

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

Bay CityTM

**For the
Fiscal Year Ended
June 30, 2006**

Bay City, Michigan

“Governmental imagination leading our community into the future”

CITY OF BAY CITY, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2006

LIST OF PRINCIPAL OFFICIALS

MAYOR

Robert J. Katt

CITY COMMISSIONERS

1st Ward: Christopher J. Shannon	5th Ward: M.J. Gorney
2nd Ward: Michael E. Wooley	6th Ward: John F. Davidson
3rd Ward: Wendy A. Legner	7th Ward: Marie T. Kurzer
4th Ward: James F. Flannery	8th Ward: Kathleen L. Newsham
9th Ward: Charles M. Brunner	

ADMINISTRATION

CITY MANAGER

Robert V. Belleman

**DEPUTY CITY MANAGER
OF ADMINISTRATIVE
SERVICES/CITY CLERK**

Dana Muscott

**DEPUTY CITY MANAGER
OF COMMUNITY
DEVELOPMENT**

Steve Black

**WATER TREATMENT
SUPERINTENDENT**

John DeKam

**DIRECTOR OF
HUMAN RESOURCES**

Dale Berglund

**WASTEWATER TREATMENT
SUPERINTENDENT**

William Kaiser

**ACTING
ELECTRIC DIRECTOR**

Phil Newton

**FIRE
CHIEF**
Doug Doefer

Prepared By:
Cathy Szostak,
Chief Accountant

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December 6, 2006



To the Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan

The comprehensive annual financial report of the City of Bay City, Michigan for the fiscal year ended June 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation including disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

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 management's discussion and analysis, the basic financial statements and the independent auditors' report on the financial statements and schedules. The statistical section includes selected government wide and fund financial statements, as well as financial and demographic information presented on a multi-year basis.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

REPORTING ENTITY

The financial reporting entity includes all the funds of the primary government of the City of Bay City, Michigan as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. The Downtown Management Board, Midland Street Management Board, Columbus Avenue Management Board, Brownfield Redevelopment Authority, P.O.W.E.R. Fund Economic Development Corporation, Wenonah Park Properties, Incorporated, all Tax Increment Finance Authorities (TIFA's) and Downtown Development Authorities (DDA's) are reported as discretely presented component units.

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 6, 2006

ECONOMIC CONDITIONS AND OUTLOOK

Bay City is located at the mouth of the Saginaw Bay in the east central portion of Michigan's Lower Peninsula. The City's rich historical and ethnic heritage began with the lumber boom in the mid-1800s. Two of the City's sawmills were among the three largest sawmills in the world at the time. With the decline of the lumber industry, shipbuilding became the major economic force in the early 1900's. Shipbuilding gave way to the automobile industry as the 20th century progressed.

The City's waterfront location provides citizens with a variety of leisure activities. Boating, fishing and a summer of great events headline the selections. The "River Roar", "Fourth of July Fireworks Festival", and "River of Time", are just a few of the activities that draw several hundred thousand people to the community every year.

As history has shown, economic diversification is necessary to provide constant, quality growth and attract new businesses and individuals to the community. A number of new businesses have recently opened or are in the design and construction phase. Because of the emerging markets, the community has also seen an expansion of its housing market to include a number of new condominium projects. As a result, the future economic outlook for Bay City looks promising with many major developments on the horizon.

MAJOR INITIATIVES

The City of Bay City is committed to improving its infrastructure and each year has dedicated a portion of its limited financial resources to accomplishing this goal. Over the last fiscal year, the City began the reconstruction of the first phase of North Henry Street, a major thoroughway in the City. This project was completed in the fall of 2006 and included the replacement of water and sewer utility services along the route. In the upcoming year, the City will proceed with the reconstruction of Wenona Street. In addition, the reconstruction and streetscaping of the second phase of North Henry Street is slated to begin in the 2008 fiscal year.

Approximately two years ago, the City completed the renovations to its Wastewater Treatment Plant at a cost of nearly \$43 million. During the last fiscal year, the City began renovations to its Water Treatment Plant with the first phase being the North Lagoon Reclamation at an estimated cost of \$6.44 million. The majority of the capital improvements for both these projects were funded through State Revolving Loan proceeds.

Bay City's last major single family subdivision was developed well over 40 years ago. In mid 1998, the City purchased a 41-acre tract of vacant, residentially zoned land in the southern portion of the City. It is the City's plan to seek a private developer to construct new single family housing on this property.

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 6, 2006

The City also continued its steady progress towards the redevelopment of the downtown riverfront, a multi-year project. The major development project along the east bank of the Saginaw River in downtown Bay City was given the name *Uptown at River's Edge*. The site improvements on this parcel of land were recently completed. A consulting firm with an expertise in urban waterfront developments was hired to assist with the planning phase. The City is in the process of forming a private/public partnership to turn this parcel of land into commercial/residential development. A marina and maritime heritage center are included in the plans.

There are several new condominium projects recently completed or currently underway in the downtown area. The most recent being the Boathouse Condominiums which are substantially complete with a total of thirty-six units. Sales of the units have progressed well with commitments for a majority of the units. The City entered into a purchase option with a local developer to redevelop the former Surath property along the riverfront. It is anticipated that the development will include a condominium project with 24-36 units upon completion. In addition, a grant in the amount of \$707,000 was secured from the State to assist in the restoration of a historical depot located in the downtown area and bids have been received to award this work.

As usual, the City will be faced with many infrastructure projects in coming years, including street repair and replacement, maintenance of bridges; and storm-sewer and waterline additions/replacement, in order to provide and improve services to citizens and customers. These projects, along with several environmental concerns facing the City, including contamination of the Middlegrounds Landfill, must be addressed with sound planning and good financial management to allow the City to continue providing quality services and to become more progressive and responsive to the needs of the citizens.

FINANCIAL INFORMATION

Internal Control: Management of the City is responsible for establishing and maintaining internal control designed to ensure that the assets of the City are protected from loss, theft or misuse and to provide that adequate accounting data can be compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe the City's internal control adequately safeguards, and provides reasonable assurance of proper recording of financial transactions. Because of inherent limitations in any internal accounting control, errors or irregularities nevertheless may occur and not be detected. One such control was the implementation of a cash receipting system to ensure that all cash was properly accounted for and able to be tracked.

Single Audit: As a recipient of federal financial assistance, the City also is responsible for ensuring that adequate internal control is in place to allow for compliance with applicable laws and regulations related to those programs. Internal control is subject to periodic evaluation by management of the City.

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 6, 2006

As a part of the City's single audit, tests are conducted to determine the adequacy of internal control, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations.

Budgeting Controls: In addition to internal accounting controls, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Commission. Activities of all governmental and proprietary funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at the activity level for the General Fund and the fund total level for all other funds. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

General Government Functions: The City provides a full range of services to its citizens. These services include law enforcement, fire protection and protective inspection; sanitation; maintenance of highways, streets and infrastructure; parks and recreational facilities; planning and zoning; other general administrative services; and other services mandated by state law.

Cash Management: Cash temporarily idle during the year was invested through the use of a competitive bid procedure in time deposits, including municipal investment pools, ranging from overnight to medium short-term investments. Longer-term investment periods were utilized by the City to take advantage of higher interest rates. The City's Investment Policy is to minimize credit and market risk while maintaining a competitive yield in its portfolio. The reduction of risk is realized by diversifying the types of securities held. The competitive yield is realized by pooling the investments and varying maturities. During the 2006 fiscal year, the City solicited proposals for banking services with the goal to acquire the most comprehensive services at the most competitive rates. As a result, the City awarded this service to a different banking institution than had previously been engaged by the City and was able to reduce costs.

Risk Management: The City carries a variety of insurance coverage. This includes coverage for property (includes buildings, contents and fleet), general liability, public official's liability and employee's liability. The limits of general liability are \$250,000 per occurrence assumed by the City, and up to \$15,000,000 on the excess through external insurers. The City assumes the risk on amounts in excess of \$15,000,000. The City recently hired Aon Risk Services to provide brokerage and risk assessment services and assist the City with its risk management.

Pension and Other Post-Employment Benefits: The City of Bay City currently has three separate pension plans. The defined benefit pension plan provides retirement and disability benefits to all employees, excluding police and fire employees, hired prior to September 1, 1997 unless they have opted to participate in the defined contribution plan. The City participates in an agent multiple-employer plan administered by the Municipal Employees Retirement System of Michigan. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City of Bay City fully funds each year's annual required contribution to the pension plan as determined by the actuary.

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 6, 2006

All City employees with the exception of police officers and fire fighters hired after September 1, 1997 are required to participate in the city's defined contribution plan. This is a single employer defined contribution plan created by the City and administered by the ICMA Retirement Corporation on behalf of MERS. The contribution requirements of the City are established and may be amended by the City Commission.

The City has established a single-employer defined benefit plan for all eligible police officers and firefighters. The System operates under the authority of the City Charter and the assets are administered by the City. The City Commission has the authority to amend and establish benefit provisions.

The City of Bay City also provides post-retirement health benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 422 retirees eligible to receive these benefits, which are financed on a pay as you go basis. However, the City has established a retiree healthcare trust fund to which it makes an annual contribution to assist with future healthcare costs. As this time, Generally Accepted Accounting Principals (GAAP) do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City's pension arrangements and post-employment benefits can be found in Note 10 of the financial statements.

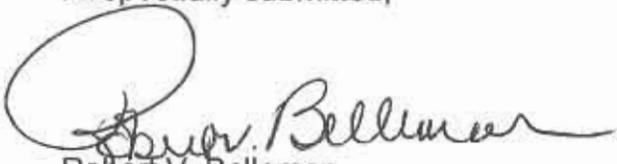
Other Information:

Independent Audit: State statutes require an annual audit by independent certified public accountants. The City Commission selected the accounting firm of Rehmann Robson for this purpose. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. The auditors' report on the financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

Acknowledgments: The completion of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire Fiscal Services Division. We would like to express our appreciation to all members of the departments who assisted and contributed to its preparation, especially Angela Willsie, Staff Accountant, for her assistance throughout the audit and with the preparation of this report.

Finally, we would like to thank the Mayor, members of the City Commission, and the various City departments for their leadership and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

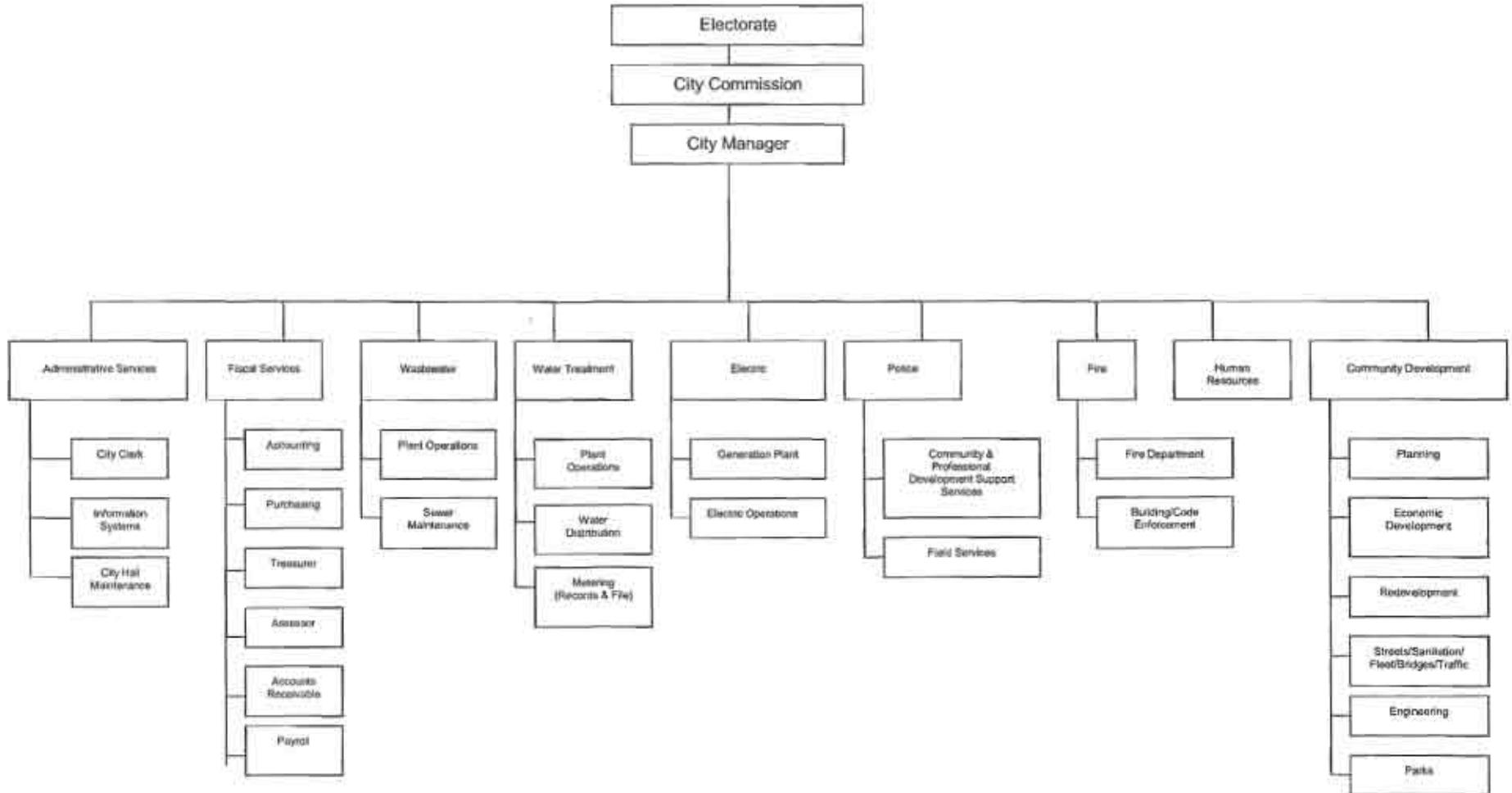

Robert V. Belleman
City Manager

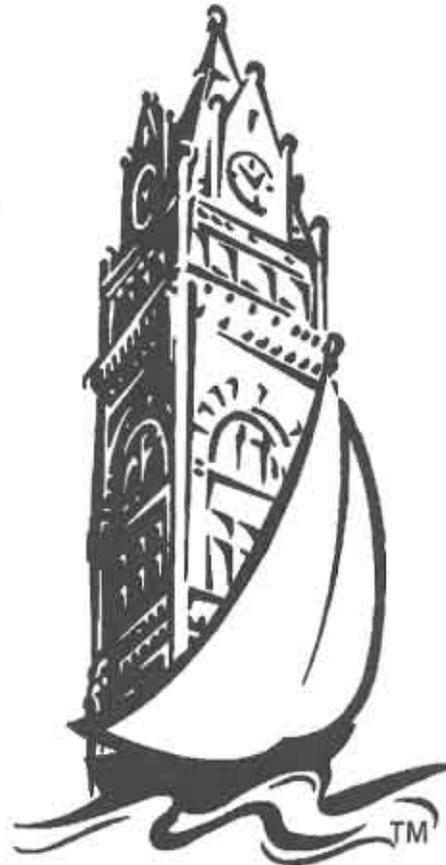

Cathleen Szostak
Chief Accountant



CITY OF
Bay City

City of Bay City Organizational Chart





CITY OF
Bay City

FINANCIAL SECTION

This section is composed of the following:

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Notes to Basic Financial Statements

Supplementary Financial Information



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

December 6, 2006

To the Honorable Mayor
and City Commission
City of Bay City, Michigan

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, Michigan*, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Bay City Michigan's* management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Wenonah Park Properties, Inc. Component Unit, which represents 71.88% of the assets and 62.79% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Wenonah Park Properties, Inc. is based on the report 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Bay City, Michigan*, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons of the General Fund and

major special revenue fund for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2006, on our consideration of the *City of Bay City, Michigan's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the historical pension supplementary information for the Police and Fire Retirement System listed in the table of contents, are not required parts of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Bay City, Michigan's* basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and also are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules and schedule of expenditure of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables, as listed in the table of contents, have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



CITY OF BAY CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Bay City's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- The assets of the City of Bay City exceeded its liabilities at the close of the most recent fiscal year by \$196,583,000 (net assets). Of this amount, \$43,832,095 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Total net assets related to the City's governmental activities increased by \$2,774,924 from the previous year and the business-type activities net assets decreased by \$5,413,558. The net assets of the component units also experienced a decrease of \$47,760.
- The City continues its commitment to improving its road infrastructure and this year spent \$374,138 on new road construction and resurfacing and an additional \$229,496 on new sidewalks.
- State-shared revenue, the City's second largest revenue source in the general fund, decreased for the fifth consecutive year. The State of Michigan reduced the City's allocation by \$82,228 from the amount received in the previous fiscal year. The City anticipated a reduction and responded with careful review and control of expenditures such as reducing capital expenditures and leaving vacant positions unfilled in the public safety and parks and recreations departments. As a result, there was only a slight decrease of \$29,005 in the fund balance of the general fund from the final amended budget amount.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$5,353,236 or about 25% of the total General Fund expenditures.
- The City of Bay City's total debt increased by \$6,534,499 during the current fiscal year. The key factors in the increase are the improvements to the sanitary sewage system and the water treatment plant.

Using this Annual Report

This annual report consists of a series of financial statements. The *Statement of Net Assets* and the *Statement of Activities* provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting to measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The *Statement of Net Assets* and the *Statement of Activities* distinguish functions of the City that are primarily supported by taxes and intergovernmental revenues 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, community and economic development, and recreation and culture. The business-type activities of the City include electric, water, and sewer services, as well as municipal airport, cemetery, and marina facilities.

The government-wide financial statements include not only the City itself (known as the primary government), but also the component units which are legally separate authorities for which the City is financially accountable. Financial information for the component units is reported separately from the financial information presented for the primary government itself.

Complete financial statements for the Downtown Management Board may be obtained at their administrative offices located at Commerce One, 901 Saginaw Street, Bay City, Michigan 48708, and complete financial statements for Wenonah Park Properties, Inc. may be obtained at City Hall located at 301 Washington Avenue, Bay City, Michigan 48708. Separate financial statements for the remaining component units are not prepared.

The Fund financial statements present a short-term view. They tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fund financial statements can be divided into three categories including governmental funds, proprietary funds, and fiduciary funds. The fiduciary fund statements provide information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

For the fiscal year ended June 30, 2006, assets exceeded liabilities by \$196,583,000. By far the largest portion of the City's net assets (77 percent) reflects its investment in capital assets (i.e. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these

CITY OF BAY CITY, MICHIGAN
 MANAGEMENT'S DISCUSSION AND ANALYSIS

assets to provide services to 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.

The following table shows, in a condensed format, the net assets as of June 30, 2006 (in thousands of dollars):

	Government Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$ 18,002	\$ 19,252	\$ 35,903	\$ 36,922	\$ 53,905	\$ 56,174
Capital assets	<u>82,369</u>	<u>79,751</u>	<u>152,175</u>	<u>155,659</u>	<u>234,544</u>	<u>235,410</u>
Total assets	100,371	99,003	188,078	192,581	288,449	291,584
Current and other liabilities	3,558	3,211	3,814	3,401	7,372	6,612
Long-term liabilities	<u>24,721</u>	<u>20,925</u>	<u>57,134</u>	<u>67,464</u>	<u>81,855</u>	<u>88,389</u>
Total liabilities	28,279	24,136	60,948	70,865	89,227	95,001
Net Assets:						
Invested in capital assets –						
Net of related debt	\$ 60,327	\$ 61,608	\$ 96,462	\$ 89,473	\$ 156,789	\$ 151,081
Restricted	1,400	1,670	-	-	1,400	1,670
Unrestricted	<u>10,365</u>	<u>11,589</u>	<u>30,668</u>	<u>32,243</u>	<u>41,033</u>	<u>43,832</u>
Total net assets	\$ 72,092	\$ 74,867	\$ 127,130	\$ 121,716	\$ 199,222	\$ 196,583

The City's governmental activities net assets increased by \$2,774,924 while the net assets of its business-type activities decreased by \$5,413,558. This change in net assets was primarily due to the transfer of debt from the governmental activities to the business-type activities. The debt was a result of sewage system improvements and management believed it was more appropriately accounted for within the business-type activities. As a result, the combined net assets decreased by \$2,638,634 from \$199,221,634 in 2005 to \$196,583,000 in 2006.

As we look at the governmental activities separately from the business-type activities, we can see that the current level of unrestricted net assets – the part of net assets that may be used to meet the government's ongoing obligations to citizens and creditors – is \$11,588,878, or about 34% of the governmental activities expenditures. An additional portion of the City's net assets of its governmental activities, approximately 2.6%, represents resources that are subject to external restrictions on how they may be used.

CITY OF BAY CITY, MICHIGAN
 MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year (in thousands of dollars):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenue						
Program revenue						
Charges for services	\$ 7,220	\$ 8,127	\$ 40,483	\$ 42,702	\$ 47,703	\$ 50,829
Operating grants and contributions	6,296	5,797	165	246	6,461	6,043
Capital grants and contributions	618	47	-	455	618	502
General revenue						
Property taxes	12,934	13,592	-	-	12,934	13,592
Grants and contributions not restricted to specific programs	5,395	5,172	-	-	5,395	5,172
Unrestricted investment earnings	381	397	841	922	1,222	1,319
Miscellaneous	<u>71</u>	<u>111</u>	<u>213</u>	<u>47</u>	<u>284</u>	<u>158</u>
Total Revenue	<u>32,915</u>	<u>33,243</u>	<u>41,702</u>	<u>44,372</u>	<u>74,617</u>	<u>77,615</u>
Program Expenses						
General Government	5,519	5,289	-	-	5,519	5,289
Public safety	13,429	14,170	-	-	13,429	14,170
Public works	10,909	9,871	421	464	11,330	10,335
Community and economic development	2,036	2,116	-	-	2,036	2,116
Recreation and culture	1,129	1,249	-	-	1,129	1,249
Interest on long-term debt	1,544	1,298	-	-	1,544	1,298
Electric	-	-	24,134	26,079	24,134	26,079
Water	-	-	6,870	7,231	6,870	7,231
Sewer	-	-	<u>11,468</u>	<u>12,487</u>	<u>11,468</u>	<u>12,487</u>
Total program expenses	<u>34,566</u>	<u>33,993</u>	<u>42,893</u>	<u>46,261</u>	<u>77,459</u>	<u>80,254</u>
Increase (decrease) in net assets before transfers and special items	(1,651)	(750)	(1,191)	(1,889)	(2,842)	(2,639)
Transfers	<u>(311)</u>	<u>3,525</u>	<u>311</u>	<u>(3,525)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(1,962)</u>	<u>2,775</u>	<u>(880)</u>	<u>(5,414)</u>	<u>(2,842)</u>	<u>(2,639)</u>
Net assets beginning of year	<u>74,054</u>	<u>72,092</u>	<u>128,010</u>	<u>127,130</u>	<u>202,064</u>	<u>199,222</u>
Net assets end of year	<u>\$ 72,092</u>	<u>\$ 74,867</u>	<u>\$ 127,130</u>	<u>\$ 121,716</u>	<u>\$ 199,222</u>	<u>\$ 196,583</u>

Governmental Activities

The City's total governmental net assets increased by \$2,774,924. Key elements of this increase are as follows:

- Property taxes increased by \$657,654 as a result of an increase in taxable values.
- Expenses decreased by approximately \$573,000 due to a reduction in the workforce.
- Transfers increased resulting from the transfer of debt from the governmental activities to the business-type activities.

CITY OF BAY CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

The City's business-type activities consist of the Electric, Water, Sewer, Airport, Cemetery, and Marina Funds. These services are provided to all City residents. Electrical services also extend to numerous customers outside of the City limits. In addition to City residents, the City provides water to residents of the City of Essexville, Hampton Township, and Bay County. The City provides sewage treatment through a City-owned sewage treatment plant. These services are also extended to Hampton Township and portions of Bangor, Monitor, and Portsmouth Townships. The business-type activities saw an overall decrease in net assets of \$5,413,558 due primarily to the following:

- The Sewer Fund experienced the largest decrease in net assets of \$4,313,863. The primary reason for this decrease was the transfer of the sewage improvements bond debt into the Sewer Fund from the Bond Sinking Fund.
- The Electric Fund also experienced a decrease in net assets of \$1,702,176. While there was a modest increase of 3% in operating revenue, the fund experienced a 9% increase in the cost of sales and service.
- The Water Fund experienced an increase in net assets of \$74,193, however, this was considerably less than the increase of \$627,035 experienced last year.
- The Liberty Harbor Marina Fund experienced a decrease of \$45,655 in its net assets due to decreased operating revenues and a slight increase in the cost of sales and service.
- The Oakridge Cemetery Fund reported an increase in net assets of \$2,341 and James Clements Airport Fund reported an increase in its net assets of \$397,399 due to increased state and federal grants. However, both funds continued to require subsidies from the general fund in the amounts of \$74,114 and \$52,805, respectively.

The City's Funds

An analysis of the City's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage monies for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major governmental funds for 2006 include the General Fund and the Rehabilitation Fund.

The General Fund is the chief operating fund of the City. The most significant source of revenue is property taxes, which generated \$9,952,465 in 2006. The most significant service accounted for in this fund is public safety, which incurred expenses of \$12,949,691 in 2006. Public safety expenditures equate to approximately 61% of the total expenditures and are more than the amount of property taxes generated. At the fiscal year ended June 30, 2006, the unreserved fund balance of the General Fund was \$5,353,236. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 25.2% of the total General Fund expenditures.

The Rehabilitation Fund is used to account for revenues and expenditures related to providing financing to low and moderate income individuals to assist in home improvement. In the fiscal year ended June 30, 2006, \$878,795 was spent to assist residents of the City with home improvements.

Some notable items in the other governmental activities are:

- The Major and Local Street Funds ended the year with unreserved fund balances of \$247,463 and 263,588, respectively. This amounts to 8% of annual expenditures in the Major Streets Fund and 19% of annual expenditures in the Local Streets Fund.
- The Building Inspection Fund ended the fiscal year with a fund balance of \$118,145. For the first time since the inception of the Building Inspection Fund, a General Fund subsidy was not required to support the operations of this fund.
- The Solid Waste Fund ended the fiscal year with an unreserved fund balance of \$394,981. This is the fourth year since the City went to a fee-based system versus a millage that no General Fund subsidy was required. The Solid Waste Fund paid back all previous subsidies from the General Fund as a result of a resolution passed by the City Commission requiring the reimbursement to occur once the fund became self sufficient.
- The Public Improvement Fund ended the year with an unreserved fund balance of \$1,022,938. The City Commission approved a transfer from the General Fund in the amount of \$500,000 in the 2006 fiscal year along with transfers totaling \$547,352 in previous fiscal years in order to accumulate funding for the replacement of the roof on City Hall. This project is expected to begin in the next fiscal year with completion expected the following year.
- The Riverfront Redevelopment Fund expended approximately \$100,000 to complete site improvements on the "Uptown at Rivers Edge" redevelopment project. Development of this site is expected in the near future.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events that occurred during the year. The most significant amendments occurred due to the following:

- The Fire Department increased its overtime budget by \$74,232 to account for additional overtime required due to vacancies within the department.
- An additional \$325,000 of fund balance was appropriated to pay for funds in advance of construction on the Henry Street reconstruction project. These funds will be reimbursed by the Major Street Fund once federal funding becomes available.
- The Environmental Department increased its professional services account by \$27,416 to cover additional expenditures related to testing services on alternate worksites. A grant from the Environmental Protection Agency was received to cover these expenditures. As a result, federal grants revenues were also increased by a like amount.
- The Police Department received an additional Justice Assistance Grant in the amount of \$11,855 and thus increased revenue and subsequently increased their equipment expenditures by a like amount.
- Several departments within the general fund increased their expenditures by a total of \$14,608 to pay the costs associated with providing short-term disability insurance afforded to certain union and non-union employees.

The other differences between the original and final amended budget for expenditures were relatively minor.

During the year, actual revenues exceeded budgeted revenues by \$253,801 and actual expenditures were less than budgetary estimates by \$587,397. As a result, the General Fund experienced a slight decrease of \$29,005 in fund balance instead of the budgeted reduction in the final amended budget of \$949,829.

Capital Assets and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounted to \$235,409,756 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, sidewalks, and bridges.

Major capital asset events during the fiscal year included the following:

- The Sewer Fund spent \$2,646,103 to improve its sanitary sewer systems.
- The construction phase of the North Henry project was started with \$87,830 spent during the year.

CITY OF BAY CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

- The Water Fund spent \$5,155,883 on the North Lagoon Reclamation Project.
- The Electric Fund completed various capital projects totaling \$1,702,817.

The investment in capital assets of the component units totals \$32,645,048 as of June 30, 2006. Some of the activities contributing to the increase during the year include the Water Street streetscaping, \$441,153; Third Street Waterfall Park, \$838,058; Midland Street reconstruction, \$201,098; Lewis Street extension, \$139,787; Andre Street reconstruction, \$74,346; Adams Street streetscape, \$68,000; and various sidewalk replacements totaling \$75,221.

Long-term Debt. In the fiscal year ended June 30, 2006, the City had total outstanding debt of \$88,388,917, which included a current portion of \$7,818,655. Of this amount, \$80,073,917 is backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured by specific sources (revenue bonds). The long-term debt can be summarized as follows:

	<u>2005</u>	<u>2006</u>
General obligation bonds	\$ 28,894,380	\$ 33,669,130
Revenue bonds	9,392,779	8,315,000
Other notes/leases payable	39,467,848	42,344,235
Compensated absences	4,099,411	4,060,552
Total	<u>\$ 81,854,418</u>	<u>\$ 88,388,917</u>

The City's total debt increased by \$6,534,499 during the fiscal year. State statute limits the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$78,321,700 which is significantly in excess of the City's outstanding general obligation debt applicable to this limit.

Additional information on the City's long-term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budgets and Rates

Because of the State of Michigan's economic conditions, state-shared revenues, the second largest source of revenue in the General Fund, continues to be an important factor in the preparation of the City's budget. Additional reductions have been forecast for the next fiscal year. The City also faces a continued rise in healthcare costs. While this year the City experienced a modest increase of approximately 2.5% in healthcare costs over the previous year, additional increases are expected in the future.

Another issue of concern to the City is the unfunded liability in its defined benefit retirement plan of approximately \$25 million. The City has budgeted an additional contribution in the upcoming fiscal year and intends to do so in future budgets as well. In addition, the City's property taxes are at the limit allowed by Charter of 19 mills, which has been reduced by the Headlee Amendment to 16.9617 mills for general operating in the 2006/2007 budget.

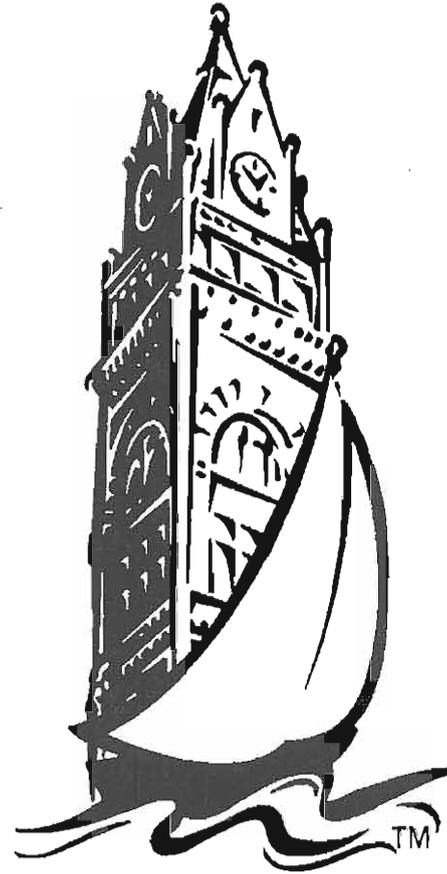
CITY OF BAY CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's Water and Sewer Utilities instituted a rate increase in the year ended June 30, 2006. In addition, the Electric, Water and Sewer Utilities anticipate rate increases in the next fiscal year. These rate increases were necessary as a result of operating cost increases and to finance debt service on the recently issued debt for both the Water and Wastewater Plant improvements and improvements to the sanitary sewer system. All three utilities will be evaluated on a yearly basis to determine the appropriate charges for services reflective of the cost of doing business.

The City's budget for the last several years has limited the amount of capital expenditures in all areas. Many necessary improvements have been delayed and will have to be addressed in the near future. The City remains committed to maintaining and improving its level of service to its citizens and intends to continue to invest in its capital assets. This is one of the many challenges that will need to be addressed in future budgets.

Contacting the City's Management

The financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Finance Department, 301 Washington Avenue, Bay City, Michigan 48708.



CITY OF
Bay City

BASIC FINANCIAL STATEMENTS

The diverse nature of a governmental operation and the necessity of complying with legal provisions require accounting systems unlike those commonly used by commercial enterprises. Rather than establishing a single unified set of accounts for recording and summarizing all financial transactions, the accounts of a governmental unit are organized on the basis of funds.

BASIC FINANCIAL STATEMENTS

The diverse nature of a governmental operation and the necessity of complying with legal provisions require accounting systems unlike those commonly used by commercial enterprises. Rather than establishing a single unified set of accounts for recording and summarizing all financial transactions, the accounts of a governmental unit are organized on the basis of funds.

City of Bay City, Michigan
Statement of Net Assets
June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 9,865,899	\$ 23,930,866	\$ 33,796,765	\$ 5,698,455
Receivables	9,004,122	7,800,431	16,804,553	4,320,739
Internal balances	(1,279,747)	1,279,747	-	-
Prepaid items and other assets	1,494,133	670,329	2,164,462	1,037,504
Inventories	167,544	2,396,989	2,564,533	36,712
Restricted investments	-	843,719	843,719	3,987,011
Nondepreciable capital assets	19,173,690	916,845	20,090,535	2,291,811
Depreciable capital assets, net	60,577,004	154,742,217	215,319,221	30,353,237
Total assets	99,002,645	192,581,143	291,583,788	47,725,469
Liabilities				
Accounts payable and other accrued expenses	2,873,959	3,002,061	5,876,020	1,120,104
Interest payable	111,064	398,882	509,946	601,191
Unearned revenues	225,905	-	225,905	3,670
Noncurrent liabilities:				
Due within one year	2,748,281	5,070,374	7,818,655	192,699
Due in more than one year	18,176,988	62,393,274	80,570,262	25,322,406
Total liabilities	24,136,197	70,864,591	95,000,788	27,240,070
Net Assets				
Invested in capital assets, net of related debt	61,608,056	89,473,335	151,081,391	8,090,863
Restricted for:				
Debt service	206,636	-	206,636	-
Capital projects	1,462,878	-	1,462,878	3,987,011
Unrestricted	11,588,878	32,243,217	43,832,095	8,407,525
Total net assets	\$ 74,866,448	\$ 121,716,552	\$ 196,583,000	\$ 20,485,399

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Statement of Activities
For the Year Ended June 30, 2006

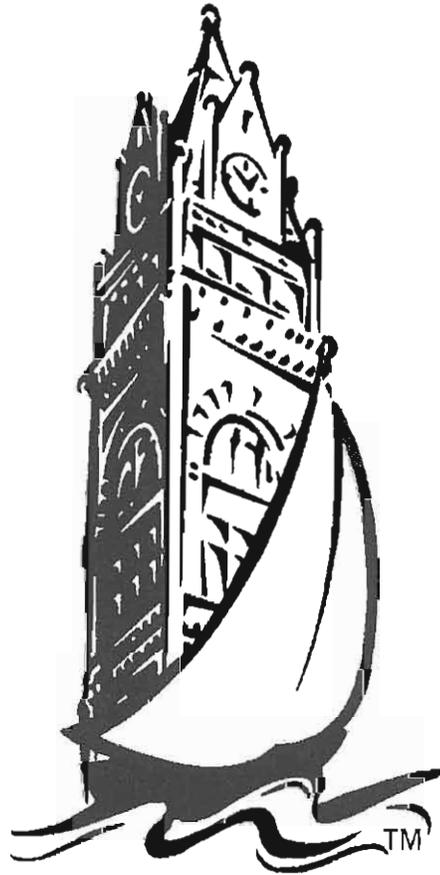
Functions / Programs	Expenses	Indirect	Program Revenues			Net (Expense) Revenue
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government						
Governmental activities:						
General government	\$ 5,288,929	\$ (3,675,230)	\$ 1,418,689	\$ 380,715	\$ -	\$ 185,705
Public safety	14,163,972	6,399	960,434	378,550	-	(12,831,387)
Public works	9,761,218	110,185	1,938,889	2,997,479	46,616	(4,888,419)
Recreation and cultural	1,248,769	-	8,713	8,803	-	(1,231,253)
Economic development	2,000,655	115,236	125,321	2,031,278	-	40,708
Interest on debt	1,298,203	-	-	-	-	(1,298,203)
Total governmental activities	<u>33,761,746</u>	<u>(3,443,410)</u>	<u>4,452,046</u>	<u>5,796,825</u>	<u>46,616</u>	<u>(20,022,849)</u>
Business-type activities:						
Electric	24,770,795	1,308,325	23,769,837	151,560	-	(2,157,723)
Water	6,198,381	1,032,315	7,204,244	-	-	(26,452)
Sewer	11,430,973	1,056,018	11,512,369	79,762	-	(894,860)
Oak Ridge Cemetery	124,188	-	49,085	-	-	(75,103)
James Clements Airport	163,593	-	38,886	14,468	455,135	344,896
Liberty Harbor Marina	154,614	21,217	127,194	-	-	(48,637)
Total business-type activities	<u>42,842,544</u>	<u>3,417,875</u>	<u>42,701,615</u>	<u>245,790</u>	<u>455,135</u>	<u>(2,857,879)</u>
Total primary government	<u>\$ 76,604,290</u>	<u>\$ (25,535)</u>	<u>\$ 47,153,661</u>	<u>\$ 6,042,615</u>	<u>\$ 501,751</u>	<u>\$ (22,880,728)</u>
Component units						
Downtown Development Authority	\$ 175,285	\$ 16,492	\$ 159,275	\$ -	\$ -	\$ (32,502)
Midland Street TIFA	9,867	1,417	-	-	-	(11,284)
Kresge's DDA	1,643	-	-	-	-	(1,643)
Marquette District TIFA	320,118	2,451	-	-	-	(322,569)
Water Street DDA	301,486	2,884	-	-	250,000	(54,370)
Marina Development TIFA	44,925	2,165	-	-	-	(47,090)
Allen Healthcare DDA	5,891	-	-	-	-	(5,891)
Research Center Development TIFA	-	-	-	-	-	-
Knepp's DDA	1,076	126	-	-	-	(1,202)
Brownfield Redevelopment	475	-	-	-	-	(475)
Columbus Avenue Management Board	8,699	-	7,850	1,436	-	587
Midland Street Management Board	17,876	-	19,100	-	-	1,224
POWER EDC	18,727	-	-	100	-	(18,627)
Downtown Management Board	256,552	-	49,980	65,000	-	(141,572)
Wenonah Park Properties	4,044,836	-	3,114,226	53,360	-	(877,250)
Total component units	<u>\$ 5,207,456</u>	<u>\$ 25,535</u>	<u>\$ 3,350,431</u>	<u>\$ 119,896</u>	<u>\$ 250,000</u>	<u>\$ (1,512,664)</u>

continued...

City of Bay City, Michigan
Statement of Activities (Concluded)
For the Year Ended June 30, 2006

Functions/Programs	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (20,022,849)	\$ (2,857,879)	\$ (22,880,728)	\$ (1,512,664)
General revenues:				
Property taxes	13,591,533	-	13,591,533	1,087,134
Grants and contributions not restricted to specific programs	5,172,338	-	5,172,338	-
Unrestricted investment earnings	397,820	922,179	1,319,999	338,872
Miscellaneous revenue	111,026	47,198	158,224	38,898
Transfers - internal activities	3,525,056	(3,525,056)	-	-
 Total general revenues and transfers	 <u>22,797,773</u>	 <u>(2,555,679)</u>	 <u>20,242,094</u>	 <u>1,464,904</u>
 Change in net assets	 2,774,924	 (5,413,558)	 (2,638,634)	 (47,760)
Net assets, beginning of year	<u>72,091,524</u>	<u>127,130,110</u>	<u>199,221,634</u>	<u>20,533,159</u>
Net assets, end of year	<u>\$ 74,866,448</u>	<u>\$ 121,716,552</u>	<u>\$ 196,583,000</u>	<u>\$ 20,485,399</u>

The accompanying notes are an integral part of these financial statements.



CITY OF
Bay City

Fund Financial Statements

These financial statements provide a more detailed view of the Government-Wide Financial Statements presented in the preceding subsection.

City of Bay City, Michigan
Balance Sheet
Governmental Funds
June 30, 2006

	General	Rehabilitation Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 4,068,457	\$ -	\$ 2,849,561	\$ 6,918,018
Receivables (net of allowance for uncollectibles):				
Accounts	136,547	3,714	400,347	540,608
Delinquent taxes	58,682	-	9,110	67,792
Special assessments	71,525	2,050	32,490	106,065
Accrued interest	48,779	-	28,661	77,440
Notes	-	7,216,924	-	7,216,924
Due from other funds	1,747,600	-	293,592	2,041,192
Due from other governments	51,801	19,389	934,590	1,005,780
Inventories	-	-	36,339	36,339
Other assets	-	-	375,000	375,000
Total Assets	\$ 6,183,391	\$ 7,242,077	\$ 4,959,690	\$ 18,385,158
 Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 201,861	\$ 19,389	\$ 327,834	\$ 549,084
Accrued liabilities	317,331	-	79,349	396,680
Due to other funds	76,718	-	615,663	692,381
Due to other governmental units	81,236	-	-	81,236
Deposits	8,747	-	42,745	51,492
Deferred revenue	144,262	7,222,688	19,862	7,386,812
Total liabilities	830,155	7,242,077	1,085,453	9,157,685
 Fund balances				
Reserved for:				
Inventories	-	-	36,339	36,339
Unreserved, reported in:				
General Fund	5,353,236	-	-	5,353,236
Special Revenue Funds	-	-	2,168,384	2,168,384
Debt Service Funds	-	-	206,636	206,636
Capital Project Funds	-	-	1,462,878	1,462,878
Total fund balances	5,353,236	-	3,874,237	9,227,473
Total liabilities and fund balances	\$ 6,183,391	\$ 7,242,077	\$ 4,959,690	\$ 18,385,158

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds \$ 9,227,473

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	150,451,944
Subtract: accumulated depreciation	(75,980,056)

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 (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred receivables	7,355,522
Subtract: allowance for doubtful accounts	(47,743)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	4,366,353
--	-----------

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Add: unamortized issuance costs	41,519
Subtract: interest payable	(106,960)
Subtract: bonds payable	(17,774,130)
Subtract: capital leases	(45,364)
Subtract: compensated absences	(2,622,110)
	(2,622,110)

Net assets of governmental activities	\$ 74,866,448
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The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Rehabilitation Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 9,952,465	\$ -	\$ 2,604,876	\$ 12,557,341
Licenses and permits	22,085	-	641,059	663,144
Intergovernmental	7,023,179	347,519	5,082,518	12,453,216
Charges for services	4,064,658	-	1,903,993	5,968,651
Fines and forfeitures	117,240	-	19,187	136,427
Interest revenue	255,771	9,523	101,675	366,969
Miscellaneous revenues	286,643	345,884	328,220	960,747
Total revenues	<u>21,722,041</u>	<u>702,926</u>	<u>10,681,528</u>	<u>33,106,495</u>
Expenditures				
Current:				
General government	5,381,261	-	-	5,381,261
Public safety	12,949,691	-	876,274	13,825,965
Public works	1,273,811	-	4,085,873	5,359,684
Physical environment	-	-	1,842,982	1,842,982
Parks and recreation	1,076,256	-	-	1,076,256
Economic development	-	878,795	974,426	1,853,221
Capital outlay	486,394	-	906,619	1,393,013
Debt service:				
Principal retirement	-	-	1,570,000	1,570,000
Interest and fiscal charges	-	-	3,525	3,525
Total expenditures	<u>21,167,413</u>	<u>878,795</u>	<u>10,259,699</u>	<u>32,305,907</u>
Excess of revenues over (under) expenditures	<u>554,628</u>	<u>(175,869)</u>	<u>421,829</u>	<u>800,588</u>
Other financing sources (uses)				
Transfer in	39,000	510,611	1,987,289	2,536,900
Transfer out	(651,868)	(334,742)	(1,640,234)	(2,626,844)
Proceeds from capital lease	29,235	-	-	29,235
Total other financing sources (uses)	<u>(583,633)</u>	<u>175,869</u>	<u>347,055</u>	<u>(60,709)</u>
Changes in fund balances	(29,005)	-	768,884	739,879
Fund balances - beginning of year	<u>5,382,241</u>	<u>-</u>	<u>3,105,353</u>	<u>8,487,594</u>
Fund balances - end of year	<u>\$ 5,353,236</u>	<u>\$ -</u>	<u>\$ 3,874,237</u>	<u>\$ 9,227,473</u>

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 739,879

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,459,200
Subtract: net value of assets disposed	(138,510)
Subtract: depreciation expense	(3,589,810)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: current year change in long-term receivables	166,233
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on bonds	1,570,000
Add: principal payments on capital leases	18,993
Add: decrease in interest accrued on bonds	38,949
Subtract: proceeds from capital leases	(29,235)
Subtract: deferred bond issuance costs	(5,931)
Subtract: interest accrued on zero coupon bond	(1,314,750)

Transfer of bonded debt to the Sewer fund	3,615,000
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Some expenses 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.

Less: increase in the accrual of compensated absences	(103,405)
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: net operating loss from governmental activities accounted for in internal service funds	361,245
Add: nonoperating revenue recorded in internal service funds	(12,934)

Change in net assets of governmental activities	\$ 2,774,924
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The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 10,182,439	\$ 10,182,439	\$ 9,952,465	\$ (229,974)
Licenses and permits	17,068	17,068	22,085	5,017
Intergovernmental	6,486,635	6,541,281	7,023,179	481,898
Charges for services	4,085,795	4,085,795	4,064,658	(21,137)
Fines and forfeitures	131,000	131,000	117,240	(13,760)
Interest revenue	250,000	250,000	255,771	5,771
Miscellaneous revenues	257,872	260,657	286,643	25,986
Total revenues	21,410,809	21,468,240	21,722,041	253,801
Expenditures				
Current:				
General government				
City commission	123,228	123,228	116,626	6,602
City manager	276,490	278,480	276,887	1,593
Promotional	19,300	19,300	19,524	(224)
Community development	154,842	162,244	160,098	2,146
Elections	96,556	94,306	45,246	49,060
Auditing	47,500	47,500	46,140	1,360
Assessor	473,830	501,617	504,813	(3,196)
Attorney	190,000	190,000	188,324	1,676
City clerk	289,315	290,318	289,943	375
Payroll/payables	166,159	167,106	168,055	(949)
Finance department	300,015	304,422	258,118	46,304
Accounting	364,887	365,877	364,188	1,689
Accounts receivable	993,202	993,202	989,534	3,668
Meter reading	359,299	359,299	369,690	(10,391)
Human resources	283,516	294,718	292,281	2,437
Purchasing	316,605	316,605	312,827	3,778
Treasurer	300,042	305,648	277,545	28,103
Public relations	48,306	50,556	46,887	3,669
Planning and zoning	369,318	369,318	324,470	44,848
Economic development	254,880	255,988	250,163	5,825
Legal services	-	-	7,367	(7,367)
Contingencies	114,271	100,179	72,535	27,644
Total general government	5,541,561	5,589,911	5,381,261	208,650

City of Bay City, Michigan
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures (continued)				
Public safety				
C.O.P.S. program	\$ 114,000	\$ 114,000	\$ 101,179	\$ 12,821
Police support	1,202,709	1,213,286	1,179,106	34,180
Drive Michigan safely	-	-	15,283	(15,283)
Special event overtime	68,123	68,123	37,409	30,714
Police in-service training	40,500	40,500	44,395	(3,895)
School guards	24,766	24,766	11,469	13,297
Street patrol	4,512,330	4,512,330	4,447,866	64,464
Police chief	116,947	108,597	-	108,597
Deputy police chiefs	204,245	204,245	244,437	(40,192)
Police command officers	1,092,197	1,092,197	1,093,553	(1,356)
Fire department	5,782,438	5,786,210	5,774,994	11,216
Total public safety	<u>13,158,255</u>	<u>13,164,254</u>	<u>12,949,691</u>	<u>214,563</u>
Public works				
City hall and grounds	285,845	285,845	282,149	3,696
Engineering	526,575	852,327	519,922	332,405
Street lighting	421,139	421,139	425,827	(4,688)
Environmental	19,200	46,616	45,913	703
Total public works	<u>1,252,759</u>	<u>1,605,927</u>	<u>1,273,811</u>	<u>332,116</u>
Parks and recreation	<u>1,130,438</u>	<u>1,120,473</u>	<u>1,076,256</u>	<u>44,217</u>
Capital outlay	<u>239,667</u>	<u>274,245</u>	<u>486,394</u>	<u>(212,149)</u>
Total expenditures	<u>21,322,680</u>	<u>21,754,810</u>	<u>21,167,413</u>	<u>587,397</u>
Excess of revenues over (under) expenditures	<u>88,129</u>	<u>(286,570)</u>	<u>554,628</u>	<u>(333,596)</u>
Other financing sources (uses)				
Transfer in	39,000	39,000	39,000	-
Transfer out	(660,459)	(702,259)	(651,868)	50,391
Proceeds from capital lease	-	-	29,235	29,235
Total other financing sources (uses)	<u>(621,459)</u>	<u>(663,259)</u>	<u>(583,633)</u>	<u>79,626</u>
Changes in fund balances	<u>(533,330)</u>	<u>(949,829)</u>	<u>(29,005)</u>	<u>920,824</u>
Fund balances - beginning of year	<u>5,382,241</u>	<u>5,382,241</u>	<u>5,382,241</u>	<u>-</u>
Fund balances - end of year	<u>\$ 4,848,911</u>	<u>\$ 4,432,412</u>	<u>\$ 5,353,236</u>	<u>\$ 920,824</u>

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Rehabilitation Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental:				
Federal	\$ 274,229	\$ 424,229	\$ 347,519	\$ (76,710)
Miscellaneous:				
Program income	14,221	14,221	345,884	331,663
Interest earnings	6,085	6,085	9,523	3,438
Total revenues	294,535	444,535	702,926	258,391
Expenditures				
Economic development	274,229	684,229	878,795	(194,566)
Excess of revenues over (under) expenditures	20,306	(239,694)	(175,869)	63,825
Other financing sources (uses)				
Transfer in	310,658	570,658	510,611	(60,047)
Transfer out	(200,000)	(318,000)	(334,742)	(16,742)
Total other financing sources (uses)	110,658	252,658	175,869	(76,789)
Changes in fund balances	130,964	12,964	-	(12,964)
Fund balances - beginning of year	-	-	-	-
Fund balances - end of year	\$ 130,964	\$ 12,964	\$ -	\$ (12,964)

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Electric	Water	Sewer	Other Enterprise Funds	Total	Internal Service Funds
Current assets						
Cash and cash equivalents	\$ 12,563,314	\$ 4,849,390	\$ 6,235,653	\$ 282,509	\$ 23,930,866	\$ 2,947,881
Receivables (net of allowance for uncollectibles)						
Accounts	3,807,018	630,204	1,707,738	17,863	6,162,823	24,269
Special assessments	59,408	8,527	20,847	-	88,782	-
Accrued interest	135,768	52,407	55,129	3,020	246,324	12,987
Due from other funds	-	25,345	37,048	624	63,017	284,889
Due from other governments	4,464	1,293,754	-	4,284	1,302,502	-
Inventories	1,719,049	514,136	163,804	-	2,396,989	131,205
Prepaid expenses	-	375,000	-	-	375,000	820,896
Deposits	-	8,470	-	-	8,470	256,718
Total current assets	18,289,021	7,757,233	8,220,219	308,300	34,574,773	4,478,845
Long-term assets						
Restricted assets						
Debt service funds - investments	843,719	-	-	-	843,719	-
Other assets						
Unamortized debt expense	-	-	286,859	-	286,859	-
Capital assets						
Land and improvements	182,602	3,481,722	11,487,282	4,652,576	19,804,182	-
Air rights	-	-	-	95,421	95,421	-
Buildings	1,421,917	1,566,030	26,251	625,400	3,639,598	-
Machinery and equipment	3,247,611	1,105,447	1,582,888	93,180	6,029,126	12,205,254
Utility plant in service	59,353,977	51,931,150	146,696,793	-	257,981,920	-
Construction in progress	-	-	-	-	-	-
	64,206,107	58,084,349	159,793,214	5,466,577	287,550,247	12,205,254
Less: accumulated depreciation	33,349,701	34,084,081	62,701,119	1,756,284	131,891,185	6,926,448
Net capital assets	30,856,406	24,000,268	97,092,095	3,710,293	155,659,062	5,278,806
Total long-term assets	31,700,125	24,000,268	97,378,954	3,710,293	156,789,640	5,278,806
Total assets	\$ 49,989,146	\$ 31,757,501	\$ 105,599,173	\$ 4,018,593	\$ 191,364,413	\$ 9,757,651

The accompanying notes are an integral part of these financial statements.

	Electric	Water	Sewer	Other Enterprise Funds	Total	Internal Service Funds
Liabilities						
Current liabilities						
Accounts payable	\$ 1,559,988	\$ 803,882	\$ 136,458	\$ 44,519	\$ 2,544,847	\$ 351,654
Accrued liabilities	93,245	78,603	70,356	312	242,516	49,879
Due to other funds	1,170,667	48,122	462,593	1,081	1,682,463	14,254
Due to other governmental units	61,667	-	-	-	61,667	170
Interest payable	-	12,756	386,126	-	398,882	4,104
Claims payable	-	-	-	-	-	1,393,764
Deposits	120,361	32,670	-	-	153,031	-
Deferred revenue	-	-	-	-	-	194,615
Accrued compensated absences - current	246,464	243,226	140,684	-	630,374	84,441
Notes payable - current	-	-	-	-	-	41,104
Bonds payable - current	1,200,000	245,000	2,995,000	-	4,440,000	-
Total current liabilities	4,452,392	1,464,259	4,191,217	45,912	10,153,780	2,133,985
Long-term liabilities						
Accrued compensated absences	328,229	172,787	146,531	-	647,547	76,080
Notes payable	-	-	-	-	-	282,040
Bonds payable	7,115,000	4,405,727	50,225,000	-	61,745,727	-
Total long-term liabilities	7,443,229	4,578,514	50,371,531	-	62,393,274	358,120
Total liabilities	11,895,621	6,042,773	54,562,748	45,912	72,547,054	2,492,105
Net assets						
Invested in capital assets, net of related debt	22,541,406	19,349,541	43,872,095	3,710,293	89,473,335	4,955,662
Unrestricted	15,552,119	6,365,187	7,164,330	262,388	29,344,024	2,309,884
Total net assets	\$ 38,093,525	\$ 25,714,728	\$ 51,036,425	\$ 3,972,681	\$ 118,817,359	\$ 7,265,546

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Reconciliation of the Enterprise Funds Statement of Net Assets
to the Business-type Activities in the Statement of Net Assets
For the Year Ended June 30, 2006

Net assets - total enterprise funds \$ 118,817,359

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in internal service funds

2,899,193

Net assets of business-type activities

\$ 121,716,552

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006

	Electric	Water	Sewer	Other Enterprise Funds	Total	Internal Service Funds
Operating revenues						
Charges for services:						
Sales	\$ 23,337,179	\$ 7,165,935	\$ 11,480,468	\$ 60,749	\$ 42,044,331	\$ 14,984,973
Rents	-	-	-	131,055	131,055	-
Miscellaneous	439,034	42,894	68,028	37,939	587,895	614,891
Total operating revenues	<u>23,776,213</u>	<u>7,208,829</u>	<u>11,548,496</u>	<u>229,743</u>	<u>42,763,281</u>	<u>15,599,864</u>
Operating expenses						
Cost of sales and service	20,186,986	4,688,832	5,610,681	331,085	30,817,584	2,811,282
Administration	3,266,600	1,438,803	1,481,155	-	6,186,558	181,000
Claims and benefits	-	-	-	-	-	11,169,705
Depreciation	2,137,246	1,136,251	3,913,026	133,112	7,319,635	902,429
Total operating expenses	<u>25,590,832</u>	<u>7,263,886</u>	<u>11,004,862</u>	<u>464,197</u>	<u>44,323,777</u>	<u>15,064,416</u>
Operating income (loss)	<u>(1,814,619)</u>	<u>(55,057)</u>	<u>543,634</u>	<u>(234,454)</u>	<u>(1,560,496)</u>	<u>535,448</u>
Nonoperating revenues (expenses)						
Intergovernmental:						
Federal grants	-	-	-	255,898	255,898	-
State grants	151,560	-	79,762	199,237	430,559	-
Interest earnings	587,421	163,126	165,147	6,485	922,179	30,917
Interest expense	(469,111)	(22,176)	(1,522,999)	-	(2,014,286)	(12,944)
Net loss on disposal of capital assets	-	-	-	-	-	(30,907)
Amortization of bond discount/deferred costs	(81,002)	-	(15,557)	-	(96,559)	-
Total nonoperating revenues (expenses)	<u>188,868</u>	<u>140,950</u>	<u>(1,293,647)</u>	<u>461,620</u>	<u>(502,209)</u>	<u>(12,934)</u>
Income (loss) before transfers	<u>(1,625,751)</u>	<u>85,893</u>	<u>(750,013)</u>	<u>227,166</u>	<u>(2,062,705)</u>	<u>522,514</u>
Transfers						
Transfer in	39,175	-	62,850	126,919	228,944	-
Transfer out	(115,600)	(11,700)	(3,626,700)	-	(3,754,000)	-
Total transfers	<u>(76,425)</u>	<u>(11,700)</u>	<u>(3,563,850)</u>	<u>126,919</u>	<u>(3,525,056)</u>	<u>-</u>
Changes in net assets	<u>(1,702,176)</u>	<u>74,193</u>	<u>(4,313,863)</u>	<u>354,085</u>	<u>(5,587,761)</u>	<u>522,514</u>
Net assets - beginning of year	<u>39,795,701</u>	<u>25,640,535</u>	<u>55,350,288</u>	<u>3,618,596</u>	<u>124,405,120</u>	<u>6,743,032</u>
Net assets - end of year	<u>\$ 38,093,525</u>	<u>\$ 25,714,728</u>	<u>\$ 51,036,425</u>	<u>\$ 3,972,681</u>	<u>\$ 118,817,359</u>	<u>\$ 7,265,546</u>

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Reconciliation of the Enterprise Funds Statement of Revenues, Expenses and
Changes in Net Assets to the Business-type Activities in the Statement of Activities
For the Year Ended June 30, 2006

Net change in net assets - total enterprise funds \$ (5,587,761)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with business-type activities.

Add: net operating gain from business-type activities accounted for in internal service funds 174,203

Change in net assets of business-type activities \$ (5,413,558)

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Proprietary Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2006

	Electric	Water	Sewer	Other Enterprise Funds	Total	Internal Service Funds
Cash flows from operating activities						
Cash received from customers and users	\$ 23,500,957	\$ 5,917,247	\$ 11,354,172	\$ 243,815	\$ 41,016,191	\$ -
Cash received from internal users	13,179	(25,345)	399,364	15,357	402,555	15,315,822
Interfund reimbursements	1,138,753	27,335	-	70	1,166,158	-
Cash payments to suppliers for goods and services	(20,350,640)	(2,517,663)	(4,459,590)	(290,257)	(27,618,150)	(13,730,076)
Cash payments to employees for services	(3,790,007)	(3,333,526)	(3,337,301)	(12,671)	(10,473,505)	(1,317,941)
Other operating revenues	439,034	42,894	68,028	37,939	587,895	-
Net cash provided (used) by operating activities	951,276	110,942	4,024,673	(5,747)	5,081,144	267,805
Cash flows from noncapital financing activities						
Intergovernmental - federal grant	-	-	-	255,898	255,898	-
Intergovernmental - state grant	151,560	-	79,762	194,953	426,275	-
Transfers in	39,175	-	62,850	126,919	228,944	-
Transfers (out)	(115,600)	(11,700)	(11,700)	-	(139,000)	-
Net cash flows provided (used) by noncapital financing activities	75,135	(11,700)	130,912	577,770	772,117	-
Cash flows from capital and related financing activities						
Purchase of capital assets	(1,702,817)	(5,805,439)	(2,766,804)	(529,015)	(10,804,075)	(637,533)
Proceeds from the sale of capital assets	-	-	-	-	-	72,797
Proceeds from issuing long-term debt	-	4,650,727	6,000,000	-	10,650,727	-
Payments for unamortized debt expense	-	-	(98,950)	-	(98,950)	-
Principal paid on debt	(1,145,000)	-	(2,715,000)	-	(3,860,000)	(59,267)
Interest paid on debt	(469,111)	(22,176)	(1,522,999)	-	(2,014,286)	(12,944)
Net cash (used) by capital and related financing activities	(3,316,928)	(1,176,888)	(1,103,753)	(529,015)	(6,126,584)	(636,947)
Cash flows from investing activities						
Proceeds from sale of investments	228,938	-	-	-	228,938	-
Interest earnings	587,421	163,126	165,147	6,485	922,179	30,917
Net cash provided (used) by investment activities	816,359	163,126	165,147	6,485	1,151,117	30,917
Net increase (decrease) in cash and cash equivalents	(1,474,158)	(914,520)	3,216,979	49,493	877,794	(338,225)
Cash and cash equivalents, beginning of period	14,037,472	5,763,910	3,018,674	233,016	23,053,072	3,286,106
Cash and cash equivalents, end of period	\$ 12,563,314	\$ 4,849,390	\$ 6,235,653	\$ 282,509	\$ 23,930,866	\$ 2,947,881
Reconciliation of operating income to net cash provided by operating activities						
Operating income (loss)	\$ (1,814,619)	\$ (55,057)	\$ 543,634	\$ (234,454)	\$ (1,560,496)	\$ 535,448
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	2,137,246	1,136,251	3,913,026	133,112	7,319,635	902,429
(Increase) decrease in assets:						
Accounts receivable	43,354	31,241	(90,602)	52,420	36,413	135,868
Special assessments receivable	(58,782)	(8,447)	(20,206)	-	(87,435)	-
Accrued interest receivable	46,112	22,272	(16,016)	(409)	51,959	6,310
Due from other funds	13,179	(25,345)	(37,048)	14,903	(34,311)	(150,596)
Due from other governments	133,094	(1,293,754)	528	-	(1,160,132)	-
Inventories	(180,080)	68,757	(56,084)	-	(167,407)	(39,695)
Prepaid expenses	-	(375,000)	-	11,153	(363,847)	(790,637)
Deposits	-	-	-	-	-	11,502
Increase (decrease) in liabilities:						
Accounts payable	(441,470)	643,533	(696,287)	17,350	(476,874)	(80,217)
Accrued liabilities	(9,798)	395	(12,202)	54	(21,551)	17,103
Claims payable	-	-	-	-	-	(9,699)
Due to other funds	1,138,753	27,335	436,412	124	1,602,624	(275,624)
Due to other governmental units	(692)	-	-	-	(692)	(4,381)
Interest payable	-	12,756	82,675	-	95,431	(503)
Deposits	(9,738)	870	-	-	(8,868)	-
Accrued compensated absences	(45,283)	(74,865)	(23,157)	-	(143,305)	1,040
Deferred revenue	-	-	-	-	-	9,457
Total adjustments	2,765,895	165,999	3,481,039	228,707	6,641,640	(267,643)
Net cash provided (used) by operating activities	\$ 951,276	\$ 110,942	\$ 4,024,673	\$ (5,747)	\$ 5,081,144	\$ 267,805

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Fiduciary Funds
Statement of Net Assets
June 30, 2006

	Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 2,068,313	\$ 75,280
Investments		
Mutual funds	15,831,091	-
Government securities	8,318,733	-
Corporate bonds	3,231,600	-
Common stock	22,954,545	-
Accounts receivable	206,969	-
Interest receivable	145,788	-
Total assets	<u>52,757,039</u>	<u>\$ 75,280</u>
Liabilities		
Accounts payable	83,901	\$ 459
Deposits payable	-	74,821
Total liabilities	<u>83,901</u>	<u>\$ 75,280</u>
Net assets		
Held in trust for employees' pension benefits	50,146,535	
Held in trust for employees' postemployment health care benefits	<u>2,526,603</u>	
Total net assets	<u>\$ 52,673,138</u>	

The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Trust Funds
For the Year Ended June 30, 2006

Additions

Contributions

Employer	\$ 1,725,550
Plan members	505,354

Total contributions	2,230,904
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Investment income

Interest and dividends	1,203,044
Net appreciation in fair value of investments	3,147,043
Investment expense	(263,226)

Net investment income	4,086,861
------------------------------	-----------

Total additions	6,317,765
------------------------	-----------

Deductions

Benefits and refunds paid to participants	3,431,895
Administrative expenses	81,982

Total deductions	3,513,877
-------------------------	-----------

Net increase in plan net assets	2,803,888
--	-----------

Net assets held in trust for pension benefits

Beginning of year	49,869,250
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End of year	\$ 52,673,138
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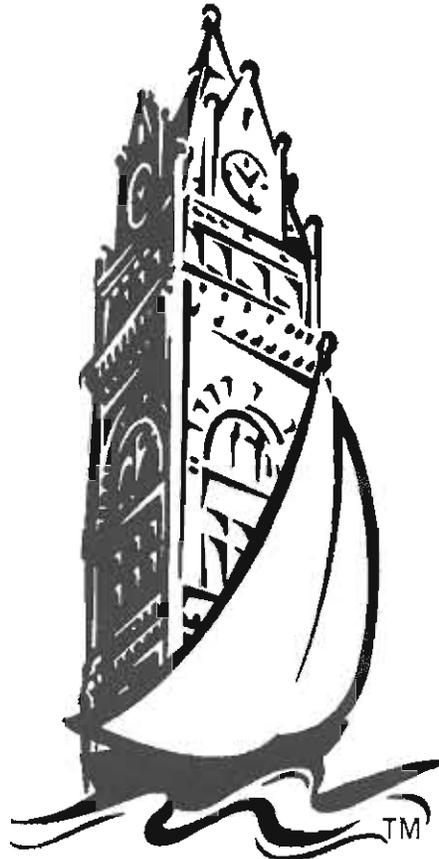
The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
All Component Units
Combining Statement of Net Assets
June 30, 2006

	Downtown Development Authority	Midland St. TIFA	Kresge's DDA	Marquette District TIFA	Water Street DDA	Marina Develop. TIFA	Allen Health- care DDA
Assets							
Cash and cash equivalents	\$ 20,112	\$ 381,784	\$ 48,166	\$ 1,056,955	\$ 976,786	\$ 260,857	\$ 1,031
Receivables:							
Accounts	1,313	-	-	-	-	-	-
Delinquent taxes	606	-	-	-	-	-	-
Accrued interest	218	4,125	520	11,420	10,561	2,819	11
Notes	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	15,000	-	-
Inventories	-	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-
Restricted investments	-	-	-	-	-	-	-
Nondepreciable capital assets	-	-	-	88,626	56,562	6,623	-
Depreciable capital assets, net	139,052	201,544	-	1,064,899	2,245,280	291,075	-
Deferred financing costs	-	-	-	-	-	-	-
Total assets	161,301	587,453	48,686	2,221,900	3,304,189	561,374	1,042
Liabilities							
Accounts payable	\$ 7,119	\$ 111,594	\$ -	\$ 17,337	\$ 151,941	\$ 18,792	\$ -
Accrued liabilities	25	-	-	1,467	-	-	-
Interest payable	-	-	-	-	15,930	-	-
Deposits	-	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-
Long-term debt:							
Bonds payable	-	-	-	-	2,605,000	-	-
Notes payable	-	-	-	-	-	-	60,105
Total liabilities	7,144	111,594	-	18,804	2,772,871	18,792	60,105
Net assets							
Investment in capital assets, net	139,052	201,544	-	1,153,525	(303,158)	297,698	-
Restricted for deposits held with bond trustee	-	-	-	-	-	-	-
Unrestricted (deficit)	15,105	274,315	48,686	1,049,571	834,476	244,884	(59,063)
Total net assets	\$ 154,157	\$ 475,859	\$ 48,686	\$ 2,203,096	\$ 531,318	\$ 542,582	\$ (59,063)

The accompanying notes are an integral part of these financial statements.

Research Center Develop. TIFA	Knepp's DDA	Brownfield Redevelopment Authority	Columbus Avenue Mgmt. Board	Midland St. Mgmt. Board	P.O.W.E.R. EDC	Downtown Mgmt. Board	Wenonah Park Properties	Totals
\$ 24,221	\$ 87,421	\$ 5,290	\$ 6,372	\$ 19,942	\$ 2,081,962	\$ 116,069	\$ 611,487	\$ 5,698,455
-	-	-	-	40	312,740	27,790	162,235	504,118
-	-	-	-	-	-	-	-	606
263	945	-	-	-	-	-	4,831	35,713
-	-	-	-	-	3,765,302	-	-	3,765,302
-	-	-	-	-	-	-	-	15,000
-	-	-	-	-	-	-	36,712	36,712
-	-	-	-	-	-	2,819	133,870	136,689
-	-	-	-	-	-	-	3,987,011	3,987,011
-	-	-	-	-	-	-	2,140,000	2,291,811
-	80,617	-	-	-	-	3,388	26,327,382	30,353,237
-	-	-	-	-	-	-	900,815	900,815
<u>24,484</u>	<u>168,983</u>	<u>5,290</u>	<u>6,372</u>	<u>19,982</u>	<u>6,160,004</u>	<u>150,066</u>	<u>34,304,343</u>	<u>47,725,469</u>
\$ -	\$ 53,293	\$ -	\$ 159	\$ 3,443	\$ 3,755	\$ 12,574	\$ 614,051	\$ 994,058
-	-	-	-	-	-	2,054	82,224	85,770
-	-	-	-	-	-	-	585,261	601,191
-	-	-	-	-	-	-	40,276	40,276
-	-	-	-	-	-	3,670	-	3,670
-	-	-	-	-	-	-	15,455,000	18,060,000
-	-	-	-	-	-	-	7,395,000	7,455,105
-	<u>53,293</u>	<u>-</u>	<u>159</u>	<u>3,443</u>	<u>3,755</u>	<u>18,298</u>	<u>24,171,812</u>	<u>27,240,070</u>
-	80,617	-	-	-	-	3,388	6,518,197	8,090,863
-	-	-	-	-	-	-	3,987,011	3,987,011
<u>24,484</u>	<u>35,073</u>	<u>5,290</u>	<u>6,213</u>	<u>16,539</u>	<u>6,156,249</u>	<u>128,380</u>	<u>(372,677)</u>	<u>8,407,525</u>
<u>\$ 24,484</u>	<u>\$ 115,690</u>	<u>\$ 5,290</u>	<u>\$ 6,213</u>	<u>\$ 16,539</u>	<u>\$ 6,156,249</u>	<u>\$ 131,768</u>	<u>\$ 10,132,531</u>	<u>\$ 20,485,399</u>



CITY OF
Bay City

**City of Bay City, Michigan
All Component Units
Combining Statement of Activities
For the Year Ended June 30, 2006**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Component units					
Downtown Development Authority	\$ 191,777	\$ 159,275	\$ -	\$ -	\$ (32,502)
Midland Street TIFA	11,284	-	-	-	(11,284)
Kresge's DDA	1,643	-	-	-	(1,643)
Marquette District TIFA	322,569	-	-	-	(322,569)
Water Street DDA	304,370	-	-	250,000	(54,370)
Marina Development TIFA	47,090	-	-	-	(47,090)
Allen Healthcare DDA	5,891	-	-	-	(5,891)
Research Center Development TIFA	-	-	-	-	-
Knepp's DDA	1,202	-	-	-	(1,202)
Brownfield Redevelopment	475	-	-	-	(475)
Columbus Avenue Management Board	8,699	7,850	1,436	-	587
Midland Street Management Board	17,876	19,100	-	-	1,224
POWER EDC	18,727	-	100	-	(18,627)
Downtown Management Board	256,552	49,980	65,000	-	(141,572)
Wenonah Park Properties	4,044,836	3,114,226	53,360	-	(877,250)
Total component units	<u>\$ 5,232,991</u>	<u>\$ 3,350,431</u>	<u>\$ 119,896</u>	<u>\$ 250,000</u>	<u>\$ (1,512,664)</u>

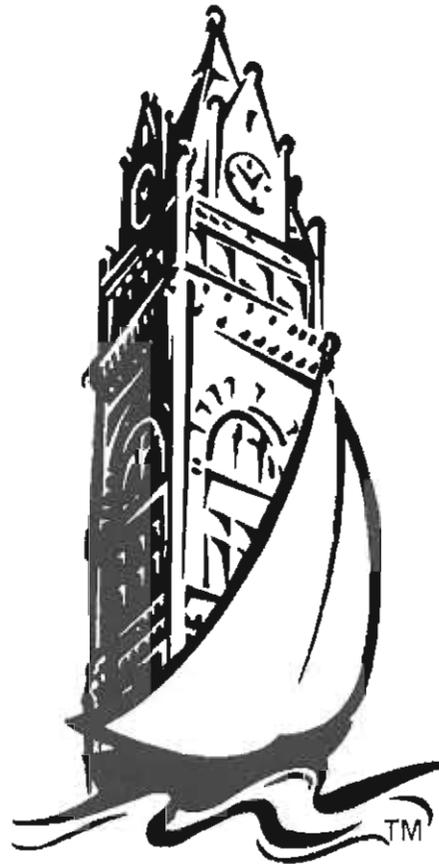
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City of Bay City, Michigan
All Component Units
Combining Statement of Activities (Concluded)
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Downtown Development Authority</u>	<u>Midland St. TIFA</u>	<u>Kresge's DDA</u>	<u>Marquette District TIFA</u>	<u>Water Street DDA</u>	<u>Marina Develop. TIFA</u>	<u>Allen Health- care DDA</u>
Changes in net assets							
Net (expense) revenue	\$ (32,502)	\$ (11,284)	\$ (1,643)	\$ (322,569)	\$ (54,370)	\$ (47,090)	\$ (5,891)
General revenues:							
Property taxes	-	106,054	1,336	456,072	300,107	60,422	19,425
Unrestricted investment earnings	1,477	12,862	1,268	35,777	48,840	10,000	479
Miscellaneous revenue	34,718	-	-	-	-	-	-
Total general revenues	<u>36,195</u>	<u>118,916</u>	<u>2,604</u>	<u>491,849</u>	<u>348,947</u>	<u>70,422</u>	<u>19,904</u>
Change in net assets	3,693	107,632	961	169,280	294,577	23,332	14,013
Net assets, beginning of year	<u>150,464</u>	<u>368,227</u>	<u>47,725</u>	<u>2,033,816</u>	<u>236,741</u>	<u>519,250</u>	<u>(73,076)</u>
Net assets, end of year	<u>\$ 154,157</u>	<u>\$ 475,859</u>	<u>\$ 48,686</u>	<u>\$ 2,203,096</u>	<u>\$ 531,318</u>	<u>\$ 542,582</u>	<u>\$ (59,063)</u>

The accompanying notes are an integral part of these financial statements.

Research Center Develop. TIFA	Knepp's DDA	Brownfield Redevelopment Authority	Columbus Avenue Mgmt. Board	Midland St. Mgmt. Board	P.O.W.E.R. EDC	Downtown Mgmt. Board	Wenonah Park Properties	Totals
\$ -	\$ (1,202)	\$ (475)	\$ 587	\$ 1,224	\$ (18,627)	\$ (141,572)	\$ (877,250)	\$ (1,512,664)
17,376	15,580	3,137	-	-	-	107,625	-	1,087,134
1,623	2,707	-	-	-	134,254	2,358	87,227	338,872
-	-	500	-	-	2,896	-	784	38,898
18,999	18,287	3,637	-	-	137,150	109,983	88,011	1,464,904
18,999	17,085	3,162	587	1,224	118,523	(31,589)	(789,239)	(47,760)
5,485	98,605	2,128	5,626	15,315	6,037,726	163,357	10,921,770	20,533,159
<u>\$ 24,484</u>	<u>\$ 115,690</u>	<u>\$ 5,290</u>	<u>\$ 6,213</u>	<u>\$ 16,539</u>	<u>\$ 6,156,249</u>	<u>\$ 131,768</u>	<u>\$ 10,132,531</u>	<u>\$ 20,485,399</u>



CITY OF
Bay City

City of Bay City, Michigan
Notes to the Financial Statements
June 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Bay City, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the City of Bay City:

A. Reporting Entity

The City of Bay City is a municipal corporation governed by an elected mayor and nine-member commission and administered by an appointed City Manager. As required by generally accepted accounting principles, these financial statements present the City and its component units-entities for which the City is considered to be financially accountable.

The discrete component unit columns in the government-wide financial statements represent a total of the City's discrete component units. They are reported in a separate column to emphasize that they are legally separate from the City.

The governing bodies of the Downtown Management Board (DMB), Midland Street Management Board, Columbus Avenue Management Board, P.O.W.E.R. Fund (Economic Development Corporation of the City of Bay City), Brownfield Redevelopment Authority, Wenonah Park Properties, all the Tax Increment Financing Authorities (TIFA's), and Downtown Development Authorities (DDA's), are all appointed by the City Commission or City Manager. These component units provide economic development and financing services to specific geographic areas within the City. These entities are fiscally dependent on the City because the City Commission is responsible for approving any debt issuances and the annual operating budgets of all component units except for Wenonah Park Properties and the Downtown Management Board. All discrete component units use governmental fund type accounting. However, full accrual accounting is used for financial statement presentation.

Complete financial statements for the DMB may be obtained at their administrative offices located at Commerce 1, 901 Saginaw Street, Bay City, MI 48708, and complete financial statements for Wenonah Park Properties may be obtained at City Hall located at 301 Washington Ave., Bay City, MI 48708. Separate financial statements for the Midland Street Management Board, Columbus Avenue Management Board, P.O.W.E.R. Fund (Economic Development Corporation of the City of Bay City), Brownfield Redevelopment Authority, TIFA's and DDA's are not prepared.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City Manager is responsible for appointing members to the governing Board of the Bay City Housing Commission, but the City's accountability for the organization does not extend beyond making the appointments. Accordingly, this related organization is not included in these financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its discrete component units. For the most part, the effect of interfund activity has been eliminated from these statements. Governmental activities, normally 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 certain legally separate component units for which the primary government is financially accountable.

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 included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenue is 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 revenue 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.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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 Rehabilitation Fund is used to account for revenues and expenditures related to providing financing to low and moderate income individuals to assist with home improvements within specific neighborhoods of the City.

The City reports the following major proprietary funds:

The Electric Fund is used to account for all activities relative to providing electric utility services to customers within Bay City and the surrounding townships.

The Water Fund is used to account for all activities relative to the maintenance and operation of the Water Distribution System and Water Treatment Plant.

The Sewer Fund is used to account for all activities relative to the maintenance and operation of the City's sanitary and combination sewers, the Wastewater Treatment Plant, and stormwater system.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Additionally, the City reports the following fund types:

Internal Service Funds account for fleet; equipment purchases and maintenance; employee benefits; information systems; as well as self-insurance and risk management services provided to other departments of the City on a cost reimbursement basis.

The Pension Trust Funds account for the activities of the Police and Fire Employees' Retirement System, which accumulates resources for pension benefit payments to qualified police and fire members. In addition, the City has two separate Health Care Investment Funds. The first fund accounts for non-public safety retirees and the second fund accounts for police & fire retirees. The purpose of these funds is to accumulate and invest funds to provide for the funding of health care benefits to retired employees of the City and their beneficiaries.

The Agency Funds account for assets held for other governments in an agency capacity, including tax collections and other project funds.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

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 the City's enterprise functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The City allocates indirect expenses primarily comprised of central governmental services to operating functions and programs benefiting from those services. Central services include City management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement contracting and oversight, investing and cash management, personnel services, and other central administrative services. Allocations are charged to programs based on use of central services determined by various allocating methodologies. These charges are separately reported in the statement of activities. As a matter of policy, certain functions that use significant central services are not charged for the use of these services. These functions or programs include police, fire, and certain divisions within public services and parks.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Amounts reported as program revenue 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 revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenue and expenses from non-operating items. Operating revenue 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 revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to connect new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Fund Equity

Bank Deposits and Investments – The government'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 Pension Trust Fund is authorized by the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are reported at fair value. Investment fair values are predominantly determined using quoted market prices.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

During the course of operations numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet.

Property Taxes – Property taxes are levied each July 1 and December 1 on the assessed valuation of property, as equalized by the State, as of the preceding December 31, the lien date. The levies are considered past due on September 15 and February 15, respectively, at which time applicable penalties and interest are assessed. The City bills and collects its own property taxes and also taxes for the various local governmental units. Collection and remittance for other units are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges and traffic signals, which are required to be reported despite the date of purchase.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 assets lives are not capitalized.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land Improvements	50
Machinery and Equipment	5 - 20
Vehicles	3 - 10

The estimated useful lives of infrastructure assets are as follows:

	<u>YEARS</u>
Site Improvements, Streets, Sidewalk, Curbs	20
Bridges	50

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay and sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

City employees earn vacation leave at rates ranging between 12 and 28 days per year depending on their union membership and length of service. All outstanding vacation is payable upon resignation, retirement, or death. Sick pay is accumulated by employees at rates ranging between 6.67 hours to one day per month of employment. Depending on the union contract, some employees earn one additional day if the employee does not use any sick leave days within a three-month period. Outstanding sick pay is payable only upon qualified retirement. The amount paid is one-half of the accumulated sick days ranging from 0 to a maximum of 160 days dependent upon the union contract under which the employee is covered. Employees with over 25 years of service (with the maximum 160 days of sick leave) receive 20 additional days of sick leave pay for each year of service in excess of 25 years but cannot exceed 80 additional days. The maximum number of days an employee may be compensated for cannot exceed 160 days.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental fund types.

Individual amendments for the year were not material in relation to the original appropriations. Supplemental appropriations were made during the year. Unexpended appropriations lapse at year-end.

Budget appropriations are prepared by the City Manager and authorized by the City Commission on a departmental basis in accordance with sections of the City Charter. Intradepartment budget transfers within the General Fund and budget transfers within all other funds can be approved by the City Manager. All budget amendments and transfers in excess of \$4,500 within a General Fund Department and at the total fund level for all other funds must be approved by the City Commission. Therefore, legal budgetary control is exercised at the activity level for the General Fund and the total fund level for all other funds. The policy limits the aggregate amount of transfers to \$4,500 per fiscal year within a General Fund Department and at the total fund level for all other funds without Commission approval.

Encumbrances – Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Bay City because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Note 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY-CONTINUED

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General government:			
Promotional	\$ 19,300	\$ 19,524	\$ (224)
Assessor	501,617	504,813	(3,196)
Payroll/Payables	167,106	168,055	(949)
Meter Reading	359,299	369,690	(10,391)
Legal Services	-	7,367	(7,367)
Public safety:			
Drive Michigan Safely	-	15,283	(15,283)
Police In-Service Training	40,500	44,395	(3,895)
Deputy Police Chiefs	204,245	244,437	(40,192)
Police Command Officers	1,092,197	1,093,553	(1,356)
Public works			
Street Lighting	421,139	425,827	(4,688)
Capital outlay	274,245	486,394	(212,149)
Special Revenue Funds:			
Rehabilitation Fund			
Economic Development	684,229	878,795	(194,566)
Transfers Out	318,000	334,742	(16,742)
Community Policing	99,789	121,647	(21,858)
Parking Enforcement	72,187	72,948	(761)
Bond Sinking Fund	1,573,150	1,573,525	(375)

Fund Deficits - The City has accumulated a fund deficit in the following component unit:

Allen Healthcare DDA component unit in the amount of \$59,063. The development plan of this component unit states that the amount of tax increment revenues collected on an annual basis will be applied against its debt until it has been paid off. It is estimated that this will occur in fiscal year ending June 30, 2010.

Note 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks and credit unions that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The breakdown between deposits and investments for the City is as follows:

Statement of Net Assets:

	Govern- mental <u>Activities</u>	Business- Type <u>Activities</u>	Fiduciary <u>Funds</u>	Total Primary <u>Government</u>	Component <u>Units</u>	<u>Total</u>
Cash and cash equivalents \$	9,865,899	\$ 23,930,866	\$ 2,143,593	\$ 35,940,358	\$ 5,698,455	\$41,638,813
Investments	-	-	50,335,969	50,335,969	-	50,335,969
Restricted Assets	<u>-</u>	<u>843,719</u>	<u>-</u>	<u>843,719</u>	<u>3,987,011</u>	<u>4,830,730</u>
Total	<u>\$ 9,865,899</u>	<u>\$ 24,774,585</u>	<u>\$52,479,562</u>	<u>\$ 87,120,046</u>	<u>\$ 9,685,466</u>	<u>\$96,805,512</u>

Deposit and Investments:

Bank Deposits (checking, savings, and certificates of deposit)	\$ 19,010,758
Investments (securities, commercial paper, and money market accounts)	<u>77,794,754</u>
Total	<u>\$ 96,805,512</u>

Custodial Credit Risk – Deposits. For deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to the government. At June 30, 2006, the carrying value of deposits owned by the City was \$9,325,292 and component units was \$9,685,466. Approximately \$600,000 of the City's bank balance and \$200,000 of the component unit bank balance was covered by federal depository insurance. The remaining balance of \$18,210,758 was exposed to custodial credit risk because it was unsecured and uncollateralized.

Custodial Credit Risk – Investments. Following is a summary of the City's investments as of June 30, 2006:

Deposits	\$ 19,010,758
Mutual Funds	14,754,546
Government securities	20,123,743
Agency obligations	16,730,320
Corporate bonds	3,231,600
Common stock	<u>22,954,545</u>
Total	<u>\$ 96,805,512</u>

Note 3 - DEPOSITS AND INVESTMENTS – CONTINUED

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2006, none of the City's investments, excluding the money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counter party.

Interest Rate Risk. As of June 30, 2006, maturities of the City's debt securities were as follows:

	Investment Maturities (In Years)					Credit Rating	
	Fair Value	Less Than 1	1-5	6-10	More Than 10	Standard & Poors	Moody's Investor Services
Government obligations	\$ 15,353,744	\$ 2,248,408	\$ 11,321,490	\$ 1,199,776	\$ 584,070	n/a	n/a
Agency obligations	17,686,202	3,221,402	13,978,053	155,467	331,280	AAA	Aaa
Corporate bonds	15,047	-	-	-	15,047	BBB	Baa2
Corporate bonds	47,322	-	47,322	-	-	A+	A1
Corporate bonds	29,646	-	-	-	29,646	BBB+	Baa1
Corporate bonds	10,000	-	-	10,000	-	B	B1
Corporate bonds	18,700	-	-	18,700	-	BB	Ba1
Corporate bonds	19,074	-	-	19,074	-	BBB+	Baa2
Corporate bonds	20,450	-	20,450	-	-	B+	B2
Corporate bonds	40,100	-	-	40,100	-	BB	Ba2
Corporate bonds	116,424	-	116,424	-	-	A+	Aa2
Corporate bonds	17,421	-	-	-	17,421	BBB-	Baa3
Corporate bonds	46,817	-	-	46,817	-	BBB-	Baa3
Corporate bonds	67,070	-	-	67,070	-	AA-	Aa3
Corporate bonds	36,222	-	-	36,222	-	BBB-	Baa3
Corporate bonds	15,075	-	-	15,075	-	B+	B1
Corporate bonds	32,988	-	-	32,988	-	BB-	Ba3
Corporate bonds	21,545	-	-	21,545	-	B	B1
Corporate bonds	58,779	-	-	-	58,779	A	Baa1
Corporate bonds	132,875	-	-	132,875	-	AAA	Aaa
Corporate bonds	13,954	-	-	13,954	-	BB	Ba1
Corporate bonds	26,469	-	-	26,469	-	B-	B3
Corporate bonds	38,444	-	-	-	38,444	A	A1
Corporate bonds	72,689	-	72,689	-	-	AA-	Aa3
Corporate bonds	70,088	-	-	70,088	-	BB	Ba2
Corporate bonds	35,808	-	-	35,808	-	AA-	Aa3
Corporate bonds	19,950	-	-	-	19,950	BB	Ba1

City of Bay City, Michigan
Notes to the Financial Statements
June 30, 2006

	Investment Maturities (In Years)					Credit Rating	
	Fair Value	Less Than 1	1-5	6-10	More Than 10	Standard & Poors	Moody's Investor Services
Corporate bonds	38,425	-	-	38,425	-	BBB	Baa2
Corporate bonds	70,875	-	-	70,875	-	BBB-	Baa3
Corporate bonds	31,675	-	-	31,675	-	B	B3
Corporate bonds	118,262	-	-	118,262	-	A	A1
Corporate bonds	34,615	-	-	34,615	-	A-	A2
Corporate bonds	47,569	-	-	47,569	-	BBB	Baa2
Corporate bonds	25,750	-	25,750	-	-	B+	B1
Corporate bonds	14,663	-	-	14,663	-	B-	B1
Corporate bonds	101,878	-	-	-	101,878	A+	Aa3
Corporate bonds	34,095	-	34,095	-	-	AA	Aa3
Corporate bonds	34,554	-	34,554	-	-	BBB-	Baa3
Corporate bonds	9,827	-	-	9,827	-	BBB-	Baa3
Corporate bonds	19,150	-	-	19,150	-	BB+	Ba2
Corporate bonds	24,882	-	-	24,882	-	BBB-	Ba1
Corporate bonds	21,000	-	-	21,000	-	B	Ba3
Corporate bonds	32,725	-	-	32,725	-	B+	Ba3
Corporate bonds	25,181	-	-	-	25,181	BBB-	Baa2
Corporate bonds	32,405	-	-	32,405	-	BBB+	Baa2
Corporate bonds	10,675	-	-	10,675	-	B+	B1
Corporate bonds	14,325	-	-	14,325	-	B	B1
Corporate bonds	37,703	-	-	37,703	-	AA-	Aa2
Corporate bonds	18,950	-	-	18,950	-	BB-	B1
Corporate bonds	17,938	-	-	-	17,938	BBB	Baa2
International bonds	128,200	-	128,200	-	-	AAA	Aaa
Variable rate corporate bonds	18,145	-	18,145	-	-	B	B3
Variable rate corporate bonds	24,472	24,472	-	-	-	A	Aa3
Variable rate corporate bonds	29,087	29,087	-	-	-	A-	A2
FHLMC pass throughs	8,908	-	-	-	8,908	n/a	n/a
FNMA pass throughs	3,716,181	-	-	-	3,716,181	n/a	n/a
GNMA pass throughs	111,244	-	-	-	111,244	n/a	n/a
Collateralized mortgage obligations	196,264	-	-	-	196,264	n/a	n/a
Asset backed securities	<u>973,037</u>	-	<u>376,915</u>	<u>340,417</u>	<u>255,705</u>	AAA	Aaa
	<u>\$40,085,563</u>	<u>\$5,523,369</u>	<u>\$26,174,087</u>	<u>\$2,860,171</u>	<u>\$5,527,936</u>		

** The City's investments in bonds include fifteen (15) holdings with call options with a market value of \$378,058.

** The City's investment in agency obligations include seven (7) holdings with a market value of \$7,839,700.

To the extent possible, the City attempts to match its investments with anticipated cash flow requirements. Short-term funds matched to a specific cash flow requirement shall be invested in securities maturing not more than two (2) years from the date of purchase. Long-term funds (capital, debt services, etc.) matched to a specific cash flow requirement may be invested in securities maturing not more than five (5) years from the date of purchase.

The City's investment policy and the Police & Fire Retirement System's investment policy do not have specific limits on maturities of debt securities as a means of managing its exposure to fair value losses arising from increasing interest rate.

Credit Risk. State law limits investments to specific governmental securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, have been identified above for the City's investments.

The Police & Fire Retirement System's investment policy on credit risk for allowable debt securities follows. The credit rating for each investment type is identified in the above table for debt securities held at June 30, 2006. Regarding Core Plus Fixed Income, the System's investment policy allows its investments managers to invest up to 12.5% of the portfolio in non-investment grade securities (BB to CC rated), with at least 80% of the non-investment grade portfolio consisting of BB or B rated securities. The policy also allows investment managers to invest up to 10% of the portfolio in non-U.S. dollar denominated fixed income securities. The minimum credit rating for international fixed income securities is single B at the time of purchase.

Concentration of Credit Risk. At June 30, 2006, the investment portfolio was concentrated as follows:

<u>Investment</u> <u>Type</u>	<u>Issuer</u>	<u>% of</u> <u>Portfolio</u>	<u>Amount</u>
U.S. agencies	Federal Home Loan Bank	22.1%	\$ 17,168,655
	Federal National Mortgage Association	5.1%	4,006,035

The City diversifies its investment portfolio by security type and institution to eliminate potential losses. Individual securities having potential risks shall be limited in size so that default will not exceed the annual income generated from the remainder of the portfolio.

The Police & Fire Retirement System's investments policy limits maturity value that may be invested in American Depository Receipts to 15% of each equity portfolio. In addition, the System's investment policy limits maturity value that may be invested in U.S. Equities to 5% of the outstanding securities of one issuer.

Note 4 – ACCOUNTS RECEIVABLE AND ALLOWANCES FOR UNCOLLECTIBLES

Receivables in the primary government and component units are as follows:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Component Units</u>	<u>Total</u>
Receivables:				
Accounts	\$ 596,468	\$ 6,353,175	\$ 504,118	\$ 7,453,761
Taxes	173,857	88,782	946	263,585
Interest	90,427	246,324	35,712	372,463
Intergovernmental	1,005,781	1,302,502	15,000	2,323,283
Notes	<u>7,216,924</u>	<u>-</u>	<u>4,182,002</u>	<u>11,398,926</u>
Gross Receivables	9,083,457	7,990,783	4,737,778	21,812,018
Less: Allowance for Uncollectibles	<u>(79,335)</u>	<u>(190,352)</u>	<u>(417,040)</u>	<u>(686,727)</u>
Net total receivables	<u>\$9,004,122</u>	<u>\$ 7,800,431</u>	<u>\$4,320,738</u>	<u>\$21,125,291</u>

The only receivables not expected to be collected within one year are approximately \$7 million and \$4 million of the notes receivable reported in the Rehabilitation fund and P.O.W.E.R. EDC component unit, respectively.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Notes receivable from homeowners expected to be collected over several years	\$ 7,220,638	\$ -
Special assessments (non-current portion)	67,091	-
Delinquent personal property taxes receivable	67,793	-
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>-</u>	<u>225,905</u>
Total	<u>\$ 7,355,522</u>	<u>\$ 225,905</u>

City of Bay City, Michigan
Notes to the Financial Statements
June 30, 2006

Note 5 - CAPITAL ASSETS

Capital asset activity of the City's governmental activities for the year ended June 30, 2006 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 18,723,897	\$ 9,264	\$ (135,321)	\$ 18,597,840
Construction in progress	54,784	182,387	(37,321)	199,850
Other intangible assets	<u>376,000</u>	<u>-</u>	<u>-</u>	<u>376,000</u>
Subtotal	19,154,681	191,651	(172,642)	19,173,690
Capital assets being depreciated:				
Roads and sidewalks	121,194,385	768,606	35,111	121,998,102
Buildings and improvements	6,326,626	48,174	2,210	6,377,010
Vehicles	11,431,746	838,915	(464,985)	11,805,676
Office furnishings	39,293	-	-	39,293
Other tools and equipment	<u>3,313,055</u>	<u>242,627</u>	<u>(292,255)</u>	<u>3,263,427</u>
Subtotal	142,305,105	1,898,322	(719,919)	143,483,508
Accumulated depreciation:				
Roads and sidewalks	(67,864,059)	(3,061,508)	-	(70,925,567)
Buildings and improvements	(3,219,361)	(190,290)	-	(3,409,651)
Vehicles	(5,955,110)	(871,589)	374,644	(6,452,055)
Office furnishings	(9,876)	(1,965)	-	(11,841)
Other tools and equipment	<u>(2,042,707)</u>	<u>(366,887)</u>	<u>302,204</u>	<u>(2,107,390)</u>
Subtotal	<u>(79,091,113)</u>	<u>(4,492,239)</u>	<u>676,848</u>	<u>(82,906,504)</u>
Net capital assets being depreciated	<u>63,213,992</u>	<u>(2,593,917)</u>	<u>(43,071)</u>	<u>60,577,004</u>
Governmental activities capital assets, net	<u>\$ 82,368,673</u>	<u>\$ (2,402,266)</u>	<u>\$ (215,713)</u>	<u>\$ 79,750,694</u>

City of Bay City, Michigan
Notes to the Financial Statements
June 30, 2006

Note 5 - CAPITAL ASSETS - CONTINUED

Capital asset activity of the City's business-type activities for the year ended June 30, 2006 was as follows:

<u>Business-type Activities</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 821,424	\$ -	\$ -	\$ 821,424
Construction in progress	28,920	-	(28,920)	-
Other	<u>95,421</u>	<u>-</u>	<u>-</u>	<u>95,421</u>
Subtotal	945,765	-	(28,920)	916,845
Capital assets being depreciated:				
Utility plant and systems	251,453,253	6,864,966	(336,298)	257,981,921
Land Improvements	15,492,101	3,518,137	(27,480)	18,982,758
Buildings and Improvements	3,465,396	174,201	-	3,639,597
Machinery and equipment	<u>5,753,436</u>	<u>275,690</u>	<u>-</u>	<u>6,029,126</u>
Subtotal	276,164,186	10,832,994	(363,778)	286,633,402
Accumulated depreciation:				
Utility plant and systems	(117,867,230)	(6,625,739)	336,298	(124,156,671)
Land Improvements	(1,953,458)	(381,782)	27,480	(2,307,760)
Buildings and improvements	(2,010,487)	(50,006)	-	(2,060,493)
Machinery and equipment	<u>(3,104,153)</u>	<u>(262,108)</u>	<u>-</u>	<u>(3,366,261)</u>
Subtotal	<u>(124,935,328)</u>	<u>(7,319,635)</u>	<u>363,778</u>	<u>(131,891,185)</u>
Net capital assets being depreciated	<u>151,228,858</u>	<u>3,513,359</u>	<u>-</u>	<u>154,742,217</u>
Business-type Activities capital assets, net	<u>\$ 152,174,623</u>	<u>\$ 3,513,359</u>	<u>\$ (28,920)</u>	<u>\$ 155,659,062</u>

City of Bay City, Michigan
Notes to the Financial Statements
June 30, 2006

Note 5 - CAPITAL ASSETS - CONTINUED

Capital asset activity of the City's component units for the year ended June 30, 2006 was as follows:

<u>Component Units</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Disposal and Adjustments</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 2,170,136	\$ -	\$ -	\$ 2,170,136
Construction in progress	<u>139,382</u>	<u>121,675</u>	<u>(139,382)</u>	<u>121,675</u>
Subtotal	2,309,518	121,675	(139,382)	2,291,811
Capital assets being depreciated:				
Buildings	22,551,554	13,486	(1,007,977)	21,557,063
Infrastructure	5,076,535	1,968,573	-	7,045,108
Furniture and equipment	4,559,926	-	-	4,559,926
Vehicles	<u>31,326</u>	<u>-</u>	<u>-</u>	<u>31,326</u>
Subtotal	32,219,341	1,982,059	(1,007,977)	33,193,423
Accumulated depreciation:				
Buildings	(487,620)	(216,069)	-	(703,689)
Infrastructure	(1,120,231)	(196,857)	-	(1,317,088)
Furniture and equipment	(554,626)	(254,863)	-	(809,489)
Vehicles	<u>(6,787)</u>	<u>(3,133)</u>	<u>-</u>	<u>(9,920)</u>
Subtotal	<u>(2,169,264)</u>	<u>(670,922)</u>	<u>-</u>	<u>(2,840,186)</u>
Net capital assets being depreciated	<u>30,050,077</u>	<u>1,311,137</u>	<u>(1,007,977)</u>	<u>30,353,237</u>
Component Units				
capital assets, net	<u>\$ 32,359,595</u>	<u>\$ 1,432,812</u>	<u>\$ (1,147,359)</u>	<u>\$ 32,645,048</u>

Depreciation expense was charged to the programs of the primary government as follows:

Governmental activities:

General government	\$ 39,833
Public safety	306,474
Public works	2,990,743
Recreation and culture	211,598
Community & Economic Development	41,162
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	<u>902,429</u>
Total governmental activities	<u>\$ 4,492,239</u>

Business-type activities:

Electric	2,137,246
Water	1,136,251
Sewer	3,913,026
Other enterprise funds	<u>133,112</u>
Total business-type activities	<u>\$ 7,319,635</u>

Note 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Outstanding balances between funds are reported in the fund financial statements as "due to/from other funds". These amounts result from short-term lending from one fund to another. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

The composition of interfund balances is as follows:

	General Fund	Nonmajor Governmental Funds	Sewer Fund	Water Fund	Nonmajor Enterprise Funds	Internal Service Funds	Total
General Fund	\$ -	\$ 13,289	\$ -	\$ -	\$ 624	\$ 62,805	\$ 76,718
Nonmajor Governmental Funds	394,899	171,284	-	-	-	49,480	615,663
Electric Fund	949,817	100,000	27,628	25,345	-	67,877	1,170,667
Water Fund	-	-	9,420	-	-	38,702	48,122
Sewer Fund	402,884	-	-	-	-	59,709	462,593
Nonmajor Enterprise Funds	-	-	-	-	-	1,081	1,081
Internal Service Funds	-	9,019	-	-	-	5,235	14,254
Total	<u>\$ 1,747,600</u>	<u>\$ 293,592</u>	<u>\$ 37,048</u>	<u>\$ 25,345</u>	<u>\$ 624</u>	<u>\$ 284,889</u>	<u>\$ 2,389,098</u>

Interfund Transfers:

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; or to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The composition of interfund transfers is as follows:

	General Fund	Rehabilitation Fund	Non-major Governmental Funds	Electric Fund	Sewer Fund	Water Fund	Total
<u>Transfers to:</u>							
General Fund	\$ -	\$ -	\$ -	\$ 15,600	\$ 11,700	\$ 11,700	\$ 39,000
Rehabilitation Fund	-	-	510,611	-	-	-	510,611
Nonmajor Governmental Funds	524,949	334,742	1,027,598	100,000	-	-	1,987,289
Electric Fund	-	-	39,175	-	-	-	39,175
Sewer Fund	-	-	62,850	-	-	-	62,850
Nonmajor Enterprise Funds	126,919	-	-	-	-	-	126,919
Governmental activities	-	-	-	-	3,615,000	-	3,615,000
Total	<u>\$ 651,868</u>	<u>\$ 334,742</u>	<u>\$ 1,640,234</u>	<u>\$ 115,600</u>	<u>\$ 3,626,700</u>	<u>\$ 11,700</u>	<u>\$ 6,380,844</u>

Effective July 1, 2005, the City approved to pay the remaining balance of the General Obligation Sewage System Improvement Refunding Bonds (\$3,615,000) from the Sewer Fund, whereas this debt was being serviced from the Bond Sinking Debt Service Fund in prior years. This transaction was accounted for as a transfer out of the Sewer Fund and as a transfer in to the Governmental Activities, causing interfund transfers at the fund level to differ by \$3,615,000.

Note 7 – CAPITAL LEASES

The City of Bay City has entered into three separate lease agreements as lessee of two copiers with Xerox, and a mail-stuffing machine with Pitney Bowes. The remaining balances are \$25,581 and \$7,718 for the copiers and \$12,065 for the mail-stuffing machine. Annual lease payments required under the capital leases are as follows:

Fiscal Year End	General Fund
2007	\$ 22,647
2008	11,754
2009	7,309
2010	<u>3,654</u>
Total minimum payments due	45,364
Less interest	-
Present value of net minimum leases	<u>\$ 45,364</u>

Note 8 – LONG-TERM DEBT

The City issues bonds to provide 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. City contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term debt obligation activity can be summarized as follows:

Governmental Activities:

	<u>Balance 7/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 6/30/06</u>	<u>Due-Within One-Year</u>
6.4% to 7.15% Street Improvement Capital Appreciation G.O. bonds dated 7/2/91, aggregate principal due at maturity beginning 6/1/99 through 6/1/21.	\$ 18,029,380	\$ 1,314,750 (1,570,000)	\$ 17,774,130	\$ 1,595,000
2.0% to 3.75% G.O. Sewage System Improvement Refunding Bonds, principal due in annual installments through 9/1/12, interest payable semi-annually March 1 and September 1.	3,615,000	(3,615,000)	-	-

City of Bay City, Michigan
Notes to the Financial Statements
June 30, 2006

	<u>Balance 7/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 6/30/06</u>	<u>Due-Within One-Year</u>
Capital Lease due in installments through 2010.	\$ -	\$29,235 (3,654)	\$25,581	\$7,309
Capital Lease due in installments through 2007.	15,437	(7,719)	7,718	7,718
Capital Lease due in installments through 2008.	19,685	(7,620)	12,065	7,620
Purchase Agreement due in installments, including interest, through 2013. Originated in Motor Equipment Revolving Internal Service Fund.	362,726	(39,582)	323,144	41,104
Employee compensated absences.	<u>2,678,185</u>	<u>1,515,616 (1,411,170)</u>	<u>2,782,631</u>	<u>1,089,530</u>
Total Governmental Activities	<u>\$ 24,720,413</u>	<u>\$(3,795,144)</u>	<u>\$ 20,925,269</u>	<u>\$ 2,748,281</u>

Business-Type Activities:

Sewer Fund

4.9% to 5.6% G.O. Sewage Disposal System Improvement Bonds, Series 1999, principal due in annual installments of \$45,000 to \$120,000 through 4/1/20, interest due semi-annually April 1 and October 1.	\$ 1,250,000	\$ (55,000)	\$ 1,195,000	\$ 60,000
2.0% to 3.75% G.O. Sewage System Improvement Refunding Bonds, principal due in annual installments through 9/1/12, interest payable semi-annually March 1 and September 1.	-	3,615,000 (390,000)	3,225,000	405,000
2.5% State Revolving Fund Loan issued March 29, 2001, principal due in annual installments beginning 4/01/04 through 4/01/23, interest due semi-annually April 1 and October 1.	39,070,000	(1,745,000)	37,325,000	1,790,000

City of Bay City, Michigan
Notes to the Financial Statements
June 30, 2006

	<u>Balance</u> <u>7/01/05</u>	<u>Additions</u> <u>Reductions</u>	<u>Balance</u> <u>6/30/06</u>	<u>Due-Within</u> <u>One-Year</u>
2.5% to 3.5% G.O. Sanitary Sewage System Bonds, Series 2004, principal due in annual installments of \$525,000 to \$690,000 through 10/1/14, interest due semi-annually April 1 and October 1.	\$6,000,000	\$(525,000)	\$5,475,000	\$540,000
3.5% to 4.25% G.O. Sanitary Sewage System Bonds, Series 2005, principal due in annual installments of \$200,000 to \$430,000 through 10/1/25, interest due semi-annually April 1 and October 1.	-	6,000,000	6,000,000	200,000
 <u>Electric Fund</u>				
5.0% to 5.5% Electric Utility System Revenue Refunding Bonds, 1997 Series, principal due in annual installments of \$925,000 to \$1,585,000 through 1/1/12, interest due semi-annually January 1 and July 1. Payment net of amortization of \$67,221.	9,392,779	(1,077,779)	8,315,000	1,200,000
 <u>Water Fund</u>				
2.125% Michigan State Revolving Fund loan issued June 23, 2005, principal due in annual installments of \$245,000 to \$365,000 beginning 4/1/07 through 4/1/26, interest due semi-annually April 1 and October 1.	-	4,650,727	4,650,727	245,000
 <u>Other</u>				
Employee Compensated Absences	<u>1,421,226</u>	<u>496,490</u> <u>(639,795)</u>	<u>1,277,921</u>	<u>630,374</u>
Total	<u>\$ 57,134,005</u>	<u>\$ 10,329,643</u>	<u>\$ 67,463,648</u>	<u>\$ 5,070,374</u>

City of Bay City, Michigan
Notes to the Financial Statements
June 30, 2006

The aggregate debt service requirements to pay principal and interest on the various bonds and loans outstanding with interest of \$15,970,643 in the business-type activities, interest of \$25,109,219 including capital appreciation of \$13,577,338 in the governmental activities bonded debt, and interest of \$48,054 in governmental activities other debt are as follows:

Fiscal Year End	Governmental Activities				Business Type Activities	
	Bonded Debt		Other Debt		Principal	Interest
	Principal	Interest	Principal	Interest		
2007	\$ 529,540	\$ 1,065,460	\$ 63,751	\$ 11,924	\$ 4,440,000	\$ 2,015,936
2008	500,279	1,114,721	54,439	10,343	4,605,000	1,882,005
2009	468,509	1,166,491	51,637	8,701	4,760,000	1,727,808
2010	443,618	1,216,382	49,686	6,996	4,945,000	1,564,438
2011	418,706	1,261,294	47,803	5,225	5,125,000	1,389,429
2012 – 2016	2,178,650	8,761,350	101,192	4,865	19,040,000	4,629,682
2017 – 2021	1,702,947	10,523,521	-	-	15,645,000	2,343,364
2022 – 2026	-	-	-	-	7,625,727	417,981
Total	<u>\$ 6,242,249</u>	<u>\$ 25,109,219</u>	<u>\$ 368,508</u>	<u>\$ 48,054</u>	<u>\$ 66,185,727</u>	<u>\$ 15,970,643</u>

City of Bay City, Michigan
Notes to the Financial Statements
June 30, 2006

Note 8 - LONG-TERM DEBT – CONTINUED

Component Units:

	<u>Balance 7/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 6/30/06</u>	<u>Due Within One-Year</u>
8.0% Allen HealthCare DDA note payable to developer, due in annual installments equal to the annual captured increment until the original note of \$150,331 plus interest is paid in full.	\$73,639	\$(13,534)	\$60,105	\$15,199
2.5% to 4.05% Downtown Development and Refunding Bonds, Series 2004, principal due in annual installments of \$20,000 to \$375,000 through 5/1/18, interest due semi-annually May 1 and November 1.	2,735,000	(130,000)	2,605,000	135,000
4.0% Wenonah Park Properties note payable to P.O.W.E.R. EDC Component Unit, interest payable monthly, principal balance due February 20, 2016.	4,000,000	-	4,000,000	-
7.5% to 7.875% Wenonah Park Properties Revenue Bonds 2002 Series, principal due annually 2009 through 2033, interest due semi-annually.	15,455,000	-	15,455,000	-
Variable Rate Wenonah Park Properties HUD Section 108 Note payable, principal due annually, interest due quarterly.	2,500,000	-	2,500,000	-
4.0% Wenonah Park Properties note payable to Great Lakes Center Foundation. Maturity date February 2016.	640,000	-	640,000	-
0.0% Michigan Urban Land Assembly Promissory Note, principal payments beginning September 1, 2006 through September 1, 2011.	255,000	-	255,000	42,500
Downtown Development Authority note payable to Downtown Management Board Component Unit in annual installments due 6/30/06.	<u>18,632</u>	<u>(18,632)</u>	<u>-</u>	<u>-</u>
Total Long-Term Debt-Component Units	<u>\$25,677,271</u>	<u>\$ 162,116</u>	<u>\$25,515,105</u>	<u>\$ 192,699</u>

Note 8 - LONG-TERM DEBT – CONTINUED

The aggregate debt service requirement for the component units to pay principal and interest on the various outstanding loans with interest included of \$30,319,303 are as follows:

<u>Fiscal Year End</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 192,699	\$ 1,665,730
2008	199,516	1,660,464
2009	211,495	1,654,904
2010	256,395	1,648,508
2011	407,500	1,636,854
2012-2016	2,747,500	7,857,129
2017-2021	8,030,000	5,691,552
2022-2026	3,435,000	4,501,787
2027-2031	4,790,000	3,112,125
2032-2033	<u>5,245,000</u>	<u>890,250</u>
Total	<u>\$ 25,515,105</u>	<u>\$ 30,319,303</u>

Prior Year Defeasance of Debt: In prior years, the City defeased the outstanding debts listed below by placing the proceeds of new debt in irrevocable trusts to provide for the future debt service payments on the callable portion of the old debt.

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements.

As of June 30, 2006,
the amount of debt
considered defeased

Special Revenue Funds:

Section-108 H.U.D. Loan Payable	<u>\$ 50,000</u>
Total Defeased Debt	<u>\$ 50,000</u>

Any additional bonds indicated as refunding bonds have no outstanding debt related to the original issue.

Note 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to claims, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is self-funded for Liability and Property Insurance, Health and Dental Insurance, and Workers' Compensation.

Note 9 - RISK MANAGEMENT – CONTINUED

Liability and Property Insurance

The self-insurance program for liability and property is accounted for in the Liability/Property Self-Insurance Fund (an internal service fund). Presently, the City insures the first \$1,000 on property and 10% of the remaining claim up to \$100,000 of loss and the first \$250,000 for all other claims. The City maintains stop-loss coverage on the excess (up to \$15,000,000) with an external risk management pool. There were no reductions of insurance coverage from the prior year. For the past several years, the City has engaged special legal counsel to assist in the review of liability and property insurance. This review is to ensure adequate coverage and comprehensive pricing. All funds of the City participate in this program and make payments based on estimates of the amounts needed to pay prior year and current year claims and to establish a reserve for losses relating to catastrophes.

Losses, damages, and administrative expenses are all paid from this fund. The claim liability for known claims and incurred but not reported claims is estimated by management and the insurance administrators. Settled claims have not exceeded insurance coverage in any of the past three years.

The changes in the claims liability for the years ended June 30, 2005 and 2006 are as follows:

Fiscal Year	Beginning of Period Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Period Liability
2005	\$ 328,238	\$ 1,334,736	\$ (1,161,362)	\$ 501,612
2006	501,612	1,201,124	(1,087,613)	615,123

Health and Dental Insurance

The self-insurance program for health and dental insurance is accounted for as part of the Benefits Program (an internal service fund). An independent administrator (Blue Cross) is hired to process the daily claims. The City is responsible for individual claims up to \$125,000 and Blue Cross is responsible for paying claims above this amount up to \$5,000,000. There were no reductions of insurance coverage from the prior year. The City is also responsible for paying administrative charges. The revenues for this Fund's operation are reimbursements from various funds and employee payroll withholdings. The liability at the end of the year is based on claims already incurred and reported as provided by Blue Cross and on estimates of incurred but not reported claims as estimated by management. Settled claims have not exceeded insurance coverage in any of the past three years.

Note 9 - RISK MANAGEMENT – CONTINUED

Health and Dental Insurance (continued)

The changes in the claims liability for the years ended June 30, 2005 and 2006 are as follows:

<u>Fiscal Year</u>	<u>Beginning of Period Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Period Liability</u>
2005	\$ 473,524	\$ 6,921,548	\$ (6,924,776)	\$ 470,296
2006	470,296	7,137,234	(7,104,024)	503,506

Workers' Compensation

The self-insurance program for workers' compensation is accounted for within the Benefits Program (an internal service fund). An independent administrator is hired to process the daily claims and to perform auditing and management duties. Presently, the City is responsible for individual claims up to \$350,000 for each occurrence. The City maintains stop-loss coverage on the excess (up to \$1,000,000) through a reinsurance policy. All funds of the City participate in this program and make payments based on estimates of the amounts needed to pay prior year and current year claims and to establish a reserve for losses relating to catastrophes. The liability at the end of the year is based on claims already incurred and reported as provided by the administrator and on estimates of incurred but not reported claims as estimated by management. Settled claims have not exceeded insurance coverage in any of the past three years.

The changes in the claims liability for the years ended June 30, 2005 and 2006 are as follows:

<u>Fiscal Year</u>	<u>Beginning of Period Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Period Liability</u>
2005	\$ 516,024	\$ 239,464	\$ (204,230)	\$ 551,258
2006	551,258	86,463	(294,308)	343,413

Note 10 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Employees' Pension Plans

Defined Benefit Pension Plan

Plan Description - The City's defined benefit pension plan provides retirement and disability benefits, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy - The City is required to contribute at an actuarially determined rate; the current rate contributed on annual covered payroll ranges from 0.0% to 62.48% depending on employee group. Employees are required to contribute 0.0% to 3.0%. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost - For the year ended June 30, 2006, the City's annual pension cost of \$1,741,361 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increase of 0.14% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 22 years.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	\$ 1,545,879	100.0%	-
6/30/05	1,883,724	100.0%	-
6/30/06	1,741,361	100.0%	-

Note 10 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONTIUNED

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
12/31/03	\$ 37,294,242	\$ 59,898,148	\$ 22,603,906	62%	\$ 6,600,610	342%
12/31/04	37,318,395	61,535,480	24,217,085	61%	6,322,611	383%
12/31/05	37,180,546	62,785,985	25,605,439	59%	6,206,879	413%

Police Officers and Firefighters

Description - The City has provided a single-employer defined benefit pension plan for all eligible police officers and firefighters, which assets are included in the Bay City Police and Fire Retirement System, administered by the City. The System operates under the authority of the City Charter. The City Commission has the authority to amend and establish benefit provisions.

The City issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the City of Bay City, 301 Washington Ave., Bay City, MI 48708.

All certified police officers and firefighters are eligible to participate in the System. All participants who retire at age 55 with 10 years of service or with 25-28 years of service regardless of age (dependent upon union contract) are entitled to a regular retirement benefit, payable monthly, of total service times 2.5% - 2.8% (dependent upon union contract) of the final average salary. The final average salary is determined as the highest 3 consecutive years of the last 10 years of average monthly pay. The plan also provides death and disability benefits.

Basis of Accounting - The financial statements of the Bay City Police and Fire Retirement System are prepared on the accrual basis of accounting. Plan member contributions are recognized in the period they are due. The City's contributions to the System are recognized when due and they have made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Valuation of Investments - Marketable securities are stated at aggregate fair value. Securities which are traded on a national securities exchange are valued at the last reported sales price on the last business day of the System's year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the last reported bid price. The difference between aggregate fair value and the cost of investments along with realized gains and losses on the sale

Note 10 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONTIUNED

of investments are reflected in the Statement of Changes in Plan Net Assets as part of investment income.

Funding Policy - All plan members are required to contribute 8% of their annual salary to the System. The City is required to contribute the remaining amounts necessary to fund the System, based upon actuarial valuations as required by State statute. The current combined rate is 23.86% of covered payroll. Contributions are established and may be amended by the City Commission.

For the year ended June 30, 2006, the City's annual pension cost of \$1,516,565 for the Police and Fire Retirement System was equal to the City's required and actual contributions. The annual required contribution for the current year was determined as part of the annual actuarial valuation of the plan as of June 30, 2005 using the individual attained age normal cost actuarial cost method. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 1.0% to 44.0% per year. Both (a) and (b) included an inflation component of 5%. The assumptions included cost-of-living adjustments ranging from 4.0% to 5.0% after 5, 10, and 15 years payable to certain eligible members. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2005, the date of the latest actuarial valuation, was 30 years for all groups. The City Commission has the authority to amend and establish benefit provisions, as well as contribution rates.

Concentrations

As of June 30, 2006, there were no investments with a fair value that represents 5% or more of the System's net assets. However, amounts invested in a separate mutual fund represent 23.6% of the System's total assets at June 30, 2006.

Trend Information

Trend information gives an indication of the System's progress in accumulating sufficient assets to pay benefits when due. Selected three-year trend information is presented as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
6/30/04	\$ 469,453	100%
6/30/05	820,504	100%
6/30/06	1,516,565	100%

Note 10 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS – CONTINUED

Defined Contribution Pension Plan

The City of Bay City Employees Defined Contribution Pension Plan is a single employer defined contribution pension plan created by the City and administered by the ICMA Retirement Corporation. The City is responsible for establishing and amending all provisions of the Plan. All City employees with the exception of police officers and firefighters hired after September 1, 1997 are required to participate. A defined contribution pension plan provides pension benefits in return for services rendered, an individual account for each participant and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account. All returns earned on investments of these contributions are allocated to such participant's account.

The contribution requirements of the City are established and may be amended by the City Commission. Currently, there are two plans available to the employees. Plan A offers the employee the option of contributing 0.0% and requires a 5.0% contribution by the City. There is immediate vesting with Plan A. Plan B allows the employee to contribute 3.0% while the City contributes 8.5%. With Plan B, the employee is 50.0% vested after two years and 100.0% vested after four years. For the fiscal year ended June 30, 2006, the City's required and actual contributions amounted to \$568,614. Employees made contributions amounting to \$191,370.

Postretirement Healthcare

As authorized by the City Commission, the City has elected to provide post-retirement healthcare benefits to certain retirees and their beneficiaries. Substantially all of the City's employees become eligible for post-retirement health care benefits if they reach normal retirement age and are eligible for retirement benefits from the City. Currently, 422 retirees are eligible to receive benefits. The City pays the full cost of coverage for these benefits. The cost of retiree health care benefits is recognized as an expense as claims are paid. Retirees are currently not required to contribute. The amount of those costs for the year ended June 30, 2006 was \$3,608,514.

Note 11 – COMMITMENTS AND CONTINGENT LIABILITIES

Environmental

Various properties owned by the City are subject to environmental clean-up. The sites include property at the northwest corner of Water and Lafayette, underground fuel storage tanks at the DPW garage, the former Surath scrap yard, the former Bay Aggregates/Industrial Brownhoist property, Water Street Substation (formerly Consumers Energy), and the Middlegrounds Landfill. Various actions are in process for each property. Total costs for such clean-up are unknown at this time. The City has received a \$200,000 Brownfield PILOT Assessment Grant from the EPA to investigate and characterize contaminants on the former Bay Aggregates/Industrial Brownhoist property.

The City has incurred approximately \$600,000 in the clean up and remediation of the former Surath scrap yard. It is anticipated that a portion of these costs will be recovered from the sale proceeds.

The City has spent approximately \$1,500,000 to date to improve the Middlegrounds Landfill. It is anticipated that significant additional costs will be incurred in the clean-up. Such costs will not be known until the conclusion of the consultant's studies and evaluation. The City believes that it has identified a number of specific parties which will share the majority of the ultimate costs and the City will not be liable for any clean-up costs above those amounts already expended. Additionally, the City has received funding from the Michigan Department of Environmental Quality Municipal Landfill Cost Sharing Grant in the amount of \$875,000 and is eligible for additional funding in the future, which is dedicated to reimburse General Motors Corporation, a principal responsible party, who is coordinating remedial clean-up.

Commitments

The Electric Department, along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency (MPPA). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Campbell 3 plant and 18.61% undivided interest in the Detroit Edison Company Belle River project. The Electric Department has entered into power supply and project support contracts with MPPA. Under the agreement, the Electric Department will purchase 13.18% of the energy generated by the Campbell 3 plant and 3.71% of the energy generated by the Belle River plant.

Note 11 – COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

Under the terms of the contract, the Electric Department must make annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell 3 and Belle River projects. The estimated annual debt payments with interest included of \$3,949,842 are as follows:

Fiscal Year <u>Ending</u>	Campbell <u>Project</u>	Belle River <u>Project</u>
2007	\$ 428,732	\$ 1,129,378
2008	429,081	1,129,399
2009	428,967	1,129,196
2010	-	1,129,286
2011	-	1,129,150
2012-2019	-	9,409,192
	<u>\$ 1,286,780</u>	<u>\$ 15,055,601</u>

Construction Commitment

The City entered into a construction commitment for the North Lagoon Reclamation and Reconstruction Project at the Bay City Municipal Water Treatment Plant in the amount of \$6,440,000. In June of 2005, the City also issued \$6,000,000 in General Obligation Bonds through the State of Michigan Drinking Water Revolving Fund to complete the construction project. As of June 30, 2006, \$3,356,973 has been drawn from this fund with an additional \$1,293,754 accrued and drawn subsequent to the end of the fiscal year. An additional \$2,141,904 remains on the construction commitment with the contractor.

Subsequent Event

Wenonah Park Properties (WPP) Component Unit entered into an agreement with the construction project's designer/builder which obligated the designer/builder to construct the Hotel/Conference Center for a guaranteed maximum price of \$24,431,175. The Hotel/Conference Center opened in June of 2004; however, WPP was in dispute with their general contractor over change orders with the construction of the hotel and conference center.

The decision maker issued his decision on March 22, 2006. He has instructed WPP to pay Turner Construction Company \$463,995 for any and all claims filed in the arbitration. Turner filed a lawsuit on April 3, 2006, in the Bay County Circuit Court to enforce the arbitration award. WPP has negotiated with Turner to resolve the Turner lawsuit and the subcontractor lien lawsuits. The Settlement Agreement was finalized in August of 2006.

Other

The City is engaged in other routine litigation incidental to the conduct of its municipal and utilities affairs. In the opinion of legal counsel, no legal proceedings are pending against the City, not covered by insurance, which would inhibit the City's ability to perform its operations or materially affect its financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

City of Bay City, Michigan

Required Supplementary Information (Unaudited)

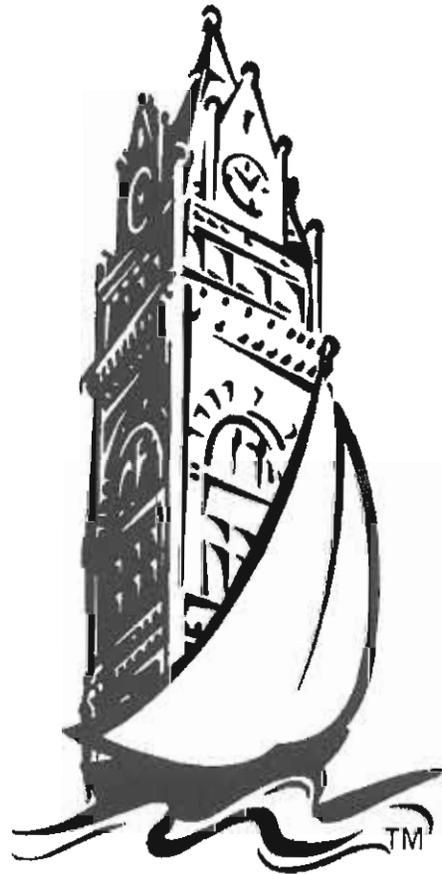
Police and Fire Pension Trust Fund

Schedule of Funding Progress

Actuarial Valuation Date (June 30)	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Attained Age	(b-a) Unfunded Actuarial Accrued Liability (Asset)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
1995	\$ 34,465,751	\$ 36,936,108	\$ 2,470,357	93.3%	\$ 4,738,025	52.1%
1996	38,291,651	38,489,257	197,606	99.5%	4,955,119	4.0%
1997	40,890,619	41,791,038	900,419	97.8%	5,354,387	16.8%
1998	44,936,961	44,376,073	(560,888)	101.3%	5,859,722	-
1999	48,210,388	44,601,010	(3,609,378)	108.1%	6,150,107	-
2000	49,920,655	39,255,977	(10,664,678)	127.2%	5,922,589	-
2001	48,468,116	38,017,452	(10,450,664)	127.5%	6,105,158	-
2002	46,080,307	36,417,979	(9,662,328)	126.5%	5,694,688	-
2003	42,243,440	42,568,692	325,252	99.2%	6,035,235	5.4%
2004	40,854,232	46,818,606	5,964,374	87.3%	6,140,062	97.1%
2005	40,949,739	53,676,056	12,726,317	76.3%	6,150,943	206.9%

Schedule of Employer Contributions

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
1995	\$ 712,092	\$ 712,092	100.00%
1996	702,972	702,972	100.00%
1997	732,818	732,818	100.00%
1998	656,938	656,938	100.00%
1999	667,122	667,122	100.00%
2000	645,056	645,056	100.00%
2001	342,029	342,029	100.00%
2002	430,013	430,013	100.00%
2003	491,155	491,155	100.00%
2004	469,453	469,453	100.00%
2005	820,504	820,504	100.00%
2006	1,516,565	1,516,565	100.00%



CITY OF
Bay City

Nonmajor Enterprise Funds

Enterprise Funds are established to account for the financing of self-supporting municipal activities which render services on a user charge basis to the general public. The significant characteristic of an enterprise fund is that the accounting system allows for the determination of whether the activity is operated at a profit or loss. All accounts of enterprise funds are self-contained, providing a means for creditors, legislators, and the general public to evaluate the performance of the municipal enterprise on a comparable basis with investor-owned enterprises in the same industry. The City of Bay City has the following Nonmajor Enterprise Funds:

Oak Ridge Cemetery Fund

This fund is used to account for the operation and maintenance of a sixty acre cemetery within the City.

James Clements Airport Fund

This fund is used to account for the operation and maintenance of the City's municipal airport facilities.

Liberty Harbor Marina

This fund is used to account for the operation and maintenance of the City's municipal marina facilities.

City of Bay City, Michigan
Nonmajor Enterprise Funds
Combining Statement of Net Assets
June 30, 2006

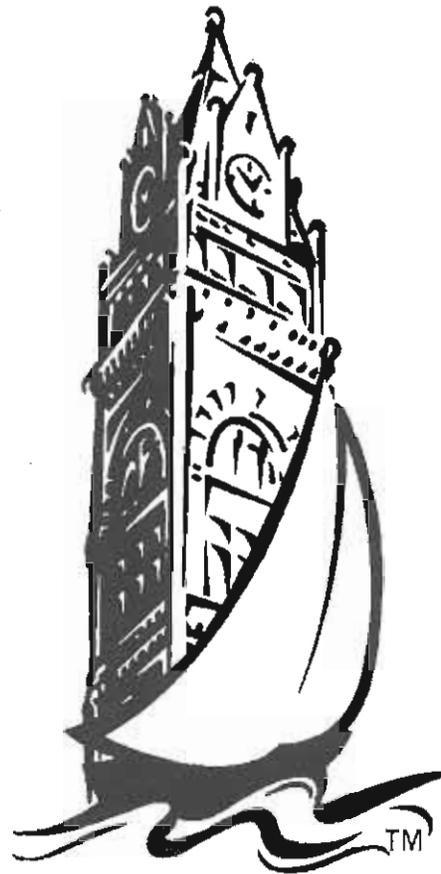
	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 114,085	\$ 2,671	\$ 165,753	\$ 282,509
Receivables (net of allowance for uncollectibles)				
Accounts	3,602	14,261	-	17,863
Accrued interest	1,230	-	1,790	3,020
Due from other funds	624	-	-	624
Due from other governments	-	4,284	-	4,284
Total current assets	<u>119,541</u>	<u>21,216</u>	<u>167,543</u>	<u>308,300</u>
Capital assets				
Land and improvements	295,523	1,618,479	2,738,574	4,652,576
Air rights	-	95,421	-	95,421
Construction in progress	-	-	-	-
Buildings	34,068	397,507	193,825	625,400
Machinery and equipment	1,130	9,383	82,667	93,180
	330,721	2,120,790	3,015,066	5,466,577
Less: accumulated depreciation	<u>143,530</u>	<u>739,947</u>	<u>872,807</u>	<u>1,756,284</u>
Net capital assets	<u>187,191</u>	<u>1,380,843</u>	<u>2,142,259</u>	<u>3,710,293</u>
Total assets	<u>306,732</u>	<u>1,402,059</u>	<u>2,309,802</u>	<u>4,018,593</u>
Liabilities				
Current liabilities				
Accounts payable	8,946	3,192	32,381	44,519
Accrued liabilities	-	-	312	312
Due to other funds	239	372	470	1,081
Total current liabilities	<u>9,185</u>	<u>3,564</u>	<u>33,163</u>	<u>45,912</u>
Net assets				
Invested in capital assets	187,191	1,380,843	2,142,259	3,710,293
Unrestricted	<u>110,356</u>	<u>17,652</u>	<u>134,380</u>	<u>262,388</u>
Total net assets	<u>\$ 297,547</u>	<u>\$ 1,398,495</u>	<u>\$ 2,276,639</u>	<u>\$ 3,972,681</u>

City of Bay City, Michigan
Nonmajor Enterprise Funds
Combining Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Operating revenues				
Charges for services:				
Sales	\$ 49,085	\$ 9,325	\$ 2,339	\$ 60,749
Rents	-	6,200	124,855	131,055
Miscellaneous	-	37,829	110	37,939
Total operating revenues	<u>49,085</u>	<u>53,354</u>	<u>127,304</u>	<u>229,743</u>
Operating expenses				
Cost of sales and service	115,469	98,872	116,744	331,085
Depreciation	8,719	65,203	59,190	133,112
Total operating expenses	<u>124,188</u>	<u>164,075</u>	<u>175,934</u>	<u>464,197</u>
Operating income (loss)	<u>(75,103)</u>	<u>(110,721)</u>	<u>(48,630)</u>	<u>(234,454)</u>
Nonoperating revenues (expenses)				
Intergovernmental:				
Federal grants	-	255,898	-	255,898
State grants	-	199,237	-	199,237
Interest earnings	3,330	180	2,975	6,485
Total nonoperating revenues (expenses)	<u>3,330</u>	<u>455,315</u>	<u>2,975</u>	<u>461,620</u>
Income (loss) before transfers	(71,773)	344,594	(45,655)	227,166
Transfers				
Transfer in	74,114	52,805	-	126,919
Changes in net assets	2,341	397,399	(45,655)	354,085
Net assets - beginning of year	<u>295,206</u>	<u>1,001,096</u>	<u>2,322,294</u>	<u>3,618,596</u>
Net assets - end of year	<u>\$ 297,547</u>	<u>\$ 1,398,495</u>	<u>\$ 2,276,639</u>	<u>\$ 3,972,681</u>

City of Bay City, Michigan
Nonmajor Enterprise Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2006

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Cash flows from operating activities				
Cash received from customers and users	\$ 51,248	\$ 12,575	\$ 179,992	\$ 243,815
Cash received from internal users	-	15,303	54	15,357
Interfund reimbursements	28	42	-	70
Cash payments to suppliers for goods and services	(125,033)	(89,530)	(75,694)	(290,257)
Cash payments to employees for services	-	-	(12,671)	(12,671)
Other operating revenue	-	37,829	110	37,939
Net cash provided (used) by operating activities	(73,757)	(23,781)	91,791	(5,747)
Cash flows from noncapital financing activities				
Intergovernmental - federal grant	-	255,898	-	255,898
Intergovernmental - state grant	-	194,953	-	194,953
Transfers in	74,114	52,805	-	126,919
Net cash flows from noncapital financing activities	74,114	503,656	-	577,770
Cash flows from capital and related financing activities				
Purchase of capital assets	-	(479,140)	(49,875)	(529,015)
Cash flows from investing activities				
Interest received	3,330	180	2,975	6,485
Net increase in cash and cash equivalents	3,687	915	44,891	49,493
Cash and cash equivalents, beginning of period	110,398	1,756	120,862	233,016
Cash and cash equivalents, end of period	\$ 114,085	\$ 2,671	\$ 165,753	\$ 282,509
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ (75,103)	\$ (110,721)	\$ (48,630)	\$ (234,454)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	8,719	65,203	59,190	133,112
(Increase) decrease in assets:				
Accounts receivable	1,937	(2,950)	53,433	52,420
Accrued interest receivable	226	-	(635)	(409)
Due from other funds	(400)	15,303	-	14,903
Prepaid expenses	-	11,153	-	11,153
Increase (decrease) in liabilities:				
Accounts payable	(9,164)	(1,811)	28,325	17,350
Accrued liabilities	-	-	54	54
Due to other funds	28	42	54	124
Total adjustments	1,346	86,940	140,421	228,707
Net cash provided (used) by operating activities	\$ (73,757)	\$ (23,781)	\$ 91,791	\$ (5,747)



CITY OF
Bay City

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other governments, on a cost reimbursement basis. The City of Bay City has the following Internal Service Funds:

Motor Equipment Revolving Fund

The fund is used to account for all activities relative to the maintenance and replacement of all City vehicles and large equipment.

Information Systems Fund

This fund accounts for all activities necessary to provide technology services to all City departments.

Liability/Property Self-Insurance Fund

The function of this fund is to provide liability and property insurance to all City departments.

Site Remediation Fund

This fund accounts for the expenditures relative to the cleanup and remediation of the Middlegrounds Landfill.

Benefits Program Fund

This fund accounts for the healthcare, life insurance, workers compensation, unemployment, and retirement benefits provided to all City employees and retirees.



City of Bay City, Michigan
Internal Service Funds
Combining Statement of Net Assets
June 30, 2006

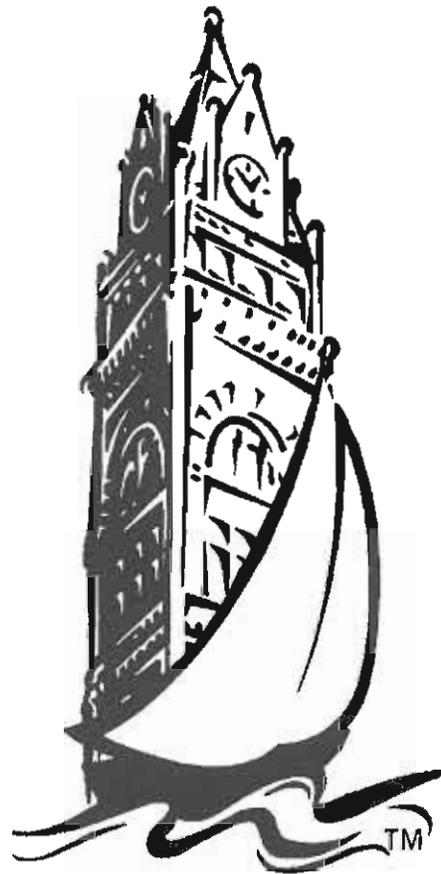
	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 970,061	\$ 222,554	\$ 496,308	\$ 192,534	\$ 1,066,424	\$ 2,947,881
Receivables (net of allowance for uncollectibles)						
Accounts	2,851	1,281	19,479	-	658	24,269
Accrued interest	10,480	-	-	2,081	426	12,987
Due from other funds	-	-	99,336	-	185,553	284,889
Inventories	109,070	22,135	-	-	-	131,205
Prepaid expenses	-	-	-	-	820,896	820,896
Deposits	-	-	-	-	256,718	256,718
Total current assets	1,092,462	245,970	615,123	194,615	2,330,675	4,478,845
Capital assets						
Machinery and equipment	11,527,475	677,779	-	-	-	12,205,254
Less: accumulated depreciation	6,360,776	565,672	-	-	-	6,926,448
Net capital assets	5,166,699	112,107	-	-	-	5,278,806
Total assets	6,259,161	358,077	615,123	194,615	2,330,675	9,757,651
Liabilities						
Current liabilities						
Accounts payable	39,275	1,283	32,737	-	278,359	351,654
Accrued liabilities	38,674	10,369	-	-	836	49,879
Interest payable	4,104	-	-	-	-	4,104
Claims payable	-	-	582,386	-	811,378	1,393,764
Due to other funds	10,854	3,400	-	-	-	14,254
Due to other governments	-	-	-	-	170	170
Deferred revenue	-	-	-	194,615	-	194,615
Accrued compensated absences - current	35,441	49,000	-	-	-	84,441
Notes payable - current	41,104	-	-	-	-	41,104
Total current liabilities	169,452	64,052	615,123	194,615	1,090,743	2,133,985
Long-term liabilities						
Accrued compensated absences	49,571	26,509	-	-	-	76,080
Notes payable	282,040	-	-	-	-	282,040
Total long-term liabilities	331,611	26,509	-	-	-	358,120
Total liabilities	501,063	90,561	615,123	194,615	1,090,743	2,492,105
Net assets						
Invested in capital assets, net of related debt	4,843,555	112,107	-	-	-	4,955,662
Unrestricted	914,543	155,409	-	-	1,239,932	2,309,884
\$ 5,758,098	\$ 267,516	\$ -	\$ -	\$ 1,239,932	\$ 7,265,546	

City of Bay City, Michigan
Internal Service Funds
Combining Statement of Revenues, Expenses
and Changes in Net Assets
For the Year Ended June 30, 2006

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Operating revenues						
Charges for services	\$ 3,051,050	\$ 835,564	\$ 1,206,454	\$ -	\$ 9,891,905	\$ 14,984,973
Miscellaneous:						
Employee contributions	-	-	-	-	567,679	567,679
Other	12,628	3,670	13,564	-	17,350	47,212
Total operating revenues	3,063,678	839,234	1,220,018	-	10,476,934	15,599,864
Operating expenses						
Cost of sales and service	2,162,459	648,777	-	46	-	2,811,282
Administration	-	-	18,984	-	162,016	181,000
Claims and benefits	-	-	1,201,124	-	9,968,581	11,169,705
Depreciation	823,158	79,271	-	-	-	902,429
Total operating expenses	2,985,617	728,048	1,220,108	46	10,130,597	15,064,416
Operating income (loss)	78,061	111,186	(90)	(46)	346,337	535,448
Nonoperating revenues (expenses)						
Interest earnings	20,117	-	90	46	10,664	30,917
Interest expense	(12,944)	-	-	-	-	(12,944)
Net gain / loss on disposal of capital assets	(39,162)	8,255	-	-	-	(30,907)
Total nonoperating revenues (expenses)	(31,989)	8,255	90	46	10,664	(12,934)
Changes in net assets	46,072	119,441	-	-	357,001	522,514
Net assets - beginning of year	5,712,026	148,075	-	-	882,931	6,743,032
Net assets - end of year	\$ 5,758,098	\$ 267,516	\$ -	\$ -	\$ 1,239,932	\$ 7,265,546

City of Bay City, Michigan
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2006

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Cash flows from operating activities						
Cash received from interfund services provided	\$ 3,089,321	\$ 867,032	\$ 1,205,147	\$ (142,852)	\$ 10,297,174	\$ 15,315,822
Cash payments to suppliers for goods and services	(1,367,451)	(170,874)	(1,104,871)	9,411	(11,096,291)	(13,730,076)
Cash payments to employees for services	(822,543)	(495,398)	-	-	-	(1,317,941)
Net cash provided (used) by operating activities	899,327	200,760	100,276	(133,441)	(799,117)	267,805
Cash flows from capital and related financing activities						
Purchase of capital assets	(613,915)	(23,618)	-	-	-	(637,533)
Proceeds from sale of capital assets	64,542	8,255	-	-	-	72,797
Principal paid on debt	(39,582)	(19,685)	-	-	-	(59,267)
Interest paid on debt	(12,944)	-	-	-	-	(12,944)
Net cash (used) by capital and related financing activities	(601,899)	(35,048)	-	-	-	(636,947)
Cash flows from investing activities						
Interest received	20,117	-	90	46	10,664	30,917
Net increase (decrease) in cash and cash equivalents	317,545	165,712	100,366	(133,395)	(788,453)	(338,225)
Cash and cash equivalents, beginning of period	652,516	56,842	395,942	325,929	1,854,877	3,286,106
Cash and cash equivalents, end of period	\$ 970,061	\$ 222,554	\$ 496,308	\$ 192,534	\$ 1,066,424	\$ 2,947,881
Reconciliation of operating income to net cash provided by operating activities						
Operating income (loss)	\$ 78,061	\$ 111,186	\$ (90)	\$ (46)	\$ 346,337	\$ 535,448
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	823,158	79,271	-	-	-	902,429
(Increase) decrease in assets:						
Accounts receivable	(717)	(1,281)	(3,913)	142,437	(658)	135,868
Accrued interest	(2,025)	-	-	2,142	6,193	6,310
Due from other funds	19,191	26,254	(10,958)	-	(185,083)	(150,596)
Inventory	(25,697)	(13,998)	-	-	-	(39,695)
Prepaid expenses	-	-	-	-	(790,637)	(790,637)
Deposits	-	-	1,726	-	9,776	11,502
Increase (decrease) in liabilities:						
Accounts payable	(9,989)	(13,502)	(5,819)	-	(50,907)	(80,217)
Accrued liabilities	19,375	(1,756)	-	-	(516)	17,103
Interest payable	(503)	-	-	-	-	(503)
Claims payable	-	-	119,330	-	(129,029)	(9,699)
Due to other funds	9,194	2,825	-	(287,431)	(212)	(275,624)
Due to other governments	-	-	-	-	(4,381)	(4,381)
Deferred revenue	-	-	-	9,457	-	9,457
Accrued compensated absences	(10,721)	11,761	-	-	-	1,040
Total adjustments	821,266	89,574	100,366	(133,395)	(1,145,454)	(267,643)
Net cash provided (used) by operating activities	\$ 899,327	\$ 200,760	\$ 100,276	\$ (133,441)	\$ (799,117)	\$ 267,805



CITY OF
Bay City

**Combining and Individual Fund Statements
and Schedules**



Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for revenues derived from specific taxes or other "earmarked" revenue sources. The City of Bay City utilizes the following special revenue funds:

Motor Vehicle Highway Funds

These funds are used to account for major and local streets maintenance funds received from the State of Michigan.

Fire Awareness Fund

This fund is used to account for monies set aside to educate and train the public on the hazards of fire and fire prevention activities.

Community Policing Fund

This fund is used to account for monies set aside to educate and train the public on crime prevention and to support the Community Policing initiative.

Parking Enforcement Fund

This fund is used to account for activities relative to downtown parking enforcement.

Solid Waste Management Fund

This fund is used to account for all activities relative to sanitation, recycling, and the landfill.

Community Development Block Grant Fund

This fund is used to account for revenues received from the U.S. Department of Housing and Urban Development (H.U.D.) relative to the CDBG program.

Public Improvement Fund

This fund is used to account for monies set aside for public improvement projects.

Building Inspection Fund

This fund is used to account for all activities relative to building inspections and code enforcement services.

Neighborhood Opportunity Fund

This fund is used to account for revenues and expenditures related to acquiring and/or demolishing blighted land and/or structures within specific neighborhoods of the City.

DEBT SERVICE FUND

The Debt Service Fund was created to account for the payments of principal and interest on long-term, general obligation debt other than that payable from special assessments and debt issued for and serviced by a governmental enterprise. In the City of Bay City, this fund provides for the debt service on the 1993 Wastewater and Sewage Refunding Bonds and the 1991 Street Improvement Bonds. All other long-term debt is serviced directly from the fund responsible for the debt, since a debt service fund is not required and financial resources are not being accumulated for principal and interest payments maturing in future years.

CAPITAL PROJECTS FUNDS

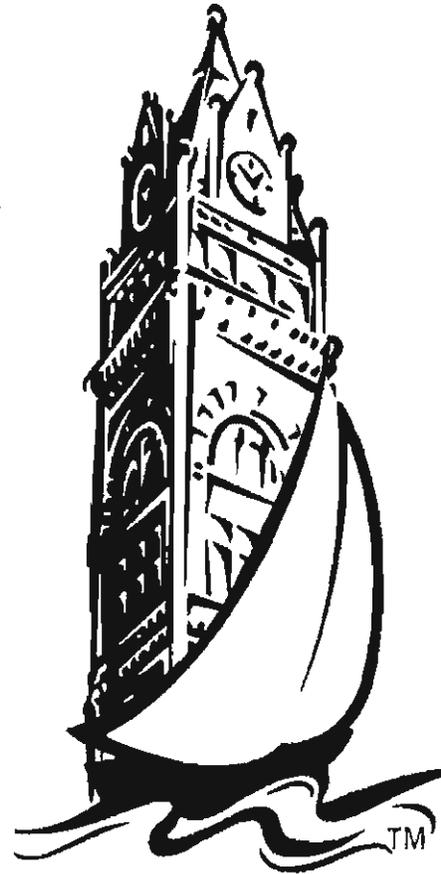
Capital Projects Funds are created to account for the financial resources to be used for the acquisition or construction of major capital facilities by a governmental unit, except those financed by special assessment and proprietary funds. The City of Bay City utilizes the following Capital Projects Funds:

Riverfront Redevelopment Fund

This fund is used to account for revenues from EPA grants, other federal, state, and local sources, and City funds for the redevelopment of the City's Downtown Riverfront.

Economic Opportunities Fund

This fund was setup to provide for the complete development of the single-family residential subdivision on the City's south side, between Lincoln and Trumbull Avenues, as well as other projects as they arise.



CITY OF
Bay City

City of Bay City, Michigan
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2006

	Special Revenue Funds						
	Major Streets	Local Streets	Fire Awareness	Community Policing	Parking Enforcement	Solid Waste Management	Community Development Block Grant
Assets							
Cash and cash equivalents	\$ -	\$ -	\$ 2,345	\$ 5,133	\$ -	\$ 120,310	\$ -
Receivables (net of allowance for uncollectibles)							
Accounts	10,493	1,954	-	-	4,574	305,585	-
Delinquent taxes	-	-	-	-	-	-	-
Special assessments	-	-	-	-	-	15,273	-
Accrued interest	-	-	-	-	-	-	-
Due from other funds	44,915	228,937	9,019	8,240	-	-	-
Due from other governments	481,942	109,936	-	-	-	-	153,206
Inventories	36,339	-	-	-	-	-	-
Other assets	375,000	-	-	-	-	-	-
Total Assets	\$ 948,689	\$ 340,827	\$ 11,364	\$ 13,373	\$ 4,574	\$ 441,168	\$ 153,206
Liabilities and fund balances							
Liabilities							
Accounts payable	\$ 127,960	\$ 17,795	\$ 83	\$ 2,294	\$ 10	\$ 24,307	\$ 112,636
Accrued liabilities	37,341	8,985	1,634	2,060	1,964	14,785	4,079
Due to other funds	499,586	50,459	9,647	9,019	2,600	7,095	36,331
Deposits payable	-	-	-	-	-	-	160
Deferred revenues	-	-	-	-	-	-	-
Total liabilities	664,887	77,239	11,364	13,373	4,574	46,187	153,206
Fund balances							
Reserved for:							
Inventories	36,339	-	-	-	-	-	-
Unreserved:							
Undesignated	247,463	263,588	-	-	-	394,981	-
Total fund balances	283,802	263,588	-	-	-	394,981	-
Total liabilities and fund balances	\$ 948,689	\$ 340,827	\$ 11,364	\$ 13,373	\$ 4,574	\$ 441,168	\$ 153,206

Public Improvement	Building Inspection	Neighborhood Opportunity	Total	Debt Service Fund		Capital Projects Funds			Total
				Bond Sinking Fund	Riverfront Redevelopment	Economic Opportunites	Total		
\$ 1,033,295	\$ 69,103	\$ 155,114	\$ 1,385,300	\$ 205,590	\$ 450,822	\$ 807,849	\$ 1,258,671	\$ 2,849,561	
-	65,619	-	388,225	-	12,122	-	12,122	400,347	
-	-	-	-	9,110	-	-	-	9,110	
-	17,217	-	32,490	-	-	-	-	32,490	
11,162	-	1,676	12,838	2,221	4,869	8,733	13,602	28,661	
2,481	-	-	293,592	-	-	-	-	293,592	
-	-	-	745,084	-	189,506	-	189,506	934,590	
-	-	-	36,339	-	-	-	-	36,339	
-	-	-	375,000	-	-	-	-	375,000	
<u>\$ 1,046,938</u>	<u>\$ 151,939</u>	<u>\$ 156,790</u>	<u>\$ 3,268,868</u>	<u>\$ 216,921</u>	<u>\$ 657,319</u>	<u>\$ 816,582</u>	<u>\$ 1,473,901</u>	<u>\$ 4,959,690</u>	
\$ 24,000	\$ 6,551	\$ -	\$ 315,636	\$ 1,175	\$ 9,080	\$ 1,943	\$ 11,023	\$ 327,834	
-	8,501	-	79,349	-	-	-	-	79,349	
-	926	-	615,663	-	-	-	-	615,663	
-	7,064	35,521	42,745	-	-	-	-	42,745	
-	10,752	-	10,752	9,110	-	-	-	19,862	
<u>24,000</u>	<u>33,794</u>	<u>35,521</u>	<u>1,064,145</u>	<u>10,285</u>	<u>9,080</u>	<u>1,943</u>	<u>11,023</u>	<u>1,085,453</u>	
-	-	-	36,339	-	-	-	-	36,339	
<u>1,022,938</u>	<u>118,145</u>	<u>121,269</u>	<u>2,168,384</u>	<u>206,636</u>	<u>648,239</u>	<u>814,639</u>	<u>1,462,878</u>	<u>3,837,898</u>	
<u>1,022,938</u>	<u>118,145</u>	<u>121,269</u>	<u>2,204,723</u>	<u>206,636</u>	<u>648,239</u>	<u>814,639</u>	<u>1,462,878</u>	<u>3,874,237</u>	
<u>\$ 1,046,938</u>	<u>\$ 151,939</u>	<u>\$ 156,790</u>	<u>\$ 3,268,868</u>	<u>\$ 216,921</u>	<u>\$ 657,319</u>	<u>\$ 816,582</u>	<u>\$ 1,473,901</u>	<u>\$ 4,959,690</u>	

City of Bay City, Michigan
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2006

	Special Revenue Funds						
	Major Streets	Local Streets	Fire Awareness	Community Policing	Parking Enforcement	Solid Waste Management	Community Development Block Grant
Revenues							
Taxes:							
Property Taxes	\$ 766,759	\$ 135,464	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental:							
Federal	-	-	-	-	-	-	2,031,278
State	2,209,116	788,363	-	-	-	-	-
Local	-	-	-	-	53,761	-	-
Charges for services:							
Sales	-	-	-	-	-	1,903,993	-
Fines and forfeitures	-	-	-	-	19,187	-	-
Miscellaneous:							
Interest earnings	12,693	2,447	-	-	-	86	-
Reimbursements	1,221	-	-	-	-	-	-
Sale of property	-	-	-	-	-	-	-
Other	13,295	225	-	-	-	23,976	302
Total revenues	3,003,084	926,499	-	-	72,948	1,928,055	2,031,580
Expenditures							
Current:							
Public safety	-	-	94,140	121,646	72,948	-	-
Public works:							
Highways, streets and bridges	2,984,913	1,100,960	-	-	-	-	-
Physical environment	-	-	-	-	-	1,842,982	-
Economic development	-	-	-	-	-	-	863,646
Capital outlay	157,523	272,828	-	-	-	-	437,442
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	3,142,436	1,373,788	94,140	121,646	72,948	1,842,982	1,301,088
Excess of revenues over (under) expenditures	(139,352)	(447,289)	(94,140)	(121,646)	-	85,073	730,492
Other financing sources (uses)							
Transfer in	40,000	319,919	94,140	121,646	-	-	334,742
Transfer out	-	-	-	-	-	-	(1,065,234)
Total other financing sources (uses)	40,000	319,919	94,140	121,646	-	-	(730,492)
Changes in fund balances	(99,352)	(127,370)	-	-	-	85,073	-
Fund balances - beginning of year	383,154	390,958	-	-	-	309,908	-
Fund balances - end of year	\$ 283,802	\$ 263,588	\$ -	\$ -	\$ -	\$ 394,981	\$ -

				Debt Service Fund		Capital Projects Funds		
Public Improvement	Building Inspection	Neighborhood Opportunity	Total	Bond Sinking Fund	Riverfront Redevelopment	Economic Opportunities	Total	Total
\$ -	\$ -	\$ -	\$ 902,223	\$ 1,702,653	\$ -	\$ -	\$ -	\$ 2,604,876
-	641,059	-	641,059	-	-	-	-	641,059
-	-	-	2,031,278	-	-	-	-	2,031,278
-	-	-	2,997,479	-	-	-	-	2,997,479
-	-	-	53,761	-	-	-	-	53,761
-	-	-	1,903,993	-	-	-	-	1,903,993
-	-	-	19,187	-	-	-	-	19,187
19,930	66	4,230	39,452	24,453	5,654	32,116	37,770	101,675
-	4,284	-	5,505	-	-	-	-	5,505
-	-	21,739	21,739	-	-	-	-	21,739
639	60,276	-	98,713	-	68,022	134,241	202,263	300,976
<u>20,569</u>	<u>705,685</u>	<u>25,969</u>	<u>8,714,389</u>	<u>1,727,106</u>	<u>73,676</u>	<u>166,357</u>	<u>240,033</u>	<u>10,681,528</u>
-	587,540	-	876,274	-	-	-	-	876,274
-	-	-	4,085,873	-	-	-	-	4,085,873
-	-	-	1,842,982	-	-	-	-	1,842,982
-	-	1,189	864,835	-	97,381	12,210	109,591	974,426
24,000	-	-	891,793	-	3,608	11,218	14,826	906,619
-	-	-	-	1,570,000	-	-	-	1,570,000
-	-	-	-	3,525	-	-	-	3,525
<u>24,000</u>	<u>587,540</u>	<u>1,189</u>	<u>8,561,757</u>	<u>1,573,525</u>	<u>100,989</u>	<u>23,428</u>	<u>124,417</u>	<u>10,259,699</u>
(3,431)	118,145	24,780	152,632	153,581	(27,313)	142,929	115,616	421,829
501,842	-	-	1,412,289	-	575,000	-	575,000	1,987,289
-	-	-	(1,063,234)	-	-	(575,000)	(575,000)	(1,640,234)
<u>501,842</u>	<u>-</u>	<u>-</u>	<u>347,055</u>	<u>-</u>	<u>575,000</u>	<u>(575,000)</u>	<u>-</u>	<u>347,055</u>
498,411	118,145	24,780	499,687	153,581	547,687	(432,071)	115,616	768,884
<u>524,527</u>	<u>-</u>	<u>96,489</u>	<u>1,705,036</u>	<u>53,055</u>	<u>100,552</u>	<u>1,246,710</u>	<u>1,347,262</u>	<u>3,105,353</u>
<u>\$ 1,022,938</u>	<u>\$ 118,145</u>	<u>\$ 121,269</u>	<u>\$ 2,204,723</u>	<u>\$ 206,636</u>	<u>\$ 648,239</u>	<u>\$ 814,639</u>	<u>\$ 1,462,878</u>	<u>\$ 3,874,237</u>

City of Bay City, Michigan
Major Streets Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
Property taxes	\$ 771,915	\$ 771,915	\$ 766,759	\$ (5,156)
Intergovernmental:				
State	2,315,564	2,289,314	2,209,116	(80,198)
Miscellaneous:				
Interest earnings	6,000	6,000	12,693	6,693
Reimbursements	1,800	1,800	1,221	(579)
Other	24,000	24,000	13,295	(10,705)
Total revenues	<u>3,119,279</u>	<u>3,093,029</u>	<u>3,003,084</u>	<u>(89,945)</u>
Expenditures				
Public works				
Highways, streets, and bridges	3,022,655	3,043,295	2,984,913	58,382
Capital outlay	129,624	526,524	157,523	369,001
Total expenditures	<u>3,152,279</u>	<u>3,569,819</u>	<u>3,142,436</u>	<u>427,383</u>
Excess of revenues over (under) expenditures	<u>(33,000)</u>	<u>(476,790)</u>	<u>(139,352)</u>	<u>337,438</u>
Other financing sources (uses)				
Proceeds from the issuance of debt	-	325,000	-	(325,000)
Transfer in	40,000	108,790	40,000	(68,790)
Total other financing sources (uses)	<u>40,000</u>	<u>433,790</u>	<u>40,000</u>	<u>(393,790)</u>
Changes in fund balances	7,000	(368,000)	(99,352)	268,648
Fund balances - beginning of year	<u>383,154</u>	<u>383,154</u>	<u>383,154</u>	<u>-</u>
Fund balances - end of year	<u>\$ 390,154</u>	<u>\$ 15,154</u>	<u>\$ 283,802</u>	<u>\$ 268,648</u>

City of Bay City, Michigan
Local Streets Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
General property taxes	\$ 138,567	\$ 138,567	\$ 135,464	\$ (3,103)
Intergovernmental:				
State	821,175	812,425	788,363	(24,062)
Miscellaneous:				
Interest earnings	1,500	1,500	2,447	947
Other	850	850	225	(625)
Total revenues	<u>962,092</u>	<u>953,342</u>	<u>926,499</u>	<u>(26,843)</u>
Expenditures				
Public works				
Highways, streets, and bridges	1,062,806	1,120,266	1,100,960	19,306
Capital outlay	127,000	462,608	272,828	189,780
Total expenditures	<u>1,189,806</u>	<u>1,582,874</u>	<u>1,373,788</u>	<u>209,086</u>
Excess of revenues over (under) expenditures	(227,714)	(629,532)	(447,289)	182,243
Other financing sources (uses)				
Transfer in	135,000	426,210	319,919	(106,291)
Changes in fund balances	(92,714)	(203,322)	(127,370)	75,952
Fund balances - beginning of year	<u>390,958</u>	<u>390,958</u>	<u>390,958</u>	<u>-</u>
Fund balances - end of year	<u>\$ 298,244</u>	<u>\$ 187,636</u>	<u>\$ 263,588</u>	<u>\$ 75,952</u>

City of Bay City, Michigan
Fire Awareness Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures				
Public safety	\$ 97,213	\$ 97,213	\$ 94,140	\$ 3,073
Capital outlay	677	677	-	677
Total expenditures	97,890	97,890	94,140	3,750
Other financing sources (uses)				
Transfer in	97,890	97,890	94,140	(3,750)
Changes in fund balances	-	-	-	-
Fund balances - beginning of year	-	-	-	-
Fund balances - end of year	\$ -	\$ -	\$ -	\$ -

City of Bay City, Michigan
Community Policing Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures				
Public safety	\$ 99,789	\$ 99,789	\$ 121,646	\$ (21,857)
Other financing sources (uses)				
Transfer in	<u>99,789</u>	<u>99,789</u>	<u>121,646</u>	<u>21,857</u>
Changes in fund balances	-	-	-	-
Fund balances - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Bay City, Michigan
Parking Enforcement Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental:				
Local	\$ 49,187	\$ 49,187	\$ 53,761	\$ (4,574)
Fines and forfeitures	23,000	23,000	19,187	3,813
Total revenues	<u>72,187</u>	<u>72,187</u>	<u>72,948</u>	<u>(761)</u>
Expenditures				
Public safety	72,187	72,187	72,948	(761)
Total expenditures	<u>72,187</u>	<u>72,187</u>	<u>72,948</u>	<u>(761)</u>
Changes in fund balances	-	-	-	-
Fund balances - beginning of year	-	-	-	-
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Bay City, Michigan
Solid Waste Management Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Charges for services:				
Sales	\$ 1,879,779	\$ 1,879,779	\$ 1,903,993	\$ 24,214
Miscellaneous:				
Interest earnings	100	100	86	(14)
Other	15,500	15,500	23,976	8,476
Total revenues	1,895,379	1,895,379	1,928,055	32,676
Expenditures				
Physical environment	1,923,228	1,923,348	1,842,982	80,366
Changes in fund balances	(27,849)	(27,969)	85,073	113,042
Fund balances - beginning of year	309,908	309,908	309,908	-
Fund balances - end of year	\$ 282,059	\$ 281,939	\$ 394,981	\$ 113,042

City of Bay City, Michigan
Community Development Block Grant Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental:				
Federal	\$ 1,824,001	\$ 2,434,001	\$ 2,031,278	\$ (402,723)
Miscellaneous:				
Other	-	-	302	302
Total revenues	<u>1,824,001</u>	<u>2,434,001</u>	<u>2,031,580</u>	<u>(402,421)</u>
Expenditures				
Economic development	824,692	1,057,692	863,646	194,046
Capital outlay	615,972	490,972	437,442	53,530
Total expenditures	<u>1,440,664</u>	<u>1,548,664</u>	<u>1,301,088</u>	<u>247,576</u>
Excess of revenues over (under) expenditures	<u>383,337</u>	<u>885,337</u>	<u>730,492</u>	<u>(154,845)</u>
Other financing sources (uses)				
Transfer in	200,000	318,000	334,742	16,742
Transfer out	(583,337)	(1,203,337)	(1,065,234)	138,103
Total other financing sources (uses)	<u>(383,337)</u>	<u>(885,337)</u>	<u>(730,492)</u>	<u>154,845</u>
Changes in fund balances	-	-	-	-
Fund balances - beginning of year	-	-	-	-
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Bay City, Michigan
Public Improvement Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Interest earnings	\$ 13,500	\$ 13,500	\$ 19,930	\$ 6,430
Other	-	-	639	639
Total revenues	13,500	13,500	20,569	7,069
Expenditures				
Capital outlay	1,000,000	1,000,000	24,000	976,000
Excess of revenues over (under) expenditures	(986,500)	(986,500)	(3,431)	(968,931)
Other financing sources (uses)				
Transfer in	500,000	500,000	501,842	1,842
Changes in fund balances	(486,500)	(486,500)	498,411	984,911
Fund balances - beginning of year	524,527	524,527	524,527	-
Fund balances - end of year	<u>\$ 38,027</u>	<u>\$ 38,027</u>	<u>\$ 1,022,938</u>	<u>\$ 984,911</u>

City of Bay City, Michigan
Building Inspection Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Licenses and permits	\$ 550,691	\$ 550,691	\$ 641,059	\$ 90,368
Miscellaneous:				
Interest earnings	-	-	66	66
Reimbursements	30,500	30,500	4,284	(26,216)
Other	12,860	12,860	60,276	47,416
Total revenues	594,051	594,051	705,685	111,634
Expenditures				
Public safety	628,215	628,215	587,540	40,675
Excess of revenues over (under) expenditures	(34,164)	(34,164)	118,145	152,309
Other financing sources (uses)				
Transfer in	34,164	34,164	-	(34,164)
Changes in fund balances	-	-	118,145	118,145
Fund balances - beginning of year	-	-	-	-
Fund balances - end of year	\$ -	\$ -	\$ 118,145	\$ 118,145

City of Bay City, Michigan
Neighborhood Opportunity Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Miscellaneous:				
Interest	\$ 4,500	\$ 4,500	\$ 4,230	\$ (270)
Sale of property	-	-	21,739	21,739
Total revenues	4,500	4,500	25,969	21,469
Expenditures				
Economic development	89,000	89,000	1,189	87,811
Changes in fund balances	(84,500)	(84,500)	24,780	109,280
Fund balances - beginning of year	96,489	96,489	96,489	-
Fund balances - end of year	<u>\$ 11,989</u>	<u>\$ 11,989</u>	<u>\$ 121,269</u>	<u>\$ 109,280</u>

City of Bay City, Michigan
Bond Sinking Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
General property taxes	\$ 1,711,140	\$ 1,711,140	\$ 1,702,653	\$ (8,487)
Miscellaneous:				
Interest earnings	<u>12,000</u>	<u>12,000</u>	<u>24,453</u>	<u>12,453</u>
Total revenues	<u>1,723,140</u>	<u>1,723,140</u>	<u>1,727,106</u>	<u>3,966</u>
Expenditures				
Debt service:				
Principal	1,570,000	1,570,000	1,570,000	-
Interest and fiscal charges	<u>3,150</u>	<u>3,150</u>	<u>3,525</u>	<u>(375)</u>
Total expenditures	<u>1,573,150</u>	<u>1,573,150</u>	<u>1,573,525</u>	<u>(375)</u>
Changes in fund balances	149,990	149,990	153,581	3,591
Fund balances - beginning of year,	<u>53,055</u>	<u>53,055</u>	<u>53,055</u>	<u>-</u>
Fund balances - end of year	<u>\$ 203,045</u>	<u>\$ 203,045</u>	<u>\$ 206,636</u>	<u>\$ 3,591</u>

FIDUCIARY FUNDS

Fiduciary Funds are set up to account for the assets held by the government in a trustee capacity for other individuals, governmental entities, and non-public organizations. Use of these funds facilitates the discharge of responsibilities placed upon the City by virtue of law or other authority. In the City of Bay City, the trust funds are used to account for the Police and Fire Retirement System, the expendable trust funds relative to general healthcare and healthcare for Police and Fire personnel and retirees, the Current Tax Collections Agency Fund, and the general Trust and Agency Fund.

City of Bay City, Michigan
Fiduciary Funds
Combining Statement of Plan Net Assets
June 30, 2006

	Pension Trust	Trust Funds		Total
	Police & Fire Retirement	General Employees Health Care Investment	Police & Fire Health Care Investment	
Assets				
Cash and cash equivalents	\$ 633,754	\$ 1,005,085	\$ 429,474	\$ 2,068,313
Investments				
Mutual funds	14,754,546	651,321	425,224	15,831,091
Government securities	8,318,733	-	-	8,318,733
Corporate bonds	3,231,600	-	-	3,231,600
Common stock	22,954,545	-	-	22,954,545
Accounts receivable	206,969	-	-	206,969
Interest receivable	130,289	10,859	4,640	145,788
Total assets	50,230,436	1,667,265	859,338	52,757,039
Liabilities				
Accounts payable	83,901	-	-	83,901
Net assets				
Held in trust for employees' pension benefits	50,146,535	-	-	50,146,535
Held in trust for employees' postemployment health care benefits	-	1,667,265	859,338	2,526,603
Total net assets	\$ 50,146,535	\$ 1,667,265	\$ 859,338	\$ 52,673,138

City of Bay City, Michigan
Fiduciary Funds
Combining Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2006

	Pension	Trust Funds		Total
	Trust	General	Police &	
	Police	Employees	Fire	
	& Fire	Health Care	Health Care	
	Retirement	Investment	Investment	
Additions				
Contributions				
Employer	\$ 1,516,565	\$ 208,985	\$ -	\$ 1,725,550
Plan members	505,354	-	-	505,354
Total contributions	2,021,919	208,985	-	2,230,904
Investment income				
Interest and dividends	1,083,487	75,550	44,007	1,203,044
Net appreciation in fair value of investments	3,147,043	-	-	3,147,043
Investment expense	(263,226)	-	-	(263,226)
Net investment income	3,967,304	75,550	44,007	4,086,861
Total additions	5,989,223	284,535	44,007	6,317,765
Deductions				
Benefits and refunds paid to participants	3,431,895	-	-	3,431,895
Administrative expenses	81,982	-	-	81,982
Total deductions	3,513,877	-	-	3,513,877
Net increase in plan net assets	2,475,346	284,535	44,007	2,803,888
Net assets held in trust for pension benefits				
Beginning of year	47,671,189	1,382,730	815,331	49,869,250
End of year	\$ 50,146,535	\$ 1,667,265	\$ 859,338	\$ 52,673,138

City of Bay City, Michigan
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities

June 30, 2006

<u>ASSETS</u>	<u>Trust and Agency</u>	<u>Current Tax Collection</u>	<u>Total</u>
Cash and cash equivalents	\$ 75,280	\$ -	\$ 75,280
Accounts receivable	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 75,280</u>	<u>\$ -</u>	<u>\$ 75,280</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 459	\$ -	\$ 459
Due to other funds	-	-	-
Due to other governmental units	-	-	-
Deposits	74,821	-	74,821
<u>TOTAL LIABILITIES</u>	<u>\$ 75,280</u>	<u>\$ -</u>	<u>\$ 75,280</u>

City of Bay City, Michigan
Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2006

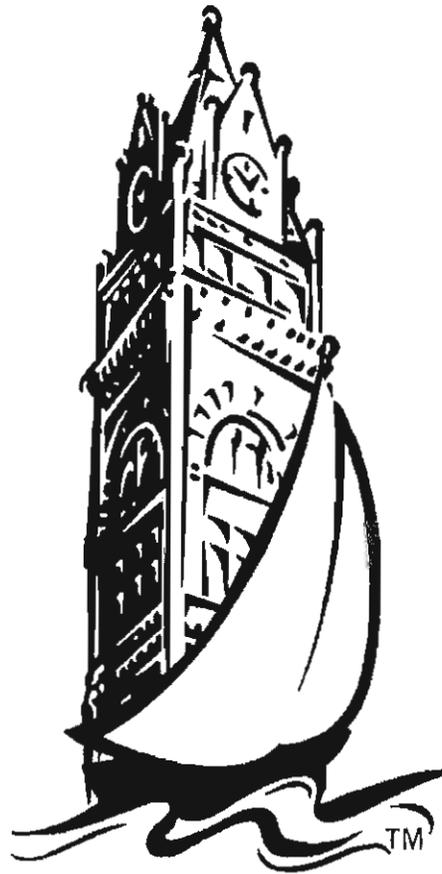
	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>Trust & Agency Fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 2,963	\$ 5,560,051	\$ 5,487,734	\$ 75,280
<u>Liabilities</u>				
Accounts payable	\$ 923	\$ 15,619	\$ 16,083	\$ 459
Due to other governmental units	-	5,419,972	5,419,972	-
Deposits	2,040	141,692	68,911	74,821
<u>Total Liabilities</u>	<u>\$ 2,963</u>	<u>\$ 5,577,283</u>	<u>\$ 5,504,966</u>	<u>\$ 75,280</u>
 <u>Current Tax Collection Fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ -	\$ 52,529,786	\$ 52,529,786	\$ -
Accounts receivable	-	68	68	-
<u>Total Assets</u>	<u>\$ -</u>	<u>\$ 52,529,854</u>	<u>\$ 52,529,854</u>	<u>\$ -</u>
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 19,264,963	\$ 19,264,963	\$ -
Due to other funds	-	11,978,401	11,978,401	-
Due to other governmental units	-	20,555,589	20,555,589	-
<u>Total Liabilities</u>	<u>\$ -</u>	<u>\$ 51,798,953</u>	<u>\$ 51,798,953</u>	<u>\$ -</u>
 <u>Total - All Agency Funds</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 2,963	\$ 58,089,837	\$ 58,017,520	\$ 75,280
Accounts receivable	-	68	68	-
<u>Total Assets</u>	<u>\$ 2,963</u>	<u>\$ 58,089,905</u>	<u>\$ 58,017,588</u>	<u>\$ 75,280</u>
<u>Liabilities</u>				
Accounts payable	\$ 923	\$ 19,280,582	\$ 19,281,046	\$ 459
Due to other funds	-	11,978,401	11,978,401	-
Due to other governmental units	-	25,975,561	25,975,561	-
Deposits	2,040	141,692	68,911	74,821
<u>Total Liabilities</u>	<u>\$ 2,963</u>	<u>\$ 57,376,236</u>	<u>\$ 57,303,919</u>	<u>\$ 75,280</u>

COMPONENT UNITS

The Component Units provide economic development and financing services to specific geographic areas within the City limits.

These entities are legally separate from the City. However, they are fiscally dependent on the City because the City Commission is responsible for approving their annual operating budgets and any debt issuance.

All discrete component units are accounted for as governmental fund types. The Component Units within the City of Bay City are: Downtown Development Authority, Midland Street TIFA, Kresge's DDA, Marquette District TIFA, Water Street DDA, Marina Development TIFA, Allen Healthcare DDA, Research Center Development TIFA, Knepp's DDA, Columbus Avenue Management Board, Brownfield Redevelopment Authority, Midland Street Management Board, P.O.W.E.R. Economic Development Corporation, Downtown Management Board, and Wenonah Park Properties.



CITY OF
Bay City

City of Bay City, Michigan
Downtown Development Authority, Midland Street TIFA,
Marquette District TIFA, and Water Street DDA
Statement of Net Assets and Governmental Fund Balance Sheet
June 30, 2006

	Downtown Development Authority	Adjustments	Statement of Net Assets	Midland Street TIFA	Adjustments	Statement of Net Assets
<u>ASSETS</u>						
Cash and cash equivalents	\$ 20,112	\$ -	\$ 20,112	\$ 381,784	\$ -	\$ 381,784
Receivables:						
Accounts	1,313	-	1,313	-	-	-
Delinquent taxes	606	-	606	-	-	-
Accrued interest	218	-	218	4,125	-	4,125
Notes	-	-	-	-	-	-
Lease	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
Capital assets, net	-	139,052	139,052	-	201,544	201,544
TOTAL ASSETS	<u>\$ 22,249</u>	<u>\$ 139,052</u>	<u>\$ 161,301</u>	<u>\$ 385,909</u>	<u>\$ 201,544</u>	<u>\$ 587,453</u>
<u>LIABILITIES</u>						
Accounts payable	\$ 7,119	\$ -	\$ 7,119	\$ 111,594	\$ -	\$ 111,594
Accrued liabilities	25	-	25	-	-	-
Deferred revenue	607	(607)	-	-	-	-
Long-term debt:						
Bonds payable	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-
TOTAL LIABILITIES	<u>7,751</u>	<u>(607)</u>	<u>7,144</u>	<u>111,594</u>	<u>-</u>	<u>111,594</u>
<u>FUND BALANCES/NET ASSETS</u>						
Unreserved	14,498	(14,498)	-	274,315	(274,315)	-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 22,249</u>			<u>\$ 385,909</u>		
NET ASSETS						
Invested in capital assets, net of related debt		139,052	139,052		201,544	201,544
Unrestricted		15,105	15,105		274,315	274,315
TOTAL NET ASSETS		<u>\$ 154,157</u>	<u>\$ 154,157</u>		<u>\$ 475,859</u>	<u>\$ 475,859</u>

Marquette District TIFA	Adjustments	Statement of Net Assets	Water Street DDA	Adjustments	Statement of Net Assets
\$ 1,056,955	\$ -	\$ 1,056,955	\$ 976,786	\$ -	\$ 976,786
-	-	-	-	-	-
-	-	-	-	-	-
11,420	-	11,420	10,561	-	10,561
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	15,000	-	15,000
-	1,153,525	1,153,525	-	2,301,842	2,301,842
<u>\$ 1,068,375</u>	<u>\$ 1,153,525</u>	<u>\$ 2,221,900</u>	<u>\$ 1,002,347</u>	<u>\$ 2,301,842</u>	<u>\$ 3,304,189</u>
\$ 17,337	\$ -	\$ 17,337	\$ 151,941	\$ -	\$ 151,941
1,467	-	1,467	-	15,930	15,930
-	-	-	-	-	-
-	-	-	-	2,605,000	2,605,000
-	-	-	-	-	-
<u>18,804</u>	<u>-</u>	<u>18,804</u>	<u>151,941</u>	<u>2,620,930</u>	<u>2,772,871</u>
<u>1,049,571</u>	<u>(1,049,571)</u>	<u>-</u>	<u>850,406</u>	<u>(850,406)</u>	<u>-</u>
<u>\$ 1,068,375</u>			<u>\$ 1,002,347</u>		
	1,153,525	1,153,525		(303,158)	(303,158)
	1,049,571	1,049,571		834,476	834,476
	<u>\$ 2,203,096</u>	<u>\$ 2,203,096</u>		<u>\$ 531,318</u>	<u>\$ 531,318</u>

City of Bay City, Michigan
Marina Development TIFA, Allen Healthcare DDA, and Knepp's DDA
Statement of Net Assets and Governmental Fund Balance Sheet
June 30, 2006

	Marina Develop. TIFA	Adjustments	Statement of Net Assets	Allen Healthcare DDA	Adjustments	Statement of Net Assets
<u>ASSETS</u>						
Cash and cash equivalents	\$ 260,857	\$ -	\$ 260,857	\$ 1,031	\$ -	\$ 1,031
Receivables:						
Accounts	-	-	-	-	-	-
Delinquent taxes	-	-	-	-	-	-
Accrued interest	2,819	-	2,819	11	-	11
Notes	-	-	-	-	-	-
Lease	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
Capital assets, net	-	297,698	297,698	-	-	-
TOTAL ASSETS	<u>\$ 263,676</u>	<u>\$ 297,698</u>	<u>\$ 561,374</u>	<u>\$ 1,042</u>	<u>\$ -</u>	<u>\$ 1,042</u>
<u>LIABILITIES</u>						
Accounts payable	\$ 18,792	\$ -	\$ 18,792	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Long-term debt:						
Bonds payable	-	-	-	-	-	-
Notes payable	-	-	-	-	60,105	60,105
TOTAL LIABILITIES	<u>18,792</u>	<u>-</u>	<u>18,792</u>	<u>-</u>	<u>60,105</u>	<u>60,105</u>
<u>FUND BALANCES/NET ASSETS</u>						
Unreserved	244,884	(244,884)	-	1,042	(1,042)	-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 263,676</u>			<u>\$ 1,042</u>		
NET ASSETS						
Invested in capital assets		297,698	297,698		-	-
Unrestricted		244,884	244,884		(59,063)	(59,063)
TOTAL NET ASSETS		<u>\$ 542,582</u>	<u>\$ 542,582</u>		<u>\$ (59,063)</u>	<u>\$ (59,063)</u>

Knepp's DDA	Adjustments	Statement of Net Assets
\$ 87,421	\$ -	\$ 87,421
-	-	-
-	-	-
945	-	945
-	-	-
-	-	-
-	-	-
-	80,617	80,617
<u>\$ 88,366</u>	<u>\$ 80,617</u>	<u>\$ 168,983</u>

\$ 53,293	\$ -	\$ 53,293
-	-	-
-	-	-
-	-	-
-	-	-
<u>53,293</u>	<u>-</u>	<u>53,293</u>
<u>35,073</u>	<u>(35,073)</u>	<u>-</u>

\$ 88,366

80,617	80,617
<u>35,073</u>	<u>35,073</u>
<u>\$ 115,690</u>	<u>\$ 115,690</u>

City of Bay City, Michigan
Downtown Development Authority, Midland Street TIFA,
Marquette District TIFA, and Water Street DDA
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2006

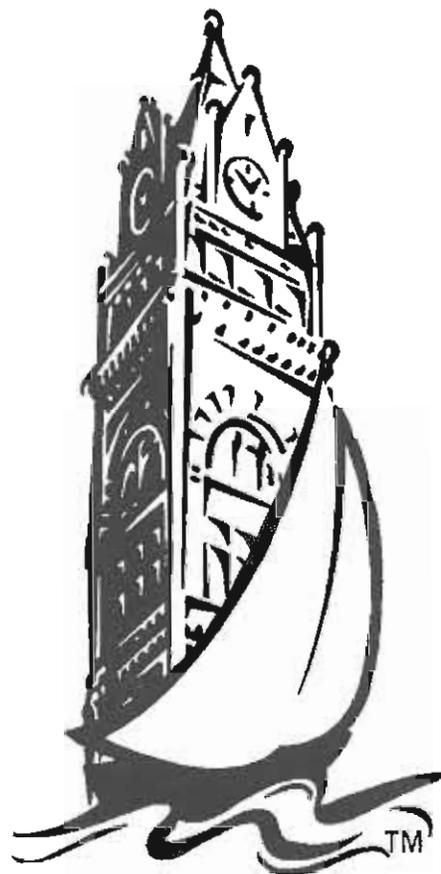
	Downtown Development Authority	Adjustments	Statement of Activities	Midland St. TIFA	Adjustments	Statement of Activities
REVENUES						
Intergovernmental:						
State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes:						
Tax increment	-	-	-	106,054	-	106,054
Special assessments	66,798	(395)	66,403	-	-	-
Charges for services:						
Rents	92,872	-	92,872	-	-	-
Miscellaneous:						
Interest earnings	1,477	-	1,477	12,862	-	12,862
Other	34,718	-	34,718	-	-	-
TOTAL REVENUES	<u>195,865</u>	<u>(395)</u>	<u>195,470</u>	<u>118,916</u>	<u>-</u>	<u>118,916</u>
EXPENDITURES/EXPENSES						
Current:						
Economic development	170,009	-	170,009	1,417	-	1,417
Depreciation	-	17,109	17,109	-	5,139	5,139
Capital outlay	4,659	-	4,659	211,411	(206,683)	4,728
Debt service:						
Principal	18,632	(18,632)	-	-	-	-
Interest	-	-	-	-	-	-
TOTAL EXPENDITURES/EXPENSES	<u>193,300</u>	<u>(1,523)</u>	<u>191,777</u>	<u>212,828</u>	<u>(201,544)</u>	<u>11,284</u>
NET CHANGE IN FUND						
BALANCES / NET ASSETS	2,565	1,128	3,693	(93,912)	201,544	107,632
FUND BALANCE / NET ASSETS,						
BEGINNING OF PERIOD	<u>11,933</u>	<u>138,531</u>	<u>150,464</u>	<u>368,227</u>	<u>-</u>	<u>368,227</u>
FUND BALANCE / NET ASSETS,						
END OF PERIOD	<u>\$ 14,498</u>	<u>\$ 139,659</u>	<u>\$ 154,157</u>	<u>\$ 274,315</u>	<u>\$ 201,544</u>	<u>\$ 475,859</u>

Marquette District TIFA	Adjustments	Statement of Activities	Water Street DDA	Adjustments	Statement of Activities
\$ -	\$ -	\$ -	\$ 250,000	\$ -	\$ 250,000
456,072	-	456,072	300,107	-	300,107
-	-	-	-	-	-
-	-	-	-	-	-
35,777	-	35,777	48,840	-	48,840
-	-	-	-	-	-
<u>491,849</u>	<u>-</u>	<u>491,849</u>	<u>598,947</u>	<u>-</u>	<u>598,947</u>
284,150	(25,296)	258,854	101,614	-	101,614
-	53,038	53,038	-	98,012	98,012
258,022	(247,345)	10,677	1,306,398	(1,299,941)	6,457
-	-	-	130,000	(130,000)	-
-	-	-	98,828	(541)	98,287
<u>542,172</u>	<u>(219,603)</u>	<u>322,569</u>	<u>1,636,840</u>	<u>(1,332,470)</u>	<u>304,370</u>
(50,323)	219,603	169,280	(1,037,893)	1,332,470	294,577
<u>1,099,894</u>	<u>933,922</u>	<u>2,033,816</u>	<u>1,888,299</u>	<u>(1,651,558)</u>	<u>236,741</u>
<u>\$ 1,049,571</u>	<u>\$ 1,153,525</u>	<u>\$ 2,203,096</u>	<u>\$ 850,406</u>	<u>\$ (319,088)</u>	<u>\$ 531,318</u>

City of Bay City, Michigan
Marina Development TIFA, Allen Healthcare DDA, and Knepp's DDA
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2006

	Marina Develop. TIFA	Adjustments	Statement of Activities	Allen Health- care DDA	Adjustments	Statement of Activities
<u>REVENUES:</u>						
Taxes:						
Tax increment	\$ 60,422	\$ -	\$ 60,422	\$ 19,425	\$ -	\$ 19,425
Miscellaneous:						
Interest earnings	10,000	-	10,000	479	-	479
TOTAL REVENUES	70,422	-	70,422	19,904	-	19,904
<u>EXPENDITURES/EXPENSES:</u>						
Current:						
Economic development	44,383	(6,623)	37,760	-	-	-
Depreciation	-	4,992	4,992	-	-	-
Capital outlay	101,333	(96,995)	4,338	-	-	-
Debt service:						
Principal	-	-	-	13,534	(13,534)	-
Interest	-	-	-	5,891	-	5,891
TOTAL EXPENDITURES/EXPENSES	145,716	(98,626)	47,090	19,425	(13,534)	5,891
NET CHANGE IN FUND BALANCES / NET ASSETS	(75,294)	98,626	23,332	479	13,534	14,013
FUND BALANCE / NET ASSETS, BEGINNING OF PERIOD	320,178	199,072	519,250	563	(73,639)	(73,076)
FUND BALANCE / NET ASSETS, END OF PERIOD	\$ 244,884	\$ 297,698	\$ 542,582	\$ 1,042	\$ (60,105)	\$ (59,063)

Knepp's DDA	Adjustments	Statement of Activities
\$ 15,580	\$ -	\$ 15,580
<u>2,707</u>	<u>-</u>	<u>2,707</u>
<u>18,287</u>	<u>-</u>	<u>18,287</u>
126	-	126
-	954	954
68,122	(68,000)	122
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>68,248</u>	<u>(67,046)</u>	<u>1,202</u>
(49,961)	67,046	17,085
<u>85,034</u>	<u>13,571</u>	<u>98,605</u>
<u>\$ 35,073</u>	<u>\$ 80,617</u>	<u>\$ 115,690</u>



CITY OF
Bay City

STATISTICAL SECTION

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.

Revenue Capacity - These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property taxes.

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.

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.

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.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.



City of Bay City, Michigan
Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 64,467,354	\$ 58,960,994	\$ 60,326,443	\$ 61,503,611
Restricted	1,377,911	2,270,720	1,400,317	2,008,175
Unrestricted	9,943,254	13,634,247	10,364,764	11,354,661
Total governmental activities net assets	<u>\$ 75,788,519</u>	<u>\$ 74,865,961</u>	<u>\$ 72,091,524</u>	<u>\$ 74,866,447</u>
 Business-type activities				
Invested in capital assets, net of related debt	\$ 102,647,067	\$ 98,389,242	\$ 96,461,842	\$ 89,616,640
Restricted	1,160,696	-	-	-
Unrestricted	26,340,649	30,266,336	30,668,638	32,099,912
Total business-type activities net assets	<u>\$ 130,148,412</u>	<u>\$ 128,655,578</u>	<u>\$ 127,130,480</u>	<u>\$ 121,716,552</u>
 Primary government				
Invested in capital assets, net of related debt	\$ 167,114,421	\$ 157,350,236	\$ 156,788,285	\$ 151,120,251
Restricted	2,538,607	2,270,720	1,400,317	2,008,175
Unrestricted	36,283,903	43,900,583	41,033,402	43,454,573
Total primary government net assets	<u>\$ 205,936,931</u>	<u>\$ 203,521,539</u>	<u>\$ 199,222,004</u>	<u>\$ 196,582,999</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

City of Bay City, Michigan
Changes in Net Assets
Last Four Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
Public safety	\$ 13,145	\$ 13,014	\$ 13,429	\$ 14,170
Community and economic development	1,859	-	2,037	2,116
Public works	5,638	11,019	10,909	9,871
General government	6,530	6,337	5,519	5,289
Recreation and culture	1,046	941	1,129	1,249
Interest on long-term debt	1,562	1,358	1,544	1,298
Total governmental activities expenses	<u>29,780</u>	<u>32,669</u>	<u>34,567</u>	<u>33,993</u>
Business-type activities:				
Electric	22,574	22,116	24,134	26,079
Water	7,330	6,939	6,870	7,231
Sewer	8,318	10,340	11,468	12,487
Public works	421	435	421	463
Total business-type activities expenses	<u>38,643</u>	<u>39,830</u>	<u>42,893</u>	<u>46,260</u>
Total primary government expenses	<u>\$ 68,423</u>	<u>\$ 72,499</u>	<u>\$ 77,460</u>	<u>\$ 80,253</u>
Program Revenues				
Governmental activities:				
Charges for services				
Public safety	\$ 665	\$ 640	\$ 768	\$ 960
General government	88	4,345	4,532	5,094
Public works	1,961	2,006	1,923	1,939
Recreation and culture	4	6	13	8
Other	-	-	(16)	125
Operating grants and contributions	2,849	5,899	6,296	5,797
Capital grants and contributions	3,232	21	618	47
Total governmental activities program revenues	<u>8,799</u>	<u>12,917</u>	<u>14,134</u>	<u>13,970</u>
Business-type activities:				
Charges for services				
Electric	21,480	21,972	22,991	23,770
Water	6,758	7,060	7,342	7,204
Sewer	7,576	8,358	9,931	11,512
Public works	399	230	219	215
Operating grants and contributions	-	26	164	246
Capital grants and contributions	-	-	-	455
Total business-type activities program revenues	<u>36,213</u>	<u>37,646</u>	<u>40,647</u>	<u>43,402</u>
Total primary government program revenues	<u>\$ 45,012</u>	<u>\$ 50,563</u>	<u>\$ 54,781</u>	<u>\$ 57,372</u>
Net (expense)/revenue				
Governmental activities	\$ (20,981)	\$ (19,773)	\$ (20,433)	\$ (20,023)
Business-type activities	(2,430)	(2,184)	(2,246)	(2,858)
Total primary government net expense	<u>\$ (23,411)</u>	<u>\$ (21,936)</u>	<u>\$ (22,679)</u>	<u>\$ (22,881)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Property taxes	\$ 13,263	\$ 13,142	\$ 12,934	\$ 13,592
Unrestricted grants and contributions	5,572	5,458	5,395	5,172
Investment earnings	260	274	381	398
Miscellaneous	4,519	67	71	111
Transfers	(81)	(119)	(311)	3,525
Total governmental activities	<u>23,533</u>	<u>18,822</u>	<u>18,470</u>	<u>22,798</u>
Business-type activities:				
Investment earnings	658	438	841	922
Miscellaneous	117	40	213	47
Transfers	81	119	311	(3,525)
Total business-type activities	<u>856</u>	<u>597</u>	<u>1,365</u>	<u>(2,556)</u>
Total primary government	<u>\$ 24,389</u>	<u>\$ 19,419</u>	<u>\$ 19,835</u>	<u>\$ 20,242</u>
Change in Net Assets				
Governmental activities	\$ 2,552	\$ (951)	\$ (1,963)	\$ 2,775
Business-type activities	(1,574)	(1,587)	(881)	(5,414)
Total primary government	<u>\$ 978</u>	<u>\$ (2,538)</u>	<u>\$ (2,844)</u>	<u>\$ (2,639)</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

City of Bay City, Michigan
Governmental Activities Tax Revenue By Source
Last Ten Fiscal Years
(accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property Tax</u>
1997	\$ 11,226,370
1998	11,686,103
1999	12,317,637
2000	12,857,516
2001	11,869,699
2002	12,912,724
2003	13,262,771
2004	13,142,381
2005	12,933,879
2006	13,600,118

City of Bay City, Michigan
Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General fund				
Reserved	\$ 46	\$ 4	\$ 3	\$ -
Unreserved	4,951	5,460	5,380	5,353
Total general fund	<u>\$ 4,997</u>	<u>\$ 5,464</u>	<u>\$ 5,383</u>	<u>\$ 5,353</u>
All other governmental funds				
Reserved	\$ 316	\$ 42	\$ 42	\$ 36
Unreserved, reported in:				
Special revenue funds	1,793	1,951	1,663	1,830
Capital projects funds	2,632	2,156	1,347	1,802
Debt service fund	338	115	53	207
Total all other governmental funds	<u>\$ 5,079</u>	<u>\$ 4,264</u>	<u>\$ 3,105</u>	<u>\$ 3,875</u>

City of Bay City, Michigan
Changes in Fund Balances of Governmental Funds
Last Four Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues				
Property taxes and other taxes	\$ 13,263	\$ 12,469	\$ 12,528	\$ 12,557
Licenses and permits	452	402	513	663
Federal grants	2,869	2,092	3,630	2,804
State shared revenues and grants	8,761	10,246	9,441	9,595
Local contributions	-	88	66	54
Interest, rents and royalties	280	243	332	367
Charges for services	5,295	5,389	5,466	5,969
Fines and forfeits	161	171	153	136
Reimbursements, refunds and other revenue	1,206	779	543	961
Cable franchise fees	342	-	-	-
Total revenues	<u>32,629</u>	<u>31,879</u>	<u>32,672</u>	<u>33,106</u>
Expenditures				
General government	6,988	4,959	5,470	5,381
Public safety	12,505	12,530	13,205	13,826
Public works	6,275	6,894	7,158	7,203
Community and economic development	2,177	2,030	2,405	1,853
Recreation and culture	1,031	954	1,030	1,076
Capital outlay	2,921	2,354	2,550	1,393
Debt service:				
Principal	633	2,110	1,690	1,570
Interest and other fees	1,562	158	115	4
Total expenditures	<u>34,092</u>	<u>31,989</u>	<u>33,623</u>	<u>32,306</u>
Excess of revenues over (under) expenditures	(1,463)	(110)	(951)	800
Other financing sources (uses)				
Transfers in	2,201	2,397	1,717	2,537
Lease proceeds	-	31	-	29
Transfers (out)	(2,282)	(2,516)	(1,741)	(2,627)
Total other financing sources (uses)	<u>(81)</u>	<u>(119)</u>	<u>(24)</u>	<u>(61)</u>
Net change in fund balances	<u>\$ (1,544)</u>	<u>\$ (229)</u>	<u>\$ (975)</u>	<u>\$ 739</u>
Debt service as a percentage of noncapital expenditures	7.04%	7.65%	5.81%	5.09%

City of Bay City, Michigan
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
 (in thousands of dollars)

Fiscal Year Ended June 30	Real Property			Personal Property	Total Assessed Value	Total Direct Tax Rate	Estimated Actual Assessed Value	Assessed Value as a Percentage of Actual Value
	Residential	Commercial	Industrial					
1997	\$ 295,010	\$ 73,267	\$ 17,890	\$ 69,527	\$ 455,694	23.9600	\$ 911,388	50.00%
1998	315,580	85,400	19,669	68,926	489,575	23.8600	979,150	50.00%
1999	343,915	91,069	20,429	67,103	522,516	23.8700	1,045,032	50.00%
2000	372,094	101,876	20,928	70,971	565,869	21.7500	1,131,738	50.00%
2001	400,531	100,655	21,293	73,826	596,305	21.4000	1,192,610	50.00%
2002	421,482	102,110	25,743	74,071	623,406	21.4000	1,246,812	50.00%
2003	455,057	108,418	24,135	75,358	662,968	21.2027	1,325,936	50.00%
2004	478,991	112,152	25,425	76,682	694,250	20.5505	1,388,500	50.00%
2005	513,892	116,272	24,698	85,178	740,040	20.0505	1,480,080	50.00%
2006	518,800	119,382	25,162	87,028	750,372	19.4532	1,500,744	50.00%

Source: Bay City Assessor's Office

Note: Property in the city is reassessed annually. The city assesses property at approximately 50 percent of actual value for all types of real and personal property. Estimated actual value is calculated by dividing assessed value by those percentages. Tax rates are per \$1,000 of taxable value.

**City of Bay City, Michigan
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years**

<u>Fiscal Year (1) (2)</u>	<u>Bay City</u>				<u>Overlapping Rates</u>			<u>Total Direct & Overlapping Rates</u>
	<u>Operating Millage</u>	<u>Special Millage</u>	<u>Debt Millage</u>	<u>Total City Millage</u>	<u>School District</u>	<u>Community College</u>	<u>County</u>	
1997	18.1000	2.8600	3.0000	23.9600	30.4656	2.0427	9.6597	66.1280
1998	18.0000	2.8600	3.0000	23.8600	30.4656	2.0427	9.9499	66.3182
1999	17.4500	2.7700	3.6500	23.8700	30.4596	2.0427	9.9476	66.3199
2000	17.9500	0.0000	3.8000	21.7500	30.3594	2.0427	10.9478	65.0999
2001	17.8800	0.0000	3.5200	21.4000	30.1594	2.0427	10.9480	64.5501
2002	17.0130	1.2870	3.1000	21.4000	30.1594	2.5427	10.9486	65.0507
2003	17.8027	0.0000	3.4000	21.2027	29.0568	2.5427	10.9486	63.7508
2004	17.6905	0.0000	2.8600	20.5505	30.0458	2.5427	11.0326	64.1716
2005	17.3721	0.0000	2.6784	20.0505	30.0065	2.5427	11.0338	63.6335
2006	16.9615	(0.0971)	2.5888	19.4532	30.9480	2.0427	9.7100	62.1539

Source: Bay City Assessor's Office

(1) Rates reduced to comply with the Headlee Amendment.

(2) This is the year in which the tax is levied. 1997 refers to the 1998 tax collection, 1999 refers to the 2000 tax collection, and so on.

(3) Through 1999, the City levied a millage for Sanitation, which was also affected by the Headlee Amendment and reduced to comply with it. In 2002, the special levy was for the settlement of the Heather Ridge lawsuit. In 2006, a credit was issued due to an over-levy of County millage in Winter 2005.

City of Bay City, Michigan
Principal Property Taxpayers
June 30, 2006

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
General Motors/CPC	\$ 80,181,550	1	11.71%	\$ 104,191,450	1	20.11%
S C Johnson	15,578,085	2	2.27%	-	-	-
Consumers Energy	4,672,806	3	0.68%	6,685,411	3	1.29%
Wenonah Park Properties	4,360,495	4	0.64%	-	-	-
Marina Place LLC	3,139,945	5	0.46%	-	-	-
Charter Communications	2,675,150	6	0.39%	-	-	-
Kerkau Manufacturing	2,673,763	7	0.39%	2,010,800	7	0.39%
Northern Concrete Pipe	2,600,050	8	0.38%	-	-	-
Arthur P Dore	2,530,810	9	0.37%	-	-	-
Carbone/Ultra Carbon Corp.	2,436,234	10	0.36%	2,053,350	6	0.40%
Thompson Bay Company, Inc.	-	-	-	11,146,700	2	2.15%
F.P. Horak	-	-	-	2,387,450	4	0.46%
First of America Bank	-	-	-	2,107,866	5	0.41%
Bay City Housing Commission	-	-	-	1,857,933	8	0.36%
Art Van Furniture	-	-	-	1,834,500	9	0.35%
Brennan Marine	-	-	-	1,784,812	10	0.34%
Totals	<u>\$ 120,848,888</u>		<u>17.65%</u>	<u>\$ 136,060,272</u>		<u>26.26%</u>

City of Bay City, Michigan
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended December 31,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 10,733	\$ 9,958	92.78%	\$ 772	\$ 10,730	99.97%
1998	11,357	10,560	92.98%	787	11,347	99.91%
1999	11,986	11,187	93.33%	771	11,958	99.77%
2000	12,347	11,511	93.23%	799	12,310	99.70%
2001	11,515	10,715	93.06%	710	11,425	99.22%
2002	11,789	11,014	93.43%	688	11,702	99.26%
2003	12,448	11,652	93.61%	680	12,332	99.07%
2004	12,580	11,800	93.80%	672	12,472	99.14%
2005	12,619	11,812	93.60%	703	12,515	99.18%
2006	12,650	11,941	94.39%	707	12,648	99.98%

City of Bay City, Michigan
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-type Activities				Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Installment Purchase Contracts	Capital Leases	Revenue Bonds	General Obligation Bonds	Term Loan	Revenue Bonds	Capital Leases			
1997	\$ 26,900,169	\$ 429,567	\$ -	\$ 15,245,627	\$ -	\$ 11,345,000	\$ -	\$ 53,920,363	21.31%	\$ 1,385	
1998	26,444,680	505,020	-	14,799,646	-	9,845,000	-	51,594,346	19.72%	1,412	
1999	25,734,601	335,000	-	14,158,665	-	8,000,000	-	48,228,266	17.74%	1,359	
2000	25,012,309	1,065,824	-	13,482,684	1,500,000	6,120,000	-	47,180,817	16.51%	1,367	
2001	24,226,531	866,756	-	12,761,703	1,455,000	8,456,809	-	47,766,799	16.70%	1,297	
2002	23,346,115	667,688	45,903	11,995,722	1,405,000	27,284,690	-	64,745,118	22.79%	1,759	
2003	22,713,211	437,819	69,312	11,184,741	1,355,000	38,438,296	-	74,198,379	25.35%	2,015	
2004	22,031,664	400,842	73,412	10,318,760	1,305,000	40,198,689	-	74,328,367	24.62%	2,019	
2005	21,644,380	362,726	35,122	9,392,779	7,250,000	39,070,000	-	77,755,007	25.29%	2,112	
2006	17,774,130	323,144	45,364	8,315,000	15,895,000	41,975,727	-	84,328,365	(2)	2,290	

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

(1) See Statistical Table Number 15 for personal income and population data.

(2) This information is not yet available.

City of Bay City, Michigan
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Less: Self Supporting and Revenue Bonds	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita (1)
1997	\$ 54,830	\$ 652	\$ 29,830	\$ 24,348	5.34%	634.24
1998	50,929	476	26,134	24,319	4.97%	665.40
1999	47,773	114	23,389	24,270	4.64%	683.95
2000	46,710	136	22,073	24,501	4.33%	710.01
2001	43,707	240	23,359	20,108	3.38%	546.17
2002	39,926	298	16,955	22,673	3.64%	615.83
2003	51,698	338	28,985	22,375	3.17%	607.74
2004	50,010	115	27,979	21,916	2.98%	595.29
2005	56,477	53	34,833	21,591	2.78%	586.45
2006	60,044	207	42,270	17,567	2.24%	477.14

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
Taxable value provided by the Bay City Assessor's Office.

(1) See Statistical Table Number 15 for population data.

City of Bay City, Michigan
Direct and Overlapping Governmental Activities Debt
As of June 30, 2006

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
<u>Overlapping Debt:</u>			
Bay County	\$ 28,744,729	20.32%	\$ 5,840,929
Bay City School District	10,490,000	34.50%	3,619,050
Bangor Township Schools	13,615,000	0.39%	53,099
Bay-Arenac Intermediate School District	475,000	17.40%	<u>82,650</u>
TOTAL OVERLAPPING DEBT			9,595,727
<u>Direct Debt:</u>			
City of Bay City	17,774,130	100.00%	<u>17,774,130</u>
TOTAL DIRECT AND OVERLAPPING DEBT			27,369,857

Sources: Debt outstanding and estimated share of overlapping debt provided by Municipal Advisory Council of Michigan.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Bay City. This process recognizes that, when considering the government's ability to issue and repay long term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

City of Bay City, Michigan
Legal Debt Margin Information
Last Ten Fiscal Years
 (amounts expressed in thousands)

	Fiscal Year									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt limit	\$ 45,569	\$ 48,930	\$ 52,252	\$ 56,554	\$ 59,532	\$ 62,557	\$ 70,582	\$ 73,468	\$ 77,667	\$ 78,322
Total net debt applicable to limit	7,207	6,894	6,681	6,083	5,365	4,646	23,731	23,221	28,841	33,462
Legal debt margin	\$ 38,362	\$ 42,036	\$ 45,571	\$ 50,471	\$ 54,167	\$ 57,911	\$ 46,851	\$ 50,247	\$ 48,826	\$ 44,860
Total net debt applicable to the limit as a percentage of debt limit	15.82%	14.09%	12.79%	10.76%	9.01%	7.43%	33.62%	31.61%	37.13%	42.72%

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed valuation, December 31, 2005	\$ 783,217
Debt limit (10% of assessed valuation)	\$ 78,322
Debt applicable to limit: (1)	\$ 33,669
Less:	
Assets in Debt Service funds available for pymnt of princ	<u>207</u>
Total amount of debt applicable to debt limit	<u>33,462</u>
Legal debt margin	<u>\$ 44,860</u>

**City of Bay City, Michigan
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Water System Revenue Bonds

Fiscal Year	Operating Revenue (1)	Operating Expenses (2)	Net Available Revenue	Debt Service (4) (5)		Total	Coverage
				Principal	Interest		
1997	\$ 6,506,269	\$ 4,056,009	\$ 2,450,260	\$ 1,360,000	\$ 426,525	\$ 1,786,525	1.37
1998	6,625,026	4,234,759	2,390,267	1,410,000	371,325	1,781,325	1.34
1999	7,289,701	4,499,601	2,790,100	1,465,000	313,176	1,778,176	1.57
2000	7,257,582	5,018,802	2,238,780	1,525,000	248,479	1,773,479	1.26
2001	6,758,021	4,954,464	1,803,557	1,590,000	177,730	1,767,730	1.02
2002	7,374,747	5,426,593	1,948,154	1,665,000	103,251	1,768,251	1.10
2003	6,879,833	6,145,570	734,263	1,740,000	21,880	1,761,880	0.42
2004	7,157,161	5,638,468	1,518,693	-	-	-	-
2005	7,530,484	5,698,760	1,831,724	-	-	-	-
2006	7,371,955	6,127,635	1,244,320	-	-	-	-

Electric System Revenue Bonds

1997	\$ 21,680,391	\$ 14,850,917	\$ 6,829,474	\$ 8,364,080	\$ 1,284,505	\$ 9,648,585	0.71
1998	21,861,463	15,473,524	6,387,939	605,000	844,273	1,449,273	4.41
1999	22,147,560	15,686,610	6,460,950	800,000	809,148	1,609,148	4.02
2000	23,418,490	16,734,311	6,684,179	835,000	768,273	1,603,273	4.17
2001	21,834,972	18,430,772	3,404,200	880,000	725,398	1,605,398	2.12
2002	23,866,773	18,890,250	4,976,523	925,000	680,273	1,605,273	3.10
2003	22,072,493	19,726,368	2,346,125	970,000	632,898	1,602,898	1.46
2004	22,302,847	19,262,347	3,040,500	1,025,000	580,460	1,605,460	1.89
2005	23,615,498	21,352,687	2,262,811	1,085,000	525,148	1,610,148	1.41
2006	24,363,634	23,453,586	910,048	1,145,000	469,111	1,614,111	0.56

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

(1) Includes interest earnings.

(2) Net of depreciation expense.

**City of Bay City, Michigan
Demographic and Economic Statistics
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Personal Income (2) (amounts expressed in thousands)</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment (3)</u>	<u>Unemployment Rate (4)</u>
1997	38,936	2,530,115	16,499	10,598	4.80%
1998	36,548	2,616,290	20,285	10,287	3.70%
1999	35,485	2,718,432	24,363	10,232	5.20%
2000	34,508	2,857,805	24,458	10,199	3.40%
2001	36,817	2,859,582	24,500	9,904	4.90%
2002	36,817	2,841,552	26,064	9,843	7.10%
2003	36,817	2,927,325	26,771	9,839	8.00%
2004	36,817	3,018,537	26,067	9,790	8.20%
2005	36,817	3,075,000	26,726	9,507	6.80%
2006	36,817	(5)	27,651	9,355	6.50%

Data Sources:

- (1) Population Division, U.S. Census Bureau - Population is an estimate as of July 1, of fiscal year with the exception of 2000 which reflects the actual census.
- (2) Bureau of Economic Analysis, U.S. Department of Commerce
- (3) Local school districts
- (4) U.S. Department of Labor Bureau of Labor Statistics Data - Unemployment rate information is a yearly average not seasonally adjusted.
- (5) Personal income not available at this time for 2006.

**City of Bay City, Michigan
Principal Employers
2005 and 1998**

<u>Employer</u>	<u>2005</u>			<u>1998 (4)</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total County Employment</u>
Bay Regional Medical Center (3)	1,639	1	3.12%	2,447	1	4.66%
Dow Corning Corporation	1,200	2	2.28%	1,622	2	3.09%
Bay City Public Schools (1)	1,168	3	2.22%	1,278	4	2.43%
Delta College	941	4	1.79%	571	8	1.09%
General Motors Powertrain	871	5	1.66%	1,409	3	2.68%
Meijer Inc.	800	6	1.52%	711	6	1.35%
Michigan Sugar Company (2)	700	7	1.33%	-	-	-
Bay County	554	8	1.05%	578	7	1.10%
Consumers Energy	505	9	0.96%	532	9	1.01%
SC Johnson	450	10	0.86%	-	0	-
City of Bay City	-	0	-	429	10	0.82%
Monitor Sugar Company (2)	-	0	-	800	5	1.52%
Totals	<u>\$ 8,828</u>		<u>16.80%</u>	<u>\$ 10,377</u>		<u>19.76%</u>

Information presented for Bay County as this information is not available for the City of Bay City.

Source:

Bay City Times and U.S. Department of Labor Bureau of Labor Statistics

(1) Excludes substitute teachers.

(2) Figure represents peak manufacturing/industry seasons.

(3) Previously Bay Health Systems

(4) 1998 is the most historical year for which information is available.

City of Bay City, Michigan
Full-time Equivalent City of Bay City Employees by Function
Last Ten Fiscal Years

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Function										
General government	61	61	58	63	64	68	69	67	62	62
Public safety										
Police	103	103	103	103	100	100	96	88	83	83
Fire	60	60	60	60	60	60	61	61	58	58
Public works	73	73	73	69	71	67	68	67	65	65
Recreation and culture	11	11	11	14	12	17	17	17	17	17
Community and economic development	5	5	7	7	6	6	8	7	9	9
Electric	43	43	51	45	46	48	48	48	47	47
Water	45	45	44	45	44	44	43	44	44	44
Sewer	42	42	42	42	43	42	42	42	40	40
Total	443	443	449	448	446	452	452	441	425	425

Source: City of Bay City Finance Department

**City of Bay City, Michigan
Operating Indicators by Function
Last Ten Fiscal Years**

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public safety										
Police Department										
Number of citations issued	9,695	8,890	7,887	8,174	10,480	11,925	9,910	7,989	6,183	5,796
Number of complaints filed	10,361	9,352	16,345	6,606	7,281	7,638	7,869	7,166	6,845	5,946
Number of calls for service	47,568	50,061	-	29,288	29,600	35,102	37,194	34,395	32,445	29,470
Number of DUI offenses	244	204	181	228	334	276	376	288	278	185
Fire Department										
Number of emergency runs	-	-	-	-	-	3,861	3,995	3,989	4,663	3,677
Number of fire prevention programs						7	7	7	7	7
Public works										
Streets										
Tons of salt used	-	-	-	-	-	2,190	2,884	2,607	2,784	3,060
Electric Department										
Generating capacity	33,290	33,290	33,290	33,290	33,295	33,295	33,290	33,295	33,295	33,295
Sewer System										
Sanitary and storm sewer (miles)	268	276	276	276.19	276.19	276.19	277.08	277	277	277
Daily average treatment (million gallons)	10	8	8	8	8	8	8	8.6	9	9
Maximum daily capacity (million gallons)	18	18	18	18	18	18	18	18	18	18
Water system										
Miles of water mains	200	230	230	230	230	230	232	232	232	231.86
Daily average consumption (million gallons)	9	9.90	9.90	10.33	9.76	9.76	10.52	9.76	9.31	9.7
Maximum daily treatment (million gallons)	40	40	40	40	40	40	40	40	40	40
Airport										
Private hanger land leases	-	-	-	-	-	-	-	-	-	20
Public hanger lease	-	-	-	-	-	-	-	-	-	1
Take offs & landings	-	-	-	-	-	-	-	-	-	11,490
Cemetery										
Interments	-	-	-	-	-	-	-	-	-	58
Grave sales	-	-	-	-	-	-	-	-	-	25
Foundations set	-	-	-	-	-	-	-	-	-	21
Marina										
Seasonal Dock Leases	-	-	-	-	-	-	-	-	-	50
Transient Dock Rentals	-	-	-	-	-	-	-	-	-	1,540
Recreation and culture										
No. of trees planted	841	922	731	558	792	370	364	392	391	482
Community and Economic Development										
Housing rehabilitation units	21	29	20	9	9	6	14	10	13	5
Emergency rehabilitation units	-	29	29	15	23	20	29	27	47	33

Table 19

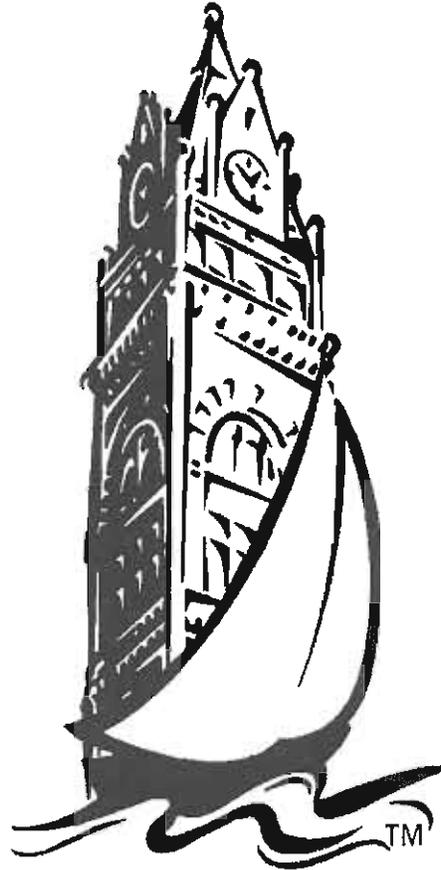
**City of Bay City, Michigan
Capital Asset Statistics by Function
Last Ten Fiscal Years**

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	27	37	38	39	42	39	42	40	34	31
Fire										
Stations	4	4	4	4	4	4	4	4	4	4
Vehicles	-	-	-	15	14	14	14	14	14	13
Public works										
Bascule span bridges	2	2	2	2	2	2	2	2	2	2
Streets (miles)	191	199	199	199	199	199	199	199	199	199
Recreation and culture										
Park areas	15	17	18	18	18	18	18	18	25	24

Sources: Various city departments.

Note: No capital asset indicators are available for the general government and economic development functions.

Not all historical information is available, this table will continue to be populated as more information becomes available.



CITY OF
Bay City

SINGLE AUDIT

The Single Audit is the Auditors' report on internal controls over compliance with applicable laws and regulations. The City of Bay City is required to undergo an annual single audit conforming with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments.



City of Bay City, Michigan
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Federal or (Pass-Through) Grant Number	Amended Grant Amount	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grant Entitlements	14.218	B-98-MC-26-0003	\$ 1,838,000	\$ 17,594
	14.218	B-99-MC-26-0003	1,849,000	5,340
	14.218	B-00-MC-26-0003	1,855,000	40,000
	14.218	B-01-MC-26-0003	1,926,000	92,705
	14.218	B-02-MC-26-0003	1,878,000	331,950
	14.218	B-03-MC-26-0003	1,758,000	335,173
	14.218	B-04-MC-26-0003	1,742,000	287,860
	14.218	B-05-MC-26-0003	1,649,000	920,656
	14.218	n/a	n/a	335,049
				2,366,327
HOME Program	14.239	M98-MC260219	368,000	1,247
	14.239	M02-MC260219	442,000	94,327
	14.239	M03-MC260219	286,780	75,272
	14.239	M04-MC260219	286,796	77,354
	14.239	M05-MC260219	27,229	99,319
	14.239	n/a	n/a	866,018
				1,213,537
Total U.S. Department of Housing and Urban Development				3,579,864
U.S. Department of Justice				
Local Law Enforcement Block Grant	16.592	02-LB-BX-2034	44,035	21,711
Fire Department Grant	16.007	Unknown	50,000	551
Total U.S. Department of Justice				22,262
U.S. Environmental Protection Agency				
Direct award				
Brownfield Assessment Pilot Assistance	66.818	BP-97563501-0	200,000	46,616
Passed through Michigan Department of Environmental Quality				
Drinking Water Revolving Funds	66.468	5194-01	10,382,035	1,831,382
Total U.S. Environmental Protection Agency				1,877,998
U.S. Department of Homeland Security				
Passed through Michigan Department of State Police				
2003 State Homeland Security Grant Program, Part II Training Grant	97.004	Unknown	56,000	2,806
Assistance to Firefighter's Grant	97.044	EMW-2003-FG-18735	61,000	18,837
Total U.S. Department of Homeland Security				21,643
Total Federal Financial Assistance - Primary Government				\$ 5,501,767

Reconciliation to Federal Revenue Recognized in Financial Statements

Federal awards per schedule	\$ 5,501,767
Add: Federal awards administered by the Michigan Department of Transportation Fuel farm at James Clements Airport	255,898
Add: Federal awards administered by the Michigan Department of State Police Spartan rescue vehicle passed through to Bay City fire department Hazardous material identification equipment passed through to Bay City fire department	240,000 65,000
Less: Federal portion of drawdowns from State Revolving Loan Fund for sewer improvements	(1,831,382)
Less: Program income of the Community Development Block Grants and HOME Program	<u>(1,201,067)</u>
Total Federal Revenue Recognized in Financial Statements	<u>\$ 3,030,216</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Bay City and is presented on the modified accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations."

Note 2: Subrecipients

Of the federal expenditures presented in the schedule, the City of Bay City provided federal awards to subrecipients as follows:

<u>Federal/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant Entitlements	14.218	\$ 68,485
HOME Program	14.239	366,937



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**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**

December 6, 2006

To the Honorable Mayor
and City Commission
City of Bay City, Michigan

We have audited 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, Michigan*, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 6, 2006. We did not audit the financial statements of Wenonah Park Properties, Inc. Component Unit, which represents 71.88% of the assets and 62.79% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Wenonah Park Properties, Inc. is based on the report 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Bay City, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Bay City, Michigan'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 or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *City of Bay City, Michigan* in a separate letter dated December 6, 2006.

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



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 6, 2006

To the Honorable Mayor
and City Commission
City of Bay City, Michigan

Compliance

We have audited the compliance of the *City of Bay City, Michigan* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The *City of Bay City, Michigan's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the *City of Bay City, Michigan's* management. Our responsibility is to express an opinion of *City of Bay City, Michigan's* compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 of Bay City, Michigan'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. Our audit does not provide a legal determination of the *City of Bay City, Michigan's* compliance with those requirements.

In our opinion, the *City of Bay City, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the *City of Bay City, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Bay City, Michigan's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We did not audit the financial statements of Wenonah Park Properties, Inc. Component Unit, which represents 71.88% of the assets and 62.79% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Wenonah Park Properties, Inc. is based on the report of the other auditors.

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

CITY OF BAY CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified on financial statements*

Internal controls over financial reporting:
 Material weakness(es) identified? _____ yes X no
 Reportable condition(s) identified not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? _____ yes X no
 Reportable condition(s) identified not considered to be material weaknesses? _____ yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? _____ yes X no

Identification of Major Programs:

<u>CFDA Number</u> 66.468	<u>Name of Federal Program or Cluster</u> Drinking Water Revolving Funds
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Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

CITY OF BAY CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2005-1	The City implemented procedures to remedy this finding.
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