136	-	-	614,073	497,136
Unrestricted investment earnings	3,653	5,779	3,680	3,507	7,333	9,286
Miscellaneous	709,694	685,286	148,415	3,487	858,109	688,773
Total revenues	13,052,507	10,602,094	8,498,162	10,005,146	21,550,669	20,607,240
EXPENSES						
General government	2,295,602	2,321,123	-	-	2,295,602	2,321,123
Public safety	4,662,949	4,303,562	-	-	4,662,949	4,303,562
Public works	5,854,434	2,656,096	-	-	5,854,434	2,656,096
Public activities and rec.	1,167,733	1,227,420	-	-	1,167,733	1,227,420
Cultural arts and pub. ben.	969,696	872,918	-	-	969,696	872,918
Interest on long-term debt	305,880	495,527	-	-	305,880	495,527
Water and sewer	-	-	5,775,681	5,134,720	5,775,681	5,134,720
Sanitation	-	-	503,196	2,446,553	503,196	2,446,553
Airport	-	-	540,255	459,418	540,255	459,418
Total expenses	15,256,294	11,876,646	6,819,132	8,040,691	22,075,426	19,917,337
Change in net position before transfers	(2,203,787)	(1,274,552)	1,679,030	1,964,455	(524,757)	689,903
Transfers	692,477	501,909	(692,477)	(501,909)	-	-
Change in net position	(1,511,310)	(772,643)	986,553	1,462,546	(524,757)	689,903
Net position - beginning, as restated	12,442,694	13,215,337	14,913,304	13,450,758	27,355,998	26,666,095
Net position - ending	<u>\$ 10,931,384</u>	<u>\$ 12,442,694</u>	<u>\$ 15,899,857</u>	<u>\$ 14,913,304</u>	<u>\$ 26,831,241</u>	<u>\$ 27,355,998</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,400,637, an increase of \$465,685 from the prior year.

Approximately 31.23% of this total amount, \$1,686,841 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance of \$3,713,796 or 68.77% 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 \$1,727,220. Unassigned fund balance represents 16.08% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$954,282 during the current fiscal year. The decrease was primarily due to unexpected increases in various expenditure categories. The fund balance of the 2010 Capital Project Fund, a major capital project fund, decreased by \$528,038 to a deficit balance of \$40,379.

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 \$3,934,815, which is an increase of \$1,862,426 from the prior year. Unrestricted net position of the Sanitation Fund amounted to \$2,191,318 at the end of the current fiscal year, which is an increase of \$1,650,382 from the prior year due to the sale of capital assets during fiscal year 2014. Unrestricted net position of the Airport Fund amounted to \$91,830 at the end of the current fiscal year, which is an increase of \$36,877 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual fiscal year expenditures in the General Fund were \$662,656 less than the final budgeted amounts or appropriations. The major differences in expenditures were:

- \$63,782 for the Municipal Court due to an unfilled position and savings in equipment maintenance.
- \$122,328 for the Police department due to vacant positions and fuel and other account savings.
- \$101,951 for the Code Enforcement department for the demolition of dilapidated buildings that did not occur in fiscal year 2014.
- \$63,487 for the Street and Sanitation department resulting from vehicle purchases using proceeds from sale of excess equipment; engineering fees; and the cost of fuel that was resold to WCA.
- (\$119,407) for the City General Services department due mainly to higher than anticipated fees for various City functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$38,023,036 (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 net decrease in the City's investment in capital assets was \$1,960,629.

City of Bay City, Texas						
Capital Assets (Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,460,085	\$ 1,460,085	\$ 381,117	\$ 381,117	\$ 1,841,202	\$ 1,841,202
Construction in progress	2,636,006	1,554,938	1,373,707	169,300	4,009,713	1,724,238
Buildings and improvements	206,106	504,967	650,958	682,215	857,064	1,187,182
Machinery and equipment	2,890,568	3,007,993	8,374,917	10,725,387	11,265,485	13,733,380
Infrastructure	8,693,733	10,275,978	11,355,839	11,221,685	20,049,572	21,497,663
Total	<u>\$15,886,498</u>	<u>\$16,803,961</u>	<u>\$22,136,538</u>	<u>\$23,179,704</u>	<u>\$38,023,036</u>	<u>\$39,983,665</u>

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

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$21,790,000. Of this amount, \$3,665,000 represents general obligation debt and certificates of obligation totaled \$18,125,000. The City's bonded debt had a net increase of \$2,300,000 or 11.80% during the fiscal year ended September 30, 2014. The net increase included current year payments of principal of \$1,695,000 and the issuance of the 2014 Certificates of Obligation in the amount of \$3,995,000.

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 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 2014 equaled \$3,469,272. This amount is an increase of \$28,284 or 0.8% compared to the previous year. For fiscal year 2015, the City has budgeted \$3,643,350 of sales tax revenue. For fiscal year 2016, the City plans to budget \$4,114,851 in sales tax revenue if the trend for the past two years continues. Also, sales tax began increasing significantly in fiscal year 2015 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.

The certified assessed taxable property valuations for the 2015 fiscal year tax roll total \$678 million with a tax rate of \$0.54343 per \$100 valuation for maintenance and operations and \$0.05866 per \$100 valuation for the interest and sinking fund. The certified assessed taxable property valuations increased from the 2014 tax roll by \$16,928,499 or 2.56%.

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

The City issued Certificates of Obligation in the summer of 2014. The proceeds from these Certificates are being used for street improvements as well as water and sewer infrastructure improvements throughout the City. Phase I of the street rehabilitation project will be completed in the summer of 2015. This project focused on the rehabilitation of North, Bayou and Chateaux Streets. Phase II of the street rehabilitation project which is also funded by the 2014 Certificates of Obligation, will be started in fiscal year 2015 and is scheduled to be completed in the summer of 2016.

It is anticipated that the fiscal year 2016 budget will focus on continuing efforts to improve the streets as well as provide for upgrades to the water and sewer infrastructure.

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, 2014

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 6,993,671	\$ 5,152,015	\$ 12,145,686	\$ 1,952,964
Investments	-	-	-	3,707,635
Receivables (net)	1,003,301	1,611,133	2,614,434	353,813
Internal balances	(1,078,676)	1,078,676	-	-
Due from other governments	293,447	43,623	337,070	97,816
Due from employees	-	-	-	16,648
Prepaid items	68,389	-	68,389	-
Inventory	-	11,087	11,087	28,903
Restricted assets				
Cash and cash equivalents	-	-	-	230,149
Investments	-	-	-	207,377
Total current assets	<u>7,280,132</u>	<u>7,896,534</u>	<u>15,176,666</u>	<u>6,595,305</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	4,096,091	1,754,824	5,850,915	389,426
Buildings, improvements, and equipment (net)	<u>11,790,407</u>	<u>20,381,714</u>	<u>32,172,121</u>	<u>5,401,477</u>
Total noncurrent assets	<u>15,886,498</u>	<u>22,136,538</u>	<u>38,023,036</u>	<u>5,790,903</u>
Total assets	<u>23,166,630</u>	<u>30,033,072</u>	<u>53,199,702</u>	<u>12,386,208</u>

Primary Government

	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities				
Accounts payable	\$ 1,178,516	\$ 855,726	\$ 2,034,242	\$ 172,734
Accrued expenses	135,390	29,861	165,251	4,632
Accrued interest payable	38,334	45,829	84,163	10,762
Due to other governments	47,691	151	47,842	-
Deposits	20,428	729,761	750,189	-
Unearned revenue	44,373	-	44,373	-
Accrued compensated absences	26,084	1,724	27,808	-
Current portion of long-term obligations	1,116,739	1,097,500	2,214,239	301,770
Total current liabilities	2,607,555	2,760,552	5,368,107	489,898
Noncurrent liabilities				
Noncurrent portion of long-term obligations	9,627,691	11,372,663	21,000,354	2,611,473
Total noncurrent liabilities	9,627,691	11,372,663	21,000,354	2,611,473
Total liabilities	12,235,246	14,133,215	26,368,461	3,101,371
NET POSITION				
Net investment in capital assets	7,050,325	9,681,894	16,732,219	3,244,035
Restricted for:				
Debt service	542,496	-	542,496	-
Public safety	60,847	-	60,847	-
Municipal court	96,262	-	96,262	-
Cultural and recreation	373,974	-	373,974	-
Unrestricted	2,807,480	6,217,963	9,025,443	6,040,802
Total net position	\$ 10,931,384	\$ 15,899,857	\$ 26,831,241	\$ 9,284,837

The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2014

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 2,295,602	\$ 999,059	\$ -	\$ -
Public safety	4,662,949	149,354	64,889	-
Public works	5,854,434	1,832,671	-	-
Public activities and recreation	1,167,733	260,195	216,000	-
Cultural arts and public benefits	969,696	-	-	-
Interest on long-term debt	305,880	-	-	-
Total governmental activities	<u>15,256,294</u>	<u>3,241,279</u>	<u>280,889</u>	<u>-</u>
Business-type activities				
Water and sewer	5,775,681	6,582,946	-	778,266
Sanitation	503,196	449,082	-	-
Airport	540,255	327,899	10,914	196,960
Total business-type activities	<u>6,819,132</u>	<u>7,359,927</u>	<u>10,914</u>	<u>975,226</u>
Total primary government	<u>\$ 22,075,426</u>	<u>\$ 10,601,206</u>	<u>\$ 291,803</u>	<u>\$ 975,226</u>
Component Units	<u>\$ 3,578,043</u>	<u>\$ 2,923,076</u>	<u>\$ -</u>	<u>\$ 50,000</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

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.

<div> <div>Net (Expense) Revenue and</div> <div>Changes in Net Position</div> <div>Primary Government</div> </div>			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (1,296,543)	\$ -	\$ (1,296,543)	\$ -
(4,448,706)	-	(4,448,706)	-
(4,021,763)	-	(4,021,763)	-
(691,538)	-	(691,538)	-
(969,696)	-	(969,696)	-
(305,880)	-	(305,880)	-
(11,734,126)	-	(11,734,126)	-
-	1,585,531	1,585,531	-
-	(54,114)	(54,114)	-
-	(4,482)	(4,482)	-
-	1,526,935	1,526,935	-
(11,734,126)	1,526,935	(10,207,191)	-
-	-	-	(604,967)
3,353,114	-	3,353,114	-
395,926	-	395,926	-
3,469,272	-	3,469,272	1,156,424
984,607	-	984,607	-
614,073	-	614,073	-
3,653	3,680	7,333	28,425
709,694	148,415	858,109	19,061
692,477	(692,477)	-	-
10,222,816	(540,382)	9,682,434	1,203,910
(1,511,310)	986,553	(524,757)	598,943
12,442,694	14,913,304	27,355,998	8,685,894
\$ 10,931,384	\$ 15,899,857	\$ 26,831,241	\$ 9,284,837

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

September 30, 2014

	General	2010 Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,552,663	\$ 1,180,406	\$ 4,249,184	\$ 6,982,253
Receivables (net)	840,143	-	163,158	1,003,301
Due from other governments	293,447	-	-	293,447
Due from other funds	242,748	-	13,609	256,357
Prepaid items	55,374	-	3,750	59,124
Total assets	<u>\$ 2,984,375</u>	<u>\$ 1,180,406</u>	<u>\$ 4,429,701</u>	<u>\$ 8,594,482</u>
LIABILITIES				
Accounts payable	\$ 505,297	\$ -	\$ 592,562	\$ 1,097,859
Accrued expenditures	118,387	-	3,510	121,897
Accrued interest payable	-	-	6,710	6,710
Deposits	2,450	-	17,978	20,428
Due to other funds	-	1,220,785	114,248	1,335,033
Due to other governments	47,691	-	-	47,691
Unearned revenue	32,000	-	12,373	44,373
Total liabilities	<u>705,825</u>	<u>1,220,785</u>	<u>747,381</u>	<u>2,673,991</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	495,956	-	23,898	519,854
Total deferred inflows of resources	<u>495,956</u>	<u>-</u>	<u>23,898</u>	<u>519,854</u>
FUND BALANCES				
Nonspendable	55,374	-	-	55,374
Restricted	-	-	3,658,422	3,658,422
Unassigned	1,727,220	(40,379)	-	1,686,841
Total fund balances	<u>1,782,594</u>	<u>(40,379)</u>	<u>3,658,422</u>	<u>5,400,637</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,984,375</u>	<u>\$ 1,180,406</u>	<u>\$ 4,429,701</u>	<u>\$ 8,594,482</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, 2014

Total governmental fund balances		\$ 5,400,637
<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.		
		134,280
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.		
		455,055
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.		
		64,799
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	\$ 37,869,235	
Accumulated depreciation of governmental capital assets	<u>(22,408,589)</u>	15,460,646
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	(9,493,000)	
Premium on bonds payable	(149,646)	
Notes payable	(667,185)	
Accrued interest payable	(31,623)	
Compensated absences	<u>(242,579)</u>	<u>(10,584,033)</u>
Net position of governmental activities		\$ <u>10,931,384</u>

The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS***For the year ended September 30, 2014*

	General	2010 Capital Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 7,914,480	\$ -	\$ 980,015	\$ 8,894,495
Licenses and permits	205,321	-	-	205,321
Fines and forfeitures	286,748	-	53,157	339,905
Fees and charges for services	2,445,127	-	140,198	2,585,325
Intergovernmental	142,057	-	200,000	342,057
Investment income	1,512	386	1,749	3,647
Miscellaneous	748,906	-	57,087	805,993
Total revenues	<u>11,744,151</u>	<u>386</u>	<u>1,432,206</u>	<u>13,176,743</u>
EXPENDITURES				
Current				
General government	2,343,485	-	-	2,343,485
Public safety	4,425,534	-	47,053	4,472,587
Public works	2,851,186	-	44,379	2,895,565
Public activities and recreation	1,052,414	-	-	1,052,414
Cultural arts and public benefits	-	-	969,696	969,696
Debt service				
Principal	58,110	-	789,000	847,110
Interest and fiscal charges	11,701	-	246,296	257,997
Paying agents' fees and issue costs	-	-	71,973	71,973
Capital outlay	-	528,424	543,650	1,072,074
Total expenditures	<u>10,742,430</u>	<u>528,424</u>	<u>2,712,047</u>	<u>13,982,901</u>
Excess (deficiency) of revenues over expenditures	1,001,721	(528,038)	(1,279,841)	(806,158)
OTHER FINANCING SOURCES (USES)				
Debt issued	-	-	1,598,000	1,598,000
Premium on issuance of bonds	-	-	67,893	67,893
Transfers in	94,675	-	1,589,973	1,684,648
Transfers out	(2,050,678)	-	(28,020)	(2,078,698)
Total other financing sources (uses)	<u>(1,956,003)</u>	<u>-</u>	<u>3,227,846</u>	<u>1,271,843</u>
Net change in fund balances	(954,282)	(528,038)	1,948,005	465,685
Fund balances at beginning of year	<u>2,736,876</u>	<u>487,659</u>	<u>1,710,417</u>	<u>4,934,952</u>
Fund balances at end of year	<u>\$ 1,782,594</u>	<u>\$ (40,379)</u>	<u>\$ 3,658,422</u>	<u>\$ 5,400,637</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, 2014

Total net change in fund balances - governmental funds	\$	465,685
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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.

16,201

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, impairments and donations) is to increase (decrease) net position.

(993,664)

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

\$ 1,487,592

Depreciation expense

(1,703,799)

(216,207)

Issuance of debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Bonds at par value

(1,598,000)

(Premium) discount

(67,893)

(1,665,893)

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

695,000

Note principal retirement

152,110

847,110

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

876

Other revenues

25,049

25,925

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

(15,221)

Decrease in bond premium

11,119

Decrease in accrued interest

13,635

9,533

Change in net position of governmental activities

\$ (1,511,310)

The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2014

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,050,733	\$ 973,953	\$ 127,329
Receivables (net)	1,604,782	146	6,205
Due from other governments	40,250	-	3,373
Due from other funds	-	1,220,785	-
Prepaid items	-	-	-
Inventory	-	-	11,087
Total current assets	<u>5,695,765</u>	<u>2,194,884</u>	<u>147,994</u>
Noncurrent assets			
Land and other assets not being depreciated	1,364,602	-	390,222
Buildings, improvements, and equipment (net)	<u>19,374,657</u>	<u>239,112</u>	<u>767,945</u>
Total noncurrent assets	<u>20,739,259</u>	<u>239,112</u>	<u>1,158,167</u>
Total assets	<u>26,435,024</u>	<u>2,433,996</u>	<u>1,306,161</u>
LIABILITIES			
Current liabilities			
Accounts payable	811,786	-	43,940
Accrued expenses	27,950	-	1,911
Due to other funds	142,109	-	-
Due to other governments	137	-	14
Accrued interest payable	42,263	3,566	-
Deposits	722,106	-	7,655
Accrued compensated absences	1,460	-	264
Current portion of capital lease payable	-	-	-
Current portion of bonds and certificates payable	<u>845,000</u>	<u>252,500</u>	<u>-</u>
Total current liabilities	<u>2,592,811</u>	<u>256,066</u>	<u>53,784</u>
Noncurrent liabilities			
Accrued compensated absences	13,139	-	2,380
Capital lease payable	-	-	-
Bonds and certificates payable (net of unamortized deferred amounts)	<u>10,239,157</u>	<u>1,117,987</u>	<u>-</u>
Total noncurrent liabilities	<u>10,252,296</u>	<u>1,117,987</u>	<u>2,380</u>
Total liabilities	<u>12,845,107</u>	<u>1,374,053</u>	<u>56,164</u>
NET POSITION			
Net investment in capital assets	9,655,102	(1,131,375)	1,158,167
Unrestricted net position	<u>3,934,815</u>	<u>2,191,318</u>	<u>91,830</u>
Total net position	<u>\$ 13,589,917</u>	<u>\$ 1,059,943</u>	<u>\$ 1,249,997</u>

The accompanying notes are an integral part of this statement.

		Governmental Activities
		Internal Service Funds
<u>Total</u>		
\$ 5,152,015	\$ 11,418	
1,611,133	-	
43,623	-	
1,220,785	-	
-	9,265	
11,087	-	
<u>8,038,643</u>	<u>20,683</u>	
1,754,824	1,001	
<u>20,381,714</u>	<u>424,851</u>	
<u>22,136,538</u>	<u>425,852</u>	
<u>30,175,181</u>	<u>446,535</u>	
855,726	80,657	
29,861	13,493	
142,109	-	
151	-	
45,829	-	
729,761	-	
1,724	1,826	
-	48,155	
<u>1,097,500</u>	<u>-</u>	
<u>2,902,661</u>	<u>144,131</u>	
15,519	16,433	
-	151,691	
<u>11,357,144</u>	<u>-</u>	
<u>11,372,663</u>	<u>168,124</u>	
<u>14,275,324</u>	<u>312,255</u>	
9,681,894	226,006	
<u>6,217,963</u>	<u>(91,726)</u>	
<u>\$ 15,899,857</u>	<u>\$ 134,280</u>	

CITY OF BAY CITY, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION****PROPRIETARY FUNDS***For the year ended September 30, 2014*

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
OPERATING REVENUES			
Charges for services	\$ 6,542,164	\$ 442,227	\$ 243,965
Rents and miscellaneous fees	40,782	6,855	83,934
Total operating revenues	<u>6,582,946</u>	<u>449,082</u>	<u>327,899</u>
OPERATING EXPENSES			
Water and sewer system	3,724,922	-	-
Sanitation	-	370,715	-
Airport	-	-	418,744
Equipment maintenance	-	-	-
Information technology	-	-	-
Depreciation and amortization	1,697,329	86,305	121,511
Total operating expenses	<u>5,422,251</u>	<u>457,020</u>	<u>540,255</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	1,160,695	(7,938)	(212,356)
NONOPERATING REVENUES (EXPENSES)			
Investment income	1,892	1,732	56
Noncapital contributions	-	-	10,914
Gain (loss) on disposition of capital assets	(12,916)	135,969	1,711
Miscellaneous income	-	358	10,377
Interest and fiscal charges	(340,514)	(46,176)	-
Total nonoperating revenues (expenses)	<u>(351,538)</u>	<u>91,883</u>	<u>23,058</u>
Income (loss) before contributions and transfers	809,157	83,945	(189,298)
Contributions and transfers			
Capital contributions	778,266	-	196,960
Transfers in	103,050	-	120,464
Transfers out	(915,991)	-	-
Total contributions and transfers	<u>(34,675)</u>	<u>-</u>	<u>317,424</u>
Change in net position	774,482	83,945	128,126
Total net position at beginning of year	<u>12,815,435</u>	<u>975,998</u>	<u>1,121,871</u>
Total net position at end of year	<u>\$ 13,589,917</u>	<u>\$ 1,059,943</u>	<u>\$ 1,249,997</u>

The accompanying notes are an integral part of this statement.

	Governmental Activities
Total	Internal Service Funds
\$ 7,228,356	\$ -
131,571	285
<u>7,359,927</u>	<u>285</u>
3,724,922	-
370,715	-
418,744	-
-	532,320
-	516,177
1,905,145	21,456
<u>6,419,526</u>	<u>1,069,953</u>
940,401	(1,069,668)
3,680	6
10,914	-
124,764	-
10,735	-
(386,690)	(664)
<u>(236,597)</u>	<u>(658)</u>
703,804	(1,070,326)
975,226	-
223,514	1,086,527
<u>(915,991)</u>	<u>-</u>
<u>282,749</u>	<u>1,086,527</u>
986,553	16,201
<u>14,913,304</u>	<u>118,079</u>
<u>\$ 15,899,857</u>	<u>\$ 134,280</u>

CITY OF BAY CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2014

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 6,197,210	\$ 686,132	\$ 339,736
Cash paid to suppliers for goods and services	(1,704,459)	(390,801)	(268,702)
Cash paid to employees for services	(1,364,935)	(116,720)	(88,196)
Net cash provided (used) by operating activities	<u>3,127,816</u>	<u>178,611</u>	<u>(17,162)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (to) from other funds	(812,940)	-	120,464
Borrowings (repayments) to other funds	128,500	(1,220,785)	-
Noncapital contributions	-	-	7,541
Increase (decrease) in customer deposits	<u>64,340</u>	<u>-</u>	<u>2,325</u>
Net cash provided (used) by noncapital financing activities	<u>(620,100)</u>	<u>(1,220,785)</u>	<u>130,330</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(2,386,065)	-	(15,800)
Proceeds from capital grants and contributions	592,526	-	-
Proceeds from sale of capital assets	47,102	1,866,199	1,711
Proceeds from long-term debt	2,498,840	-	-
Principal paid on long-term debt	(755,000)	(245,000)	-
Interest paid	<u>(345,775)</u>	<u>(51,863)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(348,372)</u>	<u>1,569,336</u>	<u>(14,089)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	<u>1,892</u>	<u>1,732</u>	<u>56</u>
Net cash provided (used) by investing activities	<u>1,892</u>	<u>1,732</u>	<u>56</u>
Net increase (decrease) in cash and cash equivalents	2,161,236	528,894	99,135
Cash and cash equivalents at beginning of year	<u>1,889,497</u>	<u>445,059</u>	<u>28,194</u>
Cash and cash equivalents at end of year	<u>\$ 4,050,733</u>	<u>\$ 973,953</u>	<u>\$ 127,329</u>

	Governmental Activities
<u>Total</u>	<u>Internal Service Funds</u>
\$ 7,223,078	\$ 285
(2,363,962)	(337,433)
<u>(1,569,851)</u>	<u>(667,022)</u>
3,289,265	(1,004,170)
(692,476)	1,086,527
(1,092,285)	-
7,541	-
<u>66,665</u>	<u>-</u>
<u>(1,710,555)</u>	<u>1,086,527</u>
(2,401,865)	(313,863)
592,526	-
1,915,012	-
2,498,840	203,774
(1,000,000)	(3,929)
<u>(397,638)</u>	<u>(664)</u>
1,206,875	(114,682)
<u>3,680</u>	<u>6</u>
<u>3,680</u>	<u>6</u>
2,789,265	(32,319)
<u>2,362,750</u>	<u>43,737</u>
<u>\$ 5,152,015</u>	<u>\$ 11,418</u>

(continued)

CITY OF BAY CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2014

	Business-type Activities		
	Water and Sewer	Sanitation	Airport
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 1,160,695	\$ (7,938)	\$ (212,356)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation and amortization	1,697,329	86,305	121,511
Miscellaneous nonoperating income	-	358	10,377
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(385,736)	236,692	1,460
(Increase) decrease in inventory	-	-	19,854
(Increase) decrease in prepaid items	1,050	-	-
Increase (decrease) in accounts payable	662,643	(109,855)	39,960
Increase (decrease) in accrued expenses	11,322	(8,449)	712
Increase (decrease) in due to other governments	137	(16,444)	14
Increase (decrease) in compensated absences	(19,624)	(2,058)	1,306
Total adjustments	<u>1,967,121</u>	<u>186,549</u>	<u>195,194</u>
Net cash provided (used) by operating activities	<u>\$ 3,127,816</u>	<u>\$ 178,611</u>	<u>\$ (17,162)</u>
Noncash capital and related financing activities			
Assets acquired from contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,960</u>

The accompanying notes are an integral part of this statement.

	Governmental Activities
<u>Total</u>	<u>Internal Service Funds</u>
\$ 940,401	\$ (1,069,668)
1,905,145	21,456
10,735	-
(147,584)	-
19,854	-
1,050	38,676
592,748	402
3,585	8,441
(16,293)	-
(20,376)	(3,477)
<u>2,348,864</u>	<u>65,498</u>
<u>\$ 3,289,265</u>	<u>\$ (1,004,170)</u>
<u>\$ 196,960</u>	<u>\$ -</u>

CITY OF BAY CITY, TEXAS
STATEMENT OF NET POSITION
COMPONENT UNITS
September 30, 2014

	Bay City Community Development Corporation	Bay City Gas Company	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,344,472	\$ 608,492	\$ 1,952,964
Investments	1,354,740	2,352,895	3,707,635
Receivables (net)	27,642	326,171	353,813
Due from other governments	97,816	-	97,816
Due from employees	-	16,648	16,648
Inventory	-	28,903	28,903
Restricted assets			
Cash and cash equivalents	-	230,149	230,149
Investments	-	207,377	207,377
Total current assets	<u>2,824,670</u>	<u>3,770,635</u>	<u>6,595,305</u>
Noncurrent assets			
Capital assets			
Land and improvements	389,426	-	389,426
Other capital assets (net)	<u>4,210,093</u>	<u>1,191,384</u>	<u>5,401,477</u>
Net capital assets	<u>4,599,519</u>	<u>1,191,384</u>	<u>5,790,903</u>
Total noncurrent assets	<u>4,599,519</u>	<u>1,191,384</u>	<u>5,790,903</u>
Total assets	<u>7,424,189</u>	<u>4,962,019</u>	<u>12,386,208</u>
LIABILITIES			
Accounts payable	14,751	157,983	172,734
Accrued expenditures	4,632	-	4,632
Accrued interest payable	10,762	-	10,762
Long-term liabilities			
Due within one year	301,770	-	301,770
Due in more than one year	<u>2,234,336</u>	<u>377,137</u>	<u>2,611,473</u>
Total liabilities	<u>2,566,251</u>	<u>535,120</u>	<u>3,101,371</u>
NET POSITION			
Net investment in capital assets	2,052,651	1,191,384	3,244,035
Unrestricted	<u>2,805,287</u>	<u>3,235,515</u>	<u>6,040,802</u>
Total net position	<u>\$ 4,857,938</u>	<u>\$ 4,426,899</u>	<u>\$ 9,284,837</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, 2014*

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Component Units				
Bay City Community Development Corporation	\$ 690,154	\$ 75,600	\$ -	\$ 50,000
Bay City Gas Company	<u>2,887,889</u>	<u>2,847,476</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$3,578,043</u>	<u>\$ 2,923,076</u>	<u>\$ -</u>	<u>\$ 50,000</u>

General revenues:

Taxes:

Sales taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

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		
Component Units		
Bay City Community Dev. Corporation	Bay City Gas Company	Total
\$ (564,554)	\$ -	\$ (564,554)
-	(40,413)	(40,413)
(564,554)	(40,413)	(604,967)
1,156,424	-	1,156,424
9,942	18,483	28,425
19,061	-	19,061
1,185,427	18,483	1,203,910
620,873	(21,930)	598,943
4,237,065	4,448,829	8,685,894
<u>\$ 4,857,938</u>	<u>\$ 4,426,899</u>	<u>\$ 9,284,837</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.

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, 2014 these contributions totaled \$444,198. 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.

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 three Capital Project Funds, one of which has been reported as a major fund. The 2010 Capital Project Fund is used to account for the proceeds and expenditures of the 2010 debt issue.

The City reports the following major proprietary funds:

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

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

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

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

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

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

Additionally, the City reports the following fund types:

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

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

The Internal Service Funds account 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 two Internal Service Funds which are the Equipment Maintenance Fund and the Information Technology 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.

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, 2014, the City has adopted a formal investment policy.

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

F. Receivables and Payables

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

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

G. Inventory and Prepaid Items

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

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

H. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net 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

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 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. 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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**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**A. Budgetary Compliance**

Budgetary compliance is monitored at the departmental level in the General Fund and at the fund level in the Debt Service Fund. There were several situations of expenditures exceeding the amount appropriated during the fiscal year 2013-2014.

<u>Fund / Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
City secretary	\$ 265,377	\$ 282,325	\$ 16,948
City general services	974,502	1,093,909	119,407
Administration and council	240,769	242,839	2,070
Finance	243,914	261,393	17,479
City service center	65,164	70,987	5,823
Library	-	1,080	1,080
Transfers out	1,184,608	2,050,678	866,070
Debt Service Fund	933,344	1,037,296	103,952

These expenditures were funded by available fund balances in the respective funds.

B. Deficit Fund Equity

As of September 30, 2014, the following fund had a deficit equity balance:

<u>Fund</u>	<u>Fund Balance / Net Position</u>
2010 Capital Project Fund	\$ 40,379

Steps will be taken to eliminate this deficit in the upcoming fiscal year.

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, 2014, the City had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool TexPool	\$ 7,417,426	46

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.

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 110% 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 it has no custodial credit risk.

NOTE 4: RECEIVABLES

Receivables at September 30, 2014, consist of the following:

	<u>General</u>	<u>Water and Sewer</u>	<u>Sanitation Fund</u>	<u>Airport Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:						
Accounts	\$ 241,907	\$ 1,647,889	\$ -	\$ 6,205	\$ 6,604	\$ 1,902,605
Ad valorem taxes	660,254	-	-	-	31,548	691,802
Franchise taxes	99,452	-	-	-	-	99,452
Occupancy taxes	-	-	-	-	132,656	132,656
Municipal court fines	129,598	-	-	-	-	129,598
Other	8,963	-	146	-	-	9,109
Total gross receivables	1,140,174	1,647,889	146	6,205	170,808	2,965,222
Less: allowances	300,031	43,107	-	-	7,650	350,788
Total net receivables	<u>\$ 840,143</u>	<u>\$ 1,604,782</u>	<u>\$ 146</u>	<u>\$ 6,205</u>	<u>\$ 163,158</u>	<u>\$ 2,614,434</u>

The City's governmental funds report unavailable 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 unavailable 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	\$ 431,157	\$ -	\$ 431,157
Fines	64,799	-	64,799
Grants and contributions	-	32,000	32,000
Nonmajor Funds			
Ad valorem taxes	23,898	-	23,898
Fines and forfeitures	-	12,373	12,373
	<u>\$ 519,854</u>	<u>\$ 44,373</u>	<u>\$ 564,227</u>

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

For the current year, the City levied property taxes of \$0.56794 per \$100 of assessed valuation, for maintenance and operations, \$0.50771 and interest and sinking, \$0.06023. The resulting adjusted total tax levy was \$3,746,873 on the total adjusted taxable valuation of \$660,653,879 for the 2013 tax roll.

NOTE 5: CAPITAL ASSETS

The City's capital assets activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,460,085	\$ -	\$ -	\$ 1,460,085
Construction in progress	<u>1,554,938</u>	<u>1,116,191</u>	<u>35,123</u>	<u>2,636,006</u>
Total capital assets not being depreciated	<u>3,015,023</u>	<u>1,116,191</u>	<u>35,123</u>	<u>4,096,091</u>
Capital assets, being depreciated				
Machinery and equipment	8,605,061	649,192	892,157	8,362,096
Buildings	3,498,961	71,195	-	3,570,156
Infrastructure	<u>23,175,068</u>	<u>-</u>	<u>843,458</u>	<u>22,331,610</u>
Total capital assets being depreciated	<u>35,279,090</u>	<u>720,387</u>	<u>1,735,615</u>	<u>34,263,862</u>
Less accumulated depreciation for				
Machinery and equipment	5,597,068	616,412	741,952	5,471,528
Buildings	2,993,994	370,056	-	3,364,050
Infrastructure	<u>12,899,090</u>	<u>738,787</u>	<u>-</u>	<u>13,637,877</u>
Total accumulated depreciation	<u>21,490,152</u>	<u>1,725,255</u>	<u>741,952</u>	<u>22,473,455</u>
Total capital assets being depreciated, net	<u>13,788,938</u>	<u>(1,004,868)</u>	<u>993,663</u>	<u>11,790,407</u>
Governmental activities capital assets, net	<u>\$ 16,803,961</u>	<u>\$ 111,323</u>	<u>\$ 1,028,786</u>	<u>\$ 15,886,498</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 381,117	\$ -	\$ -	\$ 381,117
Construction in progress	<u>169,300</u>	<u>1,204,407</u>	<u>-</u>	<u>1,373,707</u>
Total capital assets not being depreciated	<u>550,417</u>	<u>1,204,407</u>	<u>-</u>	<u>1,754,824</u>
Capital assets, being depreciated				
Machinery and equipment	15,006,351	290,943	3,399,432	11,897,862
Buildings and improvements	1,310,130	-	-	1,310,130
Infrastructure	<u>24,652,743</u>	<u>1,103,474</u>	<u>-</u>	<u>25,756,217</u>
Total capital assets being depreciated	<u>40,969,224</u>	<u>1,394,417</u>	<u>3,399,432</u>	<u>38,964,209</u>
Less accumulated depreciation for				
Machinery and equipment	4,280,964	851,166	1,609,185	3,522,945
Buildings and improvements	627,915	31,257	-	659,172
Infrastructure	<u>13,431,058</u>	<u>969,320</u>	<u>-</u>	<u>14,400,378</u>
Total accumulated depreciation	<u>18,339,937</u>	<u>1,851,743</u>	<u>1,609,185</u>	<u>18,582,495</u>
Total capital assets being depreciated, net	<u>22,629,287</u>	<u>(457,326)</u>	<u>1,790,247</u>	<u>20,381,714</u>
Business-type activities capital assets, net	<u>\$ 23,179,704</u>	<u>\$ 747,081</u>	<u>\$ 1,790,247</u>	<u>\$ 22,136,538</u>

NOTE 5: CAPITAL ASSETS - (Continued)

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

Governmental activities

General government	\$ 83,910
Public safety	188,471
Public works	1,330,618
Public activities and recreation	100,800
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>21,456</u>
Total depreciation expense - governmental activities	<u>\$ 1,725,255</u>

Business-type activities

Water and sewer	\$ 1,643,927
Sanitation	86,305
Airport	<u>121,511</u>
Total depreciation expense - business-type activities	<u>\$ 1,851,743</u>

The City's capital asset balances and the net investment in capital assets for the governmental activities have been restated to properly reflect the balances at September 30, 2013. The result of the restatement was to decrease accumulated depreciation and increase net investment in capital assets balances by \$140,185.

NOTE 6: EMPLOYEES' RETIREMENT PLANPlan 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.

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

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

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
2014	\$ 632,514	100%	\$ -
2013	643,699	100%	-
2012	625,187	100%	-

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2012 and 2013 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	Actuarial Valuation Information		
	12/31/13	12/31/12	12/31/11
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	22.0 years; closed period	25.2 years; closed period	26.1 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%	7.0%
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%

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

The funded status as of December 31, 2013, 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)
12/31/13	\$ 25,161,208	\$ 29,820,207	\$ 4,658,999	84.4%	\$ 6,442,271	72.3%

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

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

NOTE 7: SUPPLEMENTAL DEATH BENEFIT PLAN

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

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

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 2014, 2013, and 2012 were \$5,798, \$3,219, and \$3,131, respectively, which equaled the required contributions each year.

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

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the "System") established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member state board of trustees, at least five must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2014, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,073
Terminated members entitled to benefits but not yet receiving them	2,161
Active participants (vested and nonvested)	<u>4,036</u>
	<u>9,270</u>

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

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic post-retirement benefit increases.

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

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

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

The state is required to contribute an amount necessary to make the System “actuarially sound” each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues, prior service, and interest on prior service financing) of \$4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,530,343 for fiscal year ending August 31, 2014.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to: 1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and 2) approximately \$625,000 each year to pay for part of the System’s administrative expenses. On August 31, 2014 the actuarial liabilities exceeded the actuarial assets by \$26,093,761.

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

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	N/A
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Net Real Rate of Return</u>
Equities		
Large cap domestic	32%	5.2%
Small cap domestic	10	5.8
Developed international	21	5.5
Emerging markets	6	5.4
Master limited partnership	5	7.1
Fixed income		
Domestic	21	1.4
International	5	1.6
Cash	0	0.0
Total	<u>100%</u>	

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.

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

Retirees pay 100% of the monthly premium for health coverage. As of October 1, 2013, the retiree premiums are as follows: "Employee Only" - \$492.88 (base medical plan) \$691.32 (buy-up medical plan) \$18.55 (dental) and "Employee and Spouse" - \$1,035.05 (base medical plan) \$1,451.76 (buy-up medical plan) \$68.65 (dental).

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 Cost

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ending September 30, 2014 is as follows:

Annual required contributions	\$ 26,423
Interest on OPEB obligation	1,450
Adjustment to ARC	<u>(1,344)</u>
Annual OPEB cost (expense) end of year	26,529
Net estimated employer contributions	<u>(9,551)</u>
Increase in net OPEB obligation	16,978
Net OPEB obligation/(asset) beginning of year	<u>32,230</u>
Net OPEB obligation/(asset) end of year	<u>\$ 49,208</u>

The City's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2014 and the preceding two fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
September 30, 2012	\$ 16,115	\$ -	0.0%	\$ 16,115
September 30, 2013	16,115	-	0.0%	32,230
September 30, 2014	26,529	9,551	36.0%	49,208

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

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of December 31, 2013 is 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 (d)	UAAL as a Percentage of Covered Payroll ((b-a)/d)
12/31/13	\$ -	\$ 208,876	\$ 208,876	0.0%	\$ 6,442,271	3.24%

Under the reporting parameters, the City's retiree health care plan is 0.0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$208,876 at December 31, 2013. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 3.24%

Actuarial Methods and Assumptions

The Projected Unit Credit Cost Method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefits costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions	
Inflation rate	3.00% per annum
Investment rate of return	4.50% per annum, net of expenses
Actuarial cost method	Projected unit of credit cost method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll growth	3.00% per annum
Medical trend	Initial rate of 7.50%, declining to an ultimate rate of 4.50% after 11 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

Fiscal Year Ended	Employer Annual Required Contribution	Net Employer Contribution	Interest on NOO	ARC Adjustment (9) / (6)	Amortization Factor	OPEB Cost (2)+(4)-(5)	Change in NOO (7) - (3)	NOO Balance NPO + (8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
September 30, 2012	\$ 16,115	\$ -	\$ -	\$ -	N/A	\$ 16,115	\$ 16,115	\$ 16,115
September 30, 2013	16,115	-	-	-	N/A	16,115	16,115	32,230
September 30, 2014	26,423	9,551	1,450	1,344	23.98540	26,529	16,978	49,208

The ARC for the fiscal year ending September 30, 2014 is from the Actuarial Valuation Report as of December 31, 2013.

Note: Employer contribution amounts shown in Column (3) include the implicit subsidy and wellness discounts.

NOTE 10: RISK MANAGEMENT

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

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

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

Long-term liability activity for the year ended September 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds and certificates payable					
General obligation bonds	\$ 3,995,000	\$ -	\$ 330,000	\$ 3,665,000	\$ 335,000
Certificates of obligation	4,595,000	1,598,000	365,000	5,828,000	577,500
Plus deferred amounts:					
Bond premium	92,872	67,893	11,119	149,646	-
Total bonds and certificates payable	8,682,872	1,665,893	706,119	9,642,646	912,500
Tax notes	584,000	-	94,000	490,000	95,000
Notes payable	235,255	-	58,070	177,185	61,084
Capital lease payable	-	203,774	3,929	199,845	48,155
Compensated absences	249,094	259,627	247,883	260,838	26,084
Total governmental activity					
long-term liabilities	<u>\$ 9,751,221</u>	<u>\$ 2,129,294</u>	<u>\$ 1,110,001</u>	<u>\$ 10,770,514</u>	<u>\$ 1,142,823</u>
Business-type activities					
Bonds and certificates payable					
General obligation bonds	\$ 225,000	\$ -	\$ 225,000	\$ -	\$ -
Certificates of obligation	10,675,000	2,397,000	775,000	12,297,000	1,097,500
Plus deferred amounts:					
Bond premium	88,080	101,840	32,275	157,645	-
Total bonds and certificates payable	10,988,080	2,498,840	1,032,275	12,454,645	1,097,500
Compensated absences	37,619	24,419	44,795	17,243	1,724
Total business-type activity					
long-term liabilities	<u>\$ 11,025,699</u>	<u>\$ 2,523,259</u>	<u>\$ 1,077,070</u>	<u>\$ 12,471,888</u>	<u>\$ 1,099,224</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 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 2013	2013 - 2024	3.00% - 4.50%	\$ 4,975,000

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

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

Year	Governmental Activities		Total
	Principal	Interest	
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	360,000	45,800	405,800
2020-2024	<u>1,930,000</u>	<u>117,600</u>	<u>2,047,600</u>
	<u>\$ 3,665,000</u>	<u>\$ 405,850</u>	<u>\$ 4,070,850</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
Certificates of Obligation 2014 Series	2014-2034	2.0% - 4.0%	3,995,000

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

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2015	\$ 577,500	\$ 213,598	\$ 1,097,500	\$ 368,277	\$ 2,256,875
2016	607,000	190,263	1,143,000	331,785	2,272,048
2017	467,500	173,498	937,500	306,325	1,884,823
2018	482,500	158,035	967,500	283,563	1,891,598
2019	489,500	142,047	980,500	257,050	1,869,097
2020-2024	<u>1,152,000</u>	<u>543,576</u>	<u>3,798,000</u>	<u>916,564</u>	<u>6,410,140</u>
2025-2029	<u>1,407,000</u>	<u>305,476</u>	<u>2,773,000</u>	<u>323,613</u>	<u>4,809,089</u>
2030-2034	<u>645,000</u>	<u>59,570</u>	<u>600,000</u>	<u>73,920</u>	<u>1,378,490</u>
	<u>\$ 5,828,000</u>	<u>\$ 1,786,063</u>	<u>\$ 12,297,000</u>	<u>\$ 2,861,097</u>	<u>\$ 22,772,160</u>

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

The City has entered into a note payable agreement with Prosperity Bank. The proceeds from this note payable were used to renovate the 16th Street Swimming Pool. Annual installments on this note are \$53,288 with a maturity date of 2017. The note bears interest at 5.074% and has an outstanding balance of \$144,161 at September 30, 2014. 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 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, 2014 was \$33,024. 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 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, 2014 was \$490,000. 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>	
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	<u>101,000</u>	<u>1,384</u>	<u>102,384</u>
	<u>\$ 667,185</u>	<u>\$ 37,158</u>	<u>\$ 704,343</u>

Capital Lease Payable

The City has entered into lease agreement to purchase copiers and printers for City offices. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

The assets acquired through the capital lease are as follows:

	<u>Governmental Activities</u>
Machinery and equipment	
Office equipment	<u>\$ 203,774</u>
	203,774
Less: Accumulated depreciation	<u>-</u>
	<u>\$ 203,774</u>

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

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2014, were as follows:

<u>Year</u>	<u>Governmental Activities</u>
2015	\$ 55,116
2016	55,116
2017	55,116
2018	<u>50,525</u>
Total minimum lease payments	215,873
Less: Amount representing interest	<u>(16,028)</u>
Present value of minimum lease payments	<u>\$ 199,845</u>

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

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2014, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	
	2014 Capital Project	\$ 4,080
	Debt Service	110,168
	Water and Sewer	128,500
Nonmajor Governmental		
Disaster Recovery	Water and Sewer	13,609
Sanitation	2010 Capital Project Fund	<u>1,220,785</u>
		<u>\$ 1,477,142</u>

NOTE 12: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - (Continued)**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	\$ -	\$ 103,050	\$ 120,464	\$ 512,456	\$ 1,314,708	\$ 2,050,678
Nonmajor Govt. Funds	28,020	-	-	-	-	28,020
Water and Sewer	66,655	-	-	574,071	275,265	915,991
	<u>\$ 94,675</u>	<u>\$ 103,050</u>	<u>\$ 120,464</u>	<u>\$ 1,086,527</u>	<u>\$ 1,589,973</u>	<u>\$ 2,994,689</u>

NOTE 13: COMMITMENTS AND CONTINGENCIES**Grant Programs**

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2014, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Construction and Acquisition Commitments

As of September 30, 2014, the City entered into a contractual commitment with a contractor for a City project. The commitment with the contractor was as follows:

<u>Project</u>	<u>Remaining Commitment</u>
Street rehab project	\$ 505,495

The commitment is being funded by bond proceeds.

NOTE 14: FUND BALANCES

The following is a detail of the governmental fund balances at September 30, 2014.

	Governmental Fund Balances			Total
	Nonspendable	Restricted	Unassigned	
General				
Prepaid items	\$ 55,374	\$ -	\$ -	\$ 55,374
Unassigned	-	-	1,727,220	1,727,220
2010 Capital Project Fund	-	-	(40,379)	(40,379)
Nonmajor Governmental				
Tourism	-	302,436	-	302,436
Retirement of long-term debt	-	550,221	-	550,221
Municipal court	-	96,262	-	96,262
Culture and recreation programs	-	71,538	-	71,538
Public safety	-	615,582	-	615,582
Various capital projects	-	2,022,383	-	2,022,383
	<u>\$ 55,374</u>	<u>\$ 3,658,422</u>	<u>\$ 1,686,841</u>	<u>\$ 5,400,637</u>

NOTE 15: IMPAIRMENT LOSS

The City's Nile Road experienced structural problems related to construction deficiencies. Management of the City considers this event to be both unusual in nature and infrequent in occurrence and therefore, classified as an extraordinary item on the government-wide financial statements. The road was constructed in fiscal year 2011 at a cost of approximately \$2 million. In 2014, the City decided after deliberating on several options to not remediate the road and to permanently close off a section for safety concerns. The carrying amount of the impaired asset as of September 30, 2014 is \$1,897,781 and the impairment loss recognized in fiscal year 2014 was \$843,458. The loss is reported as a public works governmental activities program expense on the Statement of Activities.

NOTE 16: FUTURE FINANCIAL REPORTING REQUIREMENTS

The GASB has issued the following statement which will become effective in future years:

Statement No. 68, "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27." - This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date. This statement will become effective for the City in fiscal year 2015.

Management has not yet determined the effect of this statement on the financial statements; however, the impact is expected to be significant as they will now reflect a previously unrecorded liability. The City also expects the largest deferred inflows and outflows to be pension related.

NOTE 17: 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.

NOTE 17: 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, 2014, the budget anticipated \$79,403 more in revenues than expenditures. Actual revenues exceed the budget and actual expenditures were less than the budget; however, the following expenditures exceeded their budgeted amounts.

NOTE 17: 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, 2014.

C. Deposits and Investments

As of September 30, 2014, CDC had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity</u>
Public Fund Investment Pool-TexPool	\$ 10,702	51 Days
Certificates of Deposit	1,344,038	14.23 Months

NOTE 17: 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 24 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, 2014, CDC had deposits in three local financial institutions and the deposits were FDIC insured at each institution up to \$250,000. At September 30, 2014, \$2,358,916 of the CDC's bank balance of \$2,719,337 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.

NOTE 17: 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, 2014, was \$97,816. 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, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 353,914	\$ -	\$ -	\$ 353,914
Construction in progress	-	35,512	-	35,512
Total capital assets not being depreciated	<u>353,914</u>	<u>35,512</u>	<u>-</u>	<u>389,426</u>
Capital assets being depreciated				
Machinery and equipment	132,083	50,599	35,574	147,108
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>50,599</u>	<u>35,574</u>	<u>5,382,756</u>
Less accumulated depreciation for				
Machinery and equipment	132,083	7,164	35,574	103,673
Buildings	<u>934,743</u>	<u>134,247</u>	<u>-</u>	<u>1,068,990</u>
Total accumulated depreciation	<u>1,066,826</u>	<u>141,411</u>	<u>35,574</u>	<u>1,172,663</u>
Total capital assets being depreciated, net	<u>4,300,905</u>	<u>(90,812)</u>	<u>-</u>	<u>4,210,093</u>
Governmental activities capital assets, net	<u>\$ 4,654,819</u>	<u>\$ (55,300)</u>	<u>\$ -</u>	<u>\$ 4,599,519</u>

F. Long-term Debt

Long-term liability activity for the year ended September 30, 2014 was a follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable	\$ 2,831,000	\$ -	\$ 294,894	\$ 2,536,106	\$ 301,770
	<u>\$ 2,831,000</u>	<u>\$ -</u>	<u>\$ 294,894</u>	<u>\$ 2,536,106</u>	<u>\$ 301,770</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.

NOTE 17: 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>
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
2019	330,913	26,894	357,807
Thereafter	<u>955,373</u>	<u>33,684</u>	<u>989,057</u>
Totals	<u>\$ 2,536,106</u>	<u>\$ 241,985</u>	<u>\$ 2,778,091</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. 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 2014. This Statement did not have an impact on the CDC's functions, financial position or results of operations.

NOTE 18: 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.

NOTE 18: BAY CITY GAS COMPANY**A. Summary of Significant Accounting Policies - (Continued)****2. Basis of Presentation, Basis of Accounting****a. Basis of Presentation**

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

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.

NOTE 18: BAY CITY GAS COMPANY - (Continued)

A. Summary of Significant Accounting Policies - (Continued)

3. Financial Statement Accounts - (Continued)

b. Inventories and Prepaid Items

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

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

c. Capital Assets

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

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

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

d. Receivable and Payable Balances

The Company believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

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.

NOTE 18: BAY CITY GAS COMPANY - (Continued)

A. Summary of Significant Accounting Policies - (Continued)

3. Financial Statement Accounts - (Continued)

f. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted new position to have been depleted before unrestricted new position is applied.

g. 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.

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.

NOTE 18: BAY CITY GAS COMPANY - (Continued)**C. Deposits and Investments - (Continued)**

The Company's investments at March 31, 2014 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	3-5 years	FDIC	\$ 2,101,411	82.08%
Certificates of Deposit - Nonparticipating	< 3 years	FDIC	410,433	16.03%
GNMA Pool	> 5 years	Not Rated	3,178	0.12%
UBS ag pfd tr IV	3-5 years	Baa3	45,250	1.77%
Total Investments			<u>\$ 2,560,272</u>	<u>100.00%</u>

Money market funds included in cash

Texpool	90 days	Aaam	\$ 856
Capital One brokerage	90 days	FDIC	117,260
UBS financial services	90 days	FDIC	201,096
Edward Jones Money Market Funds	60 days	Aaam	122,926
			<u>\$ 442,138</u>

Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

b. Concentration of Credit Risk

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

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.

NOTE 18: BAY CITY GAS COMPANY - (Continued)**D. Capital Assets**

Capital asset activity for the year ended March 31, 2014, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets, being depreciated:				
Utility plant	\$ 2,130,956	\$ 14,300	\$ -	\$ 2,145,256
Buildings and improvements	520,800	-	-	520,800
Equipment	404,236	25,551	20,696	409,091
Vehicles	202,137	24,597	-	226,734
Total capital assets being depreciated	<u>3,258,129</u>	<u>64,448</u>	<u>20,696</u>	<u>3,301,881</u>
Less accumulated depreciation for:				
Utility plant	(1,329,586)	(53,602)	-	(1,383,188)
Buildings and improvements	(311,460)	(13,140)	-	(324,600)
Equipment	(239,297)	(21,868)	(1,898)	(259,267)
Vehicles	(126,977)	(16,464)	-	(143,441)
Total accumulated depreciation	<u>(2,007,320)</u>	<u>(105,074)</u>	<u>(1,898)</u>	<u>(2,110,496)</u>
Business-type activities capital assets, net	<u>\$ 1,250,809</u>	<u>\$ (40,626)</u>	<u>\$ 18,798</u>	<u>\$ 1,191,385</u>

Depreciation of \$105,074 was charged to the only function of providing natural gas.

E. Accounts Receivable

Accounts receivable of \$322,037 represent billed and uncollected service fees of \$350,040 less an 8% allowance for uncollectible service fees of \$28,003.

F. 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 2014, 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.

G. 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.

NOTE 18: BAY CITY GAS COMPANY - (Continued)**G. Pension Plan - (Continued)****1. Plan Description - (Continued)**

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

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

2. Funding Policy and Annual Pension Cost

The current contribution rate for the Company is 11.22% of annual covered payroll and 5% for employees. The Company's contributions for the years ending March 31, 2014, 2013, and 2012 were \$60,278, \$51,568 and \$48,614, respectively, and were equal to the required contributions for each year.

3. Funding Policy and Annual Pension Cost

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

The required contribution rates for fiscal year 2014 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:

Valuation date	<u>12/31/2012</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
Actuarial cost method	Entry Age Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining amortization period	25.1 closed period	26.1 closed period	27.1 closed period
Asset valuation method	10-yr smoothed	amort cost	amort cost
Actuarial assumptions:			
Investment rate of return *	7.0%	7.0%	7.0%
Projected salary increases *	3.0%	Varies by age and service	Varies by age and service
* Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	1.0%	2.1%	2.1%

NOTE 18: BAY CITY GAS COMPANY - (Continued)**G. Pension Plan - (Continued)****4. Funded Status and Funding Progress**

As of December 31, 2012, the most recent actuarial valuation date, the funded status of the plan as a whole was 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%

The schedule of funding progress is presented as required supplementary information in the City's audit following the notes to the financial statements and presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits. For more information please contact the City of Bay City, Texas 1901 5th Street, Bay City, Texas 77414.

H. 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.

I. Restricted Assets

Cash has been restricted for the payment of customer deposits.

J. Nonmonetary Transactions

It is Company policy to donate gas consumed by City owned property. At March 31, 2014, the amount of gas at retail prices consumed by City property was \$28,198.

K. Prior Period Adjustment

The Company had a contract agreement with Panther Pipeline to make required modifications to the system in 2013 to meet federal regulations. The agreement contained a maximum amount the Company would be out of pocket when the project was complete. The project exceeded the maximum out of pocket by \$25,675 which was refunded in April 2013.

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, 2014

With comparative totals for the year ended September 30, 2013

	2014			Variance	2013
	Original Budget	Final Budget	Actual	Positive (Negative)	Actual
REVENUES					
Taxes					
Ad valorem taxes	\$ 3,442,500	\$ 3,442,500	\$ 3,428,359	\$ (14,141)	\$ 3,521,985
Other taxes	4,462,975	4,462,975	4,486,121	23,146	4,551,400
Licenses and permits	100,200	220,200	205,321	(14,879)	5,706
Fines and forfeitures	438,000	438,000	286,748	(151,252)	330,637
Fees and charges for services	2,715,713	2,724,713	2,445,127	(279,586)	168,396
Intergovernmental	123,831	125,331	142,057	16,726	121,587
Investment income	2,000	2,000	1,512	(488)	2,867
Miscellaneous	480,960	669,960	748,906	78,946	630,695
Total revenues	<u>11,766,179</u>	<u>12,085,679</u>	<u>11,744,151</u>	<u>(341,528)</u>	<u>9,333,273</u>
EXPENDITURES					
Current					
General government	2,111,960	2,268,047	2,343,485	(75,438)	2,031,233
Public safety	4,608,807	4,671,653	4,425,534	246,119	4,080,637
Public works	2,747,510	2,914,673	2,851,186	63,487	1,082,257
Public activities and recreation	1,073,253	1,080,340	1,052,414	27,926	996,117
Debt service	470,373	470,373	69,811	400,562	437,651
Total expenditures	<u>11,011,903</u>	<u>11,405,086</u>	<u>10,742,430</u>	<u>662,656</u>	<u>8,627,895</u>
Excess (deficiency) of revenues over expenditures	754,276	680,593	1,001,721	321,128	705,378
OTHER FINANCING SOURCES (USES)					
Transfers in	113,126	113,126	94,675	(18,451)	112,358
Transfers out	(1,174,608)	(1,184,608)	(2,050,678)	(866,070)	(1,017,202)
Total other financing sources (uses)	<u>(1,061,482)</u>	<u>(1,071,482)</u>	<u>(1,956,003)</u>	<u>(884,521)</u>	<u>(904,844)</u>
Net change in fund balance	(307,206)	(390,889)	(954,282)	(563,393)	(199,466)
Fund balance at beginning of year	<u>2,736,876</u>	<u>2,736,876</u>	<u>2,736,876</u>	<u>-</u>	<u>2,936,342</u>
Fund balance at end of year	<u>\$ 2,429,670</u>	<u>\$ 2,345,987</u>	<u>\$ 1,782,594</u>	<u>\$ (563,393)</u>	<u>\$ 2,736,876</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, 2014

TEXAS MUNICIPAL RETIREMENT SYSTEM

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

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
12/31/13	\$ 25,161,208	\$ 29,820,207	\$ 4,658,999	84.38%	\$ 6,442,271	72.32%
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	3,562,703	86.40%	6,363,799	55.98%
12/31/10	21,658,759	25,352,756	3,693,997	85.40%	6,293,635	58.69%
12/31/09	11,981,037	17,718,960	5,737,923	67.62%	6,061,315	94.66%
12/31/08	11,436,920	16,659,204	5,222,284	68.65%	5,501,961	94.92%
12/31/07	11,448,750	16,546,570	5,097,820	69.19%	5,436,124	93.78%

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

	Actuarial Valuation Information	
	8/31/14	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, 2014

TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ¹ (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL per Member Covered ((b-a)/(c))
8/31/2010 ³	\$ 64,113,803	\$ 81,264,230	\$ 17,150,427	78.9%	8,644	\$ 1,984
8/31/2012 ²	67,987,487	101,856,042	33,868,555	66.7%	9,448	3,585
8/31/2014	83,761,038	109,854,799	26,093,761	76.2%	9,270	2,815

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

² Changes in actuarial assumptions were reflected in this valuation.

³ 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
2014	\$ 4,176,659	\$ 4,176,659 ¹	100%
2012	4,423,898 ^{2,3}	3,517,455	80%
2011	3,125,329 ³	3,125,329	100%

¹ State appropriated \$1,530,343 for fiscal year ending August 31, 2014.

² Includes a requested state contribution of \$906,443.

³ Based on the revised August 31, 2010 actuarial valuation.

State contributions to the City's plan for the fiscal year 2014 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
2014	\$ 3,600	100%	\$ -
2013	3,600	100%	-
2012	3,600	100%	-

CITY OF BAY CITY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
HISTORICAL PENSION INFORMATION
September 30, 2014

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)
12/31/13	\$ -	\$ 208,876	\$ 208,876	0.0%	\$ 6,442,271	3.24%

Actuarial Methods and Assumptions	
Inflation rate	3.00% per annum
Investment rate of return	4.50% per annum, net of expenses
Actuarial cost method	Projected unit of credit cost method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll growth	3.00% per annum
Medical trend	Initial rate of 7.50%, declining to an ultimate rate of 4.50% after 11 years

CITY OF BAY CITY, TEXAS**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION***September 30, 2014*

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, 2014 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	\$ 265,377	\$ 282,325	\$ 16,948
City general services	974,502	1,093,909	119,407
Administration and council	240,769	242,839	2,070
Finance	243,914	261,393	17,479
City service center	65,164	70,987	5,823
Library	-	1,080	1,080
Transfers out	1,184,608	2,050,678	866,070

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 Funds are used to account for and report 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. Capital Project Funds exclude 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.

Street Maintenance Fund - Accounts for monies transferred from other City funds for the improvement and construction of the City's streets.

2014 Capital Project Fund - Accounts for the use of the proceeds from the City's 2014 Certificates of Obligation.

Debt Service Fund - Accounts for and reports financial resources that are restricted, committed or assigned to expenditures for general government debt principal and interest.

CITY OF BAY CITY, TEXAS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2014

	Special Revenue Funds				
	Civic and Cultural Arts Fund	Donation Fund	Forfeiture Fund	Police Task Force Fund	Court Building Security Fund
ASSETS					
Cash and cash equivalents	\$ 217,018	\$ 82,494	\$ 58,731	\$ 14,489	\$ 43,607
Receivables (net)					
Taxes	132,656	-	-	-	-
Accounts	-	-	-	-	-
Due from other funds	-	-	-	-	-
Prepaid items	3,750	-	-	-	-
Total assets	<u>\$ 353,424</u>	<u>\$ 82,494</u>	<u>\$ 58,731</u>	<u>\$ 14,489</u>	<u>\$ 43,607</u>
LIABILITIES					
Accounts payable	\$ 33,010	\$ -	\$ -	\$ -	\$ -
Accrued expenditures	-	-	-	-	-
Accrued interest payable	-	-	-	-	-
Deposits	17,978	-	-	-	-
Due to other funds	-	-	-	-	-
Unearned revenue	-	-	10,998	1,375	-
Total liabilities	<u>50,988</u>	<u>-</u>	<u>10,998</u>	<u>1,375</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted	302,436	82,494	47,733	13,114	43,607
Total fund balances	<u>302,436</u>	<u>82,494</u>	<u>47,733</u>	<u>13,114</u>	<u>43,607</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 353,424</u>	<u>\$ 82,494</u>	<u>\$ 58,731</u>	<u>\$ 14,489</u>	<u>\$ 43,607</u>

Special Revenue Funds			Capital Project Funds			
Court Technology Fund	Disaster Recovery Fund	Library Fund	Street Maintenance Fund	2014 Capital Project Fund	Debt Service Fund	Total
\$ 52,655	\$ 541,115	\$ 84,086	\$ 887,773	\$ 1,600,117	\$ 667,099	\$ 4,249,184
-	-	-	-	-	23,898	156,554
-	11	6,593	-	-	-	6,604
-	13,609	-	-	-	-	13,609
-	-	-	-	-	-	3,750
<u>\$ 52,655</u>	<u>\$ 554,735</u>	<u>\$ 90,679</u>	<u>\$ 887,773</u>	<u>\$ 1,600,117</u>	<u>\$ 690,997</u>	<u>\$ 4,429,701</u>
\$ -	\$ -	\$ 15,631	\$ 271	\$ 543,650	\$ -	\$ 592,562
-	-	3,510	-	-	-	3,510
-	-	-	-	-	6,710	6,710
-	-	-	-	-	-	17,978
-	-	-	-	4,080	110,168	114,248
-	-	-	-	-	-	12,373
<u>-</u>	<u>-</u>	<u>19,141</u>	<u>271</u>	<u>547,730</u>	<u>116,878</u>	<u>747,381</u>
-	-	-	-	-	23,898	23,898
-	-	-	-	-	23,898	23,898
<u>52,655</u>	<u>554,735</u>	<u>71,538</u>	<u>887,502</u>	<u>1,052,387</u>	<u>550,221</u>	<u>3,658,422</u>
<u>52,655</u>	<u>554,735</u>	<u>71,538</u>	<u>887,502</u>	<u>1,052,387</u>	<u>550,221</u>	<u>3,658,422</u>
<u>\$ 52,655</u>	<u>\$ 554,735</u>	<u>\$ 90,679</u>	<u>\$ 887,773</u>	<u>\$ 1,600,117</u>	<u>\$ 690,997</u>	<u>\$ 4,429,701</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, 2014

	Special Revenue Funds				
	Civic and Cultural Arts Fund	Donation Fund	Forfeiture Fund	Police Task Force Fund	Court Building Security Fund
REVENUES					
Taxes					
Ad valorem tax	\$ -	\$ -	\$ -	\$ -	\$ -
Hotel - motel tax	581,831	-	-	-	-
Fines and forfeitures	-	-	21,382	12,946	4,594
Fees and charges for services	61,358	-	-	-	-
Intergovernmental	-	-	-	-	-
Investment income					
Interest	125	76	40	9	34
Miscellaneous	3,864	11,610	837	-	-
Total revenues	<u>647,178</u>	<u>11,686</u>	<u>22,259</u>	<u>12,955</u>	<u>4,628</u>
EXPENDITURES					
Current					
Public safety	-	-	20,550	9,808	8,725
Public works	-	-	-	-	-
Cultural arts and public benefits	538,283	1,422	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Paying agents' fees and issue costs	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>538,283</u>	<u>1,422</u>	<u>20,550</u>	<u>9,808</u>	<u>8,725</u>
Excess (deficiency) of revenues over expenditures	108,895	10,264	1,709	3,147	(4,097)
OTHER FINANCING SOURCES (USES)					
Debt issued	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	(28,020)	-	-	-	-
Total other financing sources (uses)	<u>(28,020)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	80,875	10,264	1,709	3,147	(4,097)
Fund balances at beginning of year	<u>221,561</u>	<u>72,230</u>	<u>46,024</u>	<u>9,967</u>	<u>47,704</u>
Fund balances at end of year	<u>\$ 302,436</u>	<u>\$ 82,494</u>	<u>\$ 47,733</u>	<u>\$ 13,114</u>	<u>\$ 43,607</u>

Special Revenue Funds			Capital Project Funds			Total
Court Technology Fund	Disaster Recovery Fund	Library Fund	Street Maintenance Fund	2014 Capital Project Fund	Debt Service Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 398,184	\$ 398,184
-	-	-	-	-	-	581,831
6,127	-	8,108	-	-	-	53,157
-	-	78,840	-	-	-	140,198
-	-	200,000	-	-	-	200,000
39	402	55	580	117	272	1,749
-	-	40,776	-	-	-	57,087
<u>6,166</u>	<u>402</u>	<u>327,779</u>	<u>580</u>	<u>117</u>	<u>398,456</u>	<u>\$ 1,432,206</u>
7,382	588	-	-	-	-	47,053
-	-	-	44,379	-	-	44,379
-	-	429,991	-	-	-	969,696
-	-	-	-	-	789,000	789,000
-	-	-	-	-	246,296	246,296
-	-	-	-	69,973	2,000	71,973
-	-	-	-	543,650	-	543,650
<u>7,382</u>	<u>588</u>	<u>429,991</u>	<u>44,379</u>	<u>613,623</u>	<u>1,037,296</u>	<u>2,712,047</u>
(1,216)	(186)	(102,212)	(43,799)	(613,506)	(638,840)	(1,279,841)
-	-	-	-	1,598,000	-	1,598,000
-	-	-	-	67,893	-	67,893
-	-	131,480	300,000	-	1,158,493	1,589,973
-	-	-	-	-	-	(28,020)
<u>-</u>	<u>-</u>	<u>131,480</u>	<u>300,000</u>	<u>1,665,893</u>	<u>1,158,493</u>	<u>3,227,846</u>
(1,216)	(186)	29,268	256,201	1,052,387	519,653	1,948,005
<u>53,871</u>	<u>554,921</u>	<u>42,270</u>	<u>631,301</u>	<u>-</u>	<u>30,568</u>	<u>1,710,417</u>
<u>\$ 52,655</u>	<u>\$ 554,735</u>	<u>\$ 71,538</u>	<u>\$ 887,502</u>	<u>\$ 1,052,387</u>	<u>\$ 550,221</u>	<u>\$ 3,658,422</u>

GENERAL FUND

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

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

September 30, 2014

With comparative totals for September 30, 2013

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 1,552,663	\$ 2,054,376
Receivables (net)		
Accounts	235,772	17,477
Taxes	539,572	541,593
Fines	64,799	39,712
Due from other governments	293,447	294,608
Due from other funds	242,748	670,643
Prepaid items	55,374	16,879
Total assets	<u>\$ 2,984,375</u>	<u>\$ 3,635,288</u>
LIABILITIES		
Accounts payable	\$ 505,297	\$ 272,083
Accrued expenditures	118,387	76,866
Due to other governments	47,691	24,992
Deposits	2,450	-
Unearned revenue	32,000	49,540
Total liabilities	<u>705,825</u>	<u>423,481</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	495,956	474,931
Total deferred inflows of resources	<u>495,956</u>	<u>474,931</u>
FUND BALANCES		
Nonspendable	55,374	16,879
Unassigned	1,727,220	2,719,997
Total fund balances	<u>1,782,594</u>	<u>2,736,876</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,984,375</u>	<u>\$ 3,635,288</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, 2014

With comparative totals for the year ended September 30, 2013

	2014			2013
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES				
Taxes				
Ad valorem tax	\$ 3,442,500	\$ 3,428,359	\$ (14,141)	\$ 3,521,985
Sales tax	3,405,000	3,469,272	64,272	3,440,988
Mixed beverage tax	19,000	32,242	13,242	22,814
Franchise tax	1,038,975	984,607	(54,368)	1,087,598
Total taxes	7,905,475	7,914,480	9,005	8,073,385
Other revenues				
Licenses and permits	220,200	205,321	(14,879)	5,706
Fines and forfeitures	438,000	286,748	(151,252)	330,637
Fees and charges for services	2,724,713	2,445,127	(279,586)	168,396
Intergovernmental	125,331	142,057	16,726	121,587
Investment income	2,000	1,512	(488)	2,867
Miscellaneous	669,960	748,906	78,946	630,695
Total other revenues	4,180,204	3,829,671	(350,533)	1,259,888
Total revenues	12,085,679	11,744,151	(341,528)	9,333,273
EXPENDITURES				
Current				
General government				
City secretary				
Personnel services	195,163	188,994	6,169	179,787
Supplies	30,146	25,024	5,122	25,553
Repairs and maintenance	-	4,385	(4,385)	-
Other services and charges	40,068	63,922	(23,854)	44,950
Total city secretary	265,377	282,325	(16,948)	250,290
City general services				
Personnel services	6,250	2,358	3,892	8,569
Supplies	9,972	9,597	375	9,145
Repairs and maintenance	43,329	54,023	(10,694)	28,190
Other services and charges	879,951	1,000,586	(120,635)	982,544
Capital outlay	35,000	27,345	7,655	-
Total city general services	974,502	1,093,909	(119,407)	1,028,448
Administration and council				
Personnel services	229,933	231,892	(1,959)	197,176
Supplies	2,250	4,386	(2,136)	2,067
Other services and charges	8,586	6,561	2,025	7,967
Total administration and council	240,769	242,839	(2,070)	207,210

(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, 2014

With comparative totals for the year ended September 30, 2013

	2014			2013
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
General government - (Continued)				
Main Street				
Personnel services	\$ 23,892	\$ 17,275	\$ 6,617	\$ 17,294
Supplies	3,150	1,776	1,374	2,791
Other services and charges	19,430	10,737	8,693	17,585
Total Main Street	46,472	29,788	16,684	37,670
Municipal court				
Personnel services	160,426	158,769	1,657	147,421
Supplies	8,800	5,550	3,250	7,083
Repairs and maintenance	6,500	1,590	4,910	3,840
Other services and charges	157,500	108,630	48,870	101,678
Capital outlay	163,787	158,692	5,095	7,938
Total municipal court	497,013	433,231	63,782	267,960
Finance				
Personnel services	232,214	167,669	64,545	227,209
Supplies	8,550	8,621	(71)	6,951
Repairs and maintenance	-	3,258	(3,258)	-
Other services and charges	3,150	81,845	(78,695)	5,495
Total finance	243,914	261,393	(17,479)	239,655
Total general government	2,268,047	2,343,485	(75,438)	2,031,233
Public safety				
Police				
Personnel services	3,363,729	3,287,308	76,421	3,183,967
Supplies	129,410	115,725	13,685	120,981
Repairs and maintenance	43,380	41,540	1,840	36,375
Other services and charges	293,589	263,207	30,382	210,198
Capital outlay	117,446	117,446	-	235,050
Total police	3,947,554	3,825,226	122,328	3,786,571

(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, 2014

With comparative totals for the year ended September 30, 2013

	2014			2013
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Public safety - (Continued)				
Fire				
Personnel services	\$ 57,541	\$ 54,050	\$ 3,491	\$ 54,578
Supplies	16,165	12,307	3,858	10,783
Repairs and maintenance	39,000	37,298	1,702	39,037
Other services and charges	84,950	101,118	(16,168)	76,604
Capital outlay	18,000	-	18,000	12,800
Total fire	215,656	204,773	10,883	193,802
Code enforcement				
Personnel services	195,497	190,278	5,219	-
Supplies	23,950	12,022	11,928	-
Repairs and maintenance	4,000	2,595	1,405	-
Other services and charges	133,300	49,901	83,399	-
Total code enforcement	356,747	254,796	101,951	-
Animal impoundment				
Personnel services	121,771	116,550	5,221	84,219
Supplies	4,640	2,176	2,464	3,308
Repairs and maintenance	1,525	1,387	138	1,326
Other services and charges	23,760	20,626	3,134	11,411
Total animal impoundment	151,696	140,739	10,957	100,264
Total public safety	4,671,653	4,425,534	246,119	4,080,637
Public works				
Streets and sanitation				
Personnel services	836,132	760,494	75,638	653,073
Supplies	146,150	174,899	(28,749)	116,588
Repairs and maintenance	199,655	154,693	44,962	161,269
Other services and charges	1,572,428	1,603,241	(30,813)	13,794
Capital outlay	160,308	157,859	2,449	137,533
Total streets and sanitation	2,914,673	2,851,186	63,487	1,082,257
Total public works	2,914,673	2,851,186	63,487	1,082,257
Public activities and recreation				
City service center				
Personnel services	43,464	40,885	2,579	39,201
Supplies	5,338	3,515	1,823	1,447
Repairs and maintenance	2,500	11,598	(9,098)	2,468
Other services and charges	13,862	14,989	(1,127)	11,521
Total city service center	65,164	70,987	(5,823)	54,637

(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, 2014

With comparative totals for the year ended September 30, 2013

	2014			2013
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Public activities and recreation - (Continued)				
Parks and recreation				
Personnel services	\$ 332,458	\$ 356,125	\$ (23,667)	\$ 336,745
Supplies	54,736	48,267	6,469	44,977
Repairs and maintenance	58,108	38,126	19,982	47,334
Other services and charges	328,242	310,305	17,937	255,141
Capital outlay	48,597	50,574	(1,977)	39,063
Total parks and recreation	822,141	803,397	18,744	723,260
Riverside park				
Personnel services	86,712	96,934	(10,222)	83,272
Supplies	11,527	12,657	(1,130)	9,927
Repairs and maintenance	29,493	22,914	6,579	15,491
Other services and charges	46,883	39,083	7,800	38,998
Capital outlay	10,920	-	10,920	-
Total riverside park	185,535	171,588	13,947	147,688
Library				
Personnel services	-	1,080	(1,080)	64,833
Total library	-	1,080	(1,080)	64,833
Teen center				
Repairs and maintenance	500	225	275	-
Other services and charges	7,000	5,137	1,863	5,699
Total teen center	7,500	5,362	2,138	5,699
Total public activities and recreation	1,080,340	1,052,414	27,926	996,117
Debt service				
Principal	386,581	58,110	328,471	330,207
Interest and fiscal charges	83,792	11,701	72,091	107,444
Total debt service	470,373	69,811	400,562	437,651
Total expenditures	11,405,086	10,742,430	662,656	8,627,895

(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, 2014**With comparative totals for the year ended September 30, 2013*

	2014			2013
	Final Budget	Actual	Variance Positive (Negative)	Actual
Excess (deficiency) of revenues over expenditures	\$ 680,593	\$ 1,001,721	\$ 321,128	\$ 705,378
OTHER FINANCING SOURCES (USES)				
Transfers in	113,126	94,675	(18,451)	112,358
Transfers out	<u>(1,184,608)</u>	<u>(2,050,678)</u>	<u>(866,070)</u>	<u>(1,017,202)</u>
Total other financing sources (uses)	<u>(1,071,482)</u>	<u>(1,956,003)</u>	<u>(884,521)</u>	<u>(904,844)</u>
Net change in fund balance	(390,889)	(954,282)	(563,393)	(199,466)
Fund balance at beginning of year	<u>2,736,876</u>	<u>2,736,876</u>	<u>-</u>	<u>2,936,342</u>
Fund balance at end of year	<u>\$ 2,345,987</u>	<u>\$ 1,782,594</u>	<u>\$ (563,393)</u>	<u>\$ 2,736,876</u>
				(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, 2014

With comparative totals for the year ended September 30, 2013

	2014			2013
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES				
Ad valorem taxes				
Current taxes	\$ 397,947	\$ 384,295	\$ (13,652)	\$ 286,009
Delinquent taxes	4,000	7,782	3,782	6,575
Penalty and interest	3,500	6,107	2,607	4,800
Investment income	-	272	272	274
Total revenues	<u>405,447</u>	<u>398,456</u>	<u>(6,991)</u>	<u>297,658</u>
EXPENDITURES				
Debt service				
Principal retirement	704,000	789,000	(85,000)	445,500
Interest and fiscal charges	228,344	246,296	(17,952)	241,067
Paying agents' fees and issue costs	1,000	2,000	(1,000)	122,499
Total expenditures	<u>933,344</u>	<u>1,037,296</u>	<u>(103,952)</u>	<u>809,066</u>
Excess (deficiency) of revenues over expenditures	(527,897)	(638,840)	(110,943)	(511,408)
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	-	-	-	4,030,000
Premium on issuance of bonds	-	-	-	65,470
Payment to escrow	-	-	-	(3,960,250)
Transfers in	2,019,823	1,158,493	(861,330)	395,481
Total other financing sources (uses)	<u>2,019,823</u>	<u>1,158,493</u>	<u>(861,330)</u>	<u>530,701</u>
Net change in fund balances	1,491,926	519,653	(972,273)	19,293
Fund balances at beginning of year	30,568	30,568	-	11,275
Fund balances at end of year	<u>\$ 1,522,494</u>	<u>\$ 550,221</u>	<u>\$ (972,273)</u>	<u>\$ 30,568</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, 2014

	<u>Equipment Maintenance</u>	<u>Information Technology</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,064	\$ 10,354	\$ 11,418
Prepaid items	-	9,265	9,265
Total current assets	<u>1,064</u>	<u>19,619</u>	<u>20,683</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	1,001	-	1,001
Buildings, improvements, and equipment (net)	<u>9,356</u>	<u>415,495</u>	<u>424,851</u>
Total noncurrent assets	<u>10,357</u>	<u>415,495</u>	<u>425,852</u>
Total assets	<u>11,421</u>	<u>435,114</u>	<u>446,535</u>
LIABILITIES			
Current liabilities			
Accounts payable	16,878	63,779	80,657
Accrued expenses	9,615	3,878	13,493
Accrued compensated absences	1,057	769	1,826
Current portion of capital lease payable	-	48,155	48,155
Total current liabilities	<u>27,550</u>	<u>116,581</u>	<u>144,131</u>
Noncurrent liabilities			
Accrued compensated absences	9,515	6,918	16,433
Capital lease payable	-	151,691	151,691
Total noncurrent liabilities	<u>9,515</u>	<u>158,609</u>	<u>168,124</u>
Total liabilities	<u>37,065</u>	<u>275,190</u>	<u>312,255</u>
NET POSITION			
Net investment in capital assets	10,357	215,649	226,006
Unrestricted	<u>(36,001)</u>	<u>(55,725)</u>	<u>(91,726)</u>
Total net position	<u>\$ (25,644)</u>	<u>\$ 159,924</u>	<u>\$ 134,280</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, 2014*

	Equipment Maintenance	Information Technology	Total
OPERATING REVENUES			
Miscellaneous	\$ 216	\$ 69	\$ 285
Total operating revenues	<u>216</u>	<u>69</u>	<u>285</u>
OPERATING EXPENSES			
Equipment maintenance	532,320	-	532,320
Information technology	-	516,177	516,177
Depreciation	3,622	17,834	21,456
Total operating expenses	<u>535,942</u>	<u>534,011</u>	<u>1,069,953</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	(535,726)	(533,942)	(1,069,668)
NONOPERATING REVENUES (EXPENSES)			
Investment income	3	3	6
Interest and fiscal charges	-	(664)	(664)
Net nonoperating revenues (expenses)	<u>3</u>	<u>(661)</u>	<u>(658)</u>
Income (loss) before transfers	(535,723)	(534,603)	(1,070,326)
Transfers			
Transfers in	<u>503,489</u>	<u>583,038</u>	<u>1,086,527</u>
Change in net position	(32,234)	48,435	16,201
Total net position at beginning of year	<u>6,590</u>	<u>111,489</u>	<u>118,079</u>
Total net position at end of year	<u>\$ (25,644)</u>	<u>\$ 159,924</u>	<u>\$ 134,280</u>

CITY OF BAY CITY, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the year ended September 30, 2014

	Equipment Maintenance	Information Technology	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 216	\$ 69	\$ 285
Cash paid to suppliers for goods and services	(66,432)	(271,001)	(337,433)
Cash paid to employees for services	(448,050)	(218,972)	(667,022)
Net cash provided (used) by operating activities	<u>(514,266)</u>	<u>(489,904)</u>	<u>(1,004,170)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (to) from other funds	503,489	583,038	1,086,527
Net cash provided (used) by noncapital financing activities	<u>503,489</u>	<u>583,038</u>	<u>1,086,527</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(1,002)	(312,861)	(313,863)
Proceeds from capital lease	-	203,774	203,774
Principal paid on capital lease	-	(3,929)	(3,929)
Interest paid on capital lease	-	(664)	(664)
Net cash provided (used) by capital and related financing activities	<u>(1,002)</u>	<u>(113,680)</u>	<u>(114,682)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	3	3	6
Net cash provided (used) by investing activities	<u>3</u>	<u>3</u>	<u>6</u>
Net increase (decrease) in cash and cash equivalents	(11,776)	(20,543)	(32,319)
Cash and cash equivalents at beginning of year	12,840	30,897	43,737
Cash and cash equivalents at end of year	<u>\$ 1,064</u>	<u>\$ 10,354</u>	<u>\$ 11,418</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (535,726)	\$ (533,942)	\$ (1,069,668)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	3,622	17,834	21,456
Changes in assets and liabilities			
(Increase) decrease in prepaid items	-	38,676	38,676
Increase (decrease) in accounts payable	9,090	(8,688)	402
Increase (decrease) in accrued expenses	7,335	1,106	8,441
Increase (decrease) in accrued compensated absences	1,413	(4,890)	(3,477)
Total adjustments	<u>21,460</u>	<u>44,038</u>	<u>65,498</u>
Net cash provided (used) by operating activities	<u>\$ (514,266)</u>	<u>\$ (489,904)</u>	<u>\$ (1,004,170)</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.

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.....	95
Revenue Capacity	
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.....	106
Debt Capacity	
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	112
Demographic and Economic Information	
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	117
Operating Information	
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	119

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

	Fiscal Year			
	2005	2006	2007	2008
Governmental activities				
Net investment in capital assets	\$ 2,619,884	\$ 7,499,745	\$ 12,496,157	\$ 13,059,039
Restricted	2,418,928	1,441,232	1,345,964	2,327,929
Unrestricted	<u>193,976</u>	<u>485,118</u>	<u>435,647</u>	<u>912,769</u>
Total governmental activities net position	<u>\$ 5,232,788</u>	<u>\$ 9,426,095</u>	<u>\$ 14,277,768</u>	<u>\$ 16,299,737</u>
Business-type activities				
Net investment in capital assets	\$ 4,980,993	\$ 4,957,372	\$ 6,655,233	\$ 7,522,741
Restricted	210,219	210,088	542,632	564,651
Unrestricted	<u>1,089,017</u>	<u>2,147,890</u>	<u>1,447,433</u>	<u>731,981</u>
Total business-type activities net position	<u>\$ 6,280,229</u>	<u>\$ 7,315,350</u>	<u>\$ 8,645,298</u>	<u>\$ 8,819,373</u>
Primary government				
Net investment in capital assets	\$ 7,600,877	\$ 12,457,117	\$ 19,151,390	\$ 20,581,780
Restricted	2,629,147	1,651,320	1,888,596	2,892,580
Unrestricted	<u>1,282,993</u>	<u>2,633,008</u>	<u>1,883,080</u>	<u>1,644,750</u>
Total primary government activities net position	<u>\$ 11,513,017</u>	<u>\$ 16,741,445</u>	<u>\$ 22,923,066</u>	<u>\$ 25,119,110</u>

(1) Accrual basis of accounting

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 11,507,535	\$ 12,166,490	\$ 7,541,744	\$ 7,904,146	\$ 8,444,943	\$ 7,050,325
3,493,985	-	407,739	410,945	132,143	1,073,579
<u>1,554,168</u>	<u>4,195,081</u>	<u>4,373,229</u>	<u>5,054,417</u>	<u>3,865,608</u>	<u>2,807,480</u>
<u>\$ 16,555,688</u>	<u>\$ 16,361,571</u>	<u>\$ 12,322,712</u>	<u>\$ 13,369,508</u>	<u>\$ 12,442,694</u>	<u>\$ 10,931,384</u>
\$ 9,390,238	\$ 9,836,242	\$ 10,543,619	\$ 10,948,774	\$ 12,245,026	\$ 9,681,894
530,241	548,261	339,292	-	-	-
<u>688,817</u>	<u>1,366,416</u>	<u>2,359,186</u>	<u>2,952,528</u>	<u>2,668,278</u>	<u>6,217,963</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>	<u>\$ 15,899,857</u>
\$ 20,897,773	\$ 22,002,732	\$ 18,085,363	\$ 18,852,920	\$ 20,689,969	\$ 16,732,219
4,024,226	548,261	747,031	410,945	132,143	1,073,579
<u>2,242,985</u>	<u>5,561,497</u>	<u>6,732,415</u>	<u>8,006,945</u>	<u>6,533,886</u>	<u>9,025,443</u>
<u>\$ 27,164,984</u>	<u>\$ 28,112,490</u>	<u>\$ 25,564,809</u>	<u>\$ 27,270,810</u>	<u>\$ 27,355,998</u>	<u>\$ 26,831,241</u>

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

	Fiscal Year			
	2005	2006	2007	2008
Governmental activities				
Expenses				
General government	\$ 1,473,292	\$ 760,200	\$ 1,702,393	\$ 1,942,008
Public safety	2,971,661	2,861,918	3,133,963	3,331,324
Public works	871,458	962,368	2,706,333	2,052,743
Construction for outside parties	-	-	-	-
Public activities and recreation	1,303,909	579,782	1,096,893	1,258,628
Cultural arts and public benefits	1,088,079	2,190,512	3,095,223	1,990,500
Interest on long-term debt	272,091	251,275	332,332	464,827
Total expenses	<u>7,980,490</u>	<u>7,606,055</u>	<u>12,067,137</u>	<u>11,040,030</u>
Program revenues				
Charges for services				
General government	190,963	171,382	150,025	207,903
Public safety	55,218	67,067	65,799	67,302
Public works	5,710	4,618	4,425	6,335
Construction for outside parties	-	-	-	-
Public activities and recreation	167,209	201,303	209,571	292,469
Cultural arts and public benefits	-	-	-	-
Operating grants and contributions	1,289,235	1,306,157	794,498	2,041,285
Capital grants and contributions	-	-	-	-
Total program revenues	<u>1,708,335</u>	<u>1,750,527</u>	<u>1,224,318</u>	<u>2,615,294</u>
Total governmental activities net program (expense) revenue	(6,272,155)	(5,855,528)	(10,842,819)	(8,424,736)
General revenues and transfers				
General revenues				
Taxes				
Property taxes	2,278,325	2,492,991	2,594,281	2,761,842
Sales taxes	3,681,595	3,951,087	4,817,754	5,239,480
Franchise taxes	854,694	701,272	773,840	770,588
Other taxes	-	-	-	-
Unrestricted investment earnings	108,794	107,901	125,914	54,491
Miscellaneous	-	-	1,031,784	1,558,912
Transfers	(206,482)	100,990	(160,842)	61,392
Total general revenues and transfers	<u>6,716,926</u>	<u>7,354,241</u>	<u>9,182,731</u>	<u>10,446,705</u>
Total governmental activities change in net position	<u>\$ 444,771</u>	<u>\$ 1,498,713</u>	<u>\$ (1,660,088)</u>	<u>\$ 2,021,969</u>

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 2,473,385	\$ 2,012,790	\$ 2,592,172	\$ 1,992,271	\$ 2,321,123	\$ 2,295,602
4,099,853	3,771,477	4,248,889	4,073,513	4,303,562	4,662,949
2,849,343	2,340,844	3,571,109	2,377,316	2,656,096	5,854,434
-	2,320,411	-	-	-	-
1,788,850	1,929,843	1,580,288	1,235,690	1,227,420	1,167,733
1,259,694	643,792	447,854	684,950	872,918	969,696
381,608	583,214	576,214	331,816	495,527	305,880
<u>12,852,733</u>	<u>13,602,371</u>	<u>13,016,526</u>	<u>10,695,556</u>	<u>11,876,646</u>	<u>15,256,294</u>
254,034	240,650	210,778	94,793	81,818	999,059
72,011	406,931	1,139,693	620,749	538,848	149,354
13,033	-	-	-	59,130	1,832,671
-	1,847,562	-	-	-	-
191,462	203,546	199,657	161,334	154,573	260,195
80,088	-	-	-	-	-
2,172,387	439,912	334,370	111,982	281,587	280,889
-	-	-	-	-	-
<u>2,783,015</u>	<u>3,138,601</u>	<u>1,884,498</u>	<u>988,858</u>	<u>1,115,956</u>	<u>3,522,168</u>
(10,069,718)	(10,463,770)	(11,132,028)	(9,706,698)	(10,760,690)	(11,734,126)
3,059,879	3,414,585	3,724,754	3,728,127	3,769,351	3,749,040
5,076,657	3,986,482	4,423,374	3,385,962	3,440,988	3,469,272
756,851	860,750	794,918	1,099,039	1,087,598	984,607
-	432,144	478,484	474,242	497,136	614,073
26,809	14,401	14,914	6,163	5,779	3,653
514,177	1,014,427	1,100,694	924,999	685,286	709,694
(842,299)	74,131	98,338	1,134,962	501,909	692,477
<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>10,222,816</u>
<u>\$ (1,477,644)</u>	<u>\$ (666,850)</u>	<u>\$ (496,552)</u>	<u>\$ 1,046,796</u>	<u>\$ (772,643)</u>	<u>\$ (1,511,310)</u>

(continued)

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

	Fiscal Year			
	2005	2006	2007	2008
Business-type activities				
Expenses				
Water and sewer	\$ 4,445,354	\$ 4,133,097	\$ 4,563,790	\$ 4,923,927
Sanitation	-	-	-	-
Airport	441,272	467,058	324,101	420,223
Total expenses	<u>4,886,626</u>	<u>4,600,155</u>	<u>4,887,891</u>	<u>5,344,150</u>
Program revenues				
Charges for services				
Water and sewer	4,575,948	5,361,790	5,310,276	5,282,569
Sanitation	-	-	-	-
Airport	293,455	287,323	147,004	186,511
Operating grants and contributions	105,638	19,965	350,747	13,869
Capital grants and contributions	-	-	-	-
Total program revenues	<u>4,975,041</u>	<u>5,669,078</u>	<u>5,808,027</u>	<u>5,482,949</u>
Total business-type activities net program (expense) revenue	88,415	1,068,923	920,136	138,799
General revenues and transfers				
General revenues				
Unrestricted investment earnings	23,727	67,188	61,157	36,317
Miscellaneous	-	-	187,813	60,351
Transfers	206,482	(100,990)	160,842	(61,392)
Total general revenues and transfers	<u>230,209</u>	<u>(33,802)</u>	<u>409,812</u>	<u>35,276</u>
Total business-type activities change in net position	<u>\$ 318,624</u>	<u>\$ 1,035,121</u>	<u>\$ 1,329,948</u>	<u>\$ 174,075</u>
Total primary government change in net position	<u>\$ 763,395</u>	<u>\$ 2,533,834</u>	<u>\$ (330,140)</u>	<u>\$ 2,196,044</u>

(1) Accrual basis of accounting

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 4,706,783	\$ 5,258,532	\$ 5,027,229	\$ 5,026,141	\$ 5,134,720	\$ 5,775,681
113,933	1,952,979	1,890,468	2,482,660	2,446,553	503,196
397,202	411,863	401,842	389,402	459,418	540,255
5,217,918	7,623,374	7,319,539	7,898,203	8,040,691	6,819,132
5,561,610	5,730,656	6,326,946	6,521,880	6,367,177	6,582,946
-	2,176,550	2,204,210	2,632,229	2,768,743	449,082
159,161	201,474	227,920	239,173	250,113	327,899
361,082	-	-	220,997	27,468	10,914
-	726,097	123,325	-	584,651	975,226
6,081,853	8,834,777	8,882,401	9,614,279	9,998,152	8,346,067
863,935	1,211,403	1,562,862	1,716,076	1,957,461	1,526,935
9,639	4,478	3,677	5,422	3,507	3,680
185,058	17,225	22,977	3,608	3,487	148,415
842,299	(74,131)	(98,338)	(1,134,962)	(501,909)	(692,477)
1,036,996	(52,428)	(71,684)	(1,125,932)	(494,915)	(540,382)
\$ 1,900,931	\$ 1,158,975	\$ 1,491,178	\$ 590,144	\$ 1,462,546	\$ 986,553
\$ 423,287	\$ 492,125	\$ 994,626	\$ 1,636,940	\$ 689,903	\$ (524,757)

(concluded)

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

	Fiscal Year			
	2005	2006	2007	2008
General Fund				
Nonspendable				
Prepaid items	\$ -	\$ -	\$ -	\$ -
Assigned	-	-	-	-
Unassigned	-	-	-	-
Reserved				
Prepaid items	50,000	-	-	-
Unreserved	<u>333,661</u>	<u>504,295</u>	<u>491,835</u>	<u>955,593</u>
Total general fund	<u>\$ 383,661</u>	<u>\$ 504,295</u>	<u>\$ 491,835</u>	<u>\$ 955,593</u>
All Other Governmental Funds				
Restricted				
Retirement of long-term debt	\$ -	\$ -	\$ -	\$ -
Various capital projects	594,957	190,142	-	-
Community development	1,517,437	884,152	659,675	1,204,720
Special revenue funds	326,083	384,855	733,622	1,190,398
Tourism	-	-	-	-
Municipal court	-	-	-	-
Culture and recreation programs	-	-	-	-
Public safety	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total all other governmental funds	<u>\$ 2,438,477</u>	<u>\$ 1,459,149</u>	<u>\$ 1,393,297</u>	<u>\$ 2,395,118</u>

(1) Modified accrual basis of accounting

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

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ -	\$ -	\$ 53,128	\$ 108,116	\$ 16,879	\$ 55,374
-	-	7,201	7,201	-	-
-	-	2,013,578	2,821,025	2,719,997	1,727,220
-	24,824	-	-	-	-
<u>1,622,414</u>	<u>1,708,708</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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>	<u>\$ 1,782,594</u>
\$ -	\$ 5,431	\$ 10,285	\$ 11,275	\$ 30,568	\$ 550,221
832,503	3,663,379	1,365,723	1,337,295	1,191,190	2,022,383
1,356,292	1,810,198	1,806,794	-	-	-
1,325,206	-	884,510	823,579	-	-
-	-	-	-	221,561	302,436
-	-	-	-	101,575	96,262
-	-	-	-	42,270	71,538
-	-	-	-	610,912	615,582
-	-	-	-	-	(40,379)
<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>	<u>\$ 3,618,043</u>

CITY OF BAY CITY, TEXAS

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)

Last ten fiscal years

	Fiscal Year			
	2005	2006	2007	2008
Revenues				
Taxes	\$ 6,780,467	\$ 7,087,728	\$ 8,247,870	\$ 8,793,242
Licenses and permits	6,310	4,993	4,425	6,335
Fines and forfeitures	190,963	171,382	150,025	207,903
Fees and charges for services	221,828	267,995	275,369	359,771
Intergovernmental	472,716	321,043	572,709	610,382
Investment income	108,794	107,901	125,914	54,491
Miscellaneous	816,518	985,113	1,253,574	2,989,815
Total revenues	<u>8,597,596</u>	<u>8,946,155</u>	<u>10,629,886</u>	<u>13,021,939</u>
Expenditures				
Current				
General government	1,447,739	1,571,107	1,734,186	1,903,178
Public safety	2,848,285	2,847,401	3,111,551	3,205,678
Public works	796,747	848,987	964,075	979,730
Public activities and recreation	1,295,179	1,403,702	1,046,249	1,189,963
Cultural arts and public benefits	1,137,233	2,174,859	1,083,632	988,541
Capital outlay	2,304,762	901,429	6,031,745	2,548,637
Debt service				
Principal retirement	308,308	315,447	327,694	357,054
Interest and fiscal charges	261,077	252,907	302,916	444,971
Paying agents' fees and issue costs	-	-	20,174	-
Total expenditures	<u>10,399,330</u>	<u>10,315,839</u>	<u>14,622,222</u>	<u>11,617,752</u>
Excess (deficiency) of revenues over expenditures	(1,801,734)	(1,369,684)	(3,992,336)	1,404,187
Other financing sources (uses)				
Debt issuance	-	410,000	4,127,000	-
Premium on bonds	-	-	-	-
Payment to escrow	-	-	-	-
Transfers in	458,630	1,140,669	5,379,746	1,214,833
Transfers out	(665,112)	(1,039,679)	(5,540,588)	(1,153,441)
Total other financing sources (uses)	<u>(206,482)</u>	<u>510,990</u>	<u>3,966,158</u>	<u>61,392</u>
Changes in fund balances	<u>\$ (2,008,216)</u>	<u>\$ (858,694)</u>	<u>\$ (26,178)</u>	<u>\$ 1,465,579</u>
Debt service as a percentage of noncapital expenditures	<u>7.03%</u>	<u>6.04%</u>	<u>7.34%</u>	<u>8.84%</u>

(1) Modified accrual basis of accounting

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 8,892,810	\$ 8,646,929	\$ 9,398,598	\$ 8,764,173	\$ 8,845,091	\$ 8,894,495
13,033	9,813	9,335	8,947	5,706	205,321
254,034	402,318	736,614	466,970	378,455	339,905
263,473	2,286,558	751,218	408,908	444,908	2,585,325
399,741	156,826	334,370	111,982	281,587	342,057
26,809	14,401	14,914	6,159	5,773	3,647
2,446,952	1,174,532	1,102,026	954,226	713,618	805,993
<u>12,296,852</u>	<u>12,691,377</u>	<u>12,347,075</u>	<u>10,721,365</u>	<u>10,675,138</u>	<u>13,176,743</u>
2,048,581	2,114,190	2,553,230	1,862,353	2,031,233	2,343,485
3,301,382	3,692,061	4,074,012	3,840,767	4,118,972	4,472,587
1,071,482	1,050,523	1,617,989	981,178	1,142,463	2,895,565
1,158,364	1,594,677	1,210,329	1,079,833	996,117	1,052,414
1,056,464	643,792	447,854	684,950	872,918	969,696
2,502,372	3,569,151	2,351,256	467,801	1,005,219	1,072,074
529,847	771,731	883,784	653,759	775,707	847,110
428,781	484,390	622,147	398,754	348,511	257,997
122,550	90,183	-	-	154,249	71,973
<u>12,219,823</u>	<u>14,010,698</u>	<u>13,760,601</u>	<u>9,969,395</u>	<u>11,445,389</u>	<u>13,982,901</u>
77,029	(1,319,321)	(1,413,526)	751,970	(770,251)	(806,158)
2,500,000	3,300,000	-	-	4,672,000	1,598,000
50,974	-	-	-	65,470	67,893
-	-	-	-	(3,960,250)	-
439,236	510,232	1,271,561	568,493	874,319	1,684,648
(1,281,535)	(436,101)	(1,173,223)	(576,872)	(1,054,827)	(2,078,698)
<u>1,708,675</u>	<u>3,374,131</u>	<u>98,338</u>	<u>(8,379)</u>	<u>596,712</u>	<u>1,271,843</u>
\$ <u>1,785,704</u>	\$ <u>2,054,810</u>	\$ <u>(1,315,188)</u>	\$ <u>743,591</u>	\$ <u>(173,539)</u>	\$ <u>465,685</u>
<u>8.84%</u>	<u>10.02%</u>	<u>12.59%</u>	<u>11.09%</u>	<u>11.23%</u>	<u>8.84%</u>

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

<u>Fiscal Year</u>	<u>Property</u>	<u>Franchise</u>	<u>Sales</u>	<u>Other</u>	<u>Total</u>
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	3,819,369	1,087,598	3,440,988	497,136	8,845,091
2014	3,826,543	984,607	3,469,272	614,073	8,894,495

(1) Modified accrual basis of accounting

NOTE: * Prior to FY 2008 the City reported other taxes with sales taxes.

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

<u>Fiscal Year</u>	<u>Tax Roll</u>	<u>Residential Property</u>	<u>Commercial and Industrial Property</u>	<u>Personal Property</u>	<u>Less: Tax-Exempt Real Property</u>	<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>
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
2014	2013	313,133,675	380,401,017	74,465,600	107,346,413	660,653,879	0.56794

(1) Includes tax-exempt property

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

SOURCE: Matagorda County Appraisal District

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

<u>Fiscal Year</u>	<u>City Direct Rates</u>			<u>Overlapping Rates</u>		
	<u>Debt Service</u>	<u>General Fund</u>	<u>Total</u>	<u>Bay City ISD</u>	<u>Matagorda County</u>	<u>Port of Bay City</u>
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
2014	0.06023	0.50771	0.56794	1.32394	0.32099	0.03645

SOURCE: Tax department records of the various taxing authorities

Overlapping Rates			
<u>Matagorda Co. Hospital District</u>	<u>Matagorda Co. Drainage District #1</u>	<u>Matagorda Co. Conservation & Reclaim. Distr.</u>	<u>Total</u>
\$ 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
0.25600	0.08600	0.00522	2.59654

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

2014		
Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
Wal-Mart Real Estate Business Trust	\$ 8,445,300	1.28%
Wal-Mart Store #01-1405	8,151,610	1.23%
Fortress Lodging LLC	7,454,500	1.13%
AEP Texas Central Co.	6,158,240	0.93%
Pasupatinath LLC	5,237,020	0.79%
Mosaic Nichols LP	4,913,340	0.74%
W R H Bay City LTD	4,076,040	0.62%
Bay City Accommodations LTD	4,000,000	0.61%
H E Butt Grocery Company	3,596,290	0.54%
H E Butt Grocery Company	3,155,600	0.48%
	<u>\$ 55,187,940</u>	<u>8.35%</u>

2005		
Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
AEP Central Power & Light	\$ 6,377,780	1.50%
Sterling Court LLC	5,169,320	1.14%
Wal-Mart Store #01-1405	5,063,540	1.02%
Southwestern Bell Telephone	3,688,220	0.69%
H E Butt Grocery Company	3,488,950	0.58%
W R H Bay City LTD	3,168,030	0.50%
Don Davis Buick Pontiac	2,528,510	0.38%
H E Butt Grocery Company	2,032,510	0.31%
Baywood Square of Bay City LTD	1,931,350	0.29%
Walton Place Limited Partnership	1,770,960	0.27%
	<u>\$ 35,219,170</u>	<u>6.68%</u>

SOURCE: Matagorda Central Appraisal District

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

<u>Fiscal Year</u>	<u>Taxes Levied for the Fiscal Year (Original Levy)</u>	<u>Collections within the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
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%	73,390	3,678,908	98.65%
2013	3,750,980	3,668,032	97.79%	14,181	3,682,213	98.17%
2014	3,721,559	3,662,568	98.41%	-	3,662,568	98.41%

SOURCE: Tax Assessor/Collector

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

<u>Fiscal Year</u>	<u>Gallons of Water Produced</u>	<u>Gallons of Water Consumed</u>	<u>Gallons of Water Unbilled</u>	<u>Average Percent Unbilled</u>	<u>Gallons of Wastewater Treated</u>
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
2014	780,403,000	623,508,400	156,894,600	20.10%	545,020,000

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

Fiscal Year	Governmental Activities				
	Certificates of Obligation	General Obligation Bonds	Plus: Issuance Premiums	Notes Payable	Capital Leases
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	71,667	3,633,262	59,466
2012*	4,947,500	4,155,000	47,782	290,461	-
2013	4,595,000	3,995,000	92,872	819,255	-
2014	5,828,000	3,665,000	149,646	667,185	199,845

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

* Beginning in FY 2012, the City no longer reported the Bay City Community Development Corporation as a blended component unit.

Business-type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
Certificates of Obligation	General Obligation Bonds	Plus: Issuance Premiums	Notes Payable			
\$ -	\$ 9,420,000	\$ -	\$ 111,774	\$ 15,824,805	2.89%	\$ 861
-	8,405,000	-	34,851	14,827,435	2.64%	788
-	7,375,000	-	-	17,552,727	3.05%	911
-	6,305,000	-	-	16,115,301	2.74%	817
2,500,000	5,220,000	-	-	19,489,638	3.43%	1,044
2,282,500	4,025,000	-	-	20,594,453	5.37%	1,169
2,057,500	2,795,000	112,436	-	18,436,831	4.79%	1,044
11,357,500	1,530,000	119,508	-	22,447,751	5.78%	1,271
10,675,000	225,000	88,080	-	20,490,207	5.33%	1,172
12,297,000	-	157,645	-	22,964,321	3.70%	1,312

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

Fiscal Year	General Bonded Debt Outstanding			Less: Amounts Restricted to Repaying Principal	Net Bonded Debt
	Certificates of Obligation	General Obligation Bonds	Total		
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	5,431	16,559,569
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	30,568	19,459,432
2014	18,125,000	3,665,000	21,790,000	542,496	21,247,504

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

<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
3.57%	\$ 828
3.09%	744
2.56%	662
2.14%	581
2.51%	811
2.60%	940
2.20%	824
3.36%	1,244
2.97%	1,113
3.22%	1,214

CITY OF BAY CITY, TEXAS**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT****(UNAUDITED)****September 30, 2014**

	<u>Gross Debt Outstanding</u>		<u>Percentage</u>	<u>Amount</u>
	<u>Date</u>	<u>Amount</u>	<u>To City</u>	<u>Applicable</u>
				<u>To City</u>
Direct Debt:				
City of Bay City	9/30/2014	<u>\$ 10,509,676</u>	100.00%	<u>\$ 10,509,676</u>
Overlapping Debt:				
Matagorda County	12/31/2014	355,000	14.36%	50,978
Bay City Independent School District	6/30/2014	<u>16,999,156</u>	66.50%	<u>11,304,439</u>
Total Overlapping Debt		<u>17,354,156</u>		<u>11,355,417</u>
Total		<u>\$ 27,863,832</u>		<u>\$ 21,865,093</u>

NOTES: 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.

The percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable value that is within the City's boundaries and dividing it by each government's total taxable value.

SOURCES: Bay City Independent School District
Matagorda County

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

<u>Fiscal Year</u>	(1) <u>Population</u>	<u>Personal Income</u>	(1) <u>Per Capita Personal Income</u>	(1) <u>Median Age</u>	(2) <u>School Enrollment</u>	(3) <u>Unemployment Rate</u>
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	29,827	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	383,509,622	21,773	33	3,797	11.2%
2011	17,663	384,576,499	21,773	33	3,772	11.6%
2012	17,663	388,586,000	22,000	33	3,770	10.1%
2013	17,476	384,472,000	22,000	33	3,860	9.80%
2014	17,509	620,273,834	35,426	38	3,735	8.30%

NOTES: Personal income figures for 2010 through 2014 are not available.

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

N/A denotes information not available

Personal income information is a total for the year

SOURCES: (1) Bureau of the Census

(2) Bay City Independent School District

(3) Texas Workforce Commission

CITY OF BAY CITY, TEXAS
PRINCIPAL EMPLOYERS
(UNAUDITED)
Current Year and Two Years Ago

2014	
<u>Employer</u>	<u>Employees</u>
South Texas Project (STP)	1,157
Bay City ISD	531
Matagorda County General Hospital	261
Matagorda County	222
OXEA	173
Tenaris	165
Lyondell	146
City of Bay City	144
Wal-Mart	122
H.E.B.	100
	<u>3,021</u>

2012	
<u>Employer</u>	<u>Employees</u>
South Texas Project (STP)	1,200
Bay City ISD	820
Wal-Mart	305
Matagorda County General Hospital	300
H.E.B.	250
Lyondell	220
Valerus	188
City of Bay City	175
OXEA	140
Henerson	26
	<u>3,624</u>

NOTES: Information for nine years ago was not readily available.

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

Function/Program	Fiscal Year				
	2004	2005	2006	2007	2008
General government	45.00	46.00	46.00	51.00	35.00
Public safety					
Police					
Officers	31.00	31.00	31.00	30.00	37.00
Civilians	14.00	14.00	14.00	21.00	18.00
Fire					
Firefighters	46.00	44.00	44.00	35.00	37.00
Civilians	4.00	4.00	4.00	3.00	1.00
Public works					
Streets/maintenance	20.00	20.00	20.00	24.00	18.00
Public activities and recreation	8.00	8.00	8.00	5.00	11.00
Library	-	-	-	-	-
Water and sewer	21.00	21.00	21.00	23.00	32.00
Airport	-	-	-	-	-
Equipment maintenance	-	-	-	-	-
Information technology	-	-	-	-	-
Sanitation	-	-	-	-	-
Total	<u>189.00</u>	<u>188.00</u>	<u>188.00</u>	<u>192.00</u>	<u>189.00</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 2013.

City contracted out sanitation operations during FY 2014.

Fiscal Year					
<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
35.00	24.29	25.29	25.29	23.00	18.00
35.00	35.00	35.00	35.00	37.00	39.00
20.19	20.19	20.19	20.19	18.00	21.00
36.00	34.00	34.00	34.00	35.00	36.00
1.00	1.00	1.00	1.00	1.00	1.00
35.00	19.00	19.00	16.00	18.00	14.00
11.00	11.76	11.76	11.76	10.00	10.00
-	-	-	-	8.00	6.00
29.00	43.00	44.00	39.00	21.00	25.00
-	2.00	2.00	1.00	2.00	2.00
-	-	-	4.00	9.00	9.00
-	-	-	-	-	3.00
<u>10.00</u>	<u>11.00</u>	<u>11.00</u>	<u>16.28</u>	<u>13.00</u>	<u>-</u>
<u>212.19</u>	<u>201.24</u>	<u>203.24</u>	<u>203.52</u>	<u>195.00</u>	<u>184.00</u>

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

Function/Program	Fiscal Year			
	2004	2005	2006	2007
Public safety				
Police				
Stations	1	1	1	1
Patrol units	28	28	29	30
Fire				
Fire stations	1	1	1	1
Public works				
Streets				
Streets (miles)	N/A	N/A	N/A	N/A
Parks				
Acreage	187	187	207	207
Parks	19	19	20	20
Swimming pools	2	2	2	2
Water and wastewater				
Water				
Water mains (miles)	N/A	N/A	90	90
Fire hydrants	N/A	N/A	N/A	600
Maximum daily capacity (thousands of gallons)	N/A	N/A	4	4
Wastewater				
Sanitary sewers (miles)	N/A	N/A	85	85
Storm sewers (miles)	N/A	N/A	70	70
Maximum daily treatment capacity (thousands of gallons)	N/A	N/A	4	4
Sanitation				
Collection trucks	N/A	N/A	N/A	N/A

NOTES: N/A denotes information not available

City contracted out sanitation operations during FY 2014 and sold the collection trucks to third-party.

Fiscal Year						
2008	2009	2010	2011	2012	2013	2014
1	1	1	1	1	1	1
30	32	31	31	31	35	33
1	1	1	1	1	1	1
N/A	95	109	109	109	109	109
207	186	185	185	185	185	185
20	22	16	16	16	16	16
2	2	2	2	2	2	2
90	94	94	94	94	94	115
600	600	600	600	600	600	600
4	4	4	4	4	4	4
85	88	88	88	88	88	88
70	80	80	80	80	80	80
4	4	4.3	4.3	4.3	4.3	4.3
N/A	8	8	8	8	8	0

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

Function/Program	Fiscal Year			
	2005	2006	2007	2008
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	3,321	2,539	1,846	1,399
Accident Reports	638	514	566	235
Citations	3,689	1,404	2,522	2,175
Offense reports	4,273	3,534	4,259	22,827
Calls for service	17,801	15,622	26,557	22,461
Fire				
Emergency responses	283	237	282	264
Fire incidents	83	80	83	112
Service calls and other calls	167	138	135	95
Automatic aid, mutual aid given	33	19	63	57
Streets and highways				
Street resurfacing (miles)**	-	-	-	-
Water and wastewater				
Water				
Average daily consumption (millions)	2.487	2.241	2.061	2.357
Total consumption (millions)	907.796	817.903	752.369	860.144
Peak daily consumption (millions)	4.044	4.620	4.823	3.686
Wastewater				
Average daily sewage treatment (mil)	2.330	2.417	3.009	2.000
Total consumption (millions)	850.374	882.079	1,098.387	729.502
Peak daily consumption (millions)	N/A	N/A	17.123	7.117

NOTES: N/A denotes information not available

*Only five years of data available at this time.

**No data is available at this time.

Fiscal Year					
2009	2010	2011	2012	2013	2014
N/A	442	310	231	459	1,227
N/A	222	691	431	1,222	1,735
N/A	13	5	6	22	8
1,513	1,934	1,730	893	1,722	1,520
425	452	416	199	304	325
2,791	4,484	3,223	1,196	1,621	1,862
7,222	3,017	2,734	1,327	2,669	2,231
27,968	32,296	33,453	19,333	32,155	31,544
219	165	220	175	233	178
133	71	132	95	101	66
75	94	88	80	132	112
19	22	27	39	21	19
-	-	-	-	-	-
2.503	1.907	2.248	2.217	2.187	1.707
913.706	695.911	820.538	809.245	798.353	623.508
4.608	3.516	4.395	3.799	3.485	2.001
2.153	1.963	1.575	1.570	1.566	N/A
785.700	716.328	574.870	573.170	571.850	545.020
5.100	13.556	9.758	11.916	11.755	N/A

**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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 2, 2015. The financial statements of the Bay City Economic Development Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of or reportable noncompliance associated with the Bay City Economic Development Corporation. Also, our report includes a reference to other auditors who audited the financial statements of the Bay City Gas Company, as described in our report on the City's financial statements. These financial statements 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.



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

July 2, 2015