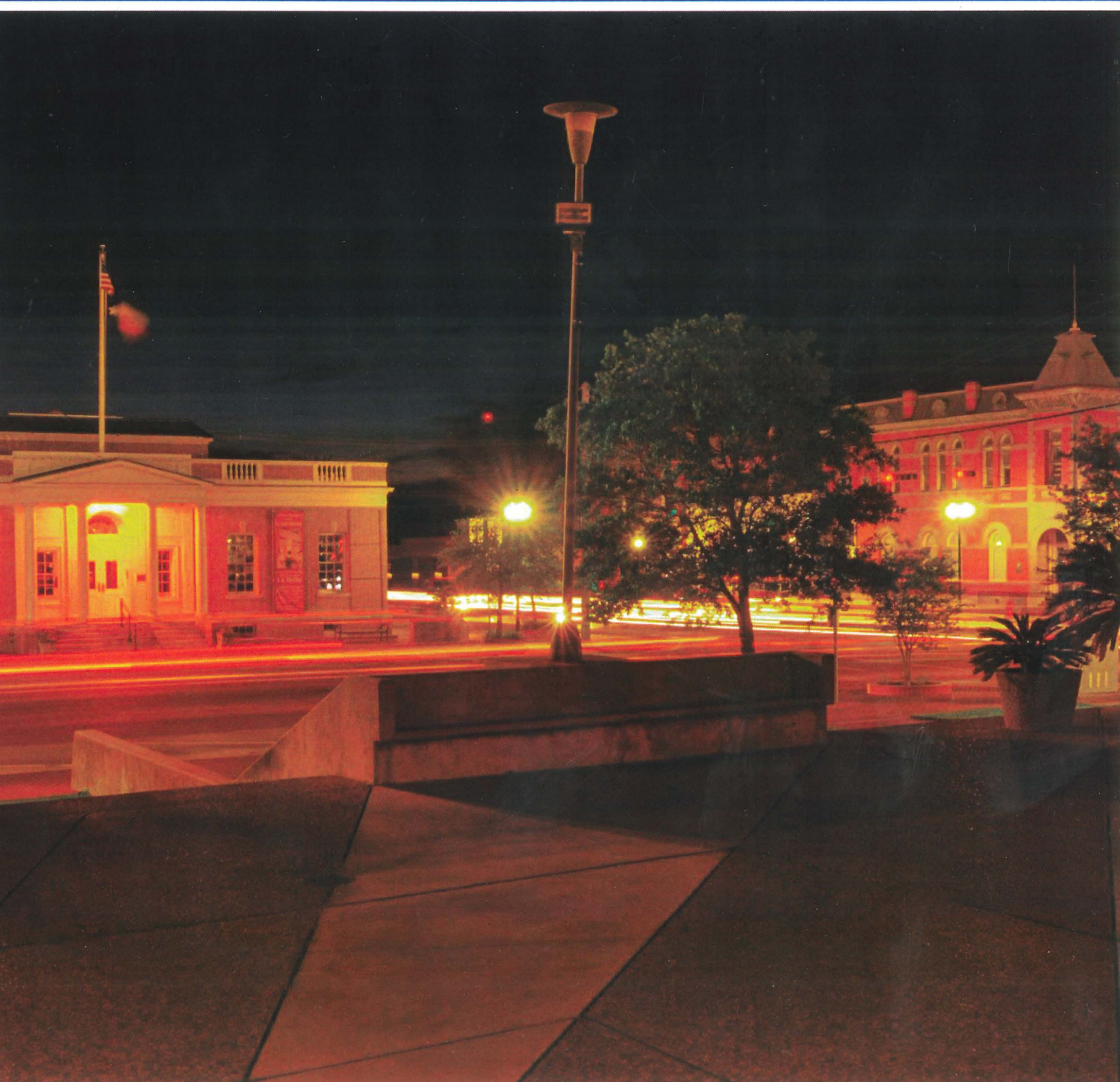


City of Bay City, Texas Comprehensive Annual **Financial Report**



For the year ended September 30 **2016**



CITY OF BAY CITY, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended September 30, 2016

Scotty Jones
Finance Director

Mark Bricker
Mayor

Issued By:
Finance Department

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INTRODUCTORY SECTION



CITY OF BAY CITY

1901 5TH Street, Bay City, Texas 77414, Phone: 979-245-2137 Fax: 979-323-1626, www.cityofbaycity.org

Mayor
Ext. 1676
979-245-7597

City Secretary
Ext. 1628
979-245-5311

Animal Control
979-323-1706

Airport
979-245-5037

Civic Center
979-245-8333

Code Enforcement
Ext. 1924
979-245-8500

Finance
Ext. 1631
979-245-7597

Fire Station
979-245-8314

Inspections/Permits
Ext. 1669
979-323-1659

Municipal Court
Ext. 1647
979-245-0003

Parks & Recreation
Ext. 1607
979-323-1660

Personnel
Ext. 1628
979-245-5311

Public Works
979-323-1659

Police
979-245-8500

Utilities Operation
979-323-1110

Utility Billing
Ext. 1638
979-245-7597

April 21, 2017

Citizens of Bay City
Honorable Mayor and Members of the City Council,

The Finance Department is pleased to submit the Comprehensive Annual Financial Report for the City of Bay City, Texas, for the fiscal ended September 30, 2016. This report was prepared through the cooperative effort of the Finance Department and the City's independent auditor. 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, 2016, 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, 2016, 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, 2016, 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 17,598. 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, with three term limits, and Council members are elected at large for a two-year term, with three 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.

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 1.24% 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 \$743 million for fiscal year 2016, which is an 9.74% increase from fiscal year 2015.

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 objective of budgetary controls is to ensure compliance with legal provisions contained in the annual appropriated budget approved by the City Council. The City has adopted budgets for the General, Special Revenue Funds, Capital Project Funds, Enterprise Funds and Internal Service Funds. Quarterly financial and capital project reports are presented to Council to aid in accomplishing budgetary control. 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 2015, 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. The plan has been reviewed and updated as necessary during the budget development process each year thereafter.

MAJOR INITIATIVES

The City issued \$5,665,000 in certificates of obligation during fiscal year 2016. The funds will be used for street rehabilitation and reconstruction, repairing and/or replacing water and sewer lines. Phase II of the Street Rehabilitation project was completed fiscal year 2016. Phase III is expected to be completed in fiscal year 2018.

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, 2015. 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. The preparation of this report could not be accomplished without the dedicated services of the entire staff of the Finance Department. Appreciation is expressed to the City employees throughout the organization, especially those responsible for the maintenance of records upon which this report is based. Acknowledgement is given to representatives of Harrison, Waldrop & Uherek, L.L.P. for their assistance in producing the final product.

We would like 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

Scotty Jones
Director of Finance



Government Finance Officers Association

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

Presented to

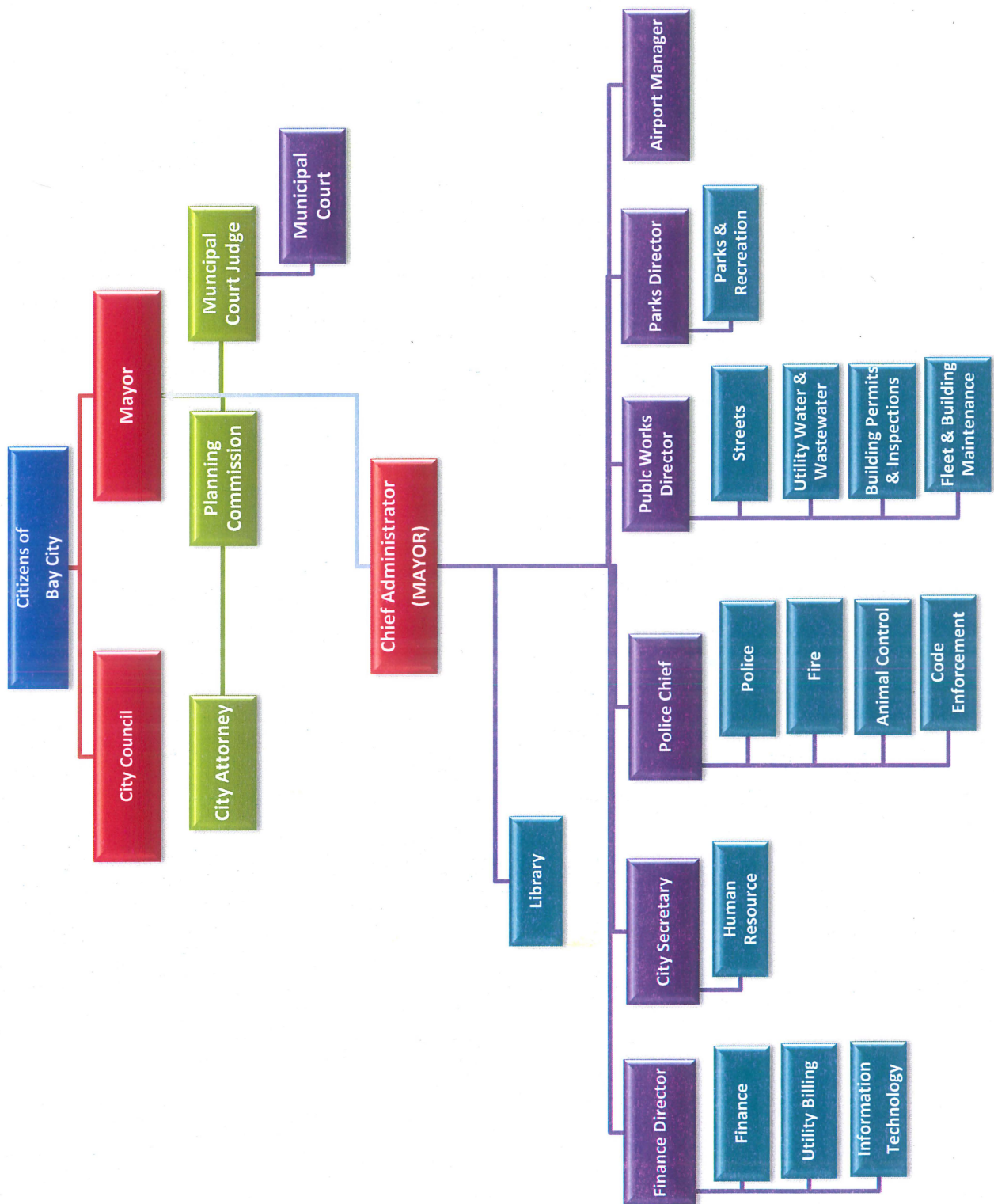
**City of Bay City
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2015



Executive Director/CEO



CITY OF BAY CITY, TEXAS
DIRECTORY OF PRINICPAL OFFICIALS
September 30, 2016

City Officials	Elective Position	Term Expires
Mark Bricker	Mayor	2019
Julie Estlinbaum	Council Member - Position #1	2018
William Cornman	Council Member - Position #2	2018
Chrystal Folse	Council Member - Position #3	2017
Steven Johnson	Council Member - Position #4	2017
Carolyn Thames	Council Member - Position #5	2017

Key Staff	Position
Shannon Kackley	Assistant City Attorney
Barry Calhoun	Public Works Director
Scotty Jones	Finance Director
Roger Barker	Police Chief
Rhonda Clegg	City Secretary
Suzan Thompson	Municipal Court Judge
James Mason	Airport Manager
Shawn Blackburn	Parks and Recreation Director

FINANCIAL SECTION



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

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

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

INDEPENDENT AUDITORS' REPORT

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

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, 2016, 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 31 percent, 40 percent, and 60 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016, 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, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of employer contributions, and historical other postemployment benefits information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2017, 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, L.L.P.
Certified Public Accountants

April 21, 2017

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, 2016.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflow of resources of the City exceeded its liabilities and deferred inflow of resources at the close of the most recent fiscal year by \$29,354,010 (*net position*). Of this amount, \$3,709,424 (*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 \$6,828,069, a decrease of \$215,466 from the prior year. At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,930,425, or 16% of total General Fund expenditures. The decrease in fund balance for the City's General Fund is attributable to increases in overall expenditures and transfers out of \$2,065,255.
- The City's total net position of the business-type activities increased \$2,593,601, or 17%. The net position of the Water and Sewer Fund increased by \$1,670,364 and the Airport Fund increased by \$923,207. The increase in net position for both funds is due to the increase in capital contributions and a decrease in the transfers to other funds during fiscal year 2016 compared to 2015.

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 28

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 29 to 68

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, and cultural recreation. The business-type activities of the City include water and sewer 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 2016-2017 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, the 2014 Capital Project Fund, the Debt Service Fund and the 2016 Capital Project Fund, which are considered major funds. Data from the other nine 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 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 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, a schedule of changes in net pension liability and related ratios, and a schedule of employer contributions. Required supplementary information can be found on pages 69-72 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 73-90 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$29,354,010 at the close of the fiscal year 2016.

By far, the largest portion of the City's net position (84%) 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	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 8,882,473	\$ 9,126,006	\$ 4,724,452	\$ 4,167,168	\$ 13,606,925	\$ 13,293,174
Capital assets (net)	<u>20,414,335</u>	<u>16,913,716</u>	<u>25,267,786</u>	<u>22,778,663</u>	<u>45,682,121</u>	<u>39,692,379</u>
Total assets	<u>29,296,808</u>	<u>26,039,722</u>	<u>29,992,238</u>	<u>26,945,831</u>	<u>59,289,046</u>	<u>52,985,553</u>
Total deferred outflow of resources	<u>1,955,250</u>	<u>665,105</u>	<u>488,812</u>	<u>166,276</u>	<u>2,444,062</u>	<u>831,381</u>
Current liabilities	3,002,621	3,223,245	1,972,111	2,879,388	4,974,732	6,102,633
Noncurrent liabilities	<u>16,648,405</u>	<u>12,595,458</u>	<u>10,524,844</u>	<u>8,811,477</u>	<u>27,173,249</u>	<u>21,406,935</u>
Total liabilities	<u>19,651,026</u>	<u>15,818,703</u>	<u>12,496,955</u>	<u>11,690,865</u>	<u>32,147,981</u>	<u>27,509,568</u>
Total deferred inflow of resources	<u>184,894</u>	<u>307,763</u>	<u>46,223</u>	<u>76,941</u>	<u>231,117</u>	<u>384,704</u>
Net investment in capital assets	9,638,245	6,540,844	15,011,700	13,826,216	24,649,945	20,367,060
Restricted	994,641	646,117	-	-	994,641	646,117
Unrestricted	<u>783,252</u>	<u>3,391,400</u>	<u>2,926,172</u>	<u>1,518,085</u>	<u>3,709,424</u>	<u>4,909,485</u>
Total net position	<u>\$ 11,416,138</u>	<u>\$ 10,578,361</u>	<u>\$ 17,937,872</u>	<u>\$ 15,344,301</u>	<u>\$ 29,354,010</u>	<u>\$ 25,922,662</u>

The balance of unrestricted net position, \$3,709,424 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 increased the City's net position by \$837,777. Key elements of this increase are as follows: Total revenue increased \$969,122 or 6% from prior year which consisted of increases in capital grants and contributions of \$442,465 and property taxes of \$364,101. Net transfers in for governmental activities also decreased \$1,899,074 or 65% from prior year. Net position for the business-type activities increased \$2,593,571 from prior year. The increase is attributable to the increase in capital grants and contributions of \$2,268,680 and the decrease in net transfers out of \$1,899,074.

City of Bay City, Texas

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program revenues:						
Charges for services	\$ 3,724,406	\$ 3,374,266	\$ 7,384,550	\$ 7,213,721	\$ 11,108,956	\$ 10,587,987
Operating grants and contributions	317,050	200,000	68,197	-	385,247	200,000
Capital grants and contributions	828,794	386,329	3,384,479	1,115,799	4,213,273	1,502,128
General revenues:						
Property taxes	4,462,235	4,098,134	-	-	4,462,235	4,098,134
Sales taxes	4,060,320	4,077,195	-	-	4,060,320	4,077,195
Franchise taxes	1,040,631	1,047,005	-	-	1,040,631	1,047,005
Other taxes	694,611	668,601	-	-	694,611	668,601
Unrestricted investment earnings	16,254	2,660	5,966	1,729	22,220	4,389
Miscellaneous	756,915	1,077,904	24,552	-	781,467	1,077,904
Total revenues	15,901,216	14,932,094	10,867,744	8,331,249	26,768,960	23,263,343
EXPENSES						
General government	2,534,500	2,147,396	-	-	2,534,500	2,147,396
Public safety	5,383,527	4,661,538	-	-	5,383,527	4,661,538
Public works	5,216,175	5,595,487	-	-	5,216,175	5,595,487
Cultural and recreation	2,483,518	2,220,915	-	-	2,483,518	2,220,915
Interest on long-term debt	450,012	340,100	-	-	450,012	340,100
Water and sewer	-	-	6,681,343	6,063,713	6,681,343	6,063,713
Airport	-	-	588,537	550,555	588,537	550,555
Total expenses	16,067,732	14,965,436	7,269,880	6,614,268	23,337,612	21,579,704
Change in net position before transfers	(166,516)	(33,342)	3,597,864	1,716,981	3,431,348	1,683,639
Transfers	1,004,293	2,903,367	(1,004,293)	(2,903,367)	-	-
Special item	-	(1,208,541)	-	1,134,457	-	(74,084)
Change in net position	837,777	1,661,484	2,593,571	(51,929)	3,431,348	1,609,555
Net position - October 1	10,578,361	8,916,877	15,344,301	15,396,230	25,922,662	24,313,107
Net position - September 30	<u>\$ 11,416,138</u>	<u>\$ 10,578,361</u>	<u>\$ 17,937,872</u>	<u>\$ 15,344,301</u>	<u>\$ 29,354,010</u>	<u>\$ 25,922,662</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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,828,069, a decrease of \$215,466 from the prior year.

Approximately 28% of this total amount or \$1,930,425 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance of \$4,897,644 or 72% 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 \$1,930,425. Unassigned fund balance represents 16% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$1,091,095 during the current fiscal year. The decrease in fund balance for the City's General Fund is attributable to increases in overall expenditures and transfers out of \$2,065,255. The fund balance of the 2014 Capital Project Fund, a major capital project fund, decreased by \$2,523,280 due to the spending of the 2014 bond proceeds. The 2016 Capital Project Fund increased fund balance by \$3,865,325 due to the issuance of debt. The Debt Service Fund fund balance increased due to an increase in tax revenues and transfers in compared to previous years.

Proprietary Funds

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

Unrestricted net position of the Water and Sewer Fund at the end of the current fiscal year amounted to \$2,798,606, which is an increase of \$1,378,668 from the prior year. Unrestricted net position of the Airport Fund amounted to \$127,566 at the end of the current fiscal year, which is an increase of \$29,419 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were less than budgetary expectations by \$267,459 and actual expenditures were \$225,574 less than budgetary projections. Total operating revenues were \$13,088,030, while total operating expenditures were \$12,189,302. This resulted in an excess of revenues over expenditures of \$898,728 which was \$41,885 less than budgetary expectations. The negative variance in actual revenues compared to the budget is primarily related to ad valorem tax and franchise tax revenues being less than anticipated revenues for a combined amount of \$291,911. Public works expenditures had a positive variance of \$199,718 compared to budget which was mainly due to less capital outlay expenditures than anticipated. Also, other financing uses (transfers out) of \$2,223,607 were greater than the budgeted amount of \$2,119,880. This all resulted in a net decrease in fund balance for the General Fund of \$1,091,095.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$45,682,121 (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 increase in the City's investment in capital assets was \$5,989,742.

City of Bay City, Texas						
Capital Assets (Net of Depreciation)						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,522,795	\$ 1,460,085	\$ 381,117	\$ 381,117	\$ 1,903,912	\$ 1,841,202
Construction in progress	6,343,361	4,240,231	4,303,570	3,221,004	10,646,931	7,461,235
Buildings and improvements	658,028	254,399	426,819	450,959	1,084,847	705,358
Machinery and equipment	2,972,320	2,784,585	7,400,341	7,870,376	10,372,661	10,654,961
Infrastructure	8,917,831	8,174,416	12,755,939	10,855,207	21,673,770	19,029,623
Total	<u>\$20,414,335</u>	<u>\$16,913,716</u>	<u>\$25,267,786</u>	<u>\$22,778,663</u>	<u>\$45,682,121</u>	<u>\$39,692,379</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 \$23,355,000. Of this amount, \$2,990,000 represents general obligation debt and certificates of obligation totaled \$20,365,000. The City's bonded debt had a net increase of \$3,575,000 or 18% during the fiscal year ended September 30, 2016. The net increase included the issuance of the 2016 Certificates of Obligations in the amount of \$5,665,000 and current year payments of principal of \$2,090,000.

Additional information on the City's long-term debt can be found in Note 9.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the City's budget for the 2016-2017 fiscal year.

Although property values and consumer spending appear strong, the City continues to budget conservatively. The total sales tax payments received by the City from the State Comptroller in fiscal year 2016 equaled \$4,060,321. This amount is a decrease of \$16,874 or 0.4% compared to the previous year. For fiscal year 2017, the City has budgeted \$4,117,500 in sales tax revenue. Sales tax is anticipated to increase 3% over fiscal year 2016 due to the construction of a seamless pipe mill company just outside of the City limits. This facility currently employs by contract approximately 1,500 construction employees and upon completion will bring more than 600 permanent jobs to the community. The new facility is expected to begin full operation in December 2017.

The certified assessed taxable property valuations for the 2017 fiscal year tax roll total \$763,470,173 with a tax rate of \$0.48811 per \$100 valuation for maintenance and operations and \$0.11398 per \$100 valuation for the interest and sinking fund. The total tax rate of \$0.60209 remained unchanged from the fiscal 2016 tax rate. The certified assessed taxable property valuations increased from the 2015 tax roll by \$19,937,681 or 2.68%.

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

The City issued Certificates of Obligation in the summer of 2016. The proceeds from these Certificates continue to be used for street improvements as well as water and sewer infrastructure improvements throughout the City. Phase II of the Street Rehabilitation project was completed in fiscal year 2016. Phase III of the Street Rehabilitation project, funded by the 2016 Certificates of Obligation, is scheduled to be completed in fiscal year 2018.

The City of Bay City, in conjunction with the Bay City Community Development Corporation, approved the creation of two Tax Increment Reinvestment Zones (TIRZ#1 and TIRZ#2) pursuant to Chapter 311 of the Texas Tax Code. The first reinvestment zone is generally located in the downtown area, including a large portion of the north downtown area. The second reinvestment zone is generally located at the far eastern city limit and is currently unimproved land. Subsequent to year end, TIRZ #3 was approved for an estimated 68 lot sub-division.

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, 2016

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 7,356,990	\$ 3,312,514	\$ 10,669,504	\$ 3,485,513
Investments	-	-	-	1,492,552
Receivables (net)	1,086,629	1,371,724	2,458,353	293,631
Due from other governments	349,340	-	349,340	116,447
Due from component unit	5,240	-	5,240	-
Due from employees	-	-	-	11,503
Prepaid items	84,274	26,429	110,703	-
Inventory	-	13,785	13,785	34,579
Restricted assets				
Cash and cash equivalents	-	-	-	242,771
Investments	-	-	-	208,001
Total current assets	<u>8,882,473</u>	<u>4,724,452</u>	<u>13,606,925</u>	<u>5,884,997</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	7,866,156	4,684,687	12,550,843	2,516,941
Buildings, improvements, and equipment (net)	<u>12,548,179</u>	<u>20,583,099</u>	<u>33,131,278</u>	<u>6,761,269</u>
Total noncurrent assets	<u>20,414,335</u>	<u>25,267,786</u>	<u>45,682,121</u>	<u>9,278,210</u>
Total assets	<u>29,296,808</u>	<u>29,992,238</u>	<u>59,289,046</u>	<u>15,163,207</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred amounts related to TMRS	<u>1,955,250</u>	<u>488,812</u>	<u>2,444,062</u>	-

The accompanying notes are an integral part of this statement.

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities				
Accounts payable	\$ 1,176,576	\$ 328,681	\$ 1,505,257	\$ 277,830
Accrued expenses	199,971	44,837	244,808	7,282
Accrued interest payable	29,696	27,502	57,198	17,064
Due to primary government	-	-	-	5,240
Due to other governments	40,071	-	40,071	-
Deposits	28,675	861,151	889,826	449,110
Unearned revenue	13,137	14,395	27,532	-
Accrued compensated absences	27,078	3,045	30,123	-
Current portion of long-term obligations	1,487,417	692,500	2,179,917	158,172
Total current liabilities	3,002,621	1,972,111	4,974,732	914,698
Noncurrent liabilities				
Noncurrent portion of long-term obligations	16,648,405	10,524,844	27,173,249	3,779,768
Total noncurrent liabilities	16,648,405	10,524,844	27,173,249	3,779,768
Total liabilities	19,651,026	12,496,955	32,147,981	4,694,466
DEFERRED INFLOW OF RESOURCES				
Deferred inflow related to TMRS	184,894	46,223	231,117	-
NET POSITION				
Net investment in capital assets	9,638,245	15,011,700	24,649,945	5,340,273
Restricted for:				
Debt service	240,914	-	240,914	-
Public safety	94,804	-	94,804	-
Municipal court	83,196	-	83,196	-
Cultural and recreation	575,727	-	575,727	-
Unrestricted	783,252	2,926,172	3,709,424	5,128,468
Total net position	\$ 11,416,138	\$ 17,937,872	\$ 29,354,010	\$ 10,468,741

CITY OF BAY CITY, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2016

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 2,534,500	\$ 429,269	\$ -	\$ -
Public safety	5,383,527	276,229	111,454	-
Public works	5,216,175	2,779,000	-	10,063
Cultural and recreation	2,483,518	239,908	205,596	818,731
Interest on long-term debt	450,012	-	-	-
Total governmental activities	<u>16,067,732</u>	<u>3,724,406</u>	<u>317,050</u>	<u>828,794</u>
Business-type activities				
Water and sewer	6,681,343	7,108,017	-	2,337,999
Airport	588,537	276,533	68,197	1,046,480
Total business-type activities	<u>7,269,880</u>	<u>7,384,550</u>	<u>68,197</u>	<u>3,384,479</u>
Total primary government	<u>\$ 23,337,612</u>	<u>\$ 11,108,956</u>	<u>\$ 385,247</u>	<u>\$ 4,213,273</u>
Component Units	<u>\$ 3,413,597</u>	<u>\$ 2,375,605</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position
Primary Government

<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>	<u>Component Units</u>
\$ (2,105,231)	\$ -	\$ (2,105,231)	\$ -
(4,995,844)	-	(4,995,844)	-
(2,427,112)	-	(2,427,112)	-
(1,219,283)	-	(1,219,283)	-
(450,012)	-	(450,012)	-
<u>(11,197,482)</u>	<u>-</u>	<u>(11,197,482)</u>	<u>-</u>
-	2,764,673	2,764,673	-
<u>-</u>	<u>802,673</u>	<u>802,673</u>	<u>-</u>
-	3,567,346	3,567,346	-
<u>(11,197,482)</u>	<u>3,567,346</u>	<u>(7,630,136)</u>	<u>-</u>
-	-	-	(1,037,992)
3,645,028	-	3,645,028	-
817,207	-	817,207	-
4,060,320	-	4,060,320	1,353,440
1,040,631	-	1,040,631	-
694,611	-	694,611	-
16,254	5,966	22,220	21,602
756,915	24,552	781,467	7,262
1,004,293	(1,004,293)	-	-
<u>12,035,259</u>	<u>(973,775)</u>	<u>11,061,484</u>	<u>1,382,304</u>
837,777	2,593,571	3,431,348	344,312
<u>10,578,361</u>	<u>15,344,301</u>	<u>25,922,662</u>	<u>10,124,429</u>
<u>\$ 11,416,138</u>	<u>\$ 17,937,872</u>	<u>\$ 29,354,010</u>	<u>\$ 10,468,741</u>

CITY OF BAY CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2016

	General	2016 Capital Project Fund	2014 Capital Project Fund	Debt Service Fund
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,441,679	\$ 3,867,413	\$ -	\$ 233,825
Receivables (net)	920,437	-	-	36,785
Due from other governments	349,340	-	-	-
Due from other funds	4,063	-	211,256	-
Due from component unit	1,177	-	-	-
Prepaid items	44,589	-	-	-
Total assets	\$ 3,761,285	\$ 3,867,413	\$ 211,256	\$ 270,610
LIABILITIES				
Accounts payable	\$ 778,433	\$ 2,088	\$ 211,256	\$ -
Accrued expenditures	174,407	-	-	-
Deposits	2,625	-	-	-
Due to other funds	211,256	-	-	-
Due to other governments	40,071	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	1,206,792	2,088	211,256	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	579,479	-	-	36,785
Total deferred inflows of resources	579,479	-	-	36,785
FUND BALANCES				
Nonspendable	44,589	-	-	-
Restricted	-	3,865,325	-	233,825
Unassigned	1,930,425	-	-	-
Total fund balances	1,975,014	3,865,325	-	233,825
Total liabilities, deferred inflows and fund balances	\$ 3,761,285	\$ 3,867,413	\$ 211,256	\$ 270,610

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 776,446	\$ 7,319,363
129,407	1,086,629
-	349,340
4,063	215,319
36,577	5,240
<u>946,493</u>	<u>81,166</u>
\$ 946,493	\$ 9,057,057

\$ 143,034	\$ 1,134,811
6,304	180,711
26,050	28,675
4,063	215,319
-	40,071
13,137	13,137
<u>192,588</u>	<u>1,612,724</u>

-	616,264
-	616,264

-	44,589
753,905	4,853,055
-	1,930,425
<u>753,905</u>	<u>6,828,069</u>

\$ 946,493	\$ 9,057,057
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CITY OF BAY CITY, TEXAS**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES**

September 30, 2016

Total governmental fund balances		\$ 6,828,069
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Internal service funds are used by the City to charge the costs of certain activities, such as insurance and vehicle and equipment services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		435,770
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 "unavailable" in the funds.		438,135
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.		178,129
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	\$ 45,467,634	
Accumulated depreciation of governmental capital assets	<u>(25,639,622)</u>	19,828,012
Deferred outflows of resources are not reported in the governmental funds:		
Pension contributions after measurement date	412,678	
Change in actuarial assumptions used to determine pension liability	108,675	
Difference in projected and actual earnings on pension assets	<u>1,433,897</u>	1,955,250
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	(13,280,417)	
Premiums on bonds payable	(424,826)	
Notes payable	(349,849)	
Accrued interest on the bonds	(29,696)	
Compensated absences	(242,130)	
Net pension liability	<u>(3,735,415)</u>	(18,062,333)
Deferred inflows of resources are not reported in the governmental funds:		
Difference in expected and actual pension experience		<u>(184,894)</u>
Net position of governmental activities		<u>\$ 11,416,138</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, 2016*

	General	2016 Capital Project Fund	2014 Capital Project Fund	Debt Service Fund
REVENUES				
Taxes	\$ 8,899,692	\$ -	\$ -	\$ 820,985
Licenses and permits	255,511	-	-	-
Fines and forfeitures	269,859	-	-	-
Fees and charges for services	2,755,992	-	-	-
Intergovernmental	58,635	-	-	-
Investment income	2,746	2,103	6,748	600
Miscellaneous	845,595	-	-	-
Total revenues	<u>13,088,030</u>	<u>2,103</u>	<u>6,748</u>	<u>821,585</u>
EXPENDITURES				
Current				
General government	2,335,155	-	-	-
Public safety	4,938,374	-	-	-
Public works	3,424,210	-	-	-
Cultural and recreation	1,421,965	-	-	-
Debt service				
Principal	64,252	-	-	1,489,500
Interest and fiscal charges	5,346	-	-	339,304
Paying agents' fees and issue costs	-	123,195	-	-
Capital outlay	-	25,893	3,469,617	-
Total expenditures	<u>12,189,302</u>	<u>149,088</u>	<u>3,469,617</u>	<u>1,828,804</u>
Excess (deficiency) of revenues over expenditures	898,728	(146,985)	(3,462,869)	(1,007,219)
OTHER FINANCING SOURCES (USES)				
Bonds issued	-	3,776,667	-	-
Premium on bonds issued		235,643	-	-
Transfers in	233,784	-	939,589	1,209,739
Transfers out	(2,223,607)	-	-	-
Total other financing sources (uses)	<u>(1,989,823)</u>	<u>4,012,310</u>	<u>939,589</u>	<u>1,209,739</u>
Net change in fund balances	(1,091,095)	3,865,325	(2,523,280)	202,520
Fund balances at beginning of year	3,066,109	-	2,523,280	31,305
Fund balances at end of year	<u>\$ 1,975,014</u>	<u>\$ 3,865,325</u>	<u>\$ -</u>	<u>\$ 233,825</u>

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 654,420	\$ 10,375,097
-	255,511
52,307	322,166
142,218	2,898,210
206,000	264,635
4,043	16,240
46,520	892,115
<u>1,105,508</u>	<u>15,023,974</u>
-	2,335,155
47,627	4,986,001
1,560	3,425,770
974,275	2,396,240
-	1,553,752
-	344,650
-	123,195
209,206	3,704,716
<u>1,232,668</u>	<u>18,869,479</u>
(127,160)	(3,845,505)
-	3,776,667
-	235,643
536,932	2,920,044
<u>(1,078,708)</u>	<u>(3,302,315)</u>
<u>(541,776)</u>	<u>3,630,039</u>
(668,936)	(215,466)
<u>1,422,841</u>	<u>7,043,535</u>
<u>\$ 753,905</u>	<u>\$ 6,828,069</u>

CITY OF BAY CITY, TEXAS**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES***For the year ended September 30, 2016*

Total net change in fund balances - governmental funds		\$ (215,466)
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Amounts reported for governmental activities in the statement of activities are different because:

Internal service funds are used by the City to charge the costs of certain activities, such as insurance and vehicle and equipment services, to individual funds. The net activity of the internal service funds are reported with governmental activities.

(9,749)

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	\$ 5,196,429	
Depreciation expense	<u>(1,644,066)</u>	3,552,363

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	(3,776,667)	
(Premium) discount	<u>(235,643)</u>	(4,012,310)

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:

Debt principal retirement		1,553,752
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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	(36,335)	
Other revenues	<u>110,831</u>	74,496

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences	60,864	
Increase in accrued interest	(22)	
Net pension cost	(189,049)	
Decrease in bond premium	<u>22,898</u>	(105,309)

Change in net position of governmental activities		\$ 837,777
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The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2016

	Business-type Activities			Governmental Activities
	Water and Sewer	Airport	Total	Internal Service Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,184,670	\$ 127,844	\$ 3,312,514	\$ 37,627
Receivables (net)	1,361,504	10,220	1,371,724	-
Prepaid items	19,118	7,311	26,429	3,108
Inventory	-	13,785	13,785	-
Total current assets	<u>4,565,292</u>	<u>159,160</u>	<u>4,724,452</u>	<u>40,735</u>
Noncurrent assets				
Land and other assets not being depreciated	4,458,091	226,596	4,684,687	-
Buildings, improvements, and equipment (net)	<u>18,797,398</u>	<u>1,785,701</u>	<u>20,583,099</u>	<u>586,323</u>
Total noncurrent assets	<u>23,255,489</u>	<u>2,012,297</u>	<u>25,267,786</u>	<u>586,323</u>
Total assets	<u>27,820,781</u>	<u>2,171,457</u>	<u>29,992,238</u>	<u>627,058</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow related to TMRS	<u>488,812</u>	<u>-</u>	<u>488,812</u>	<u>-</u>
LIABILITIES				
Current liabilities				
Accounts payable	320,280	8,401	328,681	41,765
Accrued expenses	41,952	2,885	44,837	19,260
Accrued interest payable	27,502	-	27,502	-
Deposits	856,006	5,145	861,151	-
Unearned revenue	-	14,395	14,395	-
Accrued compensated absences	2,968	77	3,045	2,865
Current portion of capital lease payable	-	-	-	52,068
Current portion of certificates payable	<u>692,500</u>	<u>-</u>	<u>692,500</u>	<u>-</u>
Total current liabilities	<u>1,941,208</u>	<u>30,903</u>	<u>1,972,111</u>	<u>115,958</u>
Noncurrent liabilities				
Accrued compensated absences	26,714	691	27,405	25,781
Net pension liability	933,853	-	933,853	-
Capital lease payable	-	-	-	49,549
Certificates payable (net of unamortized deferred amounts)	<u>9,563,586</u>	<u>-</u>	<u>9,563,586</u>	<u>-</u>
Total noncurrent liabilities	<u>10,524,153</u>	<u>691</u>	<u>10,524,844</u>	<u>75,330</u>
Total liabilities	<u>12,465,361</u>	<u>31,594</u>	<u>12,496,955</u>	<u>191,288</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow related to TMRS	<u>46,223</u>	<u>-</u>	<u>46,223</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	12,999,403	2,012,297	15,011,700	484,706
Unrestricted net position	<u>2,798,606</u>	<u>127,566</u>	<u>2,926,172</u>	<u>(48,936)</u>
Total net position	<u>\$ 15,798,009</u>	<u>\$ 2,139,863</u>	<u>\$ 17,937,872</u>	<u>\$ 435,770</u>

The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS**

For the year ended September 30, 2016

	Business-type Activities			Governmental Activities
	Water and Sewer	Airport	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 7,108,017	263,360	\$ 7,371,377	\$ -
Rents and miscellaneous fees	-	13,173	13,173	2,308
Total operating revenues	<u>7,108,017</u>	<u>276,533</u>	<u>7,384,550</u>	<u>2,308</u>
OPERATING EXPENSES				
Water and sewer system	4,782,177	-	4,782,177	-
Airport	-	402,511	402,511	-
Equipment maintenance	-	-	-	644,017
Information technology	-	-	-	545,276
Depreciation	1,578,645	186,026	1,764,671	204,299
Total operating expenses	<u>6,360,822</u>	<u>588,537</u>	<u>6,949,359</u>	<u>1,393,592</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	747,195	(312,004)	435,191	(1,391,284)
NONOPERATING REVENUES (EXPENSES)				
Investment income	5,896	70	5,966	14
Noncapital grants and contributions	-	68,197	68,197	-
Gain (loss) on disposition of capital assets	24,552	-	24,552	-
Interest and fiscal charges	(320,521)	-	(320,521)	(5,043)
Total nonoperating revenues (expenses)	<u>(290,073)</u>	<u>68,267</u>	<u>(221,806)</u>	<u>(5,029)</u>
Income (loss) before contributions and transfers	457,122	(243,737)	213,385	(1,396,313)
Contributions and transfers				
Capital contributions	2,337,999	1,046,480	3,384,479	-
Transfers in	554,274	120,464	674,738	1,386,564
Transfers out	(1,679,031)	-	(1,679,031)	-
Total contributions and transfers	<u>1,213,242</u>	<u>1,166,944</u>	<u>2,380,186</u>	<u>1,386,564</u>
Change in net position	1,670,364	923,207	2,593,571	(9,749)
Total net position at beginning of year	<u>14,127,645</u>	<u>1,216,656</u>	<u>15,344,301</u>	<u>445,519</u>
Total net position at end of year	<u>\$ 15,798,009</u>	<u>\$ 2,139,863</u>	<u>\$ 17,937,872</u>	<u>\$ 435,770</u>

The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2016

	<u>Business-type Activities</u>			<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total</u>	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 7,250,324	\$ 285,562	\$ 7,535,886	\$ 2,308
Cash paid to suppliers for goods and services	(4,055,547)	(292,131)	(4,347,678)	(482,760)
Cash paid to employees for services	(1,655,777)	(103,088)	(1,758,865)	(731,134)
Net cash provided (used) by operating activities	<u>1,539,000</u>	<u>(109,657)</u>	<u>1,429,343</u>	<u>(1,211,586)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (to) from other funds	(1,124,757)	120,464	(1,004,293)	1,386,564
Borrowings (repayments) to other funds	(142,110)	-	(142,110)	-
Noncapital grants and contributions	-	118,197	118,197	-
Increase (decrease) in customer deposits	<u>36,287</u>	<u>(675)</u>	<u>35,612</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>(1,230,580)</u>	<u>237,986</u>	<u>(992,594)</u>	<u>1,386,564</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(3,173,979)	(33,334)	(3,207,313)	(152,555)
Proceeds from sale of capital assets	24,552	-	24,552	-
Proceeds from capital grants and contributions	2,630,795	-	2,630,795	-
Proceeds from issuance of debt	2,006,154	-	2,006,154	-
Principal paid on long-term debt	(697,500)	-	(697,500)	(50,073)
Interest paid	<u>(318,454)</u>	<u>-</u>	<u>(318,454)</u>	<u>(5,043)</u>
Net cash provided (used) by capital and related financing activities	<u>471,568</u>	<u>(33,334)</u>	<u>438,234</u>	<u>(207,671)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	<u>5,896</u>	<u>70</u>	<u>5,966</u>	<u>14</u>
Net cash provided (used) by investing activities	<u>5,896</u>	<u>70</u>	<u>5,966</u>	<u>14</u>
Net increase (decrease) in cash and cash equivalents	785,884	95,065	880,949	(32,679)
Cash and cash equivalents at beginning of year	<u>2,398,786</u>	<u>32,779</u>	<u>2,431,565</u>	<u>70,306</u>
Cash and cash equivalents at end of year	<u>\$ 3,184,670</u>	<u>\$ 127,844</u>	<u>\$ 3,312,514</u>	<u>\$ 37,627</u>

(continued)

The accompanying notes are an integral part of this statement.

CITY OF BAY CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2016

	<u>Business-type Activities</u>			<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total</u>	<u>Internal Service Funds</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 747,195	\$ (312,004)	\$ 435,191	\$ (1,391,284)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	1,578,645	186,026	1,764,671	204,299
Changes in assets and liabilities				
(Increase) decrease in accounts receivable	142,307	(5,366)	136,941	-
(Increase) decrease in inventory	-	12,137	12,137	-
(Increase) decrease in prepaid items	(18,788)	(7,311)	(26,099)	(3,108)
(Increase) decrease in deferred outflows	(322,536)	-	(322,536)	-
Increase (decrease) in accounts payable	(970,098)	4,326	(965,772)	(28,472)
Increase (decrease) in accrued expenses	5,560	376	5,936	2,906
Increase (decrease) in unearned revenue	-	14,395	14,395	-
Increase (decrease) in net pension liability	400,515	-	400,515	-
Increase (decrease) in deferred inflows	(30,718)	-	(30,718)	-
Increase (decrease) in compensated absences	6,918	(2,236)	4,682	4,073
Total adjustments	<u>791,805</u>	<u>202,347</u>	<u>994,152</u>	<u>179,698</u>
Net cash provided (used) by operating activities	<u>\$ 1,539,000</u>	<u>\$ (109,657)</u>	<u>\$ 1,429,343</u>	<u>\$ (1,211,586)</u>
Noncash capital and related financing activities				
Assets acquired from contributions	<u>\$ -</u>	<u>\$ 1,046,480</u>	<u>\$ 1,046,480</u>	<u>\$ -</u>

(concluded)

CITY OF BAY CITY, TEXAS
STATEMENT OF NET POSITION
COMPONENT UNITS
September 30, 2016

	Bay City Community Development Corporation	Bay City Gas Company	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,573,860	\$ 911,653	\$ 3,485,513
Investments	-	1,492,552	1,492,552
Receivables (net)	63,722	229,909	293,631
Due from other governments	116,447	-	116,447
Due from employees	-	11,503	11,503
Inventory	-	34,579	34,579
Restricted assets			
Cash and cash equivalents	-	242,771	242,771
Investments	-	208,001	208,001
Total current assets	<u>2,754,029</u>	<u>3,130,968</u>	<u>5,884,997</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	2,471,799	45,142	2,516,941
Buildings, improvements, and equipment (net)	5,249,084	1,512,185	6,761,269
Net capital assets	<u>7,720,883</u>	<u>1,557,327</u>	<u>9,278,210</u>
Total noncurrent assets	<u>7,720,883</u>	<u>1,557,327</u>	<u>9,278,210</u>
Total assets	<u>10,474,912</u>	<u>4,688,295</u>	<u>15,163,207</u>
LIABILITIES			
Accounts payable	223,318	54,512	277,830
Accrued expenditures	6,770	512	7,282
Accrued interest payable	17,064	-	17,064
Due to primary government	5,240	-	5,240
Deposits	50,000	399,110	449,110
Long-term liabilities			
Due within one year	158,172	-	158,172
Due in more than one year	3,779,768	-	3,779,768
Total liabilities	<u>4,240,332</u>	<u>454,134</u>	<u>4,694,466</u>
NET POSITION			
Net investment in capital assets	3,782,943	1,557,330	5,340,273
Unrestricted	<u>2,451,637</u>	<u>2,676,831</u>	<u>5,128,468</u>
Total net position	<u>\$ 6,234,580</u>	<u>\$ 4,234,161</u>	<u>\$ 10,468,741</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, 2016*

<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	\$ 928,943	\$ 136,720	\$ -	\$ -
Bay City Gas Company	<u>2,484,654</u>	<u>2,238,885</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 3,413,597</u>	<u>\$ 2,375,605</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Sales taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Component Units		
Bay City Community Dev. Corporation	Bay City Gas Company	Total
\$ (792,223)	\$ -	\$ (792,223)
-	(245,769)	(245,769)
(792,223)	(245,769)	(1,037,992)
1,353,440	-	1,353,440
10,907	10,695	21,602
7,262	-	7,262
1,371,609	10,695	1,382,304
579,386	(235,074)	344,312
5,655,194	4,469,235	10,124,429
\$ 6,234,580	\$ 4,234,161	\$ 10,468,741

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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 Units

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 Units - (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, 2016 these contributions totaled \$391,000. 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 four Capital Project Funds, two of which have been reported as major funds. The 2016 Capital Project Fund is used to account for the proceeds and expenditures of the 2016 debt issue and the 2014 Capital Project Fund is used to account for the proceeds of the 2014 certificates of obligation that were previously recorded in the business-type activities but were transferred to the governmental activities in the 2015 fiscal year.

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 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 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 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 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, 2016, 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 prepaid items (governmental funds) or prepaid expenses (proprietary funds) in the fund financial statements and as prepaid items 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 has two items that qualify for reporting in this category. One 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. The other item is the deferred amount calculated in the actuarial pension study required by GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" (GASB No. 68) and the current year pension payments reported in the government-wide statement of net position.

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 two items that are considered deferred inflows of resources. One of the items arises only under a modified accrual basis of accounting and this item, unavailable revenue, 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. The other item that qualifies for reporting as a deferred inflow of resources is calculated in the actuarial pension study required by GASB No. 68. 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. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's pension liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68.

M. 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.

N. 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 2015-2016.

<u>Fund / Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
City general services	\$ 1,136,630	\$ 1,192,491	\$ 55,861
Administration and council	266,357	266,736	379
Police	4,594,603	4,605,983	11,380
Transfers out	2,119,880	2,223,607	103,727
Debt Service Fund	1,719,548	1,828,804	109,256

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

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, 2016, the City had the following investments classified as cash and cash equivalents:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 9,574,459	44
Texas CLASS	505,795	56

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 and Texas CLASS weighted average maturities cannot exceed 60 days.

Credit Risk

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

Concentration of Credit Risk

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

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**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 Texas CLASS and they have no custodial credit risk.

NOTE 4: RECEIVABLES

Receivables at September 30, 2016, consist of the following:

	<u>General</u>	<u>Debt Service</u>	<u>Water and Sewer</u>	<u>Airport Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:						
Accounts	\$ 270,573	\$ -	\$ 1,052,669	\$ 10,220	\$ 23	\$ 1,333,485
Ad valorem taxes	612,975	48,784	-	-	-	661,759
Franchise taxes	99,509	-	-	-	-	99,509
Occupancy taxes	-	-	-	-	129,384	129,384
Municipal court fines	131,518	-	-	-	-	131,518
Other	<u>668,737</u>	<u>-</u>	<u>404,912</u>	<u>-</u>	<u>-</u>	<u>1,073,649</u>
Total gross receivables	1,783,312	48,784	1,457,581	10,220	129,407	3,429,304
Less: Allowances	<u>862,875</u>	<u>11,999</u>	<u>96,077</u>	<u>-</u>	<u>-</u>	<u>970,951</u>
Total net receivables	<u>\$ 920,437</u>	<u>\$ 36,785</u>	<u>\$ 1,361,504</u>	<u>\$ 10,220</u>	<u>\$ 129,407</u>	<u>\$ 2,458,353</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	\$ 401,350	\$ -	\$ 401,350
Fines	64,444	-	64,444
Other	113,685	-	113,685
Debt Service Fund			
Ad valorem taxes	36,785	-	36,785
Nonmajor Funds			
Fines and forfeitures	<u>-</u>	<u>13,137</u>	<u>13,137</u>
	<u>\$ 616,264</u>	<u>\$ 13,137</u>	<u>\$ 629,401</u>

NOTE 4: RECEIVABLES - (Continued)

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 \$0.60209 per \$100 of assessed valuation, for maintenance and operations, \$0.49162 and interest and sinking, \$0.11047. The resulting adjusted total tax levy was \$4,475,994 on the total adjusted taxable valuation of \$743,532,492 for the 2015 tax roll.

NOTE 5: CAPITAL ASSETS

The City's capital assets activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,460,085	\$ 62,710	\$ -	\$ 1,522,795
Construction in progress	4,240,231	3,623,890	1,520,760	6,343,361
Total capital assets not being depreciated	5,700,316	3,686,600	1,520,760	7,866,156
Capital assets, being depreciated				
Machinery and equipment	8,982,154	1,058,663	303,946	9,736,871
Buildings	4,154,599	802,183	-	4,956,782
Infrastructure	22,533,887	1,322,298	-	23,856,185
Total capital assets being depreciated	35,670,640	3,183,144	303,946	38,549,838
Less accumulated depreciation for				
Machinery and equipment	6,197,569	870,928	303,946	6,764,551
Buildings	3,900,200	398,554	-	4,298,754
Infrastructure	14,359,471	578,883	-	14,938,354
Total accumulated depreciation	24,457,240	1,848,365	303,946	26,001,659
Total capital assets being depreciated, net	11,213,400	1,334,779	-	12,548,179
Governmental activities capital assets, net	\$ 16,913,716	\$ 5,021,379	\$ 1,520,760	\$20,414,335

NOTE 5: CAPITAL ASSETS - (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 381,117	\$ -	\$ -	\$ 381,117
Construction in progress	<u>3,221,004</u>	<u>2,398,476</u>	<u>1,315,910</u>	<u>4,303,570</u>
Total capital assets not being depreciated	<u>3,602,121</u>	<u>2,398,476</u>	<u>1,315,910</u>	<u>4,684,687</u>
Capital assets, being depreciated				
Machinery and equipment	12,117,833	393,685	116,963	12,394,555
Buildings and improvements	1,109,191	-	-	1,109,191
Infrastructure	<u>26,028,208</u>	<u>2,777,543</u>	<u>35,000</u>	<u>28,770,751</u>
Total capital assets being depreciated	<u>39,255,232</u>	<u>3,171,228</u>	<u>151,963</u>	<u>42,274,497</u>
Less accumulated depreciation for				
Machinery and equipment	4,247,457	863,720	116,963	4,994,214
Buildings and improvements	658,232	24,140	-	682,372
Infrastructure	<u>15,173,001</u>	<u>876,811</u>	<u>35,000</u>	<u>16,014,812</u>
Total accumulated depreciation	<u>20,078,690</u>	<u>1,764,671</u>	<u>151,963</u>	<u>21,691,398</u>
Total capital assets being depreciated, net	<u>19,176,542</u>	<u>1,406,557</u>	<u>-</u>	<u>20,583,099</u>
Business-type activities capital assets, net	<u>\$ 22,778,663</u>	<u>\$ 3,805,033</u>	<u>\$ 1,315,910</u>	<u>\$25,267,786</u>

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

Governmental activities

General government	\$ 114,964
Public safety	293,066
Public works	1,015,137
Cultural and recreation	220,899
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>204,299</u>
Total depreciation expense - governmental activities	<u>\$ 1,848,365</u>

Business-type activities

Water and sewer	\$ 1,578,645
Airport	<u>186,026</u>
Total depreciation expense - business-type activities	<u>\$ 1,764,671</u>

NOTE 6: DEFINED BENEFIT PENSION PLAN**Plan Description**

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2016 were as follows:

Employee deposit rate	5.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	
(expressed as age/years of service)	60/5, 0/20
Updated service credit	100.0% repeating
Annuity increase (to retirees)	70.0% of CPI

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	106
Inactive employees entitled to but not yet receiving benefits	94
Active employees	161
	<u>361</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.5% and 9.63% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2016 were \$723,264, and were equal to the required contributions.

NOTE 6: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Overall Payroll Growth	3.0%
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disables annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. . In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

NOTE 6: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability - (Continued)****Actuarial Assumptions - (Continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 30,544,780	\$ 27,878,090	\$ 2,666,690
Changes for the year:			
Service cost	764,701	-	764,701
Interest	2,108,170	-	2,108,170
Changes of benefit terms	-	-	-
Difference between expected and actual experience	82,317	-	82,317
Change of assumptions	191,065	-	191,065
Contributions - Employer	-	764,694	(764,694)
Contributions - Employee	-	364,143	(364,143)
Net investment income	-	41,131	(41,131)
Benefit payments, including refunds of employee contributions	(1,620,823)	(1,620,823)	-
Administrative expense	-	(25,056)	25,056
Other changes	-	(1,237)	1,237
Net changes	1,525,430	(477,148)	2,002,578
Balance at 12/31/2015	\$ 32,070,210	\$ 27,400,942	\$ 4,669,268

NOTE 6: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability - (Continued)***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Net Pension Liability of the City, calculated using the discount rate of 6.75%, as well as what the City's Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability:	\$9,085,853	\$4,669,268	\$1,052,854

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRs financial report. That report may be obtained on the internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016 the City recognized pension expense of \$959,574.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 58,526	\$ 231,117
Changes in actuarial assumptions	135,844	-
Difference between projected and actual investment earnings	1,733,845	-
Contributions subsequent to the measurement date	515,847	-
Total	\$ 2,444,062	\$ 231,117

\$515,847 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ 376,018
2017	452,075
2018	486,938
2019	382,067
2020	-
Thereafter	-

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 2016, 2015, and 2014 were \$5,866, \$5,506, and \$5,798, respectively, which equaled the required contributions each year.

NOTE 8: 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 9: LONG-TERM DEBT**Changes in Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2016, 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	\$ 3,330,000	\$ -	\$ 340,000	\$ 2,990,000	\$ 345,000
Certificates of obligation	7,566,250	3,776,667	1,052,500	10,290,417	937,500
Plus deferred amounts:					
Bond premium	<u>212,081</u>	<u>235,643</u>	<u>22,898</u>	<u>424,826</u>	<u>-</u>
Total bonds and certificates payable	<u>11,108,331</u>	<u>4,012,310</u>	<u>1,415,398</u>	<u>13,705,243</u>	<u>1,282,500</u>
Tax notes	395,000	-	97,000	298,000	98,000
Notes payable	116,101	-	64,252	51,849	54,849
Capital lease payable	151,690	-	50,073	101,617	52,068
Net pension liability	2,133,352	1,602,063	-	3,735,415	-
Compensated absences	<u>327,567</u>	<u>186,035</u>	<u>242,826</u>	<u>270,776</u>	<u>27,078</u>
Total governmental activity long-term liabilities	<u>\$ 14,232,041</u>	<u>\$ 5,800,408</u>	<u>\$ 1,869,549</u>	<u>\$ 18,162,900</u>	<u>\$ 1,514,495</u>
Business-type activities					
Certificates payable					
Certificates of obligation	\$ 8,883,750	\$ 1,888,333	\$ 697,500	\$ 10,074,583	\$ 692,500
Plus deferred amounts:					
Bond premium	<u>68,697</u>	<u>117,821</u>	<u>5,016</u>	<u>181,502</u>	<u>-</u>
Total certificates payable	<u>8,952,447</u>	<u>2,006,154</u>	<u>702,516</u>	<u>10,256,085</u>	<u>692,500</u>
Net pension liability	533,338	400,515	-	933,853	-
Compensated absences	<u>25,768</u>	<u>44,758</u>	<u>40,076</u>	<u>30,450</u>	<u>3,045</u>
Total business-type activity long-term liabilities	<u>\$ 9,511,553</u>	<u>\$ 2,451,427</u>	<u>\$ 742,592</u>	<u>\$ 11,220,388</u>	<u>\$ 695,545</u>

NOTE 9: LONG-TERM DEBT - (Continued)**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

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

<u>Year</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2017	\$ 345,000	\$ 59,800	\$ 404,800
2018	355,000	52,900	407,900
2019	360,000	45,800	405,800
2020	370,000	38,600	408,600
2021	375,000	31,200	406,200
2022-2024	<u>1,185,000</u>	<u>47,800</u>	<u>1,232,800</u>
	<u>\$ 2,990,000</u>	<u>\$ 276,100</u>	<u>\$ 3,266,100</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:

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
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
Certificates of Obligation 2016 Series	2016-2036	2.0% - 3.0%	5,665,000

NOTE 9: LONG-TERM DEBT - (Continued)**Combination Tax and Revenue Certificates of Obligation - (Continued)**

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

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2017	\$ 937,500	\$ 303,858	\$ 692,500	\$ 275,528	\$ 2,209,386
2018	965,833	275,983	714,167	262,178	2,218,161
2019	979,167	247,233	725,833	245,428	2,197,661
2020	421,250	217,424	748,750	225,462	1,612,886
2021	429,583	206,243	770,417	204,443	1,610,686
2022-2026	2,374,167	837,923	4,200,833	679,357	8,092,280
2027-2031	2,574,167	427,649	1,495,833	161,347	4,658,996
2032-2036	1,608,750	83,150	726,250	35,250	2,453,400
	<u>\$ 10,290,417</u>	<u>\$ 2,599,463</u>	<u>\$ 10,074,583</u>	<u>\$ 2,088,993</u>	<u>\$ 25,053,456</u>

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 \$49,881 at September 30, 2016. 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 October 1, 2016. The balance outstanding at September 30, 2016 was \$1,968. 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, 2016 was \$298,000. The General Fund is responsible for servicing this debt.

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

Year	Governmental Activities		Total
	Principal	Interest	
2017	\$ 149,849	\$ 6,623	\$ 156,472
2018	99,000	2,740	101,740
2019	101,000	1,384	102,384
	<u>\$ 349,849</u>	<u>\$ 10,747</u>	<u>\$ 360,596</u>

NOTE 9: LONG-TERM DEBT - (Continued)**Capital Lease Payable - (Continued)**

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	\$ 203,774
	<u>203,774</u>
Less: Accumulated depreciation	135,850
	<u>\$ 67,924</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

<u>Year</u>	<u>Activities</u>
2017	\$ 55,117
2018	<u>50,524</u>
Total minimum lease payments	105,641
Less: Amount representing interest	<u>(4,024)</u>
Present value of minimum lease payments	<u>\$ 101,617</u>

NOTE 10: 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, 2016, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 4,063
2014 Capital Project Fund	General	<u>211,256</u>
		<u>\$ 215,319</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise funds to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. In most cases there is not a specific reason for the amount of the transfer or the purpose other than to subsidize the receiving fund. 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>2014 Capital Project Fund</u>	<u>Debt Service Fund</u>	<u>Water and Sewer Fund</u>	<u>Airport Fund</u>	<u>Internal Service Funds</u>	<u>Nonmajor Govt. Funds</u>	
General	\$ -	\$ 320,589	\$ 803,908	\$ -	\$ 120,464	\$ 690,282	\$ 288,364	\$ 2,223,607
Nonmajor Govt. Funds	31,866	394,000	-	554,274	-	-	98,568	1,078,708
Water and Sewer	<u>201,918</u>	<u>225,000</u>	<u>405,831</u>	<u>-</u>	<u>-</u>	<u>696,282</u>	<u>150,000</u>	<u>1,679,031</u>
	<u>\$ 233,784</u>	<u>\$ 939,589</u>	<u>\$ 1,209,739</u>	<u>\$ 554,274</u>	<u>\$ 120,464</u>	<u>\$ 1,386,564</u>	<u>\$ 536,932</u>	<u>\$ 4,981,346</u>

NOTE 11: 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, 2016, 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.

Litigation

The City was not involved in any litigation as of September 30, 2016, and management was not aware of any threatened litigation or unasserted claims as of that date.

Construction Commitments

As of September 30, 2016, the following construction projects were in progress:

<u>Project Description</u>	<u>Costs Incurred To Date</u>	<u>Estimated Remaining Costs</u>	<u>Source of Funds</u>
Governmental activities:			
2015 Capital improvements	\$ 4,549,247	\$ 14,500	City
2016 Capital improvements	4,826	802,814	City
Shulman MBG ST/Drainage	2,294	203,083	City/Grant
Shulman MBG ST/Street	1,992	363,107	City/BCCDC/Grant
2016 Main St. Grant	9,157	168,672	City/Grant
Nile Valley	1,714,683	2,500,000	City
Theatre Arts Center	61,162	98,838	City
	<u>6,343,361</u>	<u>4,151,014</u>	
Business-type activities:			
Mockingbird/4th Recoating	274,726	43,874	City
Water Line Replacement	49,254	102,220	City
Highland Sewer Improvements	50,750	412,257	City/Grant
Tenaris	3,726,206	15,000	City/Grant
Airport Project	202,634	30,000	City/Grant
	<u>4,303,570</u>	<u>603,351</u>	
	<u>\$ 10,646,931</u>	<u>\$ 4,754,365</u>	

NOTE 12: FUND BALANCES

The following is a detail of the governmental fund balances at September 30, 2016.

	<u>Governmental Fund Balances</u>			<u>Total</u>
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Unassigned</u>	
General				
Prepaid items	\$ 44,589	\$ -	\$ -	\$ 44,589
Unassigned	-	-	1,930,425	1,930,425
2016 Capital Project				
Various capital projects	-	3,865,325	-	3,865,325
Debt Service				
Retirement of long-term debt	-	233,825	-	233,825
Nonmajor Governmental				
Tourism	-	449,295	-	449,295
Municipal court	-	83,196	-	83,196
Culture and recreation:				
Library	-	92,576	-	92,576
Public safety: Police	-	94,804	-	94,804
Various capital projects	-	34,034	-	34,034
	<u>\$ 44,589</u>	<u>\$ 4,853,055</u>	<u>\$ 1,930,425</u>	<u>\$ 6,828,069</u>

NOTE 13: BAY CITY COMMUNITY DEVELOPMENT CORPORATION**A. Organization**

Bay City Community Development Corporation (CDC) is a public instrumentality and nonprofit economic development corporation under Section 4B 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 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 Bay City Community Development Corporation conform to generally accepted accounting principles (GAAP), as applicable to governmental units. The more significant accounting policies are described below.

1. Reporting Entity - Component Unit Status

CDC is reported as a component unit of the City of Bay City, Texas in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. CDC meets the criteria established by the 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 13: 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's mayor and in accordance with the annual budget preparation schedule as set forth by the City's mayor. The budget shall be submitted to the City's mayor 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.

NOTE 13: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**B. Summary of Significant Accounting Policies - (Continued)****4. Budgets and Budgetary Accounting - (Continued)**

The following individual expenditures exceeded their budgeted amounts:

	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
Dues and subscriptions	\$ 3,560	\$ 4,930	\$ 1,370
Builder incentive programs	50,000	66,157	16,157
Camofest	-	11,489	11,489
Holt Chiropractic infrastructure	-	6,233	6,233
City - Texas Capital Fund contribution	-	4,063	4,063
9ERs environmental remediation	-	16,307	16,307
Walking trail	-	5,250	5,250
Main Street Program	25,000	33,143	8,143
University of Houston	20,100	20,105	5
Salaries, wages, and benefits	226,028	242,705	16,677
Telephone	4,500	6,335	1,835
Interest and fiscal charges	49,133	105,571	56,438

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 in Note 2, 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 with an estimated useful life in excess of one year, are recorded at cost. Depreciation has been charged against these assets using the straight-line method of 39 years for buildings and five to seven years for 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.

NOTE 13: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**B. Summary of Significant Accounting Policies - (Continued)****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, 2016.

C. Deposits and Investments

As of September 30, 2016, CDC had the following investments:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pool		
TexPool	\$ 10,739	44

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 assets 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 12 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.

NOTE 13: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)

C. Deposits and Investments

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, 2016, CDC had deposits in three local financial institutions and the deposits were FDIC insured at each institution up to \$250,000. At September 30, 2016, \$1,813,121 of the CDC's bank balance of \$2,563,121 was uninsured.

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.

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, 2016, was \$116,447. The City collects the sales tax from the State of Texas and then pays CDC's portion monthly when collected.

NOTE 13: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**E. Capital Assets**

CDC's capital asset activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 353,914	\$ -	\$ -	\$ 353,914
Construction in progress	37,666	2,080,219	-	2,117,885
Total capital assets not being depreciated	391,580	2,080,219	-	2,471,799
Capital assets, being depreciated				
Machinery and equipment	150,250	-	-	150,250
Buildings	6,572,834	25,573	-	6,598,407
Total capital assets being depreciated	6,723,084	25,573	-	6,748,657
Less accumulated depreciation for				
Machinery and equipment	(113,888)	(10,631)	-	(124,519)
Buildings	(1,206,466)	(168,588)	-	(1,375,054)
Total accumulated depreciation	(1,320,354)	(179,219)	-	(1,499,573)
Total capital assets being depreciated, net	5,402,730	(153,646)	-	5,249,084
Bay City City Development Corporation capital assets, net	<u>\$ 5,794,310</u>	<u>\$ 1,926,573</u>	<u>\$ -</u>	<u>\$ 7,720,883</u>

Depreciation expense of \$179,219 was charged to the general government function/program.

NOTE 13: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**F. Long-term Debt**

Long-term liability activity for the year ended September 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable Wells Fargo	\$ 2,234,336	\$ -	\$ 2,234,336	\$ -	\$ -
Note payable Series 2016	-	1,947,760	23,517	1,924,243	77,289
Note payable Series 2016 A	-	2,033,620	19,923	2,013,697	80,883
	<u>\$ 2,234,336</u>	<u>\$ 3,981,380</u>	<u>\$ 2,277,776</u>	<u>\$ 3,937,940</u>	<u>\$ 158,172</u>

In April 2016 the CDC paid off the Wells Fargo note with the proceeds from Government Capital Corporation Series 2016 in the amount of \$2,033,620. Interest is fixed at an initial rate of 2.38% and is adjustable at the 5, 10, and 15 year anniversary. Principal and interest is payable on a quarterly basis of \$30,600 through April 2036. The note is secured by all sales and use taxes levied and collected.

In July 2016 the CDC borrowed an additional amount to finance a portion of the Family Entertainment Center in the amount of \$1,947,760. Interest is fixed at an initial rate of 2.38% and is adjustable at the 5, 10, and 15 year anniversary. Principal and interest is payable on a quarterly basis of \$30,600 through April 2036. The note is secured by all sales and use taxes levied and collected.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 158,172	\$ 92,317	\$ 250,489
2018	161,970	88,520	250,490
2019	165,860	84,630	250,490
2020	169,843	80,648	250,491
2021	173,921	76,569	250,490
2022-2026	934,294	318,158	1,252,452
2027-2031	1,051,990	200,462	1,252,452
2032-2036	<u>1,121,890</u>	<u>67,941</u>	<u>1,189,831</u>
	<u>\$ 3,937,940</u>	<u>\$ 1,009,245</u>	<u>\$ 4,947,185</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.

NOTE 13: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**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. CDC did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2016. This Statement did not have an impact on CDC's functions, financial position or results of operations.

I. Family Entertainment Center

On October 8, 2015, CDC entered into a lease agreement with Schulman's Movie Bowl Grille, LLC (SMBG). In connection with this agreement, CDC also entered into a Development Agreement with SMBG dated October 9, 2015. The Development Agreement defines the proposed project as the development of an estimated \$12 million cinema/family entertainment center, approximately 48,860 square feet, and a surface parking facility. SMBG will donate the land to CDC for the development. CDC will contract with a developer to oversee the design and construction of the facility at a cost of 3% of construction costs. CDC will borrow approximately \$7.5 million in order to construct the facility. SMBG is responsible for the installation of all furniture, fixtures, and equipment inside the facility. SMBG will then lease the facility from CDC for an amount equal to the debt service. In accordance with the lease agreement, CDC agrees to sell the facility anytime during the first five years at cost. The construction of the facility is expected to be completed during 2017. As of September 30, 2016 a total of \$2,177,799 of expenditures have been incurred on this project. This amount is reflected as construction in progress in the financial statements.

J. Employees' Retirement Plan

The CDC provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. Details of the funding arrangements can be found in the City of Bay City's comprehensive annual financial report. The employees of CDC are treated as employees of the City of Bay City for retirement plan purposes.

K. Subsequent Event

Subsequent to year-end and through the end of March 2017 the CDC has drawn on the construction line of credit loan in the amount of \$6,586,599. The line of credit loan is with TDECU, a local financial institution.

NOTE 14: BAY CITY GAS COMPANY**A. Summary of Significant Accounting Policies**

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

1. Reporting Entity

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

2. Basis of Presentation

The Bay City Gas Company is a single purpose business-type activity. As such they 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.

3. Measurement Focus and Basis of Accounting

These financial statements are reported using the economic resources measurement focus and 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.

4. Budgetary Information

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 schedules.

NOTE 14: BAY CITY GAS COMPANY - (Continued)**A. Summary of Significant Accounting Policies - (Continued)****5. Assets, Liabilities and Net Position****a. Cash and Cash Equivalents**

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.

b. Investments

Investments for the government are reported at fair value (generally based on quoted market prices) except for the position in the State Treasurers' Investment Pool (Pool). In accordance with state law, the Pool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the Pool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The Pool is subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

c. Inventories

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

d. 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

e. 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 net position to have been depleted before unrestricted net position is applied.

NOTE 14: BAY CITY GAS COMPANY - (Continued)

A. Summary of Significant Accounting Policies - (Continued)

5. Assets, Liabilities and Net Position - (Continued)

f. 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 120 or 160 hours which is paid upon termination. At March 31, 2014 the amount of accrued paid time off was determined to be immaterial to these financial statements and thus not recorded.

6. Revenues and Expenses

Proprietary fund operating and nonoperating revenues and expenses

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 Company are charges to customers for gas sales. Operating expenses for the fund include cost of sales, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Deposits and Investments

Cash Deposits

Custodial credit risk - the risk that in the event of a bank failure, the government's deposits may not be returned to it. At March 31, 2016 the Company's bank balances was \$1,194,813 and \$117,283 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized as noted below under investments.

Investments

All investments made by the Gas Company complied with the Public Funds Investment Act (Texas Government Code Chapter 2256, Subchapter A) and all federal, state, and local statutes, rules or regulations. The Company is authorized to invest in obligations of or guaranteed by the governmental entities, certificates of deposit, repurchase agreements, commercial paper, mutual funds and public fund investment pools.

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

The Company's investments at March 31, 2016 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 - Nonparticipating	< 3 years	FDIC	\$ 411,696	24.21%
Certificates of Deposit - Participating	< 3 years	FDIC	1,185,125	69.69%
Certificates of Deposit - Participating	> 5 years	FDIC	59,055	3.47%
GNMA Pool	> 5 years	Not Rated	2,250	0.13%
UBS ag pfd tr IV	3-5 years	Baa3	42,425	2.50%
Total Investments			<u>\$ 1,700,551</u>	<u>100.00%</u>

Money market funds included in cash

Texpool	90 days	Aaam	\$ 857
Capital One brokerage	90 days	Uninsured/uncollateralized	117,283
UBS financial services	90 days	FDIC	359,665
Edward Jones	60 days	Aaam	182,332
			<u>\$ 660,137</u>

1. Credit Risk

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

2. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is Company policy to diversify investments based on maturity and type of instrument. It is the policy of the Company to diversify its investments on the basis of maturity and type of instrument. The table above presents the portfolio breakdown.

3. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company limits its exposure to interest rate risk by diversifying its investments by security type and institution. It is the Company's policy to invest its funds in maturities sufficiently diverse, and in consideration of maximum maturity limits, to achieve safety of principal and adequate liquidity.

NOTE 14: BAY CITY GAS COMPANY - (Continued)**C. Capital Assets**

Capital asset activity for the year ended March 31, 2016, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 416,861	\$ 101,129	\$ 472,848	\$ 45,142
Capital assets, being depreciated:				
Utility plant	2,145,256	472,848	-	2,618,104
Buildings and improvements	531,905	20,986	-	552,891
Equipment	414,272	4,861	-	419,133
Vehicles	248,249	14,008	-	262,257
Total capital assets being depreciated	3,339,682	512,703	-	3,852,385
Less accumulated depreciation for:				
Utility plant	(1,436,818)	(70,169)	-	(1,506,987)
Buildings and improvements	(337,995)	(13,767)	-	(351,762)
Equipment	(280,216)	(20,649)	-	(300,865)
Vehicles	(162,013)	(18,570)	-	(180,583)
Total accumulated depreciation	(2,217,042)	(123,155)	-	(2,340,197)
Total capital assets being depreciated, net	1,122,640	389,548	-	1,512,188
Business-type activities capital assets, net	\$ 1,539,501	\$ 490,677	\$ 472,848	\$ 1,557,330

Depreciation of \$123,155 was charged to the only function of providing natural gas.

D. Accounts Receivable

Accounts receivable of \$226,255 represent billed and uncollected service fees of \$245,929 less an 8% allowance for uncollectible service fees of \$19,674.

E. Risk Management

The Company is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, 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.

NOTE 14: BAY CITY GAS COMPANY - (Continued)**F. Pension Plan****1. Plan Description**

The Gas Company participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the Gas Company are required to participate in TMRS.

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Gas Company, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the Gas Company-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2016 were as follows:

Employee deposit rate	5.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100.0% repeating
Annuity increase (to retirees)	70.0% of CPI

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Gas Company matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Gas Company. Under the state law governing TMRS, the contribution rate for each entity is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the Gas Company were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the Gas Company were 10.5% and 9.63% in calendar years 2015 and 2016, respectively. The Gas Company's contributions to TMRS for the fiscal year ended March 31, 2016 were \$67,115, and were equal to the required contributions.

NOTE 14: BAY CITY GAS COMPANY - (Continued)

F. Pension Plan - (Continued)

4. Net Pension Liability

The Gas Company pension plan is incorporated with the City of Bay City, information related to the net pension liability is included in the totals for the City of Bay City, Texas. As a result, the Gas Company does not recognize a net pension liability or deferred inflows/outflows of resources. This information may be obtained by writing the City of Bay City, Texas, 1901 5th Street, Bay City, Texas 77414.

G. Health Reimbursement Arrangement

In an effort to keep health insurance premiums at a reasonable level, the Company chose to go with a higher deductible plan at \$5,000 per employee. As a result of the higher deductible, they established a health reimbursement arrangement under Section 105 of the Internal Revenue Code in which the employees are issued a debit card for up to \$2,000 on medical expenses, leaving a \$3,000 gap they must fill before reaching the \$5,000 deductible. The plan may be terminated by the Company at anytime with any excess contributions reverting back to the Company. The plan is administered independently of the Company by TPA Systems, Inc.

H. Restricted Assets

Cash has been restricted for the payment of customer deposits.

I. Nonmonetary Transactions

It is Company policy to donate gas consumed by City owned property. At March 31, 2016, the amount of gas at retail prices consumed by City property was \$16,735.

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, 2016

With comparative totals for the year ended September 30, 2015

	2016			Variance	2015
	Original Budget	Final Budget	Actual	Positive (Negative)	Actual
REVENUES					
Taxes					
Ad valorem taxes	\$ 3,843,854	\$ 3,843,854	\$ 3,758,550	\$ (85,304)	\$ 3,790,373
Other taxes	5,402,089	5,402,089	5,141,142	(260,947)	5,161,997
Licenses and permits	209,750	209,750	255,511	45,761	235,881
Fines and forfeitures	307,700	307,700	269,859	(37,841)	276,911
Fees and charges for services	2,713,351	2,713,351	2,755,992	42,641	2,655,020
Intergovernmental	69,685	69,685	58,635	(11,050)	220,857
Investment income	1,000	1,000	2,746	1,746	867
Miscellaneous	808,060	808,060	845,595	37,535	855,090
Total revenues	13,355,489	13,355,489	13,088,030	(267,459)	13,196,996
EXPENDITURES					
Current					
General government	2,323,640	2,311,640	2,335,155	(23,515)	2,083,129
Public safety	4,880,594	4,944,194	4,938,374	5,820	4,569,082
Public works	3,390,995	3,623,928	3,424,210	199,718	3,156,360
Cultural and recreation	1,468,639	1,465,114	1,421,965	43,149	1,039,801
Debt service	-	70,000	69,598	402	69,810
Total expenditures	12,063,868	12,414,876	12,189,302	225,574	10,918,182
Excess (deficiency) of revenues over expenditures	1,291,621	940,613	898,728	(41,885)	2,278,814
OTHER FINANCING SOURCES (USES)					
Transfers in	242,309	242,309	233,784	(8,525)	434,173
Transfers out	(2,119,880)	(2,119,880)	(2,223,607)	(103,727)	(1,429,472)
Total other financing sources (uses)	(1,877,571)	(1,877,571)	(1,989,823)	(112,252)	(995,299)
Net change in fund balance	(585,950)	(936,958)	(1,091,095)	(154,137)	1,283,515
Fund balance at beginning of year	3,066,109	3,066,109	3,066,109	-	1,782,594
Fund balance at end of year	\$ 2,480,159	\$ 2,129,151	\$ 1,975,014	\$ (154,137)	\$ 3,066,109

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

CITY OF BAY CITY, TEXAS**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

Last ten years

	2014	2015
Total Pension Liability		
Service cost	\$ 643,573	\$ 764,701
Interest (on the total pension liability)	2,059,531	2,108,170
Changes of benefit terms	-	-
Difference between expected and actual experience	(538,291)	82,317
Change of assumptions	-	191,065
Benefit payments, including refunds of employee contributions	<u>(1,440,240)</u>	<u>(1,620,823)</u>
Net Change in Total Pension Liability	724,573	1,525,430
Total Pension Liability - Beginning	<u>29,820,207</u>	<u>30,544,780</u>
Total Pension Liability - Ending (a)	<u>\$ 30,544,780</u>	<u>\$ 32,070,210</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 709,618	\$ 764,694
Contributions - Employee	326,089	364,143
Net Investment Income	1,531,183	41,131
Benefit payments, including refunds of employee contributions	(1,440,240)	(1,620,823)
Administrative expense	(15,988)	(25,056)
Other	<u>(1,314)</u>	<u>(1,237)</u>
Net Change in Plan Fiduciary Net Position	1,109,348	(477,148)
Plan Fiduciary Net Position - Beginning	<u>26,768,742</u>	<u>27,878,090</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 27,878,090</u>	<u>\$ 27,400,942</u>
Net Pension Liability - Ending (a) - (b)	\$ 2,666,690	\$ 4,669,268
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.27%	85.44%
Covered Employee Payroll	\$ 6,521,784	\$ 7,282,870
Net Pension Liability as a Percentage of Covered Employee Payroll	40.89%	64.11%

NOTE: Information for the prior eight years was not readily available. The City will compile the respective information over the next eight years as provided by TMRS on a "measurement date" basis.

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

CITY OF BAY CITY, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last ten fiscal years

	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 733,848	\$ 723,264
Contribution in relation to the actuarially determined contribution	<u>(751,736)</u>	<u>(740,221)</u>
Contribution deficiency (excess)	<u>\$ (17,888)</u>	<u>\$ (16,957)</u>
Covered employee payroll	\$ 6,930,006	\$ 7,332,068
Contributions as a percentage of covered employee payroll	10.85%	10.10%

NOTE: Information for the prior eight fiscal years was not readily available. The City will compile the respective information over the next eight fiscal years.

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

CITY OF BAY CITY, TEXAS**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

September 30, 2016

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, 2016 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 general services	\$ 1,136,630	\$ 1,192,491	\$ 55,861
Administration and council	266,357	266,736	379
Police	4,594,603	4,605,983	11,380
Transfers out	2,119,880	2,223,607	103,727

NOTE 3: TEXAS MUNICIPAL RETIREMENT SYSTEMValuation Date

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return*	6.75%, net of pension plan investment expense, including inflation
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

There were no benefit changes during the year.

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."

Texas Capital Fund - Accounts for funds received to fund public infrastructure related to business development or to fund downtown revitalization such as sidewalks in the Historic District.

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.

2010 Capital Project Fund - Accounts for the proceeds and expenditures of the 2010 debt issue.

CITY OF BAY CITY, TEXAS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2016

	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	\$ 409,221	\$ 35,356	\$ 44,768	\$ 63,173	\$ 47,066
Receivables (net)					
Taxes	129,384	-	-	-	-
Accounts	-	-	-	-	-
Due from component unit	-	-	-	-	-
Prepaid items	23,788	-	-	-	-
Total assets	<u>\$ 562,393</u>	<u>\$ 35,356</u>	<u>\$ 44,768</u>	<u>\$ 63,173</u>	<u>\$ 47,066</u>
LIABILITIES					
Accounts payable	\$ 87,048	\$ 1,500	\$ -	\$ -	\$ 19
Accrued expenditures	-	-	-	-	-
Deposits	26,050	-	-	-	-
Due to other funds	-	-	-	-	-
Unearned revenue	-	-	10,457	2,680	-
Total liabilities	<u>113,098</u>	<u>1,500</u>	<u>10,457</u>	<u>2,680</u>	<u>19</u>
FUND BALANCES					
Restricted	449,295	33,856	34,311	60,493	47,047
Total fund balances	<u>449,295</u>	<u>33,856</u>	<u>34,311</u>	<u>60,493</u>	<u>47,047</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 562,393</u>	<u>\$ 35,356</u>	<u>\$ 44,768</u>	<u>\$ 63,173</u>	<u>\$ 47,066</u>

Special Revenue Funds				Capital Project Funds		Total
Court Technology Fund	Disaster Recovery Fund	Library Fund	Texas Capital Fund	Street Maintenance Fund	2010 Capital Project Fund	
\$ 41,534	\$ -	\$ 97,570	\$ -	\$ 34,565	\$ 3,193	\$ 776,446
-	-	-	-	-	-	129,384
-	-	23	-	-	-	23
-	-	-	4,063	-	-	4,063
-	-	12,789	-	-	-	36,577
<u>\$ 41,534</u>	<u>\$ -</u>	<u>\$ 110,382</u>	<u>\$ 4,063</u>	<u>\$ 34,565</u>	<u>\$ 3,193</u>	<u>\$ 946,493</u>
\$ 5,385	\$ -	\$ 11,502	\$ -	\$ 34,387	\$ 3,193	\$ 143,034
-	-	6,304	-	-	-	6,304
-	-	-	-	-	-	26,050
-	-	-	4,063	-	-	4,063
-	-	-	-	-	-	13,137
<u>5,385</u>	<u>-</u>	<u>17,806</u>	<u>4,063</u>	<u>34,387</u>	<u>3,193</u>	<u>192,588</u>
36,149	-	92,576	-	178	-	753,905
<u>36,149</u>	<u>-</u>	<u>92,576</u>	<u>-</u>	<u>178</u>	<u>-</u>	<u>753,905</u>
<u>\$ 41,534</u>	<u>\$ -</u>	<u>\$ 110,382</u>	<u>\$ 4,063</u>	<u>\$ 34,565</u>	<u>\$ 3,193</u>	<u>\$ 946,493</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, 2016*

	Special Revenue Funds				
	Civic and Cultural Arts Fund	Donation Fund	Forfeiture Fund	Police Task Force Fund	Court Building Security Fund
REVENUES					
Taxes					
Hotel - motel tax	\$ 654,420	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	1,934	33,370	4,979
Fees and charges for services	76,518	-	-	-	-
Intergovernmental	-	-	-	-	-
Investment income					
Interest	192	96	-	-	25
Miscellaneous	3,244	4,044	-	-	-
Total revenues	<u>734,374</u>	<u>4,140</u>	<u>1,934</u>	<u>33,370</u>	<u>5,004</u>
EXPENDITURES					
Current					
Public safety	-	-	4,310	12,933	2,618
Public works	-	-	-	-	-
Cultural and recreation	561,928	1,769	-	-	-
Capital outlay	64,031	-	-	-	-
Total expenditures	<u>625,959</u>	<u>1,769</u>	<u>4,310</u>	<u>12,933</u>	<u>2,618</u>
Excess (deficiency) of revenues over expenditures	108,415	2,371	(2,376)	20,437	2,386
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	(31,866)	(98,568)	-	-	-
Total other financing sources (uses)	<u>(31,866)</u>	<u>(98,568)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	76,549	(96,197)	(2,376)	20,437	2,386
Fund balances at beginning of year	<u>372,746</u>	<u>130,053</u>	<u>36,687</u>	<u>40,056</u>	<u>44,661</u>
Fund balances at end of year	<u>\$ 449,295</u>	<u>\$ 33,856</u>	<u>\$ 34,311</u>	<u>\$ 60,493</u>	<u>\$ 47,047</u>

Special Revenue Funds				Capital Project Funds		Total
Court Technology Fund	Disaster Recovery Fund	Library Fund	Texas Capital Fund	Street Maintenance Fund	2010 Capital Project Fund	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 654,420
5,556	-	6,468	-	-	-	52,307
-	-	65,700	-	-	-	142,218
-	-	200,000	6,000	-	-	206,000
26	105	57	-	217	3,325	4,043
-	-	35,169	4,063	-	-	46,520
<u>5,582</u>	<u>105</u>	<u>307,394</u>	<u>10,063</u>	<u>217</u>	<u>3,325</u>	<u>1,105,508</u>
27,766	-	-	-	-	-	47,627
-	603	-	-	957	-	1,560
-	-	410,578	-	-	-	974,275
-	-	-	13,003	128,979	3,193	209,206
<u>27,766</u>	<u>603</u>	<u>410,578</u>	<u>13,003</u>	<u>129,936</u>	<u>3,193</u>	<u>1,232,668</u>
(22,184)	(498)	(103,184)	(2,940)	(129,719)	132	(127,160)
-	-	135,424	2,940	300,000	98,568	536,932
-	(554,274)	-	-	(394,000)	-	(1,078,708)
-	(554,274)	135,424	2,940	(94,000)	98,568	(541,776)
(22,184)	(554,772)	32,240	-	(223,719)	98,700	(668,936)
<u>58,333</u>	<u>554,772</u>	<u>60,336</u>	<u>-</u>	<u>223,897</u>	<u>(98,700)</u>	<u>1,422,841</u>
<u>\$ 36,149</u>	<u>\$ -</u>	<u>\$ 92,576</u>	<u>\$ -</u>	<u>\$ 178</u>	<u>\$ -</u>	<u>\$ 753,905</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, 2016

With comparative totals for September 30, 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 2,441,679	\$ 1,348,724
Receivables (net)		
Accounts	345,138	334,198
Taxes	510,855	552,821
Fines	64,444	67,298
Due from other governments	349,340	326,915
Due from other funds	4,063	1,699,539
Due from component unit	1,177	79,653
Prepaid items	44,589	120,664
Total assets	\$ 3,761,285	\$ 4,529,812
LIABILITIES		
Accounts payable	\$ 778,433	\$ 640,728
Accrued expenditures	174,407	140,112
Due to other governments	40,071	50,838
Deposits	2,625	3,555
Due to other funds	211,256	-
Unearned revenue	-	16,000
Total liabilities	1,206,792	851,233
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	579,479	612,470
Total deferred inflows of resources	579,479	612,470
FUND BALANCES		
Nonspendable	44,589	120,664
Unassigned	1,930,425	2,945,445
Total fund balances	1,975,014	3,066,109
Total liabilities, deferred inflows and fund balances	\$ 3,761,285	\$ 4,529,812

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, 2016

With comparative totals for the year ended September 30, 2015

	2016		Variance	2015
	Final Budget	Actual	Positive (Negative)	Actual
REVENUES				
Taxes				
Ad valorem tax	\$ 3,843,854	\$ 3,758,550	\$ (85,304)	\$ 3,790,373
Sales tax	4,114,851	4,060,320	(54,531)	4,077,195
Mixed beverage tax	40,000	40,191	191	37,797
Franchise tax	1,247,238	1,040,631	(206,607)	1,047,005
Total taxes	9,245,943	8,899,692	(346,251)	8,952,370
Other revenues				
Licenses and permits	209,750	255,511	45,761	235,881
Fines and forfeitures	307,700	269,859	(37,841)	276,911
Fees and charges for services	2,713,351	2,755,992	42,641	2,655,020
Intergovernmental	69,685	58,635	(11,050)	220,857
Investment income	1,000	2,746	1,746	867
Miscellaneous	808,060	845,595	37,535	855,090
Total other revenues	4,109,546	4,188,338	78,792	4,244,626
Total revenues	13,355,489	13,088,030	(267,459)	13,196,996
EXPENDITURES				
Current				
General government				
City secretary				
Personnel services	227,130	222,618	4,512	214,901
Supplies	19,803	20,960	(1,157)	14,855
Repairs and maintenance	-	207	(207)	-
Other services and charges	83,263	83,322	(59)	79,685
Total city secretary	330,196	327,107	3,089	309,441
City general services				
Personnel services	-	8,894	(8,894)	7,962
Supplies	12,500	15,902	(3,402)	4,651
Repairs and maintenance	52,000	47,966	4,034	29,695
Other services and charges	1,072,130	1,119,729	(47,599)	897,218
Total city general services	1,136,630	1,192,491	(55,861)	939,526
Administration and council				
Personnel services	230,157	231,187	(1,030)	222,027
Supplies	16,300	15,792	508	14,326
Other services and charges	19,900	19,757	143	8,152
Total administration and council	266,357	266,736	(379)	244,505

(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, 2016

With comparative totals for the year ended September 30, 2015

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
General government - (Continued)				
Main Street				
Personnel services	\$ -	\$ -	\$ -	\$ 3,440
Supplies	-	-	-	396
Other services and charges	43,391	42,104	1,287	41,328
Total Main Street	43,391	42,104	1,287	45,164
Municipal court				
Personnel services	171,445	174,625	(3,180)	156,021
Supplies	7,266	6,893	373	6,274
Repairs and maintenance	4,500	1,680	2,820	6,377
Other services and charges	126,600	104,834	21,766	111,014
Capital outlay	-	-	-	5,566
Total municipal court	309,811	288,032	21,779	285,252
Finance				
Personnel services	208,905	152,240	56,665	236,152
Supplies	8,250	7,147	1,103	7,469
Other services and charges	8,100	59,298	(51,198)	15,620
Total finance	225,255	218,685	6,570	259,241
Total general government	2,311,640	2,335,155	(23,515)	2,083,129
Public safety				
Police				
Personnel services	3,887,294	3,954,536	(67,242)	3,581,639
Supplies	106,518	101,573	4,945	88,272
Repairs and maintenance	48,430	107,840	(59,410)	38,838
Other services and charges	254,439	276,406	(21,967)	216,753
Capital outlay	297,922	165,628	132,294	146,194
Total police	4,594,603	4,605,983	(11,380)	4,071,696

(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, 2016

With comparative totals for the year ended September 30, 2015

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Public safety - (Continued)				
Fire				
Personnel services	\$ 58,286	\$ 61,468	\$ (3,182)	\$ 36,285
Supplies	14,165	9,606	4,559	8,287
Repairs and maintenance	39,000	37,699	1,301	38,042
Other services and charges	75,400	74,689	711	74,842
Capital outlay	-	-	-	11,520
Total fire	186,851	183,462	3,389	168,976
Code enforcement				
Personnel services	-	-	-	107,813
Supplies	-	-	-	5,076
Repairs and maintenance	-	-	-	732
Other services and charges	-	-	-	44,490
Capital outlay	-	-	-	25,148
Total code enforcement	-	-	-	183,259
Animal impoundment				
Personnel services	141,640	135,312	6,328	128,263
Supplies	3,250	2,969	281	2,976
Repairs and maintenance	4,570	1,110	3,460	3,085
Other services and charges	13,280	9,538	3,742	10,827
Total animal impoundment	162,740	148,929	13,811	145,151
Total public safety	4,944,194	4,938,374	5,820	4,569,082
Public works				
Streets and sanitation				
Personnel services	1,094,181	1,010,225	83,956	884,235
Supplies	138,384	108,224	30,160	116,093
Repairs and maintenance	180,500	360,116	(179,616)	135,962
Other services and charges	1,690,863	1,622,873	67,990	1,795,704
Capital outlay	520,000	322,772	197,228	224,366
Total streets and sanitation	3,623,928	3,424,210	199,718	3,156,360
Total public works	3,623,928	3,424,210	199,718	3,156,360
Cultural and recreation				
City service center				
Personnel services	-	-	-	32,027
Supplies	-	-	-	4,869
Repairs and maintenance	-	-	-	6,745
Other services and charges	-	-	-	19,468
Total city service center	-	-	-	63,109

(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, 2016

With comparative totals for the year ended September 30, 2015

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
EXPENDITURES - (Continued)				
Current - (Continued)				
Cultural and recreation - (Continued)				
Parks and recreation				
Personnel services	\$ 551,295	\$ 549,073	\$ 2,222	\$ 395,808
Supplies	99,850	90,871	8,979	81,512
Repairs and maintenance	79,475	111,522	(32,047)	75,899
Other services and charges	222,500	262,502	(40,002)	211,208
Capital outlay	285,000	182,442	102,558	38,137
Total parks and recreation	1,238,120	1,196,410	41,710	802,564
Riverside park				
Personnel services	113,184	115,586	(2,402)	101,371
Supplies	16,000	15,900	100	15,555
Repairs and maintenance	27,000	26,214	786	11,367
Other services and charges	40,810	37,774	3,036	38,392
Capital outlay	30,000	30,081	(81)	-
Total riverside park	226,994	225,555	1,439	166,685
Teen center				
Repairs and maintenance	-	-	-	169
Other services and charges	-	-	-	7,274
Total teen center	-	-	-	7,443
Total cultural and recreation	1,465,114	1,421,965	43,149	1,039,801
Debt service				
Principal	65,000	64,252	748	61,153
Interest and fiscal charges	5,000	5,346	(346)	8,657
Total debt service	70,000	69,598	402	69,810
Total expenditures	12,414,876	12,189,302	225,574	10,918,182

(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, 2016**With comparative totals for the year ended September 30, 2015*

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
Excess (deficiency) of revenues over expenditures	\$ 940,613	\$ 898,728	\$ (41,885)	\$ 2,278,814
OTHER FINANCING SOURCES (USES)				
Transfers in	242,309	233,784	(8,525)	434,173
Transfers out	<u>(2,119,880)</u>	<u>(2,223,607)</u>	<u>(103,727)</u>	<u>(1,429,472)</u>
Total other financing sources (uses)	<u>(1,877,571)</u>	<u>(1,989,823)</u>	<u>(112,252)</u>	<u>(995,299)</u>
Net change in fund balance	(936,958)	(1,091,095)	(154,137)	1,283,515
Fund balance at beginning of year	<u>3,066,109</u>	<u>3,066,109</u>	-	<u>1,782,594</u>
Fund balance at end of year	<u>\$ 2,129,151</u>	<u>\$ 1,975,014</u>	<u>\$ (154,137)</u>	<u>\$ 3,066,109</u> (concluded)

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**MAJOR 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, 2016

With comparative totals for the year ended September 30, 2015

	2016			2015
	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES				
Ad valorem taxes				
Current taxes	\$ 821,440	\$ 797,443	\$ (23,997)	\$ 387,440
Delinquent taxes	4,000	12,168	8,168	11,284
Penalty and interest	3,500	11,374	7,874	6,659
Investment income	-	600	600	-
Total revenues	<u>828,940</u>	<u>821,585</u>	<u>(7,355)</u>	<u>405,383</u>
EXPENDITURES				
Debt service				
Principal retirement	1,395,952	1,489,500	(93,548)	1,435,000
Interest and fiscal charges	321,596	337,004	(15,408)	357,569
Paying agents' fees and issue costs	2,000	2,300	(300)	1,800
Total expenditures	<u>1,719,548</u>	<u>1,828,804</u>	<u>(109,256)</u>	<u>1,794,369</u>
Excess (deficiency) of revenues over expenditures	(890,608)	(1,007,219)	(116,611)	(1,388,986)
OTHER FINANCING SOURCES (USES)				
Transfers in	991,221	1,209,739	218,518	956,381
Transfers out	-	-	-	(86,311)
Total other financing sources (uses)	<u>991,221</u>	<u>1,209,739</u>	<u>218,518</u>	<u>870,070</u>
Net change in fund balances	100,613	202,520	101,907	(518,916)
Fund balances at beginning of year	<u>31,305</u>	<u>31,305</u>	-	<u>550,221</u>
Fund balances at end of year	<u>\$ 131,918</u>	<u>\$ 233,825</u>	<u>\$ 101,907</u>	<u>\$ 31,305</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, 2016

	Equipment Maintenance	Information Technology	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 13,405	\$ 24,222	\$ 37,627
Prepaid items	1,606	1,502	3,108
Total current assets	15,011	25,724	40,735
Noncurrent assets			
Capital assets			
Buildings, improvements, and equipment (net)	251,864	334,459	586,323
Total noncurrent assets	251,864	334,459	586,323
Total assets	266,875	360,183	627,058
LIABILITIES			
Current liabilities			
Accounts payable	15,754	26,011	41,765
Accrued expenses	13,485	5,775	19,260
Accrued compensated absences	1,990	875	2,865
Current portion of capital lease payable	-	52,068	52,068
Total current liabilities	31,229	84,729	115,958
Noncurrent liabilities			
Accrued compensated absences	17,904	7,877	25,781
Capital lease payable	-	49,549	49,549
Total noncurrent liabilities	17,904	57,426	75,330
Total liabilities	49,133	142,155	191,288
NET POSITION			
Net investment in capital assets	251,864	232,842	484,706
Unrestricted	(34,122)	(14,814)	(48,936)
Total net position	\$ 217,742	\$ 218,028	\$ 435,770

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, 2016*

	Equipment Maintenance	Information Technology	Total
OPERATING REVENUES			
Miscellaneous	\$ 1,828	\$ 480	\$ 2,308
Total operating revenues	<u>1,828</u>	<u>480</u>	<u>2,308</u>
OPERATING EXPENSES			
Equipment maintenance	644,017	-	644,017
Information technology	-	545,276	545,276
Depreciation	83,168	121,131	204,299
Total operating expenses	<u>727,185</u>	<u>666,407</u>	<u>1,393,592</u>
Operating income (loss) before nonoperating revenues (expenses) and transfers	(725,357)	(665,927)	(1,391,284)
NONOPERATING REVENUES (EXPENSES)			
Investment income	7	7	14
Interest and fiscal charges	-	(5,043)	(5,043)
Net nonoperating revenues (expenses)	<u>7</u>	<u>(5,036)</u>	<u>(5,029)</u>
Income (loss) before transfers	(725,350)	(670,963)	(1,396,313)
Transfers			
Transfers in	637,530	749,034	1,386,564
Total transfers	<u>637,530</u>	<u>749,034</u>	<u>1,386,564</u>
Change in net position	(87,820)	78,071	(9,749)
Total net position at beginning of year	<u>305,562</u>	<u>139,957</u>	<u>445,519</u>
Total net position at end of year	<u>\$ 217,742</u>	<u>\$ 218,028</u>	<u>\$ 435,770</u>

CITY OF BAY CITY, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the year ended September 30, 2016

	Equipment Maintenance	Information Technology	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,828	\$ 480	\$ 2,308
Cash paid to suppliers for goods and services	(187,647)	(295,113)	(482,760)
Cash paid to employees for services	(495,611)	(235,523)	(731,134)
Net cash provided (used) by operating activities	<u>(681,430)</u>	<u>(530,156)</u>	<u>(1,211,586)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers (to) from other funds	<u>637,530</u>	<u>749,034</u>	<u>1,386,564</u>
Net cash provided (used) by noncapital financing activities	<u>637,530</u>	<u>749,034</u>	<u>1,386,564</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(152,555)	(152,555)
Principal paid on capital lease	-	(50,073)	(50,073)
Interest paid on capital lease	-	(5,043)	(5,043)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>(207,671)</u>	<u>(207,671)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income	<u>7</u>	<u>7</u>	<u>14</u>
Net cash provided (used) by investing activities	<u>7</u>	<u>7</u>	<u>14</u>
Net increase (decrease) in cash and cash equivalents	(43,893)	11,214	(32,679)
Cash and cash equivalents at beginning of year	<u>57,298</u>	<u>13,008</u>	<u>70,306</u>
Cash and cash equivalents at end of year	<u>\$ 13,405</u>	<u>\$ 24,222</u>	<u>\$ 37,627</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (725,357)	\$ (665,927)	\$ (1,391,284)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	83,168	121,131	204,299
Changes in assets and liabilities			
(Increase) decrease in prepaid items	(1,606)	(1,502)	(3,108)
Increase (decrease) in accounts payable	(41,521)	13,049	(28,472)
Increase (decrease) in accrued expenses	2,630	276	2,906
Increase (decrease) in accrued compensated absences	1,256	2,817	4,073
Total adjustments	<u>43,927</u>	<u>135,771</u>	<u>179,698</u>
Net cash provided (used) by operating activities	<u>\$ (681,430)</u>	<u>\$ (530,156)</u>	<u>\$ (1,211,586)</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.....	92
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.....	103
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	109
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	114
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	116

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

	Fiscal Year			
	2007	2008	2009	2010
Governmental activities				
Net investment in capital assets	\$ 12,496,157	\$ 13,059,039	\$ 11,507,535	\$ 12,166,490
Restricted	1,345,964	2,327,929	3,493,985	-
Unrestricted	435,647	912,769	1,554,168	4,195,081
Total governmental activities net position	<u>\$ 14,277,768</u>	<u>\$ 16,299,737</u>	<u>\$ 16,555,688</u>	<u>\$ 16,361,571</u>
Business-type activities				
Net investment in capital assets	\$ 6,655,233	\$ 7,522,741	\$ 9,390,238	\$ 9,836,242
Restricted	542,632	564,651	530,241	548,261
Unrestricted	1,447,433	731,981	688,817	1,366,416
Total business-type activities net position	<u>\$ 8,645,298</u>	<u>\$ 8,819,373</u>	<u>\$ 10,609,296</u>	<u>\$ 11,750,919</u>
Primary government				
Invested in capital assets, net of related debt	\$ 19,151,390	\$ 20,581,780	\$ 20,897,773	\$ 22,002,732
Restricted	1,888,596	2,892,580	4,024,226	548,261
Unrestricted	1,883,080	1,644,750	2,242,985	5,561,497
Total primary government activities net position	<u>\$ 22,923,066</u>	<u>\$ 25,119,110</u>	<u>\$ 27,164,984</u>	<u>\$ 28,112,490</u>

(1) Accrual basis of accounting

NOTE: The City implemented GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015. The amounts for all prior fiscal years have not been restated for the effects of this standard.

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 7,541,744	\$ 7,904,146	\$ 8,444,943	\$ 7,050,325	\$ 6,540,844	\$ 9,638,245
407,739	410,945	132,143	1,073,579	646,117	994,641
<u>4,373,229</u>	<u>5,054,417</u>	<u>3,865,608</u>	<u>2,807,480</u>	<u>3,391,400</u>	<u>783,252</u>
<u>\$ 12,322,712</u>	<u>\$ 13,369,508</u>	<u>\$ 12,442,694</u>	<u>\$ 10,931,384</u>	<u>\$10,578,361</u>	<u>\$11,416,138</u>
\$ 10,543,619	\$ 10,948,774	\$ 12,245,026	\$ 9,681,894	\$13,826,216	\$15,011,700
339,292	-	-	-	-	-
<u>2,359,186</u>	<u>2,952,528</u>	<u>2,668,278</u>	<u>6,217,963</u>	<u>1,518,085</u>	<u>2,926,172</u>
<u>\$ 13,242,097</u>	<u>\$ 13,901,302</u>	<u>\$ 14,913,304</u>	<u>\$ 15,899,857</u>	<u>\$15,344,301</u>	<u>\$17,937,872</u>
\$ 18,085,363	\$ 18,852,920	\$ 20,689,969	\$ 16,732,219	\$20,367,060	\$24,649,945
747,031	410,945	132,143	1,073,579	646,117	994,641
<u>6,732,415</u>	<u>8,006,945</u>	<u>6,533,886</u>	<u>9,025,443</u>	<u>4,909,485</u>	<u>3,709,424</u>
<u>\$ 25,564,809</u>	<u>\$ 27,270,810</u>	<u>\$ 27,355,998</u>	<u>\$ 26,831,241</u>	<u>\$25,922,662</u>	<u>\$29,354,010</u>

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

	Fiscal Year			
	2007	2008	2009	2010
Governmental activities				
Expenses				
General government	\$ 1,702,393	\$ 1,942,008	\$ 2,473,385	\$ 2,012,790
Public safety	3,133,963	3,331,324	4,099,853	3,771,477
Public works	2,706,333	2,052,743	2,849,343	2,340,844
Construction for outside parties	-	-	-	2,320,411
Cultural and recreation	4,192,116	3,249,128	3,048,544	2,573,635
Interest on long-term debt	332,332	464,827	381,608	583,214
Total expenses	<u>12,067,137</u>	<u>11,040,030</u>	<u>12,852,733</u>	<u>13,602,371</u>
Program revenues				
Charges for services				
General government	150,025	207,903	254,034	240,650
Public safety	65,799	67,302	72,011	406,931
Public works	4,425	6,335	13,033	-
Construction for outside parties	-	-	-	1,847,562
Cultural and recreation	209,571	292,469	111,374	203,546
Operating grants and contributions	794,498	2,041,285	2,172,387	439,912
Capital grants and contributions	-	-	-	-
Total program revenues	<u>1,224,318</u>	<u>2,615,294</u>	<u>2,622,839</u>	<u>3,138,601</u>
Total governmental activities net program (expense) revenue	(10,842,819)	(8,424,736)	(10,229,894)	(10,463,770)
General revenues and other changes in net position				
Taxes				
Property taxes	2,594,281	2,761,842	3,059,879	3,414,585
Sales taxes	4,817,754	5,239,480	5,076,657	3,986,482
Franchise taxes	773,840	770,588	756,851	860,750
Other taxes	-	-	-	432,144
Investment earnings	125,914	54,491	26,809	14,401
Miscellaneous	1,031,784	1,558,912	514,177	1,014,427
Special item - discontinued operations	-	-	-	-
Transfers	(160,842)	61,392	(842,299)	74,131
Total general revenues and other changes in net position	<u>9,182,731</u>	<u>10,446,705</u>	<u>8,592,074</u>	<u>9,796,920</u>
Total governmental activities change in net position	<u>\$ (1,660,088)</u>	<u>\$ 2,021,969</u>	<u>\$ (1,637,820)</u>	<u>\$ (666,850)</u>

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 2,592,172	\$ 1,992,271	\$ 2,321,123	\$ 2,295,602	\$ 2,147,396	\$ 2,534,500
4,248,889	4,073,513	4,303,562	4,662,949	4,661,538	5,383,527
3,571,109	2,377,316	2,656,096	5,854,434	5,595,487	5,216,175
-	-	-	-	-	-
2,028,142	1,920,640	2,100,338	2,137,429	2,220,915	2,483,518
576,214	331,816	495,527	305,880	340,100	450,012
<u>13,016,526</u>	<u>10,695,556</u>	<u>11,876,646</u>	<u>15,256,294</u>	<u>14,965,436</u>	<u>16,067,732</u>
210,778	94,793	81,818	999,059	235,881	429,269
1,139,693	620,749	538,848	149,354	326,125	276,229
-	-	59,130	1,832,671	2,657,519	2,779,000
-	-	-	-	-	-
199,657	161,334	154,573	260,195	154,741	239,908
334,370	111,982	281,587	280,889	200,000	317,050
-	-	-	-	386,329	828,794
<u>1,884,498</u>	<u>988,858</u>	<u>1,115,956</u>	<u>3,522,168</u>	<u>3,960,595</u>	<u>4,870,250</u>
(11,132,028)	(9,706,698)	(10,760,690)	(11,734,126)	(11,004,841)	(11,197,482)
3,724,754	3,728,127	3,769,351	3,749,040	4,098,134	4,462,235
4,423,374	3,385,962	3,440,988	3,469,272	4,077,195	4,060,320
794,918	1,099,039	1,087,598	984,607	1,047,005	1,040,631
478,484	474,242	497,136	614,073	668,601	694,611
14,914	6,163	5,779	3,653	2,660	16,254
1,100,694	924,999	685,286	709,694	1,077,904	756,915
-	-	-	-	(1,208,541)	-
98,338	1,134,962	501,909	692,477	2,903,367	1,004,293
<u>10,635,476</u>	<u>10,753,494</u>	<u>9,988,047</u>	<u>10,222,816</u>	<u>12,666,325</u>	<u>12,035,259</u>
\$ (496,552)	\$ 1,046,796	\$ (772,643)	\$ (1,511,310)	\$ 1,661,484	\$ 837,777

(continued)

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

	Fiscal Year			
	2007	2008	2009	2010
Business-type activities				
Expenses				
Water and sewer	\$ 4,563,790	\$ 4,923,927	\$ 4,706,783	\$ 5,258,532
Sanitation	-	-	113,933	1,952,979
Airport	324,101	420,223	397,202	411,863
Total expenses	<u>4,887,891</u>	<u>5,344,150</u>	<u>5,217,918</u>	<u>7,623,374</u>
Program revenues				
Charges for services				
Water and sewer	5,310,276	5,282,569	5,561,610	5,730,656
Sanitation	-	-	-	2,176,550
Airport	147,004	186,511	159,161	201,474
Operating grants and contributions	350,747	13,869	361,082	-
Capital grants and contributions	-	-	-	726,097
Total program revenues	<u>5,808,027</u>	<u>5,482,949</u>	<u>6,081,853</u>	<u>8,834,777</u>
Total business-type activities net program (expense) revenue	920,136	138,799	863,935	1,211,403
General revenues and other changes in net position				
Unrestricted investment earnings	61,157	36,317	9,639	4,478
Miscellaneous	187,813	60,351	185,058	17,225
Special item - discontinued operations	-	-	-	-
Transfers	160,842	(61,392)	842,299	(74,131)
Total general revenues and other changes in net position	<u>409,812</u>	<u>35,276</u>	<u>1,036,996</u>	<u>(52,428)</u>
Total business-type activities change in net position	<u>\$ 1,329,948</u>	<u>\$ 174,075</u>	<u>\$ 1,900,931</u>	<u>\$ 1,158,975</u>
Total primary government change in net position	<u>\$ (330,140)</u>	<u>\$ 2,196,044</u>	<u>\$ 263,111</u>	<u>\$ 492,125</u>

(1) Accrual basis of accounting

NOTE: The City implemented GASB Statement No. 68 "Accounting and Financial Reporting for Pensions" in fiscal year 2015. The amounts for all prior fiscal years have not been restated for the effects of this standard.

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 5,027,229	\$ 5,026,141	\$ 5,134,720	\$ 5,775,681	\$ 6,063,713	\$ 6,681,343
1,890,468	2,482,660	2,446,553	503,196	-	-
401,842	389,402	459,418	540,255	550,555	588,537
7,319,539	7,898,203	8,040,691	6,819,132	6,614,268	7,269,880
6,326,946	6,521,880	6,367,177	6,582,946	6,873,149	7,108,017
2,204,210	2,632,229	2,768,743	449,082	-	-
227,920	239,173	250,113	327,899	340,572	276,533
-	220,997	27,468	10,914	-	68,197
123,325	-	584,651	975,226	1,115,799	3,384,479
8,882,401	9,614,279	9,998,152	8,346,067	8,329,520	10,837,226
1,562,862	1,716,076	1,957,461	1,526,935	1,715,252	3,567,346
3,677	5,422	3,507	3,680	1,729	5,966
22,977	3,608	3,487	148,415	-	24,552
-	-	-	-	(2,903,367)	-
(98,338)	(1,134,962)	(501,909)	(692,477)	1,134,457	(1,004,293)
(71,684)	(1,125,932)	(494,915)	(540,382)	(1,767,181)	(973,775)
\$ 1,491,178	\$ 590,144	\$ 1,462,546	\$ 986,553	\$ (51,929)	\$ 2,593,571
\$ 994,626	\$ 1,636,940	\$ 689,903	\$ (524,757)	\$ 1,609,555	\$ 3,431,348

(concluded)

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

	Fiscal Year			
	2007	2008	2009	2010
General Fund				
Nonspendable				
Prepaid items	\$ -	\$ -	\$ -	\$ -
Assigned	-	-	-	-
Unassigned	-	-	-	-
Reserved				
Prepaid items	-	-	-	24,824
Unreserved	491,835	955,593	1,622,414	1,708,708
Total general fund	<u>\$ 491,835</u>	<u>\$ 955,593</u>	<u>\$ 1,622,414</u>	<u>\$ 1,733,532</u>
All Other Governmental Funds				
Restricted				
Retirement of long-term debt	\$ -	\$ -	\$ -	\$ 5,431
Capital project funds	-	-	832,503	3,663,379
Community development	659,675	1,204,720	1,356,292	1,810,198
Special revenue funds	733,622	1,190,398	1,325,206	-
Tourism	-	-	-	-
Municipal court	-	-	-	-
Culture and recreation	-	-	-	-
Public safety	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 1,393,297</u>	<u>\$ 2,395,118</u>	<u>\$ 3,514,001</u>	<u>\$ 5,479,008</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					
2011	2012	2013	2014	2015	2016
\$ 53,128	\$ 108,116	\$ 16,879	\$ 55,374	\$ 120,664	\$ 44,589
7,201	7,201	-	-	-	-
2,013,578	2,821,025	2,719,997	1,727,220	2,945,445	1,930,425
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 2,073,907</u>	<u>\$ 2,936,342</u>	<u>\$ 2,736,876</u>	<u>\$ 1,782,594</u>	<u>\$ 3,066,109</u>	<u>\$ 1,975,014</u>
\$ 10,285	\$ 11,275	\$ 30,568	\$ 550,221	\$ 31,305	\$ 233,825
1,365,723	1,337,295	1,191,190	2,022,383	2,877,230	3,899,359
1,806,794	-	-	-	-	-
884,510	823,579	-	-	-	-
-	-	221,561	302,436	372,746	449,295
-	-	101,575	96,262	102,994	83,196
-	-	42,270	71,538	60,336	92,576
-	-	610,912	615,582	631,515	94,804
-	-	-	(40,379)	(98,700)	-
<u>\$ 4,067,312</u>	<u>\$ 2,172,149</u>	<u>\$ 2,198,076</u>	<u>\$ 3,618,043</u>	<u>\$ 3,977,426</u>	<u>\$ 4,853,055</u>

CITY OF BAY CITY, TEXAS

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)

Last ten fiscal years

	Fiscal Year			
	2007	2008	2009	2010
Revenues				
Taxes	\$ 8,247,870	\$ 8,793,242	\$ 8,892,810	\$ 8,646,929
Licenses and permits	4,425	6,335	13,033	9,813
Fines and forfeitures	150,025	207,903	254,034	402,318
Fees and charges for services	275,369	359,771	263,473	2,286,558
Intergovernmental	572,709	610,382	399,741	156,826
Investment income	125,914	54,491	26,809	14,401
Miscellaneous	1,253,574	2,989,815	2,446,952	1,174,532
Total revenues	10,629,886	13,021,939	12,296,852	12,691,377
Expenditures				
Current				
General government	1,734,186	1,903,178	2,048,581	2,114,190
Public safety	3,111,551	3,205,678	3,301,382	3,692,061
Public works	964,075	979,730	1,071,482	1,050,523
Cultural and recreation	2,129,881	2,178,504	2,214,828	2,238,469
Capital outlay	6,031,745	2,548,637	2,502,372	3,569,151
Debt service				
Principal retirement	327,694	357,054	529,847	771,731
Interest and fiscal charges	302,916	444,971	428,781	484,390
Paying agents' fees and issue costs	20,174	-	122,550	90,183
Total expenditures	14,622,222	11,617,752	12,219,823	14,010,698
Excess (deficiency) of revenues over expenditures	(3,992,336)	1,404,187	77,029	(1,319,321)
Other financing sources (uses)				
Debt issuance	4,127,000	-	2,500,000	3,300,000
Premium on bonds	-	-	50,974	-
Payment to escrow	-	-	-	-
Transfers in	5,379,746	1,214,833	439,236	510,232
Transfers out	(5,540,588)	(1,153,441)	(1,281,535)	(436,101)
Total other financing sources (uses)	3,966,158	61,392	1,708,675	3,374,131
Changes in fund balances	\$ (26,178)	\$ 1,465,579	\$ 1,785,704	\$ 2,054,810
Debt service as a percentage of noncapital expenditures	<u>7.34%</u>	<u>8.84%</u>	<u>9.87%</u>	<u>12.03%</u>

(1) Modified accrual basis of accounting

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 9,398,598	\$ 8,764,173	\$ 8,845,091	\$ 8,894,495	\$ 9,988,557	\$ 10,375,097
9,335	8,947	5,706	205,321	235,881	255,511
736,614	466,970	378,455	339,905	326,125	322,166
751,218	408,908	444,908	2,585,325	2,809,761	2,898,210
334,370	111,982	281,587	342,057	420,857	264,635
14,914	6,159	5,773	3,647	2,660	16,240
1,102,026	954,226	713,618	805,993	998,560	892,115
12,347,075	10,721,365	10,675,138	13,176,743	14,782,401	15,023,974
2,553,230	1,862,353	2,031,233	2,343,485	2,083,129	2,335,155
4,074,012	3,840,767	4,118,972	4,472,587	4,581,482	4,986,001
1,617,989	981,178	1,142,463	2,895,565	3,163,745	3,425,770
1,658,183	1,764,783	1,869,035	2,022,110	2,102,214	2,396,240
2,351,256	467,801	1,005,219	1,072,074	2,245,491	3,704,716
883,784	653,759	775,707	847,110	1,496,153	1,553,752
622,147	398,754	348,511	257,997	368,026	344,650
-	-	154,249	71,973	-	123,195
13,760,601	9,969,395	11,445,389	13,982,901	16,040,240	18,869,479
(1,413,526)	751,970	(770,251)	(806,158)	(1,257,839)	(3,845,505)
-	-	4,672,000	1,598,000	1,398,250	3,776,667
-	-	65,470	67,893	-	235,643
-	-	(3,960,250)	-	-	-
1,271,561	568,493	874,319	1,684,648	3,058,627	2,920,044
(1,173,223)	(576,872)	(1,054,827)	(2,078,698)	(1,556,140)	(3,302,315)
98,338	(8,379)	596,712	1,271,843	2,900,737	3,630,039
\$ (1,315,188)	\$ 743,591	\$ (173,539)	\$ 465,685	\$ 1,642,898	\$ (215,466)
13.20%	11.09%	11.23%	8.84%	13.64%	13.88%

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

<u>Fiscal Year</u>	<u>Property</u>	<u>Penalty and Interest</u>	<u>Franchise</u>	<u>Sales</u>	<u>Other</u>	<u>Total</u>
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	3,728,127	76,803	1,099,039	3,385,962	474,242	8,764,173
2013	3,737,358	82,011	1,087,598	3,440,988	497,136	8,845,091
2014	3,750,517	76,026	984,607	3,469,272	614,073	8,894,495
2015	4,108,667	87,089	1,047,005	4,077,195	668,601	9,988,557
2016	4,492,812	86,723	1,040,631	4,060,320	694,611	10,375,097

(1) Modified accrual basis of accounting

NOTES: Prior to fiscal year 2008, the City reported other taxes with sales taxes.

Prior to fiscal year 2010, the City reported hotel/motel taxes with sales taxes.

Prior to fiscal year 2012, the City reported penalty and interest with property 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>
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	312,442,879	383,121,147	71,745,470	106,655,617	660,653,879	0.60209
2015	2014	319,956,588	393,514,710	71,784,570	107,744,036	677,511,832	0.60209
2016	2015	330,005,930	440,810,448	88,166,790	115,450,676	743,532,492	0.60209

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*

Fiscal Year	City Direct Rates			Overlapping Rates		
	Debt Service	General Fund	Total	Bay City ISD	Matagorda County	Port of Bay City
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	0.05866	0.54343	0.56794	1.32394	0.32099	0.03645
2015	0.05866	0.54343	0.60209	1.34064	0.35867	0.04044
2016	0.11047	0.49162	0.60209	1.34064	0.39568	0.04539

SOURCE: Tax department records of the various taxing authorities

Overlapping Rates			
Matagorda Co. Hospital District	Matagorda Co. Drainage District #1	Matagorda Co. Conservation & Reclaim. Distr.	Total
\$ 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
0.27624	0.07750	0.00577	2.70135
0.30147	0.07158	0.00646	2.76331

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

2016		
Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
Oak Manor Bay City LLC	\$ 9,190,320	1.24%
Wal-Mart Real Estate Business Trust	8,445,300	1.14%
Fortress Lodging LLC	7,143,820	0.96%
AEP Texas Central Co.	6,973,180	0.94%
PRSALL LLC	5,787,290	0.78%
Wal-Mart Store #01-1405	5,689,550	0.77%
Nichols Square Partners LTD	5,148,780	0.69%
Pasupatinath LLC	4,900,000	0.66%
Bay City Accommodations LTD	4,400,000	0.59%
Cypress Palm Village LP	4,238,620	0.57%
	<u>\$ 52,726,540</u>	<u>8.34%</u>

2007		
Taxpayer	Taxable Assessed Valuation	Percentage of Total City Taxable Assessed Valuation
Wal-Mart Real Estate Business Trust	\$ 8,052,810	1.61%
Wal-Mart Store #01-1405	7,067,090	1.42%
AEP Texas Central Co.	7,004,820	1.40%
Nichols Square Partners LTD	5,279,260	1.06%
W R H Bay City LTD	4,235,050	0.85%
Southwestern Bell Telephone LP	3,660,480	0.73%
H E Butt Grocery Co	3,489,810	0.70%
Saloman Brothers Realty LLC	3,446,480	0.69%
H E Butt Grocery Company	3,356,590	0.67%
Barretts Minerals Inc.	3,315,470	0.66%
	<u>\$ 48,907,860</u>	<u>9.79%</u>

SOURCE: Matagorda Central Appraisal District

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

Fiscal Year	Taxes Levied for the Fiscal Year (Adjusted Levy)	Collections within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2007	\$ 2,551,227	\$ 2,469,148	96.78%	\$ 73,721	\$ 2,542,869	99.67%
2008	2,743,941	2,642,725	96.31%	93,189	2,735,914	99.71%
2009	3,045,791	2,930,352	96.21%	105,596	3,035,948	99.68%
2010	3,355,899	3,197,976	95.29%	143,835	3,341,811	99.58%
2011	3,717,277	3,575,427	96.18%	124,492	3,699,919	99.53%
2012	3,727,543	3,608,960	96.82%	96,947	3,705,907	99.42%
2013	3,750,544	3,629,326	96.77%	98,835	3,728,161	99.40%
2014	3,756,825	3,625,489	96.50%	99,177	3,724,666	99.14%
2015	4,088,953	3,980,062	97.34%	58,703	4,038,765	98.77%
2016	4,475,994	4,356,460	97.33%	-	4,356,460	97.33%

NOTE: Collections do not include penalty and interest.

SOURCE: Tax assessor/collector's records

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

<u>Fiscal Year</u>	<u>Gallons of Water Produced</u>	<u>Gallons of Water Consumed</u>	<u>Gallons of Water Unbilled</u>	<u>Average Percent Unbilled</u>	<u>Gallons of Wastewater Treated</u>
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
2015	824,901,000	627,451,200	197,449,800	23.94%	691,614,000
2016	842,451,000	635,604,500	207,846,500	24.67%	717,629,000

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	Notes Payable	Capital Leases	Plus: Issuance Premiums
2007	\$ -	\$ 5,380,000	\$ 4,527,837	\$ 269,890	N/A
2008	-	5,155,000	4,434,167	221,134	N/A
2009	2,500,000	4,920,000	4,179,741	169,897	119,427
2010	5,582,500	4,675,000	3,913,401	116,052	95,542
2011	5,287,500	4,420,000	3,633,262	59,466	71,667
2012	4,947,500	4,155,000	290,461	-	47,782
2013	4,595,000	3,995,000	819,255	-	92,872
2014	5,828,000	3,665,000	667,185	199,845	149,646
2015	7,566,250	3,330,000	511,101	151,690	212,081
2016	10,290,417	2,990,000	349,849	101,617	424,826

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

N/A denotes information not available.

Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
Certificates of Obligation	General Obligation Bonds	Plus: Issuance Premiums			
\$ -	\$ 7,375,000	N/A	\$ 17,552,727	N/A	\$ 955
-	6,305,000	N/A	16,115,301	N/A	877
2,500,000	5,220,000	50,974	19,660,039	N/A	1,044
2,282,500	4,025,000	141,418	20,831,413	N/A	1,667
2,057,500	2,795,000	112,436	18,436,831	N/A	1,475
11,357,500	1,530,000	119,508	22,447,751	N/A	1,274
10,675,000	225,000	88,080	20,490,207	N/A	1,163
12,297,000	-	157,645	22,964,321	N/A	1,312
8,883,750	-	68,697	20,723,569	N/A	1,193
10,074,583	-	181,502	24,412,794	N/A	1,387

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

Fiscal Year	General Bonded Debt Outstanding			Total
	Certificates of Obligation	General Obligation Bonds	Plus: Issuance Premiums	
2007	\$ -	\$ 12,755,000	N/A	\$ 12,755,000
2008	-	11,460,000	N/A	11,460,000
2009	5,000,000	10,140,000	170,401	15,310,401
2010	7,865,000	8,700,000	236,960	16,801,960
2011	7,345,000	7,215,000	184,103	14,744,103
2012	16,305,000	5,685,000	167,290	22,157,290
2013	15,270,000	4,220,000	180,952	19,670,952
2014	18,125,000	3,665,000	307,291	22,097,291
2015	16,450,000	3,330,000	280,778	20,060,778
2016	20,365,000	2,990,000	606,328	23,961,328

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

N/A denotes information not available

Debt Service Monies Available	Net Bonded Debt	Percentage of Actual Taxable Value of Property	Per Capita
\$ -	\$ 12,755,000	100.00%	\$ 662
-	11,460,000	100.00%	581
-	15,310,401	100.00%	811
4,854	16,797,106	100.00%	940
10,285	14,733,818	100.00%	824
11,275	22,146,015	100.00%	1,244
30,567	19,640,385	100.00%	1,113
542,496	21,554,795	100.00%	1,214
31,305	20,029,473	100.00%	1,154
233,825	23,727,503	100.00%	1,348

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

September 30, 2016

	<u>Gross Debt Outstanding</u>		<u>Percentage</u>	<u>Amount</u>
	<u>Date</u>	<u>Amount</u>	<u>Applicable</u>	<u>Applicable</u>
			<u>To City</u>	<u>To City</u>
Direct Debt:				
City of Bay City (1)	9/30/2016	<u>\$ 14,156,709</u>	100.00%	<u>\$ 14,156,709</u>
Overlapping Debt:				
Matagorda County	9/30/2016	3,927,662	14.36%	564,012
Bay City Independent School District	9/30/2016	<u>13,488,540</u>	66.50%	<u>8,969,879</u>
Total Overlapping Debt		<u>17,416,202</u>		<u>9,533,891</u>
Total		<u>\$ 31,572,911</u>		<u>\$ 23,690,600</u>

(1) Figures do not include accrued compensated absences and net pension liability.

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

SOURCES: Bay City Independent School District
Matagorda County

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

<u>Fiscal Year</u>	<u>(1) Population</u>	<u>(4) Personal Income</u>	<u>(1) Per Capita Personal Income</u>	<u>(1) Median Age</u>	<u>(2) School Enrollment</u>	<u>(3) Unemployment Rate</u>
2007	19,273	\$ 574,887,007	\$ 29,829	32	4,410	5.9%
2008	19,735	588,684,295	29,829	32	4,140	7.0%
2009	18,667	568,335,482	30,446	32	4,140	11.2%
2010	17,614	N/A	21,773	33	3,797	11.2%
2011	17,663	N/A	21,773	33	3,772	11.6%
2012	17,663	N/A	22,000	33	3,770	10.1%
2013	17,476	N/A	22,000	33	3,860	9.80%
2014	17,509	N/A	35,426	38	3,735	8.30%
2015	17,368	N/A	37,324	38	3,755	6.80%
2016	17,598	N/A	39,111	39	3,725	7.00%

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

N/A denotes information not available

SOURCES: (1) US Dept of Labor, Bureau of Labor Statistics

(2) Bay City Independent School District

(3) Texas Workforce Commission

(4) County Information Program, Tx Assoc of Counties

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

2016	
<u>Employer</u>	<u>Employees</u>
South Texas Project (STP)	1,180
Bay City ISD	550
Matagorda County General Hospital	484
Tenaris	400
Matagorda County	250
OXEA	230
Lyondell	150
City of Bay City	146
H.E.B.	120
Walmart	100
	<u>3,610</u>

2012	
<u>Employer</u>	<u>Employees</u>
South Texas Project (STP)	1,200
Bay City ISD	820
Walmart	305
Matagorda County General Hospital	300
H.E.B.	250
Lyondell	220
Valerus	188
City of Bay City	175
OXEA	140
Henderson	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			
	2007	2008	2009	2010
General government	51.00	35.00	35.00	24.29
Public safety				
Police				
Officers	30.00	37.00	35.00	35.00
Civilians	21.00	18.00	20.19	20.19
Fire				
Firefighters	35.00	37.00	36.00	34.00
Civilians	3.00	1.00	1.00	1.00
Public works				
Streets/maintenance	24.00	18.00	35.00	19.00
Public activities and recreation	5.00	11.00	11.00	11.76
Library	-	-	-	-
Water and sewer	23.00	32.00	29.00	43.00
Airport	-	-	-	2.00
Equipment and building maintenance	-	-	-	-
Information technology	-	-	-	-
Sanitation	-	-	10.00	11.00
Total	<u>192.00</u>	<u>189.00</u>	<u>212.19</u>	<u>201.24</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.

Fiscal Year					
2011	2012	2013	2014	2015	2016
25.29	25.29	23.00	18.00	15.00	16.00
35.00	35.00	37.00	39.00	41.00	41.00
20.19	20.19	18.00	21.00	19.00	21.00
34.00	34.00	35.00	36.00	35.00	35.00
1.00	1.00	1.00	1.00	1.00	1.00
19.00	16.00	18.00	14.00	19.76	17.00
11.76	11.76	10.00	10.00	10.00	13.00
-	-	8.00	6.00	7.00	6.00
44.00	39.00	21.00	25.00	28.00	26.00
2.00	1.00	2.00	2.00	2.00	2.00
-	4.00	9.00	9.00	8.00	7.00
-	-	-	3.00	3.00	3.00
11.00	16.28	13.00	-	-	-
<u>203.24</u>	<u>203.52</u>	<u>195.00</u>	<u>184.00</u>	<u>188.76</u>	<u>188.00</u>

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

Function/Program	Fiscal Year			
	2007	2008	2009	2010
Public safety				
Police				
Stations	1	1	1	1
Patrol units	30	30	32	31
Fire				
Fire stations	1	1	1	1
Public works				
Streets				
Streets (lane miles)	N/A	N/A	95	109
Parks				
Acreage	207	207	186	185
Parks	20	20	22	16
Swimming pools	2	2	2	2
Water and wastewater				
Water				
Water mains (miles)	90	90	94	94
Fire hydrants	600	600	600	600
Maximum daily capacity (thousands of gallons)	4	4	4	4
Wastewater				
Sanitary sewers (miles)	85	85	88	88
Storm sewers (miles)	70	70	80	80
Maximum daily treatment capacity (thousands of gallons)	4	4	4	4.3
Sanitation				
Collection trucks	N/A	N/A	8	8

NOTE: N/A denotes information not available

Fiscal Year					
2011	2012	2013	2014	2015	2016
1	1	1	1	1	1
31	31	35	33	37	34
1	1	1	1	1	1
109	109	109	109	109	109
185	185	185	185	185	186
16	16	16	16	16	17
2	2	2	2	2	2
94	94	94	115	115	115
600	600	600	600	650	650
4	4	4	4	4	4
88	88	88	88	88	88
80	80	80	80	80	80
4.3	4.3	4.3	4.3	4.3	4.3
8	8	8	0	0	0

CITY OF BAY CITY, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last ten fiscal years

Function/Program	Fiscal Year			
	2007	2008	2009	2010
General government				
Building permits issued	N/A	N/A	N/A	442
Building inspections conducted	N/A	N/A	N/A	222
Fire inspection conducted	N/A	N/A	N/A	13
Public safety				
Police				
Arrests	1,846	1,399	1,513	1,934
Accident Reports	566	235	425	452
Citations	2,522	2,175	2,791	4,484
Offense reports	4,259	22,827	7,222	3,017
Calls for service	26,557	22,461	27,968	32,296
Fire				
Emergency responses	282	264	219	165
Fire incidents	83	112	133	71
Service calls and other calls	135	95	75	94
Automatic aid, mutual aid given	63	57	19	22
Streets and highways				
Street resurfacing (lane miles)	-	-	-	-
Water and wastewater				
Water				
Average daily consumption (millions)	2.061	2.357	2.503	1.907
Total consumption (millions)	752.369	860.144	913.706	695.911
Peak daily consumption (millions)	4.823	3.686	4.608	3.516
Wastewater				
Average daily sewage treatment (mil)	3.009	2.000	2.153	1.963
Total consumption (millions)	1,098.387	729.502	785.700	716.328
Peak daily consumption (millions)	17.123	7.117	5.100	13.556

NOTE: N/A denotes information not available

Fiscal Year					
2011	2012	2013	2014	2015	2016
310	231	459	1,227	1,039	1,012
691	431	1,222	1,735	2,238	2,256
5	6	22	8	13	16
1,730	893	1,722	1,520	1,364	1,405
416	199	304	325	471	521
3,223	1,196	1,621	1,862	1,784	1,736
2,734	1,327	2,669	2,231	3,427	2,820
33,453	19,333	32,155	31,544	32,864	29,618
220	175	233	178	170	167
132	95	101	66	64	74
88	80	132	112	106	93
27	39	21	19	23	32
-	-	-	-	5.20	3.49
2.248	2.217	2.187	1.707	2.251	1.692
820.538	809.245	798.353	623.508	824.901	635.604
4.395	3.799	3.485	2.001	3.338	2.569
1.575	1.570	1.566	N/A	1.774	1.954
574.870	573.170	571.850	545.020	691.614	717.629
9.758	11.916	11.755	N/A	6.287	6.532

SINGLE AUDIT 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, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 21 2017. The financial statements of the Bay City Community Development Corporation and the Bay City Gas Company. 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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

April 21, 2017



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Bay City, Texas (the "City") compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

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

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


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

April 21, 2017

CITY OF BAY CITY, TEXAS**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***For the year ended September 30, 2016*

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Other Award Number</u>
FEDERAL EXPENDITURES		
U. S. Department of Housing and Urban Development		
<i>Passed Through the Texas Department of Agriculture - Office of Rural Affairs</i>		
Community Development Block Grant	14.225	713092
Community Development Block Grant	14.225	7215031
Total U.S. Department of Housing and Urban Development		
U. S. Department of Commerce		
Investments for Public Works and Economic Development Facilities	11.300	08-01-04955
Total U.S. Department of Commerce		
U. S. Department of Transportation		
<i>Passed Through the Texas Department of Transportation</i>		
<i>Division of Aviation</i>		
Routine Airport Maintenance Program	20.106	M1613BAYC
Total U.S. Department of Homeland Security		
U. S. Department of Justice		
<i>Passed Through the Office of the Attorney General</i>		
Crime Victim Assistance	16.575	1662097
Total U.S. Department of Justice		
TOTAL FEDERAL EXPENDITURES		

See accompanying notes to schedule of expenditures of federal awards.

Expenditures			Passed through to Subrecipients	Name of Cluster (if applicable)	Note
From Pass-Through Awards	From Direct Awards	Total			
\$ 52,914	\$ -	\$ 52,914	\$ -		
38,640	-	38,640	-		
91,554	-	91,554	-		
-	1,003,766	1,003,766	-	Economic Development Cluster	
-	1,003,766	1,003,766	-		
42,894	-	42,894	-		
42,894	-	42,894	-		
42,000	-	42,000	-		
42,000	-	42,000	-		
\$ 176,448	\$ 1,003,766	\$ 1,180,214	\$ -		

CITY OF BAY CITY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2016

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City, under programs of the federal government for the year ended September 30, 2016 in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable; except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

NOTE 3: INDIRECT COST RATE

The City has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

CITY OF BAY CITY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

☐ yes ☒ no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Major Programs or Cluster</i>
11.300	Investments for Public Works and Economic Development Facilities

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted

CITY OF BAY CITY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended September 30, 2016

None were reported.