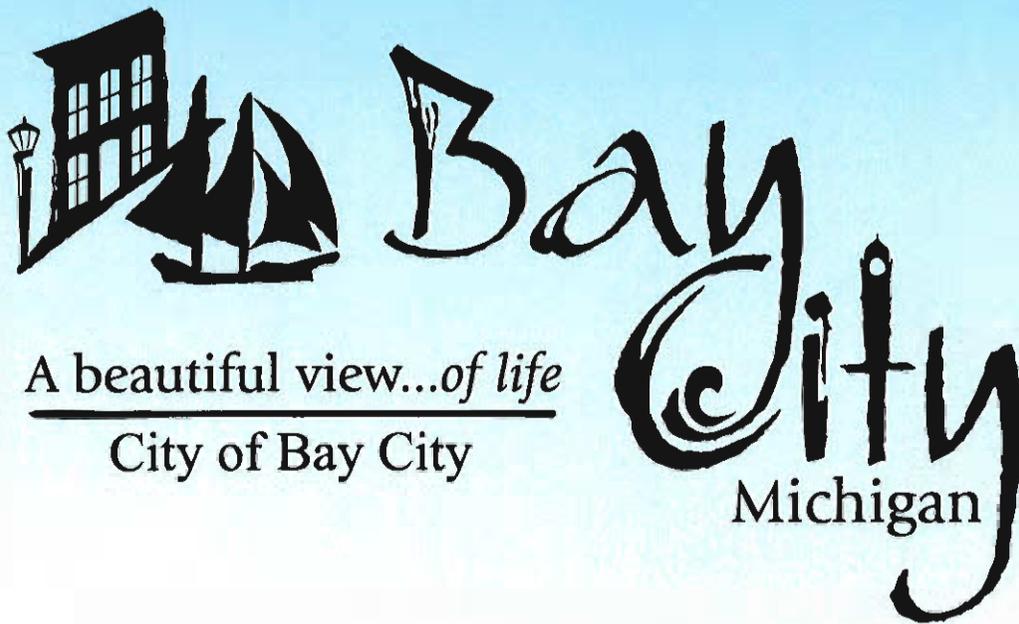


COMPREHENSIVE ANNUAL FINANCIAL REPORT



A beautiful view...of life
City of Bay City

For the
Fiscal Year Ended
June 30, 2010

Bay City, Michigan

"Governmental imagination leading our community into the future."

CITY OF BAY CITY, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2010

LIST OF PRINCIPAL OFFICIALS

MAYOR

Charles M. Brunner

CITY COMMISSIONERS

1st Ward: Christopher J. Shannon	5th Ward: James Irving
2nd Ward: Kevin Novellino	6th Ward: John F. Davidson
3rd Ward: Dennis Banaszak	7th Ward: Douglas Sommer
4th Ward: Lori Dufresne	8th Ward: Kathleen L. Newsham
9th Ward: Larry Elliott	

ADMINISTRATION

CITY MANAGER

Robert V. Belleman

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

Dana L. Muscott

**DEPUTY CITY MANAGER
OF COMMUNITY
DEVELOPMENT**

Steven G. Black

**ACTING WATER TREATMENT
SUPERINTENDENT**

Tom Levensgood

**WASTEWATER TREATMENT
SUPERINTENDENT**

William Kaiser

**HUMAN RESOURCES
DIRECTOR**

Wendy R. White

**ELECTRIC
DIRECTOR**

Phil Newton

**POLICE
CHIEF**

Michael Cecchini

**FIRE
CHIEF**

Greg Michalek

Prepared By:
Cathy Szostak,
Chief Accountant

**CITY OF BAY CITY, MICHIGAN
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December 28, 2010

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, 2010, 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.

State law requires that every general-purpose local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2010.

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. Rehmann Robson has issued an unqualified ("clean") opinion on the City of Bay City's financial statements for the year ended June 30, 2010. The auditors' report on the financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

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.

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 28, 2010

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. (City Loans and Collections Fund), and all Tax Increment Finance Authorities (TIFA's) and Downtown Development Authorities (DDA's) are reported as discretely presented component units.

PROFILE

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. General Motors continues to be the City's principal property taxpayer, however, Bay Regional Medical Center, a healthcare provider, is now the largest employer in the City.

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", "Pig Gig" and "River of Time", are just a few of the activities that draw several hundred thousand people to the community every year.

The City of Bay City operates under a Commission/Manager form of government in which policy making and legislative authority are vested in a governing council (Commission) consisting of a mayor and nine City Commissioners. All are elected on a non-partisan basis. The City is split into nine wards with one Commissioner elected from each ward. Commission members serve four year terms, with four or five members elected every two years (based upon odd or even numbered wards). The mayor is elected at large for a four year term. The Commission appoints the manager, who in turn appoints the heads of the various departments. The City Commission is also responsible for appointing the City Clerk, the City Assessor and the City Treasurer. Once appointed, these City officials are supervised by the City Manager. The City Commission appoints the City attorney also.

The Commission is required to adopt a final budget prior to the beginning of the fiscal year (July 1). The annual budget serves as the foundation for the City of Bay City's financial planning and control. A separate capital improvement budget is prepared for the upcoming fiscal year and the succeeding five years. This budget is updated annually to reflect the current needs and financial position of the City.

FINANCIAL INFORMATION

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 or authorized by the City Commission.

Budgetary 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.

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.

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.

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.

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 28, 2010

LOCAL ECONOMY

The City, along with the nation, is in unprecedented economic times. The City, however, has been fortunate compared to many of its peers by maintaining a highly diversified local economy. As shown in Statistical Table 8 "Principal Property Taxpayers", the ten largest taxpayers in the City of Bay City collectively account for less than nine percent of the total taxable property within the city. In spite of our diversified economy, the importance of the manufacturing industry is vital to our community as it spurs more economic activity and jobs than any other economic sector.

The optimism of businesses about the future of our City has been obvious to anyone observing private sector investment and construction activity across the City. In fiscal year 2010, several manufacturing firms invested or announced plans to invest in new machinery and facilities generating new tax revenues for the City.

In August 2009, General Motors announced a \$37 million investment to refit 34,000 square feet of space at the Bay City facility. This new investment will enable General Motors-Powertrain to make camshafts and connecting rods for the engine that will power the Chevrolet Cruze compact car and the extended-range, electric plug-in Chevy Volt. The new production line is planned to be operational in late 2010. In 2007, the City Commission approved a 100% new personal property exemption for a period of 50 years to help retain the General Motors-Powertrain facility in Bay City and to help the company build a business case for future investment.

In February 2010, General Motors announced the Powertrain Plant was provided an injection of \$10.5 million to produce Ecotec connecting rods for the new Ecotec engines. General Motors is transforming its product portfolio to reduce fuel consumption and emissions, and the next generation Ecotec engine is an integral part of that transformation. The investment is expected to create 15 new jobs.

In April 2010, General Motors announced that they would invest \$32 million in the Powertrain facility by 2013 to set up a line for the production of engine castings and components for GM's Generation V V8 engine – a new generation of fuel-efficient small block engines. The investment is expected to include the addition or retention of more than 80 jobs at the Bay City plant.

The F.P. Horak Company, a leading provider of worldwide print and communication services invested \$1,878,337 in new machinery and equipment enabling the company to print jobs faster, use fewer supplies, and lower the cost to the customer.

Straits Wood Treating, Inc., a subsidiary of Straits Corporation that chemically treats wood for use in residential, industrial and agricultural building applications constructed two dry kiln buildings and acquired new machinery in the amount of \$477,000.

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 28, 2010

Kerkau Manufacturing, a global supplier and manufacturer of precision machined parts, castings, and forgings invested \$461,000 in new machinery to continually provide the highest quality of products as efficiently as possible.

SC Johnson & Son, Inc., a manufacturer of Saran Plastic Wraps and Ziploc brand products at the Bay City facility acquired \$116,000 in new machinery and equipment to meet consumer demand.

Construction was completed on a new 7,900 sq. ft. Social Security Administration office complex in downtown Bay City. The project generated \$1.85 million in new capital investment and is expected to create up to 30 new jobs. The office opened June 7, 2010.

A new 7,500 sq. ft. medical facility was constructed in downtown Bay City housing Children's Medical Group of Saginaw Bay and Sound Asleep Sleep Diagnostic Lab. The facility opened September 10, 2010.

The following are notable investments in this fiscal year that were granted a Michigan Public Act 198 or Public Act 146 tax abatement.

Company	Improvements	Investment
Dresco Machining & Fabrication	New Machinery and Equipment	\$ 76,730
Straits Wood Treating, Inc.	Two dry kiln buildings and steam boiler	477,000
Kerkau Manufacturing	New Machinery	460,572
The FP Horak Company	New Machinery and Equipment	1,878,337
SC Johnson & Son, Inc.	New Machinery and Equipment	115,600
Steve Ingersoll	Rehab to meeting space with food service, entertainment, and ballroom	750,000
Steve Ingersoll	Creation of five business spaces and five residential spaces	700,000

LONG-TERM FINANCIAL PLANNING

Unreserved, undesignated fund balance in the general fund is currently at 25.4% of total general fund revenues which falls within the policy guidelines set by the Commission for budgetary and planning purposes. The Commission has established a fund balance policy within the general fund to maintain at least 15% of total general fund revenues. By maintaining an appropriate level of fund balance, the City is able to reduce or eliminate the need to borrow to finance future capital projects or expenditures.

MAJOR INITIATIVES

In early 2009, the Bay Area Family YMCA acquired a former downtown commercial site. In June of 2009, the Bay City Brownfield Redevelopment Authority and the Bay City

Honorable Mayor, City Commission,
 And Citizens of Bay City, Michigan
 December 28, 2010

Commission approved a Brownfield Redevelopment Plan which enabled the YMCA to apply for Brownfield Michigan Business Tax (MBT) Credits to assist in the construction of a new health and fitness facility in Bay City. The YMCA then negotiated with private developers that could receive and utilize the tax credits, which were passed on to the YMCA to help with the cost to construct the project. The new facility is currently under construction, which consists of a 107,000 square foot LEED Silver Certified building, and is estimated to cost approximately \$18.5 Million.

The following are notable grants secured by the City during this fiscal year:

Grantor	Project	Amount
Urban Revitalization Grant	Wayfinding Signage	\$ 40,000
EPA	Brownfield Revolving Loan Fund Capitalization	1,000,000
Michigan Department of Transportation	Airport boom mower	<u>31,200</u>
	Total	\$ 1,071,200

On April 10, 2010, the City received notification that the U.S. EPA had awarded Bay City a \$1 Million grant to capitalize a revolving fund for which the City will provide loans to support environmental cleanup activities for riverfront sites contaminated with hazardous substances and petroleum compounds.

In 2008, the City was awarded a \$200,000 cleanup grant from the U.S. EPA to assist in the redevelopment of a key 48 acre riverfront site known as the Uptown at Rivers Edge property. The EPA funds were utilized in two key areas of the site to cleanup impacted soil and groundwater contamination resulting from historical industrial use. Between the end of 2009 and the summer of 2010, the City utilized these funds to remediate roughly 6,029 tons of contaminated soils, 637 tons of contaminated concrete and to extract and treat approximately 68,000 gallons of contaminated groundwater.

The Wenonah Park Phase One renovation was completed. The project resulted in a new riverwalk promenade with brick pavers, lighting, ornamental guardrail, benches, trash receptacles, power/water pedestals for boats and special events, an overlook area and two new lower terraces that provide access to the river for fishing and for mooring smaller boats. The total cost of this project was approximately \$1,300,000 with \$650,000 received in state and local foundation grant funds.

Finally, the City has been able to leverage additional resources to improve City park facilities. On March 16, 2009, the City Commission authorized a grant application to the Michigan Natural Resources Trust Fund (MNRTF) for Birney Park. The Michigan Legislature approved this grant that provides \$325,000 towards the project. The local match of \$256,000 will be provided by Bay Area Housing (BAH) Inc. Of this amount, BAH has already provided \$156,000 to the City. On October 1, 2009, BAH applied for grant funding from the Michigan State Housing Development Authority (MSHDA) for the remaining \$100,000. When constructed in spring 2011, upgrades to the park will include: utility improvements; wider pedestrian walks that meet ADA requirements; a

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 28, 2010

new central plaza area paved in brick; improvements to the picnic shelter; and site beautification such as, landscaping, ornamental lighting and site furniture.

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.

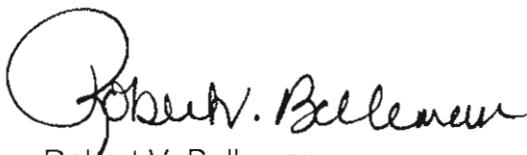
Awards: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bay City for its comprehensive annual financial report for the fiscal year ended June 30, 2009. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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,

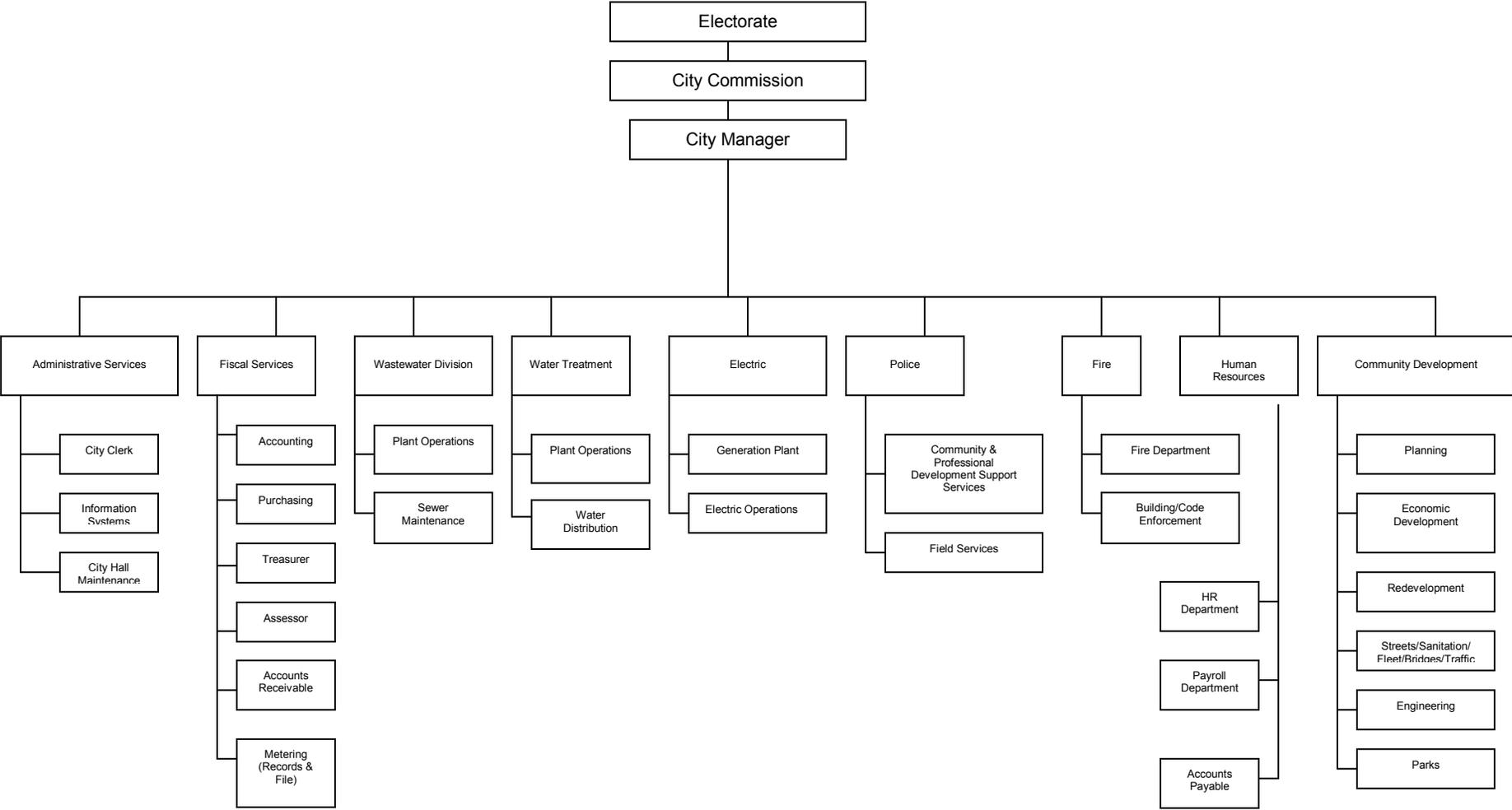


Robert V. Belleman
City Manager



Cathleen Szostak
Chief Accountant

City of Bay City Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Bay City
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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

Required Supplementary Information

Supplementary Financial Information

INDEPENDENT AUDITORS' REPORT

December 28, 2010

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, 2010, 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 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Bay City, Michigan**, as of June 30, 2010, 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 funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

As discussed in Note 12, beginning net assets of the Water Street DDA have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2010, 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 important for assessing the results of our audit.

The Management's Discussion and Analysis presented on pages 3-12 and the Schedules of Funding Progress and Employer's Contributions on pages 69-71 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 introductory section, combining and individual fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

**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, 2010. 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, 2010:

- The assets of the City of Bay City exceeded its liabilities at the close of the most recent fiscal year by \$194,767,375 (net assets). Of this amount, \$48,972,422 (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 decreased by \$2,053,830 from the previous year due primarily to an increase in the City's obligation for other post employment benefits of \$4,347,314. The business-type activities net assets increased by \$49,104, due primarily to increased revenues accompanied by a reduction in the cost of sales and service in the sewer fund. As a result, the sewer fund's net assets increased by \$344,238. However, both the electric and water funds experienced a reduction in net assets due to reduced sales as a result of the economic downturn to offset the increase in the sewer fund. The net assets of the component units experienced an increase of \$331,336 primarily due to increased net assets in the Midland Street TIFA, Water Street DDA, Brownfield Redevelopment Authority as a result of increased captured tax increment and reduced expenses.
- At the close of the fiscal year, the City of Bay City's governmental funds reported combined ending fund balances of \$10,854,361, an increase of \$271,584 in comparison with the prior year. All but \$457,304 of this total amount is available for spending at the government's discretion (unreserved fund balance).
- At the end of the fiscal year, unreserved fund balance for the general fund was \$5,439,644 or about 25.1% of the total general fund expenditures.
- The City of Bay City's total debt decreased by \$2,389,163, or about 2%, during the fiscal year despite the fact that the net OPEB obligation increased by \$4,347,314.
- The City continues its commitment to improving its infrastructure and this year completed many projects including Wenonah Park at a total project cost of \$1,039,833, reconstruction/preservation of several streets totaling \$1,614,215 and spent an additional \$315,104 on new sidewalks. These projects were primarily funded by grant dollars.

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

- State-shared revenue, the City's second largest revenue source in the general fund, decreased \$828,776 from last year. Since the State of Michigan has reduced the City's allocation for seven of the last eight years, 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 finance, public safety and parks departments. As a result, the decreased revenue was offset by a reduction in expenditures and the general fund only experienced a decrease of \$204,717 in fund balance instead of the \$1,131,518 that was anticipated in the budget.

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 of Bay 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. 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.

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

The City as a Whole

For the fiscal year ended June 30, 2010, assets exceeded liabilities by \$194,767,375. By far, the largest portion of the City's net assets (73.6 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 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, 2010 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and other assets	\$ 26,930	\$ 27,303	\$ 45,812	\$ 44,755	\$ 72,742	\$ 72,058
Capital assets	<u>77,764</u>	<u>77,040</u>	<u>147,730</u>	<u>144,624</u>	<u>225,494</u>	<u>221,664</u>
Total assets	104,694	104,343	193,542	189,379	298,236	293,722
Current and other liabilities	5,030	4,739	3,953	3,992	8,983	8,731
Long-term liabilities	<u>24,756</u>	<u>26,750</u>	<u>67,725</u>	<u>63,474</u>	<u>92,481</u>	<u>90,224</u>
Total liabilities	29,786	31,489	71,678	67,466	101,464	98,955
Net Assets:						
Invested in capital assets –						
Net of related debt	70,688	58,517	82,703	85,224	153,391	143,741
Restricted	2,229	2,054	-	-	2,229	2,054
Unrestricted	<u>1,991</u>	<u>12,283</u>	<u>39,161</u>	<u>36,689</u>	<u>41,152</u>	<u>48,972</u>
Total net assets	<u>\$ 74,908</u>	<u>\$ 72,854</u>	<u>\$ 121,864</u>	<u>\$ 121,913</u>	<u>\$ 196,772</u>	<u>\$ 194,767</u>

The City's governmental activities net assets decreased by \$2,053,830 while the net assets of its business-type activities increased by \$49,104. The change in net assets for the governmental activities was primarily due to an increase in the obligation for other post employment benefits. The increase in net assets of the business type activities is attributable to a reduction in the cost of sales and service in the sewer fund along with increased revenues. The water fund's revenues increased as a result of increased rates even though the number of units sold was down. The electric fund experienced a reduction in sales which is attributable to the economic downturn of the economy. The net effect of the governmental and business-type activities resulted in the combined net assets decreasing by \$2,004,726 from \$196,772,101 in 2009, to \$194,767,375 in 2010.

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 \$12,282,722, or about 35.0% of the governmental activities expenditures. An additional portion of the City's net assets of its governmental activities, \$2,053,986 or

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

approximately 2%, represents resources that are subject to external restrictions on how they may be used.

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>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Revenue						
Program revenue						
Charges for services	\$ 7,034	\$ 7,336	\$ 49,765	\$ 51,112	\$ 56,799	\$ 58,448
Operating grants and contributions	7,760	6,346	51	225	7,811	6,571
Capital grants and contributions	1,461	706	98	-	1,559	706
General revenue						
Property taxes	14,249	14,012	-	-	14,249	14,012
Grants and contributions not restricted to specific programs	5,104	4,383	-	-	5,104	4,383
Unrestricted investment earnings	709	462	1,048	580	1,757	1,042
Miscellaneous	107	92	72	28	179	120
Total Revenue	<u>36,424</u>	<u>33,337</u>	<u>51,034</u>	<u>51,945</u>	<u>87,458</u>	<u>85,282</u>
Program Expenses						
General Government	6,410	6,891	-	-	6,410	6,891
Public safety	12,808	12,811	-	-	12,808	12,811
Public works	10,919	11,437	524	528	11,443	11,965
Community and economic development	1,903	1,819	-	-	1,903	1,819
Recreation and culture	1,074	1,178	-	-	1,074	1,178
Interest on long-term debt	1,267	1,223	-	-	1,267	1,223
Electric	-	-	30,419	30,184	30,419	30,184
Water	-	-	8,746	8,705	8,746	8,705
Sewer	-	-	12,573	12,511	12,573	12,511
Total program expenses	<u>34,381</u>	<u>35,359</u>	<u>52,262</u>	<u>51,928</u>	<u>86,643</u>	<u>87,287</u>
Increase (decrease) in net assets before transfers and special items	2,043	(2,022)	(1,228)	17	815	(2,005)
Transfers	<u>(18)</u>	<u>(32)</u>	<u>18</u>	<u>32</u>	<u>-</u>	<u>-</u>
Change in net assets	2,025	(2,054)	(1,210)	49	815	(2,005)
Net assets beginning of year	<u>72,883</u>	<u>74,908</u>	<u>123,074</u>	<u>121,864</u>	<u>195,957</u>	<u>196,772</u>
Net assets end of year	<u>\$ 74,908</u>	<u>\$ 72,854</u>	<u>\$ 121,864</u>	<u>\$ 121,913</u>	<u>\$ 196,772</u>	<u>\$ 194,767</u>

Governmental Activities

The City's total governmental net assets decreased by \$2,053,830. Key elements of this decrease are as follows:

- The obligation for the other post employment benefits increased by \$2,879,486.
- Revenues decreased by approximately \$3,087,000 as a result of a decrease in State-shared revenues, reduced interest earnings, decreased property tax earnings and decreased grant revenue.
- Capital assets net of accumulated depreciation decreased and capital outlay also decreased in fiscal year 2010.
- Closer management of resources to better control costs.

**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 increase in net assets of \$49,104 due primarily to the following:

- The sewer and water funds experienced increased revenues due to a rate increase while reducing operating expenses. The electric fund did not raise rates in fiscal year 2010 and saw a reduction in revenues. As a result of the current economic climate, all three funds experienced a reduction in sales.
- With the implementation of Governmental Accounting Standards Board Statement 45 (GASB 45) last year, the unfunded portion of the City's required contribution to retiree healthcare was placed on the balance sheet as a liability. In fiscal year 2010, this resulted in an additional liability of \$1,467,828 in the City's electric, water and sewer utilities.
- Although the Oakridge Cemetery Fund reported an increase in net assets of \$2,851 and James Clements Airport Fund reported an increase in its net assets of \$92,644, both funds continued to require subsidies from the general fund in the amounts of \$62,005 and \$53,568, respectively, to assist with operating expenses.
- Capital assets net of accumulated depreciation decreased approximately \$2.5 million and investment in capital assets in fiscal year 2010 also decreased.

The City's Funds

An analysis of the City's major funds begins on page 16, 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 2010 include the general fund, major streets 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 \$10,343,558 in 2010. The most significant service accounted for in this fund is public safety, which incurred expenses of \$11,350,498 in 2010. Public safety expenditures equate to approximately 52.5% of the total expenditures and are more than the amount of property taxes generated. At the fiscal year ended June 30, 2010, the unreserved fund balance of the general fund was \$5,439,644. As a measure of the general fund's liquidity, it may be useful to compare

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

the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 25.1% of the total general fund expenditures.

The major streets fund accounts for major streets maintenance funds received from the State of Michigan, as well as, property tax and other revenues used to maintain and reconstruct major streets within the City. During the fiscal year ended June 30, 2010, \$1,165,427 was spent on capital outlay for reconstruction and resurfacing streets and an additional \$2,309,095 was spent on preservation and maintenance of existing streets within this fund.

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, 2010, \$833,688 was spent to assist residents of the City with home improvements.

Some notable items in the other governmental activities are:

- The local street fund expended \$448,788 on reconstruction and resurfacing of various streets and an additional \$867,657 to maintain and preserve local streets within the City and ended the year with \$136,578 in fund balance.
- The building inspection fund ended the fiscal year with an unreserved fund balance of \$121,734. No general fund subsidy was required to support the operations of this fund this year primarily due to a reduction in staff resulting in reduced expenditures.
- The solid waste fund ended the fiscal year with an unreserved fund balance of \$985,497. This is the eighth 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 community development block grant fund expended \$709,494 on economic development activities and an additional \$315,104 on capital outlay.
- The public improvement fund ended the year with an unreserved fund balance of \$1,438,587. The City Commission approved transfers from the general fund totaling \$1,047,352 in previous fiscal years and an additional \$442,000 in fiscal year 2010 in order to accumulate funding for the replacement of the doors and roof on City Hall. Currently, \$1,219,311 remains designated for this project, which is expected to be completed next year.
- The bond sinking fund has accumulated a fund balance of \$836,325 to pay future debt service payments. This is representative of approximately 49% of the required bond payment in fiscal year 2011. The payments continue through fiscal year 2021.

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

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 City anticipated a reduction in its state shared revenues of \$420,837 and reduced budgeted revenue by this amount. To make up for this loss in revenue, several expenditure accounts were reduced including Finance salaries and wages in the amount of \$86,029 where a vacancy was not filled; the contingency account was reduced by \$29,267; professional services in the elections cost center was reduced by \$30,000; the healthcare savings accounts across various cost centers were reduced by \$38,937; \$192,938 was taken from fund balance, and the remainder came from other miscellaneous accounts throughout the general fund.
- A grant from the Environmental Protection Agency was awarded to the City to assist in environmental cleanup activities. As a result, budgeted intergovernmental revenues were increased by \$600,000 and environmental expenditures were also increased by the same amount.
- A transfer to the local street fund was added to the budget in the amount of \$136,578 for various local street improvements.
- A Justice Assistance grant was received by the Police Department in the amount of \$51,605 and the budget was amended to reflect the revenue and increase the Police equipment account to expend these funds.
- The planning department increased their professional services account by \$35,500 to cover the cost of the design work for Birney Park. The funding for this project came from Bay Area Housing and local contributions revenue was also increased in the budget.

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

During the year, actual revenues were less than budgeted revenues by \$541,753 as a result of a portion of an EPA Brownfield grant and a State grant for renovations of Wenonah Park not being received since the projects were either delayed into the following fiscal year or final cost estimates were adjusted. Also state revenue sharing was less than anticipated in the budget despite the amendment earlier in the fiscal year. Actual expenditures were also less than budgetary estimates by \$1,116,077, and transfers out were less than estimates by \$348,637. This was as a result of several positions remaining vacant throughout the fiscal year and capital projects that were delayed to the following fiscal year. As a result, the general fund experienced a

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

decrease of \$204,717 in fund balance instead of the budgeted reduction projected in the final amended budget to be \$1,131,518.

Capital Assets and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounted to \$221,663,907 (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 \$900,827 on various infrastructure rehabilitation projects and an additional \$570,121 on retention basin electrical improvements.
- The water fund spent \$727,258 to complete various water system improvements.
- The electric fund purchased materials and completed various capital projects totaling \$2,527,546 including the Saginaw Street Substation in the amount of \$352,354.
- James Clements Airport completed its construction of a seaplane base spending an additional \$230,110 on the project.
- Local street improvements totaled \$448,788 and the major street fund spent an additional \$1,165,427 on street improvements.
- The renovation of Wenonah Park was completed with \$620,733 spent in the Water Street TIFA (a component unit) and \$419,100 expended from the general fund on the project. A grant was received to cover that portion paid for by the general fund.

The investment in capital assets of the component units totals \$6,103,156 as of June 30, 2010. During fiscal year ended June 30, 2010, \$95,031 was spent on streetscaping at the Social Security Building and the renovation of Wenonah Park was completed as mentioned above.

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

Long-term Debt. In the fiscal year ended June 30, 2010, the City had total outstanding debt of \$90,223,886, which included a current portion of \$7,735,630. Of this amount, \$71,594,013 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:

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

	<u>2009</u>	<u>2010</u>
General obligation bonds	\$ 37,003,797	\$ 34,749,120
Revenue bonds	7,817,500	6,050,000
Other notes/leases payable	39,401,902	37,123,820
Retiree healthcare	3,961,763	8,309,077
Compensated absences	4,428,087	3,991,869
Total	<u>\$ 92,613,049</u>	<u>\$ 90,223,886</u>

The City's total debt decreased by \$2,389,163 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 \$62,159,000 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 a concern 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's healthcare costs rose about 6% over the previous year, additional increases are expected in the future. 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 16.9615 mills for general operating in the 2010/2011 budget.

Another issue of concern to the City is the unfunded liabilities of its defined benefit retirement plan of approximately \$20 million and its retiree healthcare plan of approximately \$123 million. In the fiscal year ended June 30, 2010, the City contributed an additional \$1.1 million over and above the required contribution of \$2.2 million to its defined benefit plan and another \$4.9 million towards its \$9 million required contribution for retiree healthcare. The City budgeted an additional contribution to its defined benefit retirement plan in the upcoming fiscal year and intends to continue this trend in future budgets as well. The City will address the unfunded liability within its retiree healthcare plan by continuing its contribution to a healthcare trust fund for future retiree healthcare obligations along with funding its current obligation for present retirees until it is financially able to contribute the entire required contribution.

The City's water and sewer utilities instituted a rate increase in the year ended June 30, 2010. Additional rate increases are anticipated in the next fiscal year as well. These rate increases were necessary as a result of operating cost increases for all of the utilities 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, as well as funding to implement an automatic meter reading system for the water and electric utilities. All three utilities will be evaluated on a yearly basis to determine the appropriate charges for services reflective of the cost of doing business.

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

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.

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.

Government-Wide Financial Statements

The Government-Wide Financial Statements were prepared to allow the user of the financial report to obtain an overview and broad perspective of the City of Bay City's operation and financial position.

CITY OF BAY CITY, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 19,330,147	\$ 25,154,306	\$ 44,484,453	\$ 1,320,428
Receivables	9,558,125	7,883,096	17,441,221	113,193
Internal balances	(3,487,661)	3,487,661	-	-
Prepaid items and other assets	278,599	205,073	483,672	1,635
Inventories	298,689	2,926,499	3,225,188	-
Net pension asset	1,325,377	5,098,642	6,424,019	31,263
Nondepreciable capital assets	19,074,196	995,128	20,069,324	145,697
Depreciable capital assets, net	57,965,895	143,628,688	201,594,583	5,957,459
Total assets	104,343,367	189,379,093	293,722,460	7,569,675
Liabilities				
Accounts payable and other accrued expenses	4,552,738	3,243,202	7,795,940	87,993
Interest payable	101,145	405,747	506,892	12,898
Unearned revenue	85,371	342,996	428,367	-
Noncurrent liabilities				
Due within one year	1,334,191	6,401,439	7,735,630	155,000
Due in more than one year	19,776,771	54,402,408	74,179,179	1,875,000
Net OPEB obligation	5,639,184	2,669,893	8,309,077	-
Total liabilities	31,489,400	67,465,685	98,955,085	2,130,891
Net Assets				
Invested in capital assets, net of related debt	58,517,259	85,223,708	143,740,967	4,073,156
Restricted for				
Debt service	836,325	-	836,325	-
Capital projects	1,217,661	-	1,217,661	-
Unrestricted	12,282,722	36,689,700	48,972,422	1,365,628
Total net assets	\$ 72,853,967	\$ 121,913,408	\$ 194,767,375	\$ 5,438,784

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, 2010

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	\$ 6,890,999	\$ (3,804,389)	\$ 845,212	\$ 934,934	\$ -	\$ (1,306,464)
Public safety	12,799,235	11,700	836,420	303,194	-	(11,671,321)
Public works	11,357,715	79,142	2,052,213	2,987,545	705,712	(5,691,387)
Recreation and cultural	1,177,957	-	60,509	514,769	-	(602,679)
Economic development	1,682,040	136,574	(262,655)	1,605,471	-	(475,798)
Interest on debt	1,223,466	-	-	-	-	(1,223,466)
Total governmental activities	<u>35,131,412</u>	<u>(3,576,973)</u>	<u>3,531,699</u>	<u>6,345,913</u>	<u>705,712</u>	<u>(20,971,115)</u>
Business-type activities						
Electric	28,807,775	1,375,888	29,869,418	-	-	(314,245)
Water	7,594,888	1,110,388	8,193,386	-	-	(511,890)
Sewer	11,461,130	1,049,910	12,826,461	1,714	-	317,135
Oak Ridge Cemetery	122,135	-	60,292	-	-	(61,843)
James Clements Airport	221,022	-	34,418	223,495	-	36,891
Liberty Harbor Marina	166,740	18,131	128,287	-	-	(56,584)
Total business-type activities	<u>48,373,690</u>	<u>3,554,317</u>	<u>51,112,262</u>	<u>225,209</u>	<u>-</u>	<u>(590,536)</u>
Total primary government	<u>\$ 83,505,102</u>	<u>\$ (22,656)</u>	<u>\$ 54,643,961</u>	<u>\$ 6,571,122</u>	<u>\$ 705,712</u>	<u>\$ (21,561,651)</u>
Component units						
Downtown Development Authority	\$ 166,680	\$ 8,826	\$ 146,579	\$ -	\$ -	\$ (28,927)
Midland Street TIFA	25,305	1,505	-	-	-	(26,810)
Kresge's DDA	2,932	-	-	-	-	(2,932)
Marquette District TIFA	480,070	8,489	-	-	-	(488,559)
Water Street DDA	267,291	3,836	-	-	167,000	(104,127)
Marina Development TIFA	9,373	-	-	-	-	(9,373)
Allen Healthcare DDA	13,514	-	-	-	-	(13,514)
Knepp's DDA	3,184	-	-	-	-	(3,184)
Brownfield Redevelopment	37,092	-	-	-	-	(37,092)
Columbus Avenue Management Board	6,583	-	7,975	405	-	1,797
Midland Street Management Board	11,900	-	19,360	-	-	7,460
P.O.W.E.R.	49,234	-	-	-	-	(49,234)
Downtown Management Board	273,046	-	64,530	98,383	-	(110,133)
Total component units	<u>\$ 1,346,204</u>	<u>\$ 22,656</u>	<u>\$ 238,444</u>	<u>\$ 98,788</u>	<u>\$ 167,000</u>	<u>\$ (864,628)</u>

continued.....

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

**CITY OF BAY CITY, MICHIGAN
STATEMENT OF ACTIVITIES (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Changes in net assets				
Net (expense) revenue	\$ (20,971,115)	\$ (590,536)	\$ (21,561,651)	\$ (864,628)
General revenues				
Property taxes	14,012,116	-	14,012,116	1,082,482
Grants and contributions not restricted to specific programs	4,382,501	-	4,382,501	-
Unrestricted investment earnings	462,009	580,227	1,042,236	71,508
Miscellaneous revenue	92,273	27,799	120,072	41,974
Transfers - internal activities	(31,614)	31,614	-	-
 Total general revenues and transfers	 18,917,285	 639,640	 19,556,925	 1,195,964
 Change in net assets	 (2,053,830)	 49,104	 (2,004,726)	 331,336
 Net assets, beginning of year, as restated	 <u>74,907,797</u>	 <u>121,864,304</u>	 <u>196,772,101</u>	 <u>5,107,448</u>
 Net assets, end of year	 <u>\$ 72,853,967</u>	 <u>\$ 121,913,408</u>	 <u>\$ 194,767,375</u>	 <u>\$ 5,438,784</u>

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

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, 2010

	General Fund	Major Streets Fund	Rehabilitation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 4,412,920	\$ -	\$ 14,000	\$ 4,313,864	\$ 8,740,784
Receivables (net of allowance for uncollectibles)					
Accounts	152,519	12,288	8,100	559,842	732,749
Delinquent taxes	37,110	-	-	5,569	42,679
Special assessments	95,514	-	-	38,564	134,078
Accrued interest	30,742	-	-	30,299	61,041
Notes	-	-	7,336,176	-	7,336,176
Due from other funds	1,675,043	22,700	-	159,824	1,857,567
Due from other governments	535,501	315,992	2,390	320,135	1,174,018
Inventories	-	156,940	-	-	156,940
Other assets	259	-	-	-	259
Total assets	\$ 6,939,608	\$ 507,920	\$ 7,360,666	\$ 5,428,097	\$ 20,236,291
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 289,068	\$ 60,055	\$ 2,390	\$ 254,851	\$ 606,364
Accrued liabilities	595,486	32,434	-	48,662	676,582
Due to other funds	138,999	32,387	-	230,317	401,703
Due to other governmental units	70,209	112,507	14,000	-	196,716
Deposits	1,390	-	-	44,883	46,273
Deferred revenue	104,448	-	7,344,276	5,568	7,454,292
Total liabilities	1,199,600	237,383	7,360,666	584,281	9,381,930
Fund balances					
Reserved for					
Inventories	-	156,940	-	-	156,940
Drug Enforcement	300,364	-	-	-	300,364
Unreserved					
Undesignated	5,439,644	-	-	-	5,439,644
Undesignated, reported in nonmajor					
Special Revenue Funds	-	113,597	-	2,789,830	2,903,427
Debt Service Funds	-	-	-	836,325	836,325
Capital Project Funds	-	-	-	1,217,661	1,217,661
Total fund balances	5,740,008	270,537	-	4,843,816	10,854,361
Total liabilities and fund balances	\$ 6,939,608	\$ 507,920	\$ 7,360,666	\$ 5,428,097	\$ 20,236,291

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, 2010

Fund balances - total governmental funds	\$ 10,854,361
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in <i>governmental activities</i> are not financial resources, and are therefore not reported in the funds.	
Add: capital assets	162,540,524
Subtract: accumulated depreciation	(89,952,246)
Net pension assets of governmental activities are not financial resources, and are therefore not reported in the funds.	
Add: net pension asset	1,023,725
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	7,398,543
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	7,216,239
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Subtract: interest payable	(99,253)
Subtract: bonds payable	(16,284,012)
Subtract: capital leases	(4,825)
Subtract: loans payable	(2,085,000)
Subtract: net OPEB liability	(5,317,203)
Subtract: compensated absences	(2,436,886)
Net assets of governmental activities	<u>\$ 72,853,967</u>

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, 2010

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Rehabilitation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 10,343,558	\$ 798,803	\$ -	\$ 1,877,631	\$ 13,019,992
Licenses and permits	23,900	-	-	491,116	515,016
Intergovernmental	6,953,804	2,716,078	458,770	2,729,674	12,858,326
Charges for services	4,319,268	-	-	2,001,408	6,320,676
Fines and forfeitures	124,410	-	-	24,485	148,895
Interest revenue	137,117	2,878	6,243	100,065	246,303
Miscellaneous revenues	216,746	13,754	116,736	172,619	519,855
Total revenues	<u>22,118,803</u>	<u>3,531,513</u>	<u>581,749</u>	<u>7,396,998</u>	<u>33,629,063</u>
Expenditures					
Current					
General government	5,150,646	-	-	-	5,150,646
Public safety	11,350,498	-	-	720,664	12,071,162
Public works	1,333,634	2,309,095	-	867,657	4,510,386
Environmental	261,745	-	-	1,963,492	2,225,237
Parks and recreation	838,337	-	-	-	838,337
Economic development	-	-	833,688	1,387,430	2,221,118
Retiree healthcare	1,779,767	-	-	-	1,779,767
Additional retirement	113,374	-	-	-	113,374
Capital outlay	750,229	1,165,427	-	778,492	2,694,148
Debt service					
Principal retirement	50,890	-	-	1,660,000	1,710,890
Interest and fiscal charges	-	4,212	-	2,350	6,562
Total expenditures	<u>21,629,120</u>	<u>3,478,734</u>	<u>833,688</u>	<u>7,380,085</u>	<u>33,321,627</u>
Revenues over (under) expenditures	<u>489,683</u>	<u>52,779</u>	<u>(251,939)</u>	<u>16,913</u>	<u>307,436</u>
Other financing sources (uses)					
Issuance of debt	3,840	-	-	-	3,840
Transfers in	81,400	-	374,918	1,115,021	1,571,339
Transfers out	(779,640)	-	(122,979)	(708,412)	(1,611,031)
Total other financing sources (uses)	<u>(694,400)</u>	<u>-</u>	<u>251,939</u>	<u>406,609</u>	<u>(35,852)</u>
Net change in fund balance	<u>(204,717)</u>	<u>52,779</u>	<u>-</u>	<u>423,522</u>	<u>271,584</u>
Fund balance, beginning of year	<u>5,944,725</u>	<u>217,758</u>	<u>-</u>	<u>4,420,294</u>	<u>10,582,777</u>
Fund balance, end of year	<u>\$ 5,740,008</u>	<u>\$ 270,537</u>	<u>\$ -</u>	<u>\$ 4,843,816</u>	<u>\$ 10,854,361</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 THE FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Net change in fund balances - total governmental funds **\$ 271,584**

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	2,954,167
Subtract: net value of assets disposed	(48,606)
Subtract: depreciation expense	(3,687,712)

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	53,949
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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	1,660,000
Add: principal payments on capital leases	8,390
Add: principal payments on loans	42,500
Add: decrease in interest accrued on bonds	1,781
Subtract: proceeds on new capital lease	(3,840)
Subtract: interest expense on zero coupon bond	(1,212,273)

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.

Add: decrease in the accrual of compensated absences	355,177
Subtract: increase in the accrual for the net OPEB liability	(2,729,481)
Add: increase in the net pension asset	139,845

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.

Subtract: net operating loss from governmental activities accounted for in internal service funds	(92,238)
Add: nonoperating revenue recorded in internal service funds	224,849
Add: net transfers	8,078

Change in net assets of governmental activities **\$ (2,053,830)**

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 THE FUND BALANCE
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes	\$ 10,369,855	\$ 10,369,855	\$ 10,343,558	\$ (26,297)
Licenses and permits	22,050	22,050	23,900	1,850
Intergovernmental	7,185,841	7,436,623	6,953,804	(482,819)
Charges for services	4,318,772	4,318,772	4,319,268	496
Fines and forfeitures	114,000	114,000	124,410	10,410
Interest revenue	195,000	195,000	137,117	(57,883)
Miscellaneous revenues	182,516	204,256	216,746	12,490
Total revenues	<u>22,388,034</u>	<u>22,660,556</u>	<u>22,118,803</u>	<u>(541,753)</u>
Expenditures				
Current				
General government				
Legislative and executive	404,317	403,237	385,314	17,923
Administration	1,246,396	1,133,078	669,171	463,907
Finance	3,288,123	3,239,538	3,192,636	46,902
Legal counsel	156,000	156,000	150,624	5,376
Planning and zoning	274,716	309,866	304,565	5,301
Community/economic development	456,736	473,276	448,336	24,940
Total general government	<u>5,826,288</u>	<u>5,714,995</u>	<u>5,150,646</u>	<u>564,349</u>
Public safety				
Police	6,228,008	6,202,589	6,215,432	(12,843)
Fire	5,103,240	5,074,091	5,135,066	(60,975)
Total public safety	<u>11,331,248</u>	<u>11,276,680</u>	<u>11,350,498</u>	<u>(73,818)</u>
Public works	<u>1,322,575</u>	<u>1,321,749</u>	<u>1,333,634</u>	<u>(11,885)</u>
Environmental	<u>51,000</u>	<u>651,000</u>	<u>261,745</u>	<u>389,255</u>

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 THE FUND BALANCE
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures (continued)				
Parks and recreation	\$ 869,832	\$ 871,318	\$ 838,337	\$ 32,981
Retiree healthcare	1,779,767	1,779,767	1,779,767	-
Additional retirement	113,374	113,374	113,374	-
Capital outlay	807,093	967,078	750,229	216,849
Debt Service				
Principal retirement	49,236	49,236	50,890	(1,654)
Total expenditures	<u>22,150,413</u>	<u>22,745,197</u>	<u>21,629,120</u>	<u>1,116,077</u>
Revenues over expenditures	<u>237,621</u>	<u>(84,641)</u>	<u>489,683</u>	<u>574,324</u>
Other financing sources (uses)				
Issuance of debt	-	-	3,840	3,840
Transfer in	-	81,400	81,400	-
Transfer out	(983,621)	(1,128,277)	(779,640)	348,637
Total other financing uses	<u>(983,621)</u>	<u>(1,046,877)</u>	<u>(694,400)</u>	<u>352,477</u>
Net change in fund balance	<u>(746,000)</u>	<u>(1,131,518)</u>	<u>(204,717)</u>	<u>926,801</u>
Fund balance, beginning of year	<u>5,944,725</u>	<u>5,944,725</u>	<u>5,944,725</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,198,725</u>	<u>\$ 4,813,207</u>	<u>\$ 5,740,008</u>	<u>\$ 926,801</u>

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

CITY OF BAY CITY, MICHIGAN
MAJOR STREETS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND BALANCE
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 817,351	\$ 817,351	\$ 798,803	\$ (18,548)
Intergovernmental				
Federal	2,754,041	2,754,041	744,277	(2,009,764)
State	2,032,893	2,032,893	1,971,801	(61,092)
Miscellaneous				
Interest earnings	6,000	6,000	2,878	(3,122)
Reimbursements	1,000	1,000	582	(418)
Other	3,125	3,125	13,172	10,047
Total revenues	<u>5,614,410</u>	<u>5,614,410</u>	<u>3,531,513</u>	<u>(2,082,897)</u>
Expenditures				
Public works				
Highways, streets, and bridges	3,207,381	3,167,381	2,309,095	858,286
Debt Service				
Interest and fiscal charges	-	123,775	4,212	119,563
Capital outlay	<u>3,117,029</u>	<u>3,117,029</u>	<u>1,165,427</u>	<u>1,951,602</u>
Total expenditures	<u>6,324,410</u>	<u>6,408,185</u>	<u>3,478,734</u>	<u>2,929,451</u>
Revenues over (under) expenditures	(710,000)	(793,775)	52,779	846,554
Other financing sources				
Transfer in	<u>710,000</u>	<u>670,000</u>	<u>-</u>	<u>(670,000)</u>
Net change in fund balance	-	(123,775)	52,779	176,554
Fund balance, beginning of year	<u>217,758</u>	<u>217,758</u>	<u>217,758</u>	<u>-</u>
Fund balance, end of year	<u>\$ 217,758</u>	<u>\$ 93,983</u>	<u>\$ 270,537</u>	<u>\$ 176,554</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 THE FUND BALANCE
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
Federal	\$ 493,888	\$ 493,888	\$ 458,770	\$ (35,118)
Miscellaneous				
Program income	44,500	44,500	116,736	72,236
Interest earnings	5,500	5,500	6,243	743
	<u>543,888</u>	<u>543,888</u>	<u>581,749</u>	<u>37,861</u>
Total revenues				
	543,888	543,888	581,749	37,861
Expenditures				
Economic development	<u>1,266,328</u>	<u>1,266,328</u>	<u>833,688</u>	<u>432,640</u>
Revenues under expenditures				
	<u>(722,440)</u>	<u>(722,440)</u>	<u>(251,939)</u>	<u>470,501</u>
Other financing sources (uses)				
Transfer in	772,440	772,440	374,918	(397,522)
Transfer out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(122,979)</u>	<u>(72,979)</u>
	<u>722,440</u>	<u>722,440</u>	<u>251,939</u>	<u>(470,501)</u>
Total other financing sources (uses)				
	722,440	722,440	251,939	(470,501)
Net change in fund balance				
	-	-	-	-
Fund balance, beginning of year				
	-	-	-	-
Fund balance, end of year				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF BAY CITY, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Assets						
Current assets						
Cash and cash equivalents	\$ 11,243,446	\$ 8,592,153	\$ 4,987,654	\$ 331,053	\$ 25,154,306	\$ 10,589,363
Receivables (net of allowance for uncollectibles)						
Accounts	4,543,695	683,523	2,142,477	20,049	7,389,744	3,364
Special assessments	65,615	15,434	255,844	-	336,893	-
Accrued interest	77,505	59,920	16,672	2,362	156,459	74,020
Due from other funds	-	9,642	4,582	-	14,224	-
Inventories	2,153,888	560,243	182,851	29,517	2,926,499	141,749
Prepaid expenses	-	-	-	-	-	49,046
Deposits	-	150	80	-	230	229,294
Total current assets	18,084,149	9,921,065	7,590,160	382,981	35,978,355	11,086,836
Noncurrent assets						
Other assets						
Net pension asset	2,351,749	1,281,748	1,465,145	-	5,098,642	301,652
Unamortized issuance costs	-	-	204,843	-	204,843	-
Total other assets	2,351,749	1,281,748	1,669,988	-	5,303,485	301,652
Capital assets						
Land and improvements	182,602	6,711,564	14,566,051	5,142,765	26,602,982	-
Air rights	-	-	-	95,421	95,421	-
Buildings	1,307,951	1,751,867	26,251	1,163,329	4,249,398	29,640
Machinery and equipment	3,494,595	1,279,885	2,089,547	93,180	6,957,207	13,147,110
Utility plant in service	65,682,040	53,596,610	148,075,579	-	267,354,229	-
Construction in progress	45,050	33,234	-	-	78,284	-
	70,712,238	63,373,160	164,757,428	6,494,695	305,337,521	13,176,750
Less: accumulated depreciation	41,569,538	38,220,468	78,524,631	2,399,068	160,713,705	8,724,937
Net capital assets	29,142,700	25,152,692	86,232,797	4,095,627	144,623,816	4,451,813
Total noncurrent assets	31,494,449	26,434,440	87,902,785	4,095,627	149,927,301	4,753,465
Total assets	49,578,598	36,355,505	95,492,945	4,478,608	185,905,656	15,840,301

	Enterprise Funds				Total	Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds		
Liabilities						
Current liabilities						
Accounts payable	\$ 2,015,775	\$ 206,442	\$ 308,464	\$ 24,887	\$ 2,555,568	\$ 780,410
Accrued liabilities	130,633	85,197	72,923	481	289,234	33,222
Due to other funds	1,284,228	161,460	24,400	-	1,470,088	-
Due to other governmental units	91,179	-	8,981	-	100,160	19,376
Interest payable	-	84,897	320,850	-	405,747	1,892
Claims payable	-	-	-	-	-	2,193,795
Deposits	234,441	63,799	-	-	298,240	-
Unearned revenue	150,398	-	192,598	-	342,996	29,622
Accrued compensated absences - current	205,994	122,325	108,120	-	436,439	52,574
Notes payable - current	-	-	-	-	-	47,803
Bonds payable - current	1,870,000	657,566	3,437,434	-	5,965,000	-
Total current liabilities	5,982,648	1,381,686	4,473,770	25,368	11,863,472	3,158,694
Long-term liabilities						
Accrued compensated absences	498,221	272,289	196,790	-	967,300	98,670
Notes payable	-	-	-	-	-	101,192
Bonds payable	4,180,000	9,934,555	39,320,553	-	53,435,108	-
Net OPEB obligation	977,449	906,385	786,059	-	2,669,893	321,981
Total long-term liabilities	5,655,670	11,113,229	40,303,402	-	57,072,301	521,843
Total liabilities	11,638,318	12,494,915	44,777,172	25,368	68,935,773	3,680,537
Net assets						
Invested in capital assets, net of related debt	23,092,700	14,560,571	43,474,810	4,095,627	85,223,708	4,302,818
Unrestricted	14,847,580	9,300,019	7,240,963	357,613	31,746,175	7,856,946
Total net assets	\$ 37,940,280	\$ 23,860,590	\$ 50,715,773	\$ 4,453,240	\$ 116,969,883	\$ 12,159,764
Adjustment to reflect the consolidation of internal service funds related to enterprise funds					4,943,525	
Net assets of business-type activities					\$ 121,913,408	

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

CITY OF BAY CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Enterprise Funds				Total	Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds		
Operating revenues						
Charges for services						
Sales	\$ 29,181,434	\$ 7,879,599	\$ 12,750,006	\$ 111,999	\$ 49,923,038	\$ 17,589,115
Rents	-	-	-	127,927	127,927	-
Miscellaneous	694,964	316,683	87,401	31,820	1,130,868	1,007,386
Total operating revenues	<u>29,876,398</u>	<u>8,196,282</u>	<u>12,837,407</u>	<u>271,746</u>	<u>51,181,833</u>	<u>18,596,501</u>
Operating expenses						
Cost of sales and service	23,889,615	5,897,477	6,136,877	359,547	36,283,516	3,023,316
Administration	3,788,605	1,273,488	1,068,485	-	6,130,578	223,682
Claims and benefits	-	-	-	-	-	14,567,180
Depreciation	2,272,543	1,197,838	3,980,106	167,123	7,617,610	793,219
Total operating expenses	<u>29,950,763</u>	<u>8,368,803</u>	<u>11,185,468</u>	<u>526,670</u>	<u>50,031,704</u>	<u>18,607,397</u>
Operating income (loss)	<u>(74,365)</u>	<u>(172,521)</u>	<u>1,651,939</u>	<u>(254,924)</u>	<u>1,150,129</u>	<u>(10,896)</u>
Nonoperating revenues (expenses)						
Intergovernmental						
Federal grants	-	-	-	170,292	170,292	-
State grants	-	-	1,714	4,481	6,195	-
Interest earnings	346,589	176,319	50,831	6,488	580,227	215,706
Interest expense	(265,638)	(353,696)	(1,315,307)	-	(1,934,641)	(6,412)
Net gain on sale of capital assets	-	-	-	-	-	15,555
Amortization of bond premium/ discount/deferred costs	(22,500)	4,251	(17,805)	-	(36,054)	-
Total nonoperating revenues (expenses)	<u>58,451</u>	<u>(173,126)</u>	<u>(1,280,567)</u>	<u>181,261</u>	<u>(1,213,981)</u>	<u>224,849</u>
Income (loss) before transfers	<u>(15,914)</u>	<u>(345,647)</u>	<u>371,372</u>	<u>(73,663)</u>	<u>(63,852)</u>	<u>213,953</u>
Transfers						
Transfers in	-	-	-	115,573	115,573	8,078
Transfers out	(29,692)	(27,133)	(27,134)	-	(83,959)	-
Total transfers	<u>(29,692)</u>	<u>(27,133)</u>	<u>(27,134)</u>	<u>115,573</u>	<u>31,614</u>	<u>8,078</u>
Change in net assets	<u>(45,606)</u>	<u>(372,780)</u>	<u>344,238</u>	<u>41,910</u>	<u>(32,238)</u>	<u>222,031</u>
Net assets, beginning of year	<u>37,985,886</u>	<u>24,233,370</u>	<u>50,371,535</u>	<u>4,411,330</u>		<u>11,937,733</u>
Net assets, end of year	<u>\$ 37,940,280</u>	<u>\$ 23,860,590</u>	<u>\$ 50,715,773</u>	<u>\$ 4,453,240</u>		<u>\$ 12,159,764</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					81,342	
Change in net assets of business-type activities					<u>\$ 49,104</u>	

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, 2010**

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities						
Cash received from customers and users	\$ 29,013,573	\$ 7,969,169	\$ 12,458,220	\$ 235,746	\$ 49,676,708	\$ -
Cash received from internal users	-	-	-	-	-	18,800,069
Cash payments to suppliers for goods and services	(22,438,535)	(2,643,075)	(3,306,609)	(320,000)	(28,708,219)	(16,546,496)
Cash payments to employees for services	(4,967,365)	(4,208,111)	(3,914,737)	(15,770)	(13,105,983)	(1,519,397)
Cash payments for internal services provided	(18,457)	(74,153)	(17,026)	-	(109,636)	-
Other receipts	694,964	316,683	87,401	31,820	1,130,868	-
Net cash provided (used) by operating activities	<u>2,284,180</u>	<u>1,360,513</u>	<u>5,307,249</u>	<u>(68,204)</u>	<u>8,883,738</u>	<u>734,176</u>
Cash flows from noncapital financing activities						
Intergovernmental - federal grants	-	-	-	170,292	170,292	-
Intergovernmental - state grants	-	-	1,714	4,481	6,195	-
Transfers in	-	-	-	115,573	115,573	8,078
Transfers out	(29,692)	(27,133)	(27,134)	-	(83,959)	-
Net cash provided (used) by noncapital financing activities	<u>(29,692)</u>	<u>(27,133)</u>	<u>(25,420)</u>	<u>290,346</u>	<u>208,101</u>	<u>8,078</u>
Cash flows from capital and related financing activities						
Purchase of capital assets	(2,527,546)	(769,302)	(1,103,360)	(179,241)	(4,579,449)	(904,174)
Proceeds from the sale of capital assets	68,688	-	-	-	68,688	68,221
Principal paid on debt	(1,790,000)	(639,551)	(3,345,449)	-	(5,775,000)	(46,032)
Interest paid on debt	(265,638)	(353,696)	(1,315,307)	-	(1,934,641)	(6,412)
Net cash provided (used) by capital and related financing activities	<u>(4,514,496)</u>	<u>(1,762,549)</u>	<u>(5,764,116)</u>	<u>(179,241)</u>	<u>(12,220,402)</u>	<u>(888,397)</u>
Cash flows from investing activities						
Sale of investments	884,411	-	-	-	884,411	-
Interest received	346,589	176,319	50,831	6,488	580,227	215,706
Net cash provided (used) by investment activities	<u>1,231,000</u>	<u>176,319</u>	<u>50,831</u>	<u>6,488</u>	<u>1,464,638</u>	<u>215,706</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,029,008)</u>	<u>(252,850)</u>	<u>(431,456)</u>	<u>49,389</u>	<u>(1,663,925)</u>	<u>69,563</u>
Cash and cash equivalents, beginning of year	12,272,454	8,845,003	5,419,110	281,664	26,818,231	10,519,800
Cash and cash equivalents, end of year	<u>\$ 11,243,446</u>	<u>\$ 8,592,153</u>	<u>\$ 4,987,654</u>	<u>\$ 331,053</u>	<u>\$ 25,154,306</u>	<u>\$ 10,589,363</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ (74,365)	\$ (172,521)	\$ 1,651,939	\$ (254,924)	\$ 1,150,129	\$ (10,896)
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Depreciation	2,272,543	1,197,838	3,980,106	167,123	7,617,610	793,219
(Increase) decrease in assets						
Accounts receivable	(290,936)	111,305	(293,670)	(3,236)	(476,537)	(2,131)
Special assessments receivable	(5,788)	(2,163)	5,238	-	(2,713)	-
Accrued interest receivable	(21,535)	(19,572)	(3,354)	(944)	(45,405)	(26,124)
Due from other funds	-	(1,196)	(1,502)	23,864	21,166	241,697
Inventories	(239,176)	(46,913)	(59,485)	(3,649)	(349,223)	(11,791)
Prepaid expenses	-	78,393	-	81	78,474	(89)
Deposits	-	125	-	-	125	102,318
Net pension asset	(281,004)	(146,435)	(182,652)	-	(610,091)	(43,059)
Increase (decrease) in liabilities						
Accounts payable	230,110	26,889	(124,786)	3,414	135,627	(795,059)
Accrued liabilities	(9,376)	(7,143)	(14,976)	67	(31,428)	181
Due to other funds	(18,457)	(12,656)	(15,524)	-	(46,637)	(9,874)
Due to other governmental units	7,294	(2,054)	8,981	-	14,221	3,044
Interest payable	-	(4,703)	(24,906)	-	(29,609)	(585)
Claims payable	-	-	-	-	-	351,425
Deposits	1,855	6,549	(336)	-	8,068	-
Unearned revenue	150,398	(60,301)	(16,151)	-	73,946	(18,877)
Accrued compensated absences	11,414	(71,203)	(32,024)	-	(91,813)	10,772
Net OPEB obligation	551,203	486,274	430,351	-	1,467,828	150,005
Total adjustments	<u>2,358,545</u>	<u>1,533,034</u>	<u>3,655,310</u>	<u>186,720</u>	<u>7,733,609</u>	<u>745,072</u>
Net cash provided (used) by operating activities	<u>\$ 2,284,180</u>	<u>\$ 1,360,513</u>	<u>\$ 5,307,249</u>	<u>\$ (68,204)</u>	<u>\$ 8,883,738</u>	<u>\$ 734,176</u>

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

CITY OF BAY CITY, MICHIGAN
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 3,995,849	\$ 156,768
Investments		
Money market accounts	634,549	
Mutual funds	15,536,245	-
Government securities	5,188,184	-
Corporate bonds	6,298,216	-
Common stock	13,277,381	-
Accounts receivable	168,859	669
Interest receivable	130,672	-
	45,229,955	\$ 157,437
Liabilities		
Accounts payable	52,821	\$ 142,579
Deposits payable	-	14,858
	52,821	\$ 157,437
Net assets		
Held in trust for employees' pension benefits	40,122,251	
Held in trust for employees' postemployment health care benefits	5,054,883	
	\$ 45,177,134	

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, 2010

Additions	
Contributions	
Employer	\$ 2,225,585
Current premium contributions	4,145,814
Plan members	<u>484,423</u>
Total contributions	<u>6,855,822</u>
Investment income	
Interest and dividends	959,595
Net appreciation in fair value of investments	3,999,185
Investment expense	<u>(195,727)</u>
Net investment income	<u>4,763,053</u>
Other additions	<u>16,162</u>
Total additions	<u>11,635,037</u>
Deductions	
Retiree healthcare premium payments	4,145,814
Benefits and refunds paid to participants	4,041,700
Administrative expenses	<u>156,480</u>
Total deductions	<u>8,343,994</u>
Net increase in plan net assets	3,291,043
Net assets held in trust for pension and other employee benefits	
Beginning of year	<u>41,886,091</u>
End of year	<u><u>\$ 45,177,134</u></u>

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, 2010

	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	\$ 142,656	\$ 169,416	\$ 37,144	\$ 412,916	\$ 243,625	\$ -	\$ 15,569
Receivables							
Accounts	4,746	-	-	-	-	-	-
Delinquent taxes	800	-	-	-	-	-	-
Accrued interest	1,071	1,189	202	1,539	1,563	-	2,673
Notes	-	-	-	-	-	-	-
Allowance for uncollectible amounts	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-
Net pension asset	-	-	-	31,263	-	-	-
Nondepreciable capital assets	-	115,561	-	30,136	-	-	-
Depreciable capital assets, net	<u>139,525</u>	<u>483,942</u>	<u>28,865</u>	<u>1,740,357</u>	<u>2,904,267</u>	<u>511,604</u>	<u>-</u>
Total assets	<u>288,798</u>	<u>770,108</u>	<u>66,211</u>	<u>2,216,211</u>	<u>3,149,455</u>	<u>511,604</u>	<u>18,242</u>
Liabilities							
Accounts payable	15,654	8,592	8,438	925	23,706	-	12,862
Accrued liabilities	-	-	-	1,232	-	-	-
Interest payable	-	-	-	-	12,898	-	-
Long-term debt							
Bonds payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,030,000</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>15,654</u>	<u>8,592</u>	<u>8,438</u>	<u>2,157</u>	<u>2,066,604</u>	<u>-</u>	<u>12,862</u>
Net assets							
Invested in capital assets, net of related debt	139,525	599,503	28,865	1,770,493	874,267	511,604	-
Unrestricted	<u>133,619</u>	<u>162,013</u>	<u>28,908</u>	<u>443,561</u>	<u>208,584</u>	<u>-</u>	<u>5,380</u>
Total net assets	<u>\$ 273,144</u>	<u>\$ 761,516</u>	<u>\$ 57,773</u>	<u>\$ 2,214,054</u>	<u>\$ 1,082,851</u>	<u>\$ 511,604</u>	<u>\$ 5,380</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.	Downtown Mgmt. Board	Totals
\$ 20,977	\$ 13,842	\$ 114,115	\$ 15,164	\$ 21,010	\$ 62,430	\$ 51,564	\$ 1,320,428
-	-	-	-	40	570,476	868	576,130
-	-	-	-	-	-	21,847	22,647
148	97	805	107	148	-	-	9,542
-	-	-	-	-	4,000,000	-	4,000,000
-	-	-	-	-	(4,570,476)	-	(4,570,476)
-	-	-	-	-	-	75,350	75,350
-	-	-	-	-	-	1,635	1,635
-	-	-	-	-	-	-	31,263
-	-	-	-	-	-	-	145,697
-	148,899	-	-	-	-	-	5,957,459
<u>21,125</u>	<u>162,838</u>	<u>114,920</u>	<u>15,271</u>	<u>21,198</u>	<u>62,430</u>	<u>151,264</u>	<u>7,569,675</u>
-	-	-	436	559	617	12,506	84,295
-	-	-	-	-	-	2,466	3,698
-	-	-	-	-	-	-	12,898
-	-	-	-	-	-	-	2,030,000
-	-	-	436	559	617	14,972	2,130,891
-	148,899	-	-	-	-	-	4,073,156
<u>21,125</u>	<u>13,939</u>	<u>114,920</u>	<u>14,835</u>	<u>20,639</u>	<u>61,813</u>	<u>136,292</u>	<u>1,365,628</u>
<u>\$ 21,125</u>	<u>\$ 162,838</u>	<u>\$ 114,920</u>	<u>\$ 14,835</u>	<u>\$ 20,639</u>	<u>\$ 61,813</u>	<u>\$ 136,292</u>	<u>\$ 5,438,784</u>

**CITY OF BAY CITY, MICHIGAN
ALL COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

<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	\$ 175,506	\$ 146,579	\$ -	\$ -	\$ (28,927)
Midland Street TIFA	26,810	-	-	-	(26,810)
Kresge's DDA	2,932	-	-	-	(2,932)
Marquette District TIFA	488,559	-	-	-	(488,559)
Water Street DDA	271,127	-	-	167,000	(104,127)
Marina Development TIFA	9,373	-	-	-	(9,373)
Allen Healthcare DDA	13,514	-	-	-	(13,514)
Research Center Development TIFA	-	-	-	-	-
Knepp's DDA	3,184	-	-	-	(3,184)
Brownfield Redevelopment	37,092	-	-	-	(37,092)
Columbus Avenue Management Board	6,583	7,975	405	-	1,797
Midland Street Management Board	11,900	19,360	-	-	7,460
P.O.W.E.R.	49,234	-	-	-	(49,234)
Downtown Management Board	273,046	64,530	98,383	-	(110,133)
Total component units	\$ 1,368,860	\$ 238,444	\$ 98,788	\$ 167,000	\$ (864,628)

continued...

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

CITY OF BAY CITY, MICHIGAN
ALL COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2010

<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	\$ (28,927)	\$ (26,810)	\$ (2,932)	\$ (488,559)	\$ (104,127)	\$ (9,373)	\$ (13,514)
General revenues							
Property taxes	-	124,203	2,314	345,528	334,117	-	21,367
Unrestricted investment earnings	2,935	7,904	676	10,439	6,856	(3,307)	2,977
Miscellaneous revenue	34,218	-	-	-	4,741	-	-
Total general revenues	<u>37,153</u>	<u>132,107</u>	<u>2,990</u>	<u>355,967</u>	<u>345,714</u>	<u>(3,307)</u>	<u>24,344</u>
Change in net assets	8,226	105,297	58	(132,592)	241,587	(12,680)	10,830
Net assets (deficit), beginning of year, as restated	<u>264,918</u>	<u>656,219</u>	<u>57,715</u>	<u>2,346,646</u>	<u>841,264</u>	<u>524,284</u>	<u>(5,450)</u>
Net assets, end of year	<u><u>\$ 273,144</u></u>	<u><u>\$ 761,516</u></u>	<u><u>\$ 57,773</u></u>	<u><u>\$ 2,214,054</u></u>	<u><u>\$ 1,082,851</u></u>	<u><u>\$ 511,604</u></u>	<u><u>\$ 5,380</u></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.	Downtown Mgmt. Board	Totals
\$ -	\$ (3,184)	\$ (37,092)	\$ 1,797	\$ 7,460	\$ (49,234)	\$ (110,133)	\$ (864,628)
-	-	142,980	-	-	-	111,973	1,082,482
380	279	1,519	255	270	40,092	233	71,508
-	-	500	-	2,515	-	-	41,974
<u>380</u>	<u>279</u>	<u>144,999</u>	<u>255</u>	<u>2,785</u>	<u>40,092</u>	<u>112,206</u>	<u>1,195,964</u>
380	(2,905)	107,907	2,052	10,245	(9,142)	2,073	331,336
<u>20,745</u>	<u>165,743</u>	<u>7,013</u>	<u>12,783</u>	<u>10,394</u>	<u>70,955</u>	<u>134,219</u>	<u>5,107,448</u>
<u>\$ 21,125</u>	<u>\$ 162,838</u>	<u>\$ 114,920</u>	<u>\$ 14,835</u>	<u>\$ 20,639</u>	<u>\$ 61,813</u>	<u>\$ 136,292</u>	<u>\$ 5,438,784</u>

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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. (City Loans and Collection Fund), Brownfield Redevelopment Authority, and 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 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. Separate financial statements for the Midland Street Management Board, Columbus Avenue Management Board, P.O.W.E.R., Brownfield Redevelopment Authority, TIFA’s and DDA’s are not prepared.

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.

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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.

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

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 major streets fund is used to account for major streets maintenance funds received from the State of Michigan, as well as, property tax and other revenues used to maintain and reconstruct major streets within the City.

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.

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.

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The pension and other employees benefits 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.

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 nonoperating 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

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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 nonoperating 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 nonoperating 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.

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 as well as taxes for the various local governmental units. Collections and remittances 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

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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.

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.

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>ASSETS</u>	<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.

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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 200 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 180 days.

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.

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, except capital project funds which are adopted on a project level.

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.

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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.

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:			
Public safety:			
Police	\$ 6,202,589	\$ 6,215,432	\$ 12,843
Fire	5,074,091	5,135,066	60,975
Public works	1,321,749	1,333,634	11,885
Debt service	49,236	50,890	1,654
Rehabilitation fund:			
Transfers out	50,000	122,979	72,979
Parking enforcement fund:			
Public safety	46,400	48,156	1,756
Community development block grant fund:			
Capital outlay	308,437	315,104	6,667

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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:

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Total</u>
Cash and cash equivalents	\$ 19,330,147	\$ 25,154,306	\$ 44,484,453	\$ 4,152,617	\$1,320,428	\$ 49,957,498
Investments	-	-	-	40,934,575	-	40,934,575
Total	<u>\$ 19,330,147</u>	<u>\$ 25,154,306</u>	<u>\$ 44,484,453</u>	<u>\$ 45,087,192</u>	<u>\$1,320,428</u>	<u>\$ 90,892,073</u>

Deposit and investments:

Bank deposits (checking, savings, and certificates of deposit)	\$ 29,187,913
Cash on hand	5,645
Investments (securities, stocks, and money market accounts)	61,698,515
Total	<u>\$ 90,892,073</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. The City does not require collateralization of deposits. At June 30, 2010, the carrying value of deposits owned by the City was \$29,843,207. Approximately \$29,842,174 of the City's bank balance was covered by federal depository insurance. The remaining balance of \$1,033 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF BAY CITY, MICHIGAN
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Custodial Credit Risk – Investments. Following is a summary of the City’s investments as of June 30, 2010:

Money market accounts	\$ 5,806,220
Mutual funds	15,536,245
Government securities	20,780,453
Corporate bonds	6,298,216
Corporate stock	<u>13,277,381</u>
Total	<u>\$ 61,698,515</u>

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, 2010, 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, 2010, maturities and ratings of the City’s debt securities were as follows:

	Investment Maturities (In Years)						Moody's Investors Services Rating
	Fair Value	N/A	Less Than 1	1-5	6-10	More Than 10	
Money Market Funds	\$ 5,806,220	\$ 5,806,220	\$ -	\$ -	\$ -	\$ -	N/A
Mutual Funds	15,536,245	15,536,245	-	-	-	-	N/A
US Government Securities	20,780,453	-	1,060,643	15,797,556	709,707	3,212,547	AAA - NR
Corporate Debt	6,298,216	-	100,974	1,856,088	2,271,691	2,069,463	AAA-CAA1
Corporate Stock							
Common	13,276,021	13,276,021	-	-	-	-	N/A
Preferred	1,360	1,360	-	-	-	-	N/A
Total investments	<u>\$ 61,698,515</u>	<u>\$ 34,619,846</u>	<u>\$ 1,161,617</u>	<u>\$ 17,653,644</u>	<u>\$ 2,981,398</u>	<u>\$ 5,282,010</u>	

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.

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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, 2010. 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 - 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.

**CITY OF BAY CITY, MICHIGAN
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JUNE 30, 2010**

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	\$ 801,048	\$ 8,333,337	\$ 576,130	\$ 9,562,019
Taxes	209,196	336,893	22,984	569,073
Interest	135,061	156,459	9,542	301,062
Intergovernmental	1,174,018	-	75,350	1,249,368
Notes	<u>7,336,176</u>	<u>-</u>	<u>4,000,000</u>	<u>11,336,176</u>
Gross receivables	9,955,499	8,826,689	4,684,006	23,017,698
Less: Allowance for Uncollectibles	<u>(97,374)</u>	<u>(943,593)</u>	<u>(4,570,813)</u>	<u>(5,611,780)</u>
Net total receivables	<u>\$ 9,558,125</u>	<u>\$ 7,883,096</u>	<u>\$ 113,193</u>	<u>\$ 17,405,918</u>

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

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 and accounts receivable from homeowners expected to be collected over several years	\$ 7,288,527	\$ 55,749
Special assessments (non-current portion)	67,338	-
Delinquent personal property taxes receivable	<u>42,678</u>	<u>-</u>
Total	<u>\$ 7,398,543</u>	<u>\$ 55,749</u>

CITY OF BAY CITY, MICHIGAN
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5. CAPITAL ASSETS

Capital asset activity of the City's governmental activities for the year ended June 30, 2010, was as follows:

Governmental Activities	Balance July 1, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 17,186,908	\$ 14,080	\$ 48,606	\$ 17,152,382
Construction in progress	632,119	1,048,618	134,923	1,545,814
Other intangible assets	376,000	-	-	376,000
Subtotal	<u>18,195,027</u>	<u>1,062,698</u>	<u>183,529</u>	<u>19,074,196</u>
Capital assets being depreciated:				
Roads and sidewalks	132,134,385	1,877,535	-	134,011,920
Buildings and improvements	6,838,630	22,676	-	6,861,306
Vehicles	12,428,756	715,683	559,983	12,584,456
Office furnishings	39,293	-	-	39,293
Other tools and equipment	3,009,645	314,672	178,214	3,146,103
Subtotal	<u>154,450,709</u>	<u>2,930,566</u>	<u>738,197</u>	<u>156,643,078</u>
Accumulated depreciation:				
Roads and sidewalks	80,505,438	3,292,713	-	83,798,151
Buildings and improvements	4,001,480	192,124	-	4,193,604
Vehicles	7,980,714	781,368	507,317	8,254,765
Office furnishings	17,735	1,965	-	19,700
Other tools and equipment	2,376,416	212,761	178,214	2,410,963
Subtotal	<u>94,881,783</u>	<u>4,480,931</u>	<u>685,531</u>	<u>98,677,183</u>
Net capital assets being depreciated	<u>59,568,926</u>	<u>(1,550,365)</u>	<u>52,666</u>	<u>57,965,895</u>
Governmental activities				
capital assets, net	<u><u>\$ 77,763,953</u></u>	<u><u>\$ (487,667)</u></u>	<u><u>\$ 236,195</u></u>	<u><u>\$ 77,040,091</u></u>

CITY OF BAY CITY, MICHIGAN
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Capital asset activity of the City's business-type activities for the year ended June 30, 2010, was as follows:

Business-type Activities	Balance July 1, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 821,424	\$ -	\$ -	\$ 821,424
Construction in progress	959,344	44,919	925,980	78,283
Other	95,421	-	-	95,421
Subtotal	<u>1,876,189</u>	<u>44,919</u>	<u>925,980</u>	<u>995,128</u>
Capital assets being depreciated:				
Utility plant and systems	264,403,736	3,072,413	121,919	267,354,230
Land improvements	23,975,451	1,734,083	163,800	25,545,734
Buildings and improvements	4,203,612	402,731	121,121	4,485,222
Machinery and equipment	6,705,924	251,283	-	6,957,207
Subtotal	<u>299,288,723</u>	<u>5,460,510</u>	<u>406,840</u>	<u>304,342,393</u>
Accumulated depreciation:				
Utility plant and systems	143,576,526	6,756,600	121,919	150,211,207
Land improvements	3,601,440	541,235	163,800	3,978,875
Buildings and improvements	2,238,635	94,805	52,433	2,281,007
Machinery and equipment	4,017,646	224,970	-	4,242,616
Subtotal	<u>153,434,247</u>	<u>7,617,610</u>	<u>338,152</u>	<u>160,713,705</u>
Net capital assets being depreciated	<u>145,854,476</u>	<u>(2,157,100)</u>	<u>68,688</u>	<u>143,628,688</u>
Business-type activities capital assets, net	<u>\$ 147,730,665</u>	<u>\$ (2,112,181)</u>	<u>\$ 994,668</u>	<u>\$ 144,623,816</u>

CITY OF BAY CITY, MICHIGAN
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Capital asset activity of the City's component units for the year ended June 30, 2010 was as follows:

Component Units	Balance July 1, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 54,136	\$ -	\$ -	\$ 54,136
Construction in progress	312,184	91,561	312,184	91,561
Subtotal	<u>366,320</u>	<u>91,561</u>	<u>312,184</u>	<u>145,697</u>
Capital assets being depreciated:				
Infrastructure	6,937,556	1,216,403	-	8,153,959
Furniture and equipment	78,973	-	-	78,973
Subtotal	<u>7,016,529</u>	<u>1,216,403</u>	<u>-</u>	<u>8,232,932</u>
Accumulated depreciation:				
Infrastructure	1,957,255	284,815	-	2,242,070
Furniture and equipment	25,316	8,087	-	33,403
Subtotal	<u>1,982,571</u>	<u>292,902</u>	<u>-</u>	<u>2,275,473</u>
Net capital assets being depreciated	<u>5,033,958</u>	<u>923,501</u>	<u>-</u>	<u>5,957,459</u>
Component units capital assets, net	<u>\$ 5,400,278</u>	<u>\$ 1,015,062</u>	<u>\$ 312,184</u>	<u>\$ 6,103,156</u>

CITY OF BAY CITY, MICHIGAN
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Depreciation expense was charged to the programs of the primary government as follows:

Governmental activities:

General government	\$ 30,030
Public safety	163,674
Public works	3,118,321
Recreation and cultural	219,349
Economic development	156,338
Internal service fund depreciation is charged to the various functions based on their usage of the asset	<u>793,219</u>
Total governmental activities	<u><u>\$4,480,931</u></u>

Business-type activities:

Electric	\$2,272,543
Water	1,197,838
Sewer	3,980,106
Other enterprise funds	<u>167,123</u>
Total business-type activities	<u><u>\$7,617,610</u></u>

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 government-wide financial statements as “internal balances”.

CITY OF BAY CITY, MICHIGAN
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JUNE 30, 2010

The composition of interfund balances is as follows:

	Due From						Total
	General Fund	Major Streets Fund	Nonmajor Governmental Funds	Electric Fund	Water Fund	Sewer Fund	
Due to							
General fund	\$ -	\$ 23,409	\$ 205,770	\$ 1,260,004	\$ 161,460	\$ 24,400	\$ 1,675,043
Major streets fund	2,421	-	10,279	10,000	-	-	22,700
Nonmajor							
governmental	136,578	8,978	14,268	-	-	-	159,824
Water fund	-	-	-	9,642	-	-	9,642
Sewer fund	-	-	-	4,582	-	-	4,582
Total	<u>\$ 138,999</u>	<u>\$ 32,387</u>	<u>\$ 230,317</u>	<u>\$ 1,284,228</u>	<u>\$ 161,460</u>	<u>\$ 24,400</u>	<u>\$ 1,871,791</u>

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:

	Transfer From						Total
	General Fund	Rehabilitaion Fund	Nonmajor Governmental Funds	Electric Fund	Water Fund	Sewer Fund	
Transfer to							
General fund	\$ -	\$ -	\$ -	\$ 27,133	\$ 27,133	\$ 27,134	\$ 81,400
Rehabilitation fund	-	-	374,918	-	-	-	374,918
Nonmajor							
governmental funds	660,389	122,979	329,094	2,559	-	-	1,115,021
Nonmajor							
enterprise funds	111,173	-	4,400	-	-	-	115,573
Internal service funds	8,078	-	-	-	-	-	8,078
Total	<u>\$ 779,640</u>	<u>\$ 122,979</u>	<u>\$ 708,412</u>	<u>\$ 29,692</u>	<u>\$ 27,133</u>	<u>\$ 27,134</u>	<u>\$ 1,694,990</u>

**CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

7. CAPITAL LEASES

The City of Bay City has entered into two separate lease agreements as lessee of two copiers, one with Lease Corporation of America and one with Bank of America. The original amounts of the copiers were \$3,840 and \$13,729 respectively. The remaining balances are \$3,680 for the copier with Lease Corporation of America and \$1,145 for the copier with Bank of America. Annual lease payments required under the capital leases are as follows:

<u>Fiscal Year End</u>	<u>Payment</u>
2011	\$ 2,105
2012	960
2013	960
2014	800

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 July 1, 2009</u>	<u>Additions (Reductions)</u>	<u>Balance June 30, 2010</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. Original amount \$10,599,932.	\$ 16,731,739	\$ 1,212,273 (1,660,000)	\$ 16,284,012	\$ 418,706
Capital Lease due in installments through 2011. Original amount \$13,729.	5,721	(4,576)	1,145	1,145
Capital Lease due in installments through 2010. Original amount \$29,235.	3,654	(3,654)	-	-

CITY OF BAY CITY, MICHIGAN
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Governmental activities (continued):

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One-Year</u>
Capital Lease due in installments through 2014. Original amount \$3,840.	\$ -	\$ 3,840 (160)	\$ 3,680	\$ 960
Variable Rate HUD Section 108 Note payable, principal due annually beginning 8/1/13, interest due semi-annually February 1 and August 1. Original amount \$2,500,000.	2,000,000	-	2,000,000	-
0.0% Michigan Urban Land Assembly Promissory Note, principal payments beginning 9/1/06 through 9/1/11. Original amount \$255,000.	127,500	(42,500)	85,000	42,500
Purchase Agreement due in installments, including interest, through 2013. Originated in Motor Equipment Revolving Internal Service Fund. Original amount \$437,819.	195,027	(46,032)	148,995	47,803
Retiree Healthcare	2,759,698	2,879,486	5,639,184	-
Employee Compensated Absences	<u>2,932,535</u>	<u>95,121</u> <u>(439,526)</u>	<u>2,588,130</u>	<u>823,077</u>
Total Governmental Activities	<u>\$ 24,755,874</u>	<u>\$ 1,994,272</u>	<u>\$ 26,750,146</u>	<u>\$ 1,334,191</u>

The general fund and certain special revenue funds have typically been used to liquidate the liability for compensated absences in the governmental funds.

CITY OF BAY CITY, MICHIGAN
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Business-type activities:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One-Year</u>
<u>Sewer Fund</u>				
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. Original amount \$1,500,000.	\$ 1,005,000	\$ (70,000)	\$ 935,000	\$ 75,000
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. Original amount \$4,040,000.	1,965,000	(465,000)	1,500,000	470,000
2.5% State Revolving Fund Loan issued March 29, 2001, principal due in annual installments beginning 4/1/04 through 4/1/23, interest due semi-annually April 1 and October 1. Original amount \$42,435,000.	31,820,000	(1,925,000)	29,895,000	1,975,000
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. Original amount \$6,000,000.	3,815,000	(585,000)	3,230,000	605,000
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. Original amount \$6,000,000.	5,375,000	(225,000)	5,150,000	235,000

CITY OF BAY CITY, MICHIGAN
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Business-type activities (continued):

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One-Year</u>
3.5% to 5.5% G.O. Capital Improvement Bonds, Series 2008, principal due in annual installments of \$75,449 to \$160,826 through 4/1/28, interest due semi-annually April 1 and October 1. Original amount \$5,455,000.	\$ 2,074,848	\$ (75,449)	\$ 1,999,399	\$ 77,434
Premium on bond issuance	51,287	(2,699)	48,588	-

Electric Fund

3.5% to 4.0% Electric Utility System Revenue Refunding and Improvement Bonds, 2008 Series, principal due in annual installments of \$365,000 to \$1,940,000 through 1/1/18, interest due semi-annually January 1 and July 1. Net of deferred costs of \$202,500. Original amount \$9,770,000.	8,020,000	(1,790,000)	6,230,000	1,870,000
Less deferred costs	(202,500)	22,500	(180,000)	-

Water Fund

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. Original amount \$6,000,000.	5,250,000	(260,000)	4,990,000	265,000
3.5% to 4.0% G.O. Capital Improvement Bonds, Series 2008A, principal due in annual installments of \$265,000 to \$350,000 through 4/1/18, interest due semi-annually April 1 and October 1. Original amount \$3,030,000.	2,755,000	(265,000)	2,490,000	275,000

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Business-type activities:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One-Year</u>
3.5% to 5.5% G.O. Capital Improvement Bonds, Series 2008B, principal due in annual installments of \$114,551 to \$244,175 through 4/1/28, interest due semi-annually April 1 and October 1. Original amount \$2,166,181.	\$ 3,150,153	\$ (114,551)	\$ 3,035,602	\$ 117,566
Premium on bond issuance	80,770	(4,251)	76,519	-
<u>Other</u>				
Retiree Healthcare	1,202,065	1,467,828	2,669,893	-
Employee Compensated Absences	<u>1,495,552</u>	<u>16,342</u> <u>(108,155)</u>	<u>1,403,739</u>	<u>436,439</u>
Total	<u>\$ 67,857,175</u>	<u>\$ (4,383,435)</u>	<u>\$ 63,473,740</u>	<u>\$ 6,401,439</u>

The aggregate debt service requirements to pay principal and interest on the various bonds and loans outstanding with interest of \$12,841,157 and deferred costs of \$180,000 in the business-type activities, interest of \$20,546,165 including capital appreciation of \$11,983,709 in the governmental activities bonded debt, and interest of \$842,207 in governmental activities other debt are as follows:

Fiscal Year	Governmental				Business-type	
	<u>Activities</u>		<u>Activities</u>		<u>Activities</u>	
<u>End</u>	<u>Bonded Debt</u>		<u>Other Debt</u>		<u>Principal</u>	<u>Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2011	\$ 418,706	\$ 1,261,294	\$ 92,408	\$ 99,202	\$ 5,965,000	\$ 1,775,310
2012	392,320	1,312,680	93,101	97,363	6,179,999	1,586,109
2013	486,892	1,783,108	52,511	95,454	4,715,000	1,418,363
2014	457,863	1,832,137	85,800	92,276	4,325,001	1,283,380
2015	433,310	1,891,690	165,000	87,160	4,460,000	1,151,484
2016 – 2020	1,809,912	10,266,556	1,000,000	312,000	18,910,001	3,976,057
2021 – 2025	301,300	2,198,700	750,000	58,752	12,950,000	1,421,627
2026 – 2029	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,950,000</u>	<u>146,146</u>
Total	<u>\$ 4,300,303</u>	<u>\$20,546,165</u>	<u>\$2,338,820</u>	<u>\$ 842,207</u>	<u>\$ 59,455,001</u>	<u>\$12,758,476</u>

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Defeasance of Debt

On May 23, 2008, the City of Bay City issued \$9,770,000 of Electric Utility System Revenue Refunding and Improvement Bonds with interest rates ranging between 3.5% and 4.5%. The City issued the bonds to advance refund \$5,845,000 of the outstanding series 1997 Electric Utility System Revenue Bonds with interest rates ranging between 5.0% and 5.5%. The City used the new proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1997 series bond. As a result, that portion of the 1997 series bonds is considered defeased, and the City has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$3,085,000 at June 30, 2010.

Component units:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>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 plus interest is paid in full. Original amount \$150,331.	\$ 8,139	\$ (8,139)	\$ -	\$ -
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. Original amount \$2,755,000.	<u>2,180,000</u>	<u>(150,000)</u>	<u>2,030,000</u>	<u>155,000</u>
Total Long-Term Debt-Component Units	<u>\$ 2,188,139</u>	<u>\$ (158,139)</u>	<u>\$ 2,030,000</u>	<u>\$ 155,000</u>

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The aggregate debt service requirement for the component units to pay principal and interest on the various outstanding loans with interest included of \$406,943 are as follows:

<u>Fiscal Year End</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 155,000	\$ 77,390
2012	170,000	71,965
2014	200,000	65,802
2014	230,000	58,302
2015	265,000	49,907
2016-2018	<u>1,010,000</u>	<u>83,577</u>
Total	<u>\$ 2,030,000</u>	<u>\$ 406,943</u>

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.

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.

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The changes in the claims liability for the years ended June 30, 2009 and 2010 are as follows:

Fiscal Year	Beginning of Period Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Period Liability
2009	\$ 536,321	\$ 874,206	\$ (637,797)	\$ 772,730
2010	772,730	1,282,126	(1,043,784)	1,011,072

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 \$40,000 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.

The changes in the claims liability for the years ended June 30, 2009 and 2010 are as follows:

Fiscal Year	Beginning of Period Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Period Liability
2009	\$ 451,863	\$ 7,562,826	\$ (7,645,669)	\$ 369,020
2010	369,020	8,318,987	(8,377,783)	310,224

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.

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The changes in the claims liability for the years ended June 30, 2009 and 2010 are as follows:

<u>Fiscal</u> <u>Year</u>	<u>Beginning</u> <u>of Period</u> <u>Liability</u>	<u>Current Year</u> <u>Claims and</u> <u>Changes in</u> <u>Estimates</u>	<u>Claim</u> <u>Payments</u>	<u>End</u> <u>of Period</u> <u>Liability</u>
2009	\$ 659,972	\$ 283,936	\$ (243,288)	\$ 700,620
2010	700,620	532,056	(360,177)	872,499

10. DEFINED BENEFIT AND DEFINED CONTRIBUTION PENSION PLANS AND POSTRETIREMENT 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 dollar contribution based upon 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, 2010, the City's annual pension cost was \$2,524,390 and the City contributed \$3,320,793 for MERS including the City's required contribution of \$2,225,289 and an additional contribution of \$1,095,504. The required contribution was determined as part of the December 31, 2007 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 increases of 0.00% to 8.40% 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

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percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009, the date of the latest actuarial valuation, was 14 years.

Annual Pension Cost and Net Pension Asset

The City's annual pension cost and net pension asset to MERS for the current year were as follows:

Annual required contribution	\$ 2,225,289
Interest on net pension asset	(452,710)
Adjustment to annual required contribution	<u>751,811</u>
Annual pension cost	2,524,390
Contributions made	<u>(3,320,793)</u>
Increase in net pension asset	(796,403)
Net pension asset, beginning of year	<u>(5,658,879)</u>
Net pension asset, end of year	<u>\$(6,455,282)</u>

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
6/30/08	\$ 2,228,304	200.4%	\$ 3,702,335
6/30/09	2,226,792	198.4%	5,658,879
6/30/10	2,524,390	131.5%	6,455,282

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
12/31/09	\$44,326,080	\$64,851,338	\$20,525,258	68%	\$4,754,321	431%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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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, (the “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 years of service regardless of age are entitled to a regular retirement benefit, payable monthly, of total service times 2.5% (for eligible employees retiring with less than 25 years of credited service) or 2.8% (for eligible employees retiring with 25 years or more of credited service) 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 – Investments are reported at 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 fiscal 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 sales of investments are reflected in the Statement of Changes in Plan Net Assets as net appreciation or depreciation in the fair value of investments.

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. During the year ended June 30, 2010, the actuarially determined employer contribution rate was 31.88% of covered payroll for firefighters, 20.41% for police patrol and 26.05% for police command.

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For the year ended June 30, 2010, the City's annual pension cost of \$1,483,085 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, 2009 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 6% to 49% 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, 2009, 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

At June 30, 2010, there were no individual investments with a fair value that represents 5% or more of the System's net assets. However, amounts invested in 2 mutual funds (Security Equity Fund – Mid Cap and Blackrock Russell 1000 Alpha Tilts Fund A) represent 9% and 22% of the System's total assets, respectively, at June 30, 2010.

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:

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
6/30/08	\$ 1,651,747	100 %
6/30/09	1,618,068	100 %
6/30/10	1,483,085	100 %

Funded Status and Funding Progress – As of June 30, 2009, the most recent actuarial valuation date, the plan was 74.1 percent funded. The actuarial accrued liability for benefits was \$61,088,699, and the actuarial value of assets was \$45,290,860, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,797,839. The covered payroll (annual payroll of

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active employees covered by the plan) was \$5,914,162, and the ratio of the UAAL to the covered payroll was 267.1%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, 2010, the City's required and actual contributions amounted to \$562,996. Employees made contributions amounting to \$941,708.

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. However, depending on the union contract, some employees hired after July 1, 2007 are not eligible for City provided healthcare benefits upon retirement. Instead the City has established a Retirement Health Savings (RHS) Plan in which the City contributes 6% of their salary on an annual basis. The benefits a participant will receive within the RHS plan depend solely on the amount contributed to each participant's account and the returns earned on the investments of those contributions.

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This is a single employer defined benefit plan administered by the City. The RHS Plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the Plan through employer contributions.

Currently, 425 retirees are eligible to receive healthcare 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. Most retirees are currently not required to contribute. However, depending upon the union contract under which they retire, recent retirees will pay a portion of the premium contributions on a monthly basis based on the subscription rates provided by Blue Cross/Blue Shield. The retiree's portion ranges from 0% to 50% depending upon the bargaining unit from which the individual retired. The City's costs for retiree healthcare for the year ended June 30, 2010, was \$4,888,314.

The City's other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarially accrued liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 8,997,922
Interest on net OPEB obligation	237,706
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	9,235,628
Contributions made	<u>(4,888,314)</u>
Increase (decrease) in net OPEB obligation	4,347,314
Net OPEB obligation, beginning of year	<u>3,961,763</u>
Net OPEB obligation, end of year	<u>\$ 8,309,077</u>

**CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

The City's annual OPEB cost, percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 and 2010 is as follows:

Two-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	\$ 8,707,010	54.5%	\$ 3,961,763
6/30/10	9,235,628	52.9%	8,309,077

The present value of all benefits expected to be paid to current plan members as of December 31, 2008, the most recent actuarial report, is \$131,847,154. The actuarial accrued liability, which is the portion of the \$131,847,154 attributable to service accrued by plan members as of December 31, 2008, is \$109,208,397. As of December 31, 2008, there is \$3,855,958 in valuation assets available to offset the liabilities of the plan. The funded status of the plan, which is the ratio of plan assets to actuarial accrued liability, as of December 31, 2008 is 3.5%. During the fiscal year ended June 30, 2010, the City contributed an additional \$742,500.

The funding status of the City's other post employment benefits (retiree healthcare) as of the most recent actuarial date is as follows:

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
12/31/08	\$ 3,855,958	\$109,208,397	\$105,352,439	3.5%	n/a	n/a

Membership of each plan consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

Retiree and beneficiaries receiving benefits	425
Active plan members	<u>351</u>
Total	<u>776</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Valuation date	12/31/08
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	6%
Healthcare cost trend rate	11.5% Initial 4.5% Ultimate

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

Following are the financial statements for the Retirement Health Savings Plan for the year ended June 30, 2010.

Statement of Plan Net Assets

Assets	
Cash and cash equivalents	\$ 3,995,849
Investments	998,982
Accounts receivable	31,936
Interest receivable	28,116
	5,054,883
Total assets	5,054,883
Net assets held in trust for employee's postemployment health care benefits	\$ 5,054,883

Statement of Changes in Plan Net Assets

Additions	
Contributions	
Employer	\$ 742,500
Current premium contributions	4,145,814
	4,888,314
Total contributions	4,888,314
Investment income	
Interest and dividends	104,699
Net appreciation in fair value of investments	63,976
	168,675
Net investment income	168,675
 Total additions	 5,056,989
Deductions	
Retiree healthcare premium payments	4,145,814
	4,145,814
Net increase in plan net assets	911,175
Net assets held in trust for employee's postemployment health care benefits	
Beginning of year	4,143,708
End of year	\$ 5,054,883

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

11. COMMITMENTS AND CONTINGENT LIABILITIES

Environmental

The Middlegrounds Landfill is a former municipal landfill that ceased operation in 1984. Approximately 40 acres in size, only a portion of the site located on the Middlegrounds Island was used for municipal waste. The site was also used by the U.S. Army Corps of Engineers for dredge spoils. The landfill has been capped with a 5' clay cap and engineered controls have been put in place. GM, Honeywell, and the City are principal responsible parties for this site. After consulting with the Department of Environmental Quality (DEQ), a Remedial Action Plan (RAP) has been completed and is currently being reviewed by the DEQ. Going forward, the site will require regular monitoring including ground water, landfill gas, and engineered controls. In September 2008, a 30-year cost projection for these services prepared by Conestoga-Rovers & Associates (CRA) estimated these costs to total \$2,375,000 to be shared by the principal responsible parties.

In 2009, General Motors filed for bankruptcy. As a result, the City may be responsible for GM's proportionate share of the of the remediation costs under the original cost sharing agreement. The additional exposure is estimated to be approximately \$800,000. In response, the City of Bay City filed a proof of claim in the amount of \$1,454,688 pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, and the Michigan Natural Resources and Environmental Protection Act to recover GM's equitable share of the costs incurred and to be incurred by the City of Bay City in remediating the Middle Grounds Landfill site.

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.

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 and Belle River projects. During the fiscal year ended June 30, 2009, the final payment was made on the Campbell project. The estimated annual debt payments with interest included of \$2,347,218 on the Belle River Project are as follows:

**CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

Fiscal Year	Belle River
<u>Ending</u>	<u>Project</u>
2011	\$ 1,129,150
2012	1,129,255
2013	1,129,291
2014	1,129,149
2015	1,129,277
2016-2019	<u>4,892,219</u>
Total	<u>\$ 10,538,341</u>

Construction Commitments

The City entered into a construction commitment for the restoration of the City Hall roof in the amount of \$1,685,400. As of June 30, 2010, there were no expenditures on the project.

Subsequent Events

Subsequent to year-end, on August 25, 2010, the City issued new general obligation capital improvement bonds in an amount of \$4,030,000 with a premium of \$32,986.65 for a total repayment amount of \$4,062,986.65. The purpose of the bonds is to pay the cost of acquiring and constructing street improvements and sanitary sewer system improvements.

On October 12, 2010, City Hall caught fire and obtained substantial water and smoke damage to the building. Clean-up and renovation on the building is expected to take 6-9 months. There will be no liability to the City as all costs will be covered by insurance.

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.

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

12. RESTATEMENT

There was an adjustment made to the Water street DDA fund's capital outlay expense for the year ended June 30, 2009. The adjustment had the following effect on the beginning fund balance:

	<u>Water Street DDA Fund</u>
Fund balance as previously reported	\$ 671,304
Prior period adjustment	
Adjust expense recorded in error	<u>66,712</u>
Fund balance as restated	<u>\$ 738,016</u>

In addition, there was a prior period adjustment that had the following effect on the following component unit net assets:

	<u>Water Street DDA Fund</u>
Net assets as previously reported	\$ 832,652
Prior period adjustment	
Adjust accumulated depreciation	<u>8,612</u>
Net assets as restated	<u>\$ 841,264</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAY CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPAL EMPLOYEES RETIREMENT SYSTEM OF MICHIGAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date (December 31)	(a) Actuarial Value of Assets	(b) Actuarial 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
2004	\$ 48,468,116	\$ 38,017,452	\$ (10,450,664)	127.5%	\$ 6,105,158	-
2005	38,615,076	63,733,652	25,118,576	60.6%	5,508,803	456.0%
2006	38,615,076	63,733,652	25,118,576	60.6%	5,508,803	456.0%
2007	41,431,126	65,669,156	24,238,030	63.1%	5,248,328	461.8%
2008	43,099,367	66,147,661	23,048,294	65.2%	4,889,820	471.4%
2009	44,326,080	64,851,338	20,525,258	68.4%	4,754,321	431.7%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
2005	\$ 1,883,724	\$ 1,883,724	100.00%
2006	1,741,361	1,741,361	100.00%
2007	2,062,980	3,644,351	176.65%
2008	2,228,304	4,464,899	200.37%
2009	2,226,792	4,417,775	198.39%
2010	2,225,289	3,320,793	149.23%

**CITY OF BAY CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
CITY OF BAY CITY POLICE AND FIRE RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2010**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date (June 30)	(a) Actuarial Value of Assets	(b) Actuarial Liability (AAL) Attained Age	(b-a) Unfunded Actuarial Liability (Asset)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
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%
2006	43,663,072	55,877,091	12,214,019	78.1%	6,307,684	193.6%
2007	46,365,165	59,001,185	12,636,020	78.6%	6,145,101	205.6%
2008	48,162,620	60,101,971	11,939,351	80.1%	6,123,644	195.0%
2009	45,290,860	61,088,699	15,797,839	74.1%	5,914,162	267.1%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
2005	\$ 820,504	\$ 820,504	100.00%
2006	1,516,565	1,516,565	100.00%
2007	1,635,150	2,123,900	129.89% <i>Note</i>
2008	1,651,747	1,651,747	100.00%
2009	1,618,068	1,618,068	100.00%
2010	1,483,085	1,483,085	100.00%

Note: For the year ended June 30, 2007, actual employer contributions include \$139,462 for purchase of service credit paid by the City of Bay City for recent retirees who accepted an early retirement incentive and \$349,288, which was a deposit from the Risk Management Authority for settlement of a claim filed by an employee that will be applied toward future retirement benefits.

**CITY OF BAY CITY, MICHIGAN
 REQUIRED SUPPLEMENTARY INFORMATION
 POSTRETIREMENT HEALTHCARE
 SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
 FOR THE YEAR ENDED JUNE 30, 2010**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date (December 31)	(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
2006	\$ 2,999,854	\$ 126,498,186	\$ 123,498,332	2.4%	n/a	n/a
2008	3,855,958	109,208,397	105,352,439	3.5%	n/a	n/a

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
2009	\$ 8,707,010	\$ 4,745,247	54.50%
2010	8,997,922	4,888,314	54.33%

**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:

Local Streets Fund

This fund is used to account for 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.

Neighborhood Stabilization Fund

This fund is used to account for revenues received from the Michigan State Housing Development Authority (MSHDA) relative to the Neighborhood Stabilization Program

Homeless Prevention Rehousing 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 Homelessness Prevention & Rapid Re-Housing Program (HPRP)

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 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, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010

	Special Revenue Funds							
	Local Streets	Fire Awareness	Community Policing	Parking Enforcement	Solid Waste Management	Community Development Block Grant	Public Improvement	Building Inspection
Assets								
Cash and cash equivalents	\$ -	\$ 23,188	\$ 45,625	\$ 6,093	\$ 602,728	\$ -	\$ 1,428,531	\$ -
Receivables (net of allowance for uncollectibles)								
Accounts	2,201	-	-	-	351,364	5,770	-	198,807
Delinquent taxes	-	-	-	-	-	-	-	-
Special assessments	-	-	-	-	27,164	-	-	11,400
Accrued interest	-	164	321	34	4,241	-	10,056	-
Due from other funds	145,556	-	-	-	-	14,268	-	-
Due from other governments	100,357	-	-	-	-	73,561	-	-
Total assets	\$ 248,114	\$ 23,352	\$ 45,946	\$ 6,127	\$ 985,497	\$ 93,599	\$ 1,438,587	\$ 210,207
Liabilities and fund balances								
Liabilities								
Accounts payable	\$ 52,800	\$ -	\$ 196	\$ 6,127	\$ 30,162	\$ 48,330	\$ -	\$ 9,449
Accrued liabilities	1,802	2,293	3,904	-	26,286	8,194	-	6,183
Due to other funds	56,934	21,059	41,846	-	-	37,075	-	28,209
Deposits payable	-	-	-	-	250	-	-	44,632
Deferred revenues	-	-	-	-	-	-	-	-
Total liabilities	111,536	23,352	45,946	6,127	56,698	93,599	-	88,473
Fund balances								
Unreserved								
Undesignated	136,578	-	-	-	928,799	-	1,438,587	121,734
Total liabilities and fund balances	\$ 248,114	\$ 23,352	\$ 45,946	\$ 6,127	\$ 985,497	\$ 93,599	\$ 1,438,587	\$ 210,207

Neighborhood Opportunity	Neighborhood Stabilization	Homeless Prevention Rehousing	Total	Debt Service Fund		Capital Projects Funds			Total
				Bond Sinking Fund	Riverfront Redevelopment	Economic Opportunities	Total		
\$ 162,986	\$ -	\$ -	\$ 2,269,151	\$ 830,511	\$ 505,627	\$ 708,575	\$ 1,214,202	\$ 4,313,864	
-	-	-	558,142	-	1,700	-	1,700	559,842	
-	-	-	-	5,569	-	-	-	5,569	
-	-	-	38,564	-	-	-	-	38,564	
1,147	-	-	15,963	5,813	3,547	4,976	8,523	30,299	
-	-	-	159,824	-	-	-	-	159,824	
-	62,156	84,061	320,135	-	-	-	-	320,135	
\$ 164,133	\$ 62,156	\$ 84,061	\$ 3,361,779	\$ 841,893	\$ 510,874	\$ 713,551	\$ 1,224,425	\$ 5,428,097	
\$ -	\$ 42,254	\$ 58,769	\$ 248,087	\$ -	\$ 4,557	\$ 2,207	\$ 6,764	\$ 254,851	
-	-	-	48,662	-	-	-	-	48,662	
-	19,902	25,292	230,317	-	-	-	-	230,317	
1	-	-	44,883	-	-	-	-	44,883	
-	-	-	-	5,568	-	-	-	5,568	
1	62,156	84,061	571,949	5,568	4,557	2,207	6,764	584,281	
164,132	-	-	2,789,830	836,325	506,317	711,344	1,217,661	4,843,816	
\$ 164,133	\$ 62,156	\$ 84,061	\$ 3,361,779	\$ 841,893	\$ 510,874	\$ 713,551	\$ 1,224,425	\$ 5,428,097	

CITY OF BAY CITY, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue Funds						
	Local Streets	Fire Awareness	Community Policing	Parking Enforcement	Solid Waste Management	Community Development Block Grant	Public Improvement
Revenues							
Property Taxes	\$ 154,282	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental							
Federal	-	-	-	-	-	1,605,471	-
State	740,063	-	-	-	-	-	-
Local	-	-	-	23,573	-	-	-
Charges for services							
Sales	-	-	-	-	2,001,408	-	-
Fines and forfeitures	-	-	-	24,485	-	-	-
Miscellaneous							
Interest earnings	226	273	702	98	11,711	-	26,063
Reimbursements	234	-	63,824	-	-	-	-
Other	100	-	-	-	20,418	160	-
Total revenues	894,905	273	64,526	48,156	2,033,537	1,605,631	26,063
Expenditures							
Current							
Public safety	-	91,741	151,534	48,156	-	-	-
Public works							
Highways, streets and bridges	867,657	-	-	-	-	-	-
Environmental	-	-	-	-	1,963,492	-	-
Economic development	-	-	-	-	-	709,494	-
Capital outlay	448,788	-	-	-	-	315,104	14,600
Debt service							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	1,316,445	91,741	151,534	48,156	1,963,492	1,024,598	14,600
Excess of revenues over (under) expenditures	(421,540)	(91,468)	(87,008)	-	70,045	581,033	11,463
Other financing sources (uses)							
Transfers in	371,566	91,468	87,008	-	-	122,979	442,000
Transfers out	-	-	-	-	-	(704,012)	-
Total other financing sources (uses)	371,566	91,468	87,008	-	-	(581,033)	442,000
Net change in fund balances	(49,974)	-	-	-	70,045	-	453,463
Fund balances, beginning of year	186,552	-	-	-	858,754	-	985,124
Fund balances, end of year	\$ 136,578	\$ -	\$ -	\$ -	\$ 928,799	\$ -	\$ 1,438,587

Building Inspection	Neighborhood Opportunity	Neighborhood Stabilization	Homeless Prevention Rehousing	Total	Debt Service Fund	Capital Projects Funds			Total
					Bond Sinking Fund	Riverfront Redevelopment	Economic Opportunities	Total	
\$ -	\$ -	\$ -	\$ -	\$ 154,282	\$ 1,723,349	\$ -	\$ -	\$ -	\$ 1,877,631
491,116	-	-	-	491,116	-	-	-	-	491,116
-	-	-	253,269	1,858,740	-	-	-	-	1,858,740
-	-	107,298	-	847,361	-	-	-	-	847,361
-	-	-	-	23,573	-	-	-	-	23,573
-	-	-	-	2,001,408	-	-	-	-	2,001,408
-	-	-	-	24,485	-	-	-	-	24,485
-	3,304	-	-	42,377	32,100	10,115	15,473	25,588	100,065
516	-	-	-	64,574	-	-	-	-	64,574
59,335	-	-	-	80,013	-	17,182	10,850	28,032	108,045
<u>550,967</u>	<u>3,304</u>	<u>107,298</u>	<u>253,269</u>	<u>5,587,929</u>	<u>1,755,449</u>	<u>27,297</u>	<u>26,323</u>	<u>53,620</u>	<u>7,396,998</u>
429,233	-	-	-	720,664	-	-	-	-	720,664
-	-	-	-	867,657	-	-	-	-	867,657
-	-	-	-	1,963,492	-	-	-	-	1,963,492
-	109	107,298	253,269	1,070,170	-	53,008	264,252	317,260	1,387,430
-	-	-	-	778,492	-	-	-	-	778,492
-	-	-	-	-	1,660,000	-	-	-	1,660,000
-	-	-	-	-	2,350	-	-	-	2,350
<u>429,233</u>	<u>109</u>	<u>107,298</u>	<u>253,269</u>	<u>5,400,475</u>	<u>1,662,350</u>	<u>53,008</u>	<u>264,252</u>	<u>317,260</u>	<u>7,380,085</u>
121,734	3,195	-	-	187,454	93,099	(25,711)	(237,929)	(263,640)	16,913
-	-	-	-	1,115,021	-	-	-	-	1,115,021
-	-	-	-	(704,012)	-	-	(4,400)	(4,400)	(708,412)
-	-	-	-	411,009	-	-	(4,400)	(4,400)	406,609
121,734	3,195	-	-	598,463	93,099	(25,711)	(242,329)	(268,040)	423,522
-	160,937	-	-	2,191,367	743,226	532,028	953,673	1,485,701	4,420,294
<u>\$ 121,734</u>	<u>\$ 164,132</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,789,830</u>	<u>\$ 836,325</u>	<u>\$ 506,317</u>	<u>\$ 711,344</u>	<u>\$ 1,217,661</u>	<u>\$ 4,843,816</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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 150,088	\$ 150,088	\$ 154,282	\$ 4,194
Intergovernmental				
State	739,798	739,798	740,063	265
Miscellaneous				
Interest earnings	-	-	226	226
Reimbursements	-	-	234	234
Other	100	100	100	-
Total revenues	<u>889,986</u>	<u>889,986</u>	<u>894,905</u>	<u>4,919</u>
Expenditures				
Public works				
Highways, streets, and bridges	1,103,740	1,050,803	867,657	183,146
Capital outlay	382,000	518,578	448,788	69,790
Total expenditures	<u>1,485,740</u>	<u>1,569,381</u>	<u>1,316,445</u>	<u>252,936</u>
Excess of revenues over (under) expenditures	(595,754)	(679,395)	(421,540)	257,855
Other financing sources				
Transfers in	440,000	519,137	371,566	(147,571)
Net change in fund balance	(155,754)	(160,258)	(49,974)	(110,284)
Fund balance, beginning of year	<u>186,552</u>	<u>186,552</u>	<u>186,552</u>	<u>-</u>
Fund balance, end of year	<u>\$ 30,798</u>	<u>\$ 26,294</u>	<u>\$ 136,578</u>	<u>\$ (110,284)</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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Interest earnings	\$ -	\$ -	\$ 273	\$ 273
Expenditures				
Public safety	112,527	112,527	91,741	20,786
Revenues under expenditures	(112,527)	(112,527)	(91,468)	(20,513)
Other financing sources				
Transfers in	112,527	112,527	91,468	(21,059)
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Interest earnings	\$ -	\$ -	\$ 702	\$ 702
Reimbursements	63,823	63,823	63,824	(1)
Total revenues	63,823	63,823	64,526	701
Expenditures				
Public safety	192,677	192,677	151,534	41,143
Revenues under expenditures	(128,854)	(128,854)	(87,008)	(40,442)
Other financing sources				
Transfers in	128,854	128,854	87,008	(41,846)
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
Local	\$ 26,400	\$ 26,400	\$ 23,573	\$ (2,827)
Interest revenue	-	-	98	98
Fines and forfeitures	20,000	20,000	24,485	4,485
Total revenues	46,400	46,400	48,156	1,756
Expenditures				
Public safety	46,400	46,400	48,156	(1,756)
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, 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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Charges for services				
Sales	\$ 1,900,400	\$ 1,900,400	\$ 2,001,408	\$ 101,008
Miscellaneous				
Interest earnings	5,000	5,000	11,711	6,711
Other	16,600	16,600	20,418	3,818
Total revenues	1,922,000	1,922,000	2,033,537	111,537
Expenditures				
Environmental	2,043,376	2,043,376	1,963,492	79,884
Net change in fund balance	(121,376)	(121,376)	70,045	191,421
Fund balance, beginning of year	858,754	858,754	858,754	-
Fund balances, end of year	<u>\$ 737,378</u>	<u>\$ 737,378</u>	<u>\$ 928,799</u>	<u>\$ 191,421</u>

**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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
Federal	\$ 2,657,610	\$ 2,657,610	\$ 1,605,471	\$ (1,052,139)
Other	-	-	160	(160)
	<u>2,657,610</u>	<u>2,657,610</u>	<u>1,605,631</u>	<u>(1,052,299)</u>
Total revenues				
Expenditures				
Economic development	755,800	755,800	709,494	46,306
Capital outlay	308,437	308,437	315,104	(6,667)
	<u>1,064,237</u>	<u>1,064,237</u>	<u>1,024,598</u>	<u>39,639</u>
Total expenditures				
Revenues over expenditures	<u>1,593,373</u>	<u>1,593,373</u>	<u>581,033</u>	<u>(1,012,340)</u>
Other financing sources (uses)				
Transfers in	40,000	40,000	122,979	82,979
Transfers out	(1,633,373)	(1,633,373)	(704,012)	929,361
	<u>(1,593,373)</u>	<u>(1,593,373)</u>	<u>(581,033)</u>	<u>1,012,340</u>
Total other financing sources (uses)				
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, 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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Interest earnings	\$ 14,625	\$ 14,625	\$ 26,063	\$ 11,438
Expenditures				
Capital outlay	1,425,000	1,425,000	14,600	1,410,400
Revenues over (under) expenditures	(1,410,375)	(1,410,375)	11,463	1,421,838
Other financing sources				
Transfers in	442,000	442,000	442,000	-
Net change in fund balance	(968,375)	(968,375)	453,463	1,421,838
Fund balance, beginning of year	985,124	985,124	985,124	-
Fund balance, end of year	<u>\$ 16,749</u>	<u>\$ 16,749</u>	<u>\$ 1,438,587</u>	<u>\$ 1,421,838</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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Licenses and permits	\$ 460,150	\$ 460,150	\$ 491,116	\$ 30,966
Miscellaneous				
Reimbursements	20,000	20,000	516	(19,484)
Other	27,200	27,200	59,335	32,135
Total revenues	507,350	507,350	550,967	43,617
Expenditures				
Public safety	504,073	504,073	429,233	74,840
Net change in fund balance	3,277	3,277	121,734	(118,457)
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ 3,277</u>	<u>\$ 3,277</u>	<u>\$ 121,734</u>	<u>\$ (118,457)</u>

**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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Miscellaneous:				
Interest	\$ 2,320	\$ 2,320	\$ 3,304	\$ 984
Expenditures				
Economic development	142,033	142,033	109	141,924
Net change in fund balance	(139,713)	(139,713)	3,195	(142,908)
Fund balance, beginning of year	160,937	160,937	160,937	-
Fund balance, end of year	<u>\$ 21,224</u>	<u>\$ 21,224</u>	<u>\$ 164,132</u>	<u>\$ (142,908)</u>

**CITY OF BAY CITY, MICHIGAN
NEIGHBORHOOD STABILIZATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
State	\$ -	\$ 550,000	\$ 107,298	\$ (442,702)
Expenditures				
Economic development	-	550,000	107,298	442,702
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF BAY CITY, MICHIGAN
HOMELESS PREVENTION REHOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
Federal	\$ -	\$ 592,249	\$ 253,269	\$ (338,980)
Expenditures				
Economic development	-	592,249	253,269	338,980
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 1,712,836	\$ 1,712,836	\$ 1,723,349	\$ 10,513
Interest earnings	35,000	35,000	32,100	(2,900)
Total revenues	<u>1,747,836</u>	<u>1,747,836</u>	<u>1,755,449</u>	<u>7,613</u>
Expenditures				
Debt service				
Principal	1,660,000	1,660,000	1,660,000	-
Interest and fiscal charges	2,350	2,350	2,350	-
Total expenditures	<u>1,662,350</u>	<u>1,662,350</u>	<u>1,662,350</u>	<u>-</u>
Net change in fund balance	85,486	85,486	93,099	7,613
Fund balance, beginning of year	<u>743,226</u>	<u>743,226</u>	<u>743,226</u>	<u>-</u>
Fund balance, end of year	<u>\$ 828,712</u>	<u>\$ 828,712</u>	<u>\$ 836,325</u>	<u>\$ 7,613</u>

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, 2010**

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 124,232	\$ 21,636	\$ 185,185	\$ 331,053
Receivables (net of allowance for uncollectibles)				
Accounts	4,272	15,777	-	20,049
Accrued interest	907	152	1,303	2,362
Inventories	-	29,517	-	29,517
Total current assets	129,411	67,082	186,488	382,981
Capital assets				
Land and improvements	300,888	2,103,303	2,738,574	5,142,765
Air rights	-	95,421	-	95,421
Buildings	67,169	902,335	193,825	1,163,329
Machinery and equipment	1,130	9,383	82,667	93,180
	369,187	3,110,442	3,015,066	6,494,695
Less: accumulated depreciation	175,385	1,110,124	1,113,559	2,399,068
Net capital assets	193,802	2,000,318	1,901,507	4,095,627
Total assets	323,213	2,067,400	2,087,995	4,478,608
Liabilities				
Current liabilities				
Accounts payable	9,421	2,370	13,096	24,887
Accrued liabilities	-	-	481	481
Total current liabilities	9,421	2,370	13,577	25,368
Net assets				
Invested in capital assets	193,802	2,000,318	1,901,507	4,095,627
Unrestricted	119,990	64,712	172,911	357,613
Total net assets	\$ 313,792	\$ 2,065,030	\$ 2,074,418	\$ 4,453,240

CITY OF BAY CITY, MICHIGAN
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Oak Ridge Cemetery</u>	<u>James Clements Airport</u>	<u>Liberty Harbor Marina</u>	<u>Total</u>
Operating revenues				
Charges for services				
Sales	\$ 60,292	\$ 48,722	\$ 2,985	\$ 111,999
Rents	-	2,625	125,302	127,927
Miscellaneous	-	31,793	27	31,820
Total operating revenues	<u>60,292</u>	<u>83,140</u>	<u>128,314</u>	<u>271,746</u>
Operating expenses				
Cost of sales and service	120,013	114,690	124,844	359,547
Depreciation	<u>2,138</u>	<u>104,797</u>	<u>60,188</u>	<u>167,123</u>
Total operating expenses	<u>122,151</u>	<u>219,487</u>	<u>185,032</u>	<u>526,670</u>
Operating loss	<u>(61,859)</u>	<u>(136,347)</u>	<u>(56,718)</u>	<u>(254,924)</u>
Nonoperating revenues				
Intergovernmental				
Federal grants	-	170,292	-	170,292
State grants	-	4,481	-	4,481
Interest earnings	<u>2,705</u>	<u>650</u>	<u>3,133</u>	<u>6,488</u>
Total nonoperating revenues	<u>2,705</u>	<u>175,423</u>	<u>3,133</u>	<u>181,261</u>
Income (loss) before transfers	(59,154)	39,076	(53,585)	(73,663)
Transfers in	<u>62,005</u>	<u>53,568</u>	<u>-</u>	<u>115,573</u>
Change in net assets	2,851	92,644	(53,585)	41,910
Net assets, beginning of year	<u>310,941</u>	<u>1,972,386</u>	<u>2,128,003</u>	<u>4,411,330</u>
Net assets, end of year	<u>\$ 313,792</u>	<u>\$ 2,065,030</u>	<u>\$ 2,074,418</u>	<u>\$ 4,453,240</u>

**CITY OF BAY CITY, MICHIGAN
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Cash flows from operating activities				
Cash received from customers and users	\$ 60,251	\$ 47,716	\$ 127,779	\$ 235,746
Cash payments to suppliers for goods and services	(96,070)	(119,537)	(104,393)	(320,000)
Cash payments to employees for services	-	-	(15,770)	(15,770)
Other receipts	-	31,793	27	31,820
Net cash provided (used) by operating activities	(35,819)	(40,028)	7,643	(68,204)
Cash flows from noncapital financing activities				
Intergovernmental - federal grant	-	170,292	-	170,292
Intergovernmental - state grant	-	4,481	-	4,481
Transfers in	62,005	53,568	-	115,573
Net cash provided by noncapital financing activities	62,005	228,341	-	290,346
Cash flows from capital and related financing activities				
Purchase of capital assets	-	(179,241)	-	(179,241)
Cash flows from investing activities				
Interest received	2,705	650	3,133	6,488
Net increase (decrease) in cash and cash equivalents	28,891	9,722	10,776	49,389
Cash and cash equivalents, beginning of year	95,341	11,914	174,409	281,664
Cash and cash equivalents, end of year	\$ 124,232	\$ 21,636	\$ 185,185	\$ 331,053
Reconciliation of operating income to net cash provided by operating activities				
Operating loss	\$ (61,859)	\$ (136,347)	\$ (56,718)	\$ (254,924)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation	2,138	104,797	60,188	167,123
(Increase) decrease in assets:				
Accounts receivable	297	(3,533)	-	(3,236)
Accrued interest receivable	(338)	(98)	(508)	(944)
Due from other funds	23,864	-	-	23,864
Inventories	-	(3,649)	-	(3,649)
Prepaid expenses	-	81	-	81
Increase (decrease) in liabilities:				
Accounts payable	79	(1,279)	4,614	3,414
Accrued liabilities	-	-	67	67
Total adjustments	26,040	96,319	64,361	186,720
Net cash provided (used) by operating activities	\$ (35,819)	\$ (40,028)	\$ 7,643	\$ (68,204)

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, 2010

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 2,716,115	\$ 180,456	\$ 2,510,850	\$ 32,347	\$ 5,149,595	\$ 10,589,363
Receivables (net of allowance for uncollectibles)						
Accounts	-	-	3,364	-	-	3,364
Accrued interest	19,071	1,249	17,662	216	35,822	74,020
Inventories	127,406	14,343	-	-	-	141,749
Prepaid expenses	-	-	-	-	49,046	49,046
Deposits	-	-	-	-	229,294	229,294
Total current assets	2,862,592	196,048	2,531,876	32,563	5,463,757	11,086,836
Noncurrent assets						
Net pension asset	169,806	131,846	-	-	-	301,652
Capital assets						
Buildings and improvements	29,640	-	-	-	-	29,640
Machinery and equipment	12,469,813	677,297	-	-	-	13,147,110
Less: accumulated depreciation	8,279,716	445,221	-	-	-	8,724,937
Net capital assets	4,219,737	232,076	-	-	-	4,451,813
Total noncurrent assets	4,389,543	363,922	-	-	-	4,753,465
Total assets	7,252,135	559,970	2,531,876	32,563	5,463,757	15,840,301
Liabilities						
Current liabilities						
Accounts payable	162,228	9,284	249,199	2,941	356,758	780,410
Accrued liabilities	18,481	13,079	-	-	1,662	33,222
Interest payable	1,892	-	-	-	-	1,892
Claims payable	-	-	1,011,072	-	1,182,723	2,193,795
Due to other governments	-	-	-	-	19,376	19,376
Unearned revenue	-	-	-	29,622	-	29,622
Accrued compensated absences - current	27,633	24,941	-	-	-	52,574
Notes payable - current	47,803	-	-	-	-	47,803
Total current liabilities	258,037	47,304	1,260,271	32,563	1,560,519	3,158,694
Long-term liabilities						
Accrued compensated absences	44,098	54,572	-	-	-	98,670
Notes payable	101,192	-	-	-	-	101,192
Net OPEB obligation	231,544	90,437	-	-	-	321,981
Total long-term liabilities	376,834	145,009	-	-	-	521,843
Total liabilities	634,871	192,313	1,260,271	32,563	1,560,519	3,680,537
Net assets						
Invested in capital assets, net of related debt	4,070,742	232,076	-	-	-	4,302,818
Unrestricted	2,546,522	135,581	1,271,605	-	3,903,238	7,856,946
Total net assets	\$ 6,617,264	\$ 367,657	\$ 1,271,605	\$ -	\$ 3,903,238	\$ 12,159,764

**CITY OF BAY CITY, MICHIGAN
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Operating revenues						
Charges for services	\$ 3,351,826	\$ 690,346	\$ 1,007,503	\$ 18,877	\$ 12,520,563	\$ 17,589,115
Miscellaneous						
Employee contributions	-	-	-	-	977,206	977,206
Other	2,779	5,232	7,427	-	14,742	30,180
Total operating revenues	<u>3,354,605</u>	<u>695,578</u>	<u>1,014,930</u>	<u>18,877</u>	<u>13,512,511</u>	<u>18,596,501</u>
Operating expenses						
Cost of sales and service	2,298,163	705,539	-	19,614	-	3,023,316
Administration	-	-	8,334	-	215,348	223,682
Claims and benefits	-	-	1,282,126	-	13,285,054	14,567,180
Depreciation	725,596	67,623	-	-	-	793,219
Total operating expenses	<u>3,023,759</u>	<u>773,162</u>	<u>1,290,460</u>	<u>19,614</u>	<u>13,500,402</u>	<u>18,607,397</u>
Operating income (loss)	<u>330,846</u>	<u>(77,584)</u>	<u>(275,530)</u>	<u>(737)</u>	<u>12,109</u>	<u>(10,896)</u>
Nonoperating revenues (expenses)						
Interest earnings	53,574	4,820	49,814	737	106,761	215,706
Interest expense	(6,412)	-	-	-	-	(6,412)
Gain on disposal of capital assets	15,555	-	-	-	-	15,555
Total nonoperating revenues (expenses)	<u>62,717</u>	<u>4,820</u>	<u>49,814</u>	<u>737</u>	<u>106,761</u>	<u>224,849</u>
Income (loss) before transfers	393,563	(72,764)	(225,716)	-	118,870	213,953
Transfers in	-	8,078	-	-	-	8,078
Change in net assets	393,563	(64,686)	(225,716)	-	118,870	222,031
Net assets, beginning of year	6,223,701	432,343	1,497,321	-	3,784,368	11,937,733
Net assets, end of year	<u>\$ 6,617,264</u>	<u>\$ 367,657</u>	<u>\$ 1,271,605</u>	<u>\$ -</u>	<u>\$ 3,903,238</u>	<u>\$ 12,159,764</u>

CITY OF BAY CITY, MICHIGAN
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	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	\$ 3,338,979	\$ 692,302	\$ 1,004,366	\$ 18,884	\$ 13,745,538	\$ 18,800,069
Cash payments to suppliers for goods and services	(1,181,058)	(88,405)	(738,663)	(35,925)	(14,502,445)	(16,546,496)
Cash payments to employees for services	(946,916)	(572,481)	-	-	-	(1,519,397)
Net cash provided (used) by operating activities	<u>1,211,005</u>	<u>31,416</u>	<u>265,703</u>	<u>(17,041)</u>	<u>(756,907)</u>	<u>734,176</u>
Cash flows from noncapital financing activities						
Transfers in	-	8,078	-	-	-	8,078
Cash flows from capital and related financing activities						
Purchase of capital assets	(731,312)	(172,862)	-	-	-	(904,174)
Proceeds from sale of capital assets	68,221	-	-	-	-	68,221
Principal paid on debt	(46,032)	-	-	-	-	(46,032)
Interest paid on debt	(6,412)	-	-	-	-	(6,412)
Net cash used by capital and related financing activities	<u>(715,535)</u>	<u>(172,862)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(888,397)</u>
Cash flows from investing activities						
Interest received	53,574	4,820	49,814	737	106,761	215,706
Net increase (decrease) in cash and cash equivalents	549,044	(128,548)	315,517	(16,304)	(650,146)	69,563
Cash and cash equivalents, beginning of year	2,167,071	309,004	2,195,333	48,651	5,799,741	10,519,800
Cash and cash equivalents, end of year	<u>\$ 2,716,115</u>	<u>\$ 180,456</u>	<u>\$ 2,510,850</u>	<u>\$ 32,347</u>	<u>\$ 5,149,595</u>	<u>\$ 10,589,363</u>
Reconciliation of operating loss to net cash provided (used) by operating activities						
Operating income (loss)	\$ 330,846	\$ (77,584)	\$ (275,530)	\$ (737)	\$ 12,109	\$ (10,896)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:						
Depreciation	725,596	67,623	-	-	-	793,219
(Increase) decrease in assets:						
Accounts receivable	-	-	(2,914)	-	783	(2,131)
Accrued interest	(9,188)	160	(7,650)	7	(9,453)	(26,124)
Due from other funds	-	-	-	-	241,697	241,697
Inventories	(9,630)	(2,161)	-	-	-	(11,791)
Prepaid expenses	-	-	-	-	(89)	(89)
Deposits	-	-	74,193	-	28,125	102,318
Net pension asset	(27,995)	(15,064)	-	-	-	(43,059)
Increase (decrease) in liabilities:						
Accounts payable	100,676	7,352	239,262	2,566	(1,144,915)	(795,059)
Accrued liabilities	417	1,055	-	-	(1,291)	181
Interest payable	(585)	-	-	-	-	(585)
Claims payable	-	-	238,342	-	113,083	351,425
Due to other funds	(6,438)	(3,436)	-	-	-	(9,874)
Due to other governments	-	-	-	-	3,044	3,044
Unearned revenue	-	-	-	(18,877)	-	(18,877)
Net OPEB obligation	101,487	48,518	-	-	-	150,005
Accrued compensated absences	5,819	4,953	-	-	-	10,772
Total adjustments	<u>880,159</u>	<u>109,000</u>	<u>541,233</u>	<u>(16,304)</u>	<u>(769,016)</u>	<u>745,072</u>
Net cash provided (used) by operating activities	<u>\$ 1,211,005</u>	<u>\$ 31,416</u>	<u>\$ 265,703</u>	<u>\$ (17,041)</u>	<u>\$ (756,907)</u>	<u>\$ 734,176</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, 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, 2010

	Pension Trust	Healthcare Trust Fund			Total
	Police & Fire Retirement	General Employees Health Care Investment	Police & Fire Health Care Investment	Total Health Care Investment Fund	
Assets					
Cash and cash equivalents	\$ -	\$ 2,930,459	\$ 1,065,390	\$ 3,995,849	\$ 3,995,849
Investments					
Money market accounts	634,549		-	-	634,549
Mutual funds	15,536,245			-	15,536,245
Government securities	4,189,202	604,169	394,813	998,982	5,188,184
Corporate debt	6,298,216	-	-	-	6,298,216
Common stock	13,277,381	-	-	-	13,277,381
Accounts receivable	136,923	18,336	13,600	31,936	168,859
Interest receivable	102,556	20,619	7,497	28,116	130,672
Total assets	40,175,072	3,573,583	1,481,300	5,054,883	45,229,955
Liabilities					
Accounts payable	52,821	-	-	-	52,821
Net assets					
Held in trust for employees' pension benefits	40,122,251	-	-	-	40,122,251
Held in trust for employees' postemployment health care benefits	-	3,573,583	1,481,300	5,054,883	5,054,883
Total net assets	<u>\$ 40,122,251</u>	<u>\$ 3,573,583</u>	<u>\$ 1,481,300</u>	<u>\$ 5,054,883</u>	<u>\$ 45,177,134</u>

**CITY OF BAY CITY, MICHIGAN
FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	Pension Trust		Healthcare Trust Fund		Total
	Police & Fire Retirement	General Employees Health Care Investment	Police & Fire Health Care Investment	Total Health Care Investment Fund	
Additions					
Contributions					
Employer	\$ 1,483,085	\$ 480,521	\$ 261,979	\$ 742,500	\$ 2,225,585
Current premium contributions	-	2,683,171	1,462,643	4,145,814	4,145,814
Plan members	484,423	-	-	-	484,423
Total contributions	<u>1,967,508</u>	<u>3,163,692</u>	<u>1,724,622</u>	<u>4,888,314</u>	<u>6,855,822</u>
Investment income					
Interest and dividends	854,896	74,269	30,430	104,699	959,595
Net appreciation in fair value of investments	3,935,209	38,086	25,890	63,976	3,999,185
Investment expense	(195,727)	-	-	-	(195,727)
Net investment income	<u>4,594,378</u>	<u>112,355</u>	<u>56,320</u>	<u>168,675</u>	<u>4,763,053</u>
Other additions	<u>16,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,162</u>
Total additions	<u>6,578,048</u>	<u>3,276,047</u>	<u>1,780,942</u>	<u>5,056,989</u>	<u>11,635,037</u>
Deductions					
Retiree healthcare premium payments	-	2,683,171	1,462,643	4,145,814	4,145,814
Benefits and refunds paid to participants	4,041,700	-	-	-	4,041,700
Administrative expenses	156,480	-	-	-	156,480
Total deductions	<u>4,198,180</u>	<u>2,683,171</u>	<u>1,462,643</u>	<u>4,145,814</u>	<u>8,343,994</u>
Net increase in plan net assets	<u>2,379,868</u>	<u>592,876</u>	<u>318,299</u>	<u>911,175</u>	<u>3,291,043</u>
Net assets held in trust for pension and other employee benefits					
Beginning of year	<u>37,742,383</u>	<u>2,980,707</u>	<u>1,163,001</u>	<u>4,143,708</u>	<u>41,886,091</u>
End of year	<u>\$ 40,122,251</u>	<u>\$ 3,573,583</u>	<u>\$ 1,481,300</u>	<u>\$ 5,054,883</u>	<u>\$ 45,177,134</u>

CITY OF BAY CITY, MICHIGAN
AGENCY FUNDS
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2010

	Trust and Agency	Current Tax Collection	Total
Assets			
Cash and cash equivalents	\$ 156,768	\$ -	\$ 156,768
Accounts receivable	-	669	669
Total assets	\$ 156,768	\$ 669	\$ 157,437
Liabilities			
Accounts payable	\$ 141,910	\$ 669	\$ 142,579
Deposits	14,858	-	14,858
Total liabilities	\$ 156,768	\$ 669	\$ 157,437

CITY OF BAY CITY, MICHIGAN
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2010</u>
<u>Trust & Agency Fund</u>				
Assets				
Cash and cash equivalents	\$ 156,050	\$ 4,805,277	\$ 4,804,559	\$ 156,768
Liabilities				
Accounts payable	\$ 286	\$ 291,112	\$ 149,488	\$ 141,910
Due to other funds	-	521	521	-
Due to other governmental units	138,833	4,763,966	4,902,799	-
Deposits	16,931	41,832	43,905	14,858
Total liabilities	<u>\$ 156,050</u>	<u>\$ 5,097,431</u>	<u>\$ 5,096,713</u>	<u>\$ 156,768</u>
<u>Current Tax Collection Fund</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 31,542,201	\$ 31,542,201	\$ -
Accounts receivable	-	669	-	669
Total assets	<u>\$ -</u>	<u>\$ 31,542,870</u>	<u>\$ 31,542,201</u>	<u>\$ 669</u>
Liabilities				
Accounts payable	\$ -	\$ 391,559	\$ 390,890	\$ 669
Due to other funds	-	11,899,226	11,899,226	-
Due to other governmental units	-	19,231,424	19,231,424	-
Total liabilities	<u>\$ -</u>	<u>\$ 31,522,209</u>	<u>\$ 31,521,540</u>	<u>\$ 669</u>
<u>Total - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 156,050	\$ 36,347,478	\$ 36,346,760	\$ 156,768
Accounts receivable	-	669	-	669
Total assets	<u>\$ 156,050</u>	<u>\$ 36,348,147</u>	<u>\$ 36,346,760</u>	<u>\$ 157,437</u>
Liabilities				
Accounts payable	\$ 286	\$ 682,671	\$ 540,378	\$ 142,579
Due to other funds	-	11,899,747	11,899,747	-
Due to other governmental units	138,833	23,995,390	24,134,223	-
Deposits	16,931	41,832	43,905	14,858
Total liabilities	<u>\$ 156,050</u>	<u>\$ 36,619,640</u>	<u>\$ 36,618,253</u>	<u>\$ 157,437</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. (City Loans and Collection Fund), and Downtown Management Board.

CITY OF BAY CITY, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY, MIDLAND STREET TIFA,
KRESGE'S DDA, AND MARQUETTE DISTRICT TIFA
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2010

	Downtown Development Authority	Adjustments	Statement of Net Assets	Midland Street TIFA	Adjustments	Statement of Net Assets
Assets						
Cash and cash equivalents	\$ 142,656	\$ -	\$ 142,656	\$ 169,416	\$ -	\$ 169,416
Receivables						
Accounts	4,746	-	4,746	-	-	-
Delinquent taxes	800	-	800	-	-	-
Accrued interest	1,071	-	1,071	1,189	-	1,189
Net pension asset	-	-	-	-	-	-
Capital assets, net	-	139,525	139,525	-	599,503	599,503
Total assets	\$ 149,273	139,525	288,798	\$ 170,605	599,503	770,108
Liabilities						
Accounts payable	\$ 15,654	-	15,654	\$ 8,592	-	8,592
Accrued liabilities	-	-	-	-	-	-
Deferred / unearned revenue	4,982	(4,982)	-	-	-	-
Total liabilities	20,636	(4,982)	15,654	8,592	-	8,592
Fund balances / net assets						
Unreserved	128,637	(128,637)	-	162,013	(162,013)	-
Total liabilities and fund balances	\$ 149,273			\$ 170,605		
Net assets						
Invested in capital assets, net of related debt		139,525	139,525		599,503	599,503
Unrestricted		133,619	133,619		162,013	162,013
Total net assets		\$ 273,144	\$ 273,144		\$ 761,516	\$ 761,516

<u>Kresge's DDA</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>	<u>Marquette District TIFA</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 37,144	\$ -	\$ 37,144	\$ 412,916	\$ -	\$ 412,916
-	-	-	-	-	-
-	-	-	-	-	-
202	-	202	1,539	-	1,539
-	-	-	-	31,263	31,263
-	28,865	28,865	-	1,770,493	1,770,493
<u>\$ 37,346</u>	<u>28,865</u>	<u>66,211</u>	<u>\$ 414,455</u>	<u>1,801,756</u>	<u>2,216,211</u>
\$ 8,438	-	8,438	\$ 925	-	925
-	-	-	1,232	-	1,232
-	-	-	-	-	-
<u>8,438</u>	<u>-</u>	<u>8,438</u>	<u>2,157</u>	<u>-</u>	<u>2,157</u>
28,908	(28,908)	-	412,298	(412,298)	-
<u>\$ 37,346</u>			<u>\$ 414,455</u>		
	28,865	28,865		1,770,493	1,770,493
	<u>28,908</u>	<u>28,908</u>		<u>443,561</u>	<u>443,561</u>
	<u>\$ 57,773</u>	<u>\$ 57,773</u>		<u>\$ 2,214,054</u>	<u>\$ 2,214,054</u>

CITY OF BAY CITY, MICHIGAN
WATER STREET DDA, MARINA DEVELOPMENT TIFA, ALLEN HEALTHCARE DDA, AND KNEPP'S DDA
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2010

	Water Street DDA	Adjustments	Statement of Net Assets	Marina Develop. TIFA	Adjustments	Statement of Net Assets
Assets						
Cash and cash equivalents	\$ 243,625	\$ -	\$ 243,625	\$ -	\$ -	\$ -
Receivables:						
Accrued interest	1,563	-	1,563	-	-	-
Capital assets, net	-	2,904,267	2,904,267	-	511,604	511,604
Total assets	\$ 245,188	2,904,267	3,149,455	\$ -	511,604	511,604
Liabilities						
Accounts payable	\$ 23,706	-	23,706	\$ -	-	-
Accrued liabilities	-	12,898	12,898	-	-	-
Long-term debt:						
Bonds payable	-	2,030,000	2,030,000	-	-	-
Total liabilities	23,706	2,042,898	2,066,604	-	-	-
Fund balances / net assets						
Unreserved	221,482	(221,482)	-	-	-	-
Total liabilities and fund balances	\$ 245,188			\$ -		
Net assets						
Invested in capital assets, net of related debt		874,267	874,267		511,604	511,604
Unrestricted		208,584	208,584		-	-
Total net assets		\$ 1,082,851	\$ 1,082,851		\$ 511,604	\$ 511,604

<u>Allen Healthcare DDA</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>	<u>Knepp's DDA</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 15,569	\$ -	\$ 15,569	\$ 13,842	\$ -	\$ 13,842
2,673	-	2,673	97	-	97
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,899</u>	<u>148,899</u>
<u>\$ 18,242</u>	<u>-</u>	<u>18,242</u>	<u>\$ 13,939</u>	<u>148,899</u>	<u>162,838</u>
\$ 12,862	-	12,862	\$ -	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>12,862</u>	<u>-</u>	<u>12,862</u>	<u>-</u>	<u>-</u>	<u>-</u>
5,380	(5,380)	-	13,939	(13,939)	-
<u>\$ 18,242</u>			<u>\$ 13,939</u>		
	-	-		148,899	148,899
	<u>5,380</u>	<u>5,380</u>		<u>13,939</u>	<u>13,939</u>
	<u>\$ 5,380</u>	<u>\$ 5,380</u>		<u>\$ 162,838</u>	<u>\$ 162,838</u>

CITY OF BAY CITY, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY, MIDLAND STREET TIFA,
KRESGE'S DDA, AND MARQUETTE DISTRICT TIFA
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Downtown Development Authority</u>	<u>Adjustments</u>	<u>Statement of Activities</u>	<u>Midland St. TIFA</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues						
Taxes						
Tax increment	\$ -	\$ -	\$ -	\$ 124,203	\$ -	\$ 124,203
Special assessments	75,418	(7,982)	67,436	-	-	-
Charges for services						
Rents	79,143	-	79,143	-	-	-
Miscellaneous						
Interest earnings	2,935	-	2,935	7,904	-	7,904
Other	34,218	-	34,218	-	-	-
Total revenues	<u>191,714</u>	<u>(7,982)</u>	<u>183,732</u>	<u>132,107</u>	<u>-</u>	<u>132,107</u>
Expenditures/Expenses						
Current						
Economic development	158,927	-	158,927	1,505	-	1,505
Depreciation	-	16,579	16,579	-	23,316	23,316
Capital outlay	18,525	(18,525)	-	206,276	(204,287)	1,989
Total expenditures/expenses	<u>177,452</u>	<u>(1,946)</u>	<u>175,506</u>	<u>207,781</u>	<u>(180,971)</u>	<u>26,810</u>
Change in net assets	14,262	(6,036)	8,226	(75,674)	180,971	105,297
Fund balances / net assets, beginning of year	<u>114,375</u>	<u>150,543</u>	<u>264,918</u>	<u>237,687</u>	<u>418,532</u>	<u>656,219</u>
Fund balances / net assets, end of year	<u>\$ 128,637</u>	<u>\$ 144,507</u>	<u>\$ 273,144</u>	<u>\$ 162,013</u>	<u>\$ 599,503</u>	<u>\$ 761,516</u>

<u>Kresge's DDA</u>	<u>Adjustments</u>	<u>Statement of Activities</u>	<u>Marquette District TIFA</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 2,314	\$ -	\$ 2,314	\$ 345,528	\$ -	\$ 345,528
-	-	-	-	-	-
-	-	-	-	-	-
676	-	676	10,439	-	10,439
-	-	-	-	-	-
<u>2,990</u>	<u>-</u>	<u>2,990</u>	<u>355,967</u>	<u>-</u>	<u>355,967</u>
1,153	-	1,153	385,448	(3,408)	382,040
-	1,779	1,779	-	106,519	106,519
<u>8,438</u>	<u>(8,438)</u>	<u>-</u>	<u>25,100</u>	<u>(25,100)</u>	<u>-</u>
<u>9,591</u>	<u>(6,659)</u>	<u>2,932</u>	<u>410,548</u>	<u>78,011</u>	<u>488,559</u>
(6,601)	6,659	58	(54,581)	(78,011)	(132,592)
<u>35,509</u>	<u>22,206</u>	<u>57,715</u>	<u>466,879</u>	<u>1,879,767</u>	<u>2,346,646</u>
<u>\$ 28,908</u>	<u>\$ 28,865</u>	<u>\$ 57,773</u>	<u>\$ 412,298</u>	<u>\$ 1,801,756</u>	<u>\$ 2,214,054</u>

CITY OF BAY CITY, MICHIGAN
WATER STREET DDA, 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, 2010

	Water Street DDA	Adjustments	Statement of Activities	Marina Develop. TIFA	Adjustments	Statement of Activities
Revenues						
Intergovernmental						
State	\$ 167,000	\$ -	\$ 167,000	\$ -	\$ -	\$ -
Taxes:						
Tax increment	334,117	-	334,117	-	-	-
Miscellaneous						
Interest earnings	6,856	-	6,856	(3,307)	-	(3,307)
Other	4,741	-	4,741	-	-	-
Total revenues	<u>512,714</u>	<u>-</u>	<u>512,714</u>	<u>(3,307)</u>	<u>-</u>	<u>(3,307)</u>
Expenditures/Expenses						
Current						
Economic development	57,368	-	57,368	-	-	-
Depreciation	-	132,152	132,152	-	9,373	9,373
Capital outlay	739,429	(739,429)	-	-	-	-
Debt service						
Principal	150,000	(150,000)	-	-	-	-
Interest	82,451	(844)	81,607	-	-	-
Total expenditures/expenses	<u>1,029,248</u>	<u>(758,121)</u>	<u>271,127</u>	<u>-</u>	<u>9,373</u>	<u>9,373</u>
Change in net assets	(516,534)	758,121	241,587	(3,307)	(9,373)	(12,680)
Fund balances / net assets (deficit), beginning of year, as restated	<u>738,016</u>	<u>103,248</u>	<u>841,264</u>	<u>3,307</u>	<u>520,977</u>	<u>524,284</u>
Fund balances / net assets, end of year	<u>\$ 221,482</u>	<u>\$ 861,369</u>	<u>\$ 1,082,851</u>	<u>\$ -</u>	<u>\$ 511,604</u>	<u>\$ 511,604</u>

Allen Health- care DDA	Adjustments	Statement of Activities	Knepp's DDA	Adjustments	Statement of Activities
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
21,367	-	21,367	-	-	-
2,977	-	2,977	279	-	279
-	-	-	-	-	-
<u>24,344</u>	<u>-</u>	<u>24,344</u>	<u>279</u>	<u>-</u>	<u>279</u>
-	-	-	-	-	-
-	-	-	-	3,184	3,184
12,862	-	12,862	-	-	-
8,140	(8,139)	1	-	-	-
651	-	651	-	-	-
<u>21,653</u>	<u>(8,139)</u>	<u>13,514</u>	<u>-</u>	<u>3,184</u>	<u>3,184</u>
2,691	8,139	10,830	279	(3,184)	(2,905)
<u>2,689</u>	<u>(8,139)</u>	<u>(5,450)</u>	<u>13,660</u>	<u>152,083</u>	<u>165,743</u>
<u>\$ 5,380</u>	<u>\$ -</u>	<u>\$ 5,380</u>	<u>\$ 13,939</u>	<u>\$ 148,899</u>	<u>\$ 162,838</u>

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 Eight Fiscal Years
(accrual basis of accounting)**

	Fiscal Year							
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Governmental activities								
Invested in capital assets, net of related debt	\$ 64,467,354	\$ 58,960,994	\$ 60,326,443	\$ 61,608,056	\$ 60,760,119	\$ 68,777,346	\$ 70,688,130	\$ 58,517,259
Restricted	1,377,911	2,270,720	1,400,317	1,669,514	1,832,805	2,180,059	2,228,927	2,053,986
Unrestricted	9,943,254	13,634,247	10,364,764	11,588,878	12,085,327	1,925,635	1,990,740	12,282,722
Total governmental activities net assets	<u>\$ 75,788,519</u>	<u>\$ 74,865,961</u>	<u>\$ 72,091,524</u>	<u>\$ 74,866,448</u>	<u>\$ 74,678,251</u>	<u>\$ 72,883,040</u>	<u>\$ 74,907,797</u>	<u>\$ 72,853,967</u>
Business-type activities								
Invested in capital assets, net of related debt	\$ 102,647,067	\$ 98,389,242	\$ 96,461,842	\$ 89,473,335	\$ 90,735,387	\$ 79,329,188	\$ 82,703,164	\$ 85,223,708
Restricted	1,160,696	-	-	-	-	-	-	-
Unrestricted	26,340,649	30,266,336	30,668,638	32,243,217	31,542,821	43,744,542	39,161,140	36,689,700
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>	<u>\$ 122,278,208</u>	<u>\$ 123,073,730</u>	<u>\$ 121,864,304</u>	<u>\$ 121,913,408</u>
Primary government								
Invested in capital assets, net of related debt	\$ 167,114,421	\$ 157,350,236	\$ 156,788,285	\$ 151,081,391	\$ 151,495,506	\$ 148,106,534	\$ 153,391,294	\$ 143,740,967
Restricted	2,538,607	2,270,720	1,400,317	1,669,514	1,832,805	2,180,059	2,228,927	2,053,986
Unrestricted	36,283,903	43,900,583	41,033,402	43,832,095	43,628,148	45,670,177	41,151,880	48,972,422
Total primary government net assets	<u>\$ 205,936,931</u>	<u>\$ 203,521,539</u>	<u>\$ 199,222,004</u>	<u>\$ 196,583,000</u>	<u>\$ 196,956,459</u>	<u>\$ 195,956,770</u>	<u>\$ 196,772,101</u>	<u>\$ 194,767,375</u>

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

Table 2

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

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
Governmental activities:								
Public safety	\$ 13,145	\$ 13,014	\$ 13,429	\$ 14,170	\$ 14,640	\$ 13,094	\$ 12,808	\$ 12,811
Community and economic development	1,859	-	2,037	2,116	2,602	2,148	1,903	1,819
Public works	5,638	11,019	10,909	9,871	9,236	9,633	10,919	11,437
General government	3,333	3,028	2,286	1,614	2,064	3,168	2,730	3,087
Recreation and culture	1,046	941	1,129	1,249	1,164	1,016	1,074	1,178
Interest on long-term debt	1,562	1,358	1,544	1,298	1,302	1,399	1,267	1,223
Total governmental activities expenses	26,583	29,360	31,334	30,318	31,008	30,458	30,701	31,555
Business-type activities:								
Electric	22,574	22,116	24,134	26,079	26,537	30,012	30,419	30,184
Water	7,330	6,939	6,870	7,231	7,694	8,072	8,746	8,705
Sewer	8,318	10,340	11,468	12,487	12,165	11,987	12,573	12,511
Public works	421	435	421	463	519	541	524	528
Total business-type activities expenses	38,643	39,830	42,893	46,260	46,915	50,612	52,262	51,928
Total primary government expenses	\$ 65,226	\$ 69,190	\$ 74,227	\$ 76,578	\$ 77,923	\$ 81,070	\$ 82,963	\$ 83,483
Program Revenues								
Governmental activities:								
Charges for services								
Public safety	\$ 665	\$ 640	\$ 768	\$ 960	\$ 811	\$ 716	\$ 727	\$ 837
General government	88	1,036	1,299	1,419	1,256	925	677	845
Public works	1,961	2,006	1,923	1,939	1,973	2,010	2,065	2,052
Recreation and culture	4	6	13	8	10	25	23	61
Other	-	-	(16)	125	71	97	(138)	(263)
Operating grants and contributions	2,849	5,899	6,296	5,797	5,646	6,252	7,760	6,346
Capital grants and contributions	35	21	618	47	1,659	1,259	1,461	706
Total governmental activities program revenues	5,602	9,608	10,901	10,295	11,426	11,284	12,575	10,584
Business-type activities:								
Charges for services								
Electric	21,480	21,972	22,991	23,770	26,060	29,067	30,270	29,870
Water	6,758	7,060	7,342	7,204	7,246	7,800	7,540	8,193
Sewer	7,576	8,358	9,931	11,512	11,726	12,346	11,761	12,826
Public works	399	230	219	215	188	264	194	223
Operating grants and contributions	-	26	164	246	102	115	51	225
Capital grants and contributions	-	-	-	455	482	427	98	-
Total business-type activities program revenues	36,213	37,646	40,647	43,402	45,804	50,019	49,914	51,337
Total primary government program revenues	\$ 41,815	\$ 47,254	\$ 51,548	\$ 53,697	\$ 57,230	\$ 61,303	\$ 62,489	\$ 61,921
Net (expense)/revenue								
Governmental activities	\$ (20,981)	\$ (19,773)	\$ (20,433)	\$ (20,023)	\$ (19,582)	\$ (19,174)	\$ (18,126)	\$ (20,971)
Business-type activities	(2,430)	(2,184)	(2,246)	(2,858)	(1,111)	(593)	(2,348)	(591)
Total primary government net expense	\$ (23,411)	\$ (21,936)	\$ (22,679)	\$ (22,881)	\$ (20,693)	\$ (19,767)	\$ (20,474)	\$ (21,562)
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Property taxes	\$ 13,263	\$ 13,142	\$ 12,934	\$ 13,592	\$ 13,640	\$ 14,044	\$ 14,249	\$ 14,012
Unrestricted grants and contributions	5,572	5,458	5,395	5,172	5,127	4,911	5,104	4,383
Investment earnings	260	274	381	398	702	1,022	709	462
Miscellaneous	4,519	67	71	111	74	80	107	92
Transfers	(81)	(119)	(311)	3,525	(149)	34	(18)	(32)
Total governmental activities	23,533	18,822	18,470	22,798	19,394	20,091	20,151	18,917
Business-type activities:								
Investment earnings	658	438	841	922	1,459	1,398	1,048	580
Miscellaneous	117	40	213	47	64	25	72	28
Transfers	81	119	311	(3,525)	149	(34)	18	32
Total business-type activities	856	597	1,365	(2,556)	1,672	1,389	1,138	640
Total primary government	\$ 24,389	\$ 19,419	\$ 19,835	\$ 20,242	\$ 21,066	\$ 21,480	\$ 21,289	\$ 19,557
Change in Net Assets								
Governmental activities	\$ 2,552	\$ (951)	\$ (1,963)	\$ 2,775	\$ (188)	\$ 917	\$ 2,025	\$ (2,054)
Business-type activities	(1,574)	(1,587)	(881)	(5,414)	561	796	(1,210)	49
Total primary government	\$ 978	\$ (2,538)	\$ (2,844)	\$ (2,639)	\$ 373	\$ 1,713	\$ 815	\$ (2,005)

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

City of Bay City, Michigan
Fund Balances of Governmental Funds
Last Eight 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>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General fund								
Reserved	\$ 46	\$ 4	\$ 3	\$ -	\$ -	\$ 342	\$ 268	\$ 300
Unreserved	4,951	5,460	5,380	5,353	5,086	4,878	5,677	5,440
Total general fund	<u>\$ 4,997</u>	<u>\$ 5,464</u>	<u>\$ 5,383</u>	<u>\$ 5,353</u>	<u>\$ 5,086</u>	<u>\$ 5,220</u>	<u>\$ 5,945</u>	<u>\$ 5,740</u>
All other governmental funds								
Reserved	\$ 316	\$ 42	\$ 42	\$ 36	\$ 65	\$ 37	\$ 41	\$ 157
Unreserved, reported in:								
Special revenue funds	1,793	1,951	1,663	2,168	2,479	2,529	2,368	2,903
Capital projects funds	2,632	2,156	1,347	1,463	1,446	1,596	1,486	1,218
Debt service fund	338	115	53	207	387	584	743	836
Total all other governmental funds	<u>\$ 5,079</u>	<u>\$ 4,264</u>	<u>\$ 3,105</u>	<u>\$ 3,874</u>	<u>\$ 4,377</u>	<u>\$ 4,746</u>	<u>\$ 4,638</u>	<u>\$ 5,114</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 Fund Balances of Governmental Funds
Last Eight 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>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues								
Property taxes and other taxes	\$ 13,263	\$ 12,469	\$ 12,528	\$ 12,557	\$ 12,816	\$ 13,227	\$ 13,271	\$ 13,020
Licenses and permits	452	402	513	663	532	497	498	515
Federal grants	2,869	2,092	3,630	2,804	3,737	3,352	3,473	3,618
State shared revenues and grants	8,761	10,246	9,441	9,595	9,820	8,062	10,725	7,606
Local contributions	-	88	66	54	16	1,763	1,502	1,489
Interest, rents and royalties	280	243	332	367	613	712	427	246
Charges for services	5,295	5,389	5,466	5,969	5,856	6,038	6,215	6,466
Fines and forfeits	161	171	153	136	132	150	165	149
Reimbursements, refunds and other revenue	1,206	779	543	961	875	1,145	348	520
Cable franchise fees	342	-	-	-	-	-	-	-
Total revenues	<u>32,629</u>	<u>31,879</u>	<u>32,672</u>	<u>33,106</u>	<u>34,397</u>	<u>34,946</u>	<u>36,624</u>	<u>33,629</u>
Expenditures								
General government	6,988	4,959	5,470	5,381	5,609	5,387	5,007	5,183
Public safety	12,505	12,530	13,205	13,826	14,358	12,960	12,419	12,071
Public works	6,275	6,894	7,158	7,203	6,777	6,800	6,979	6,735
Community and economic development	2,177	2,030	2,405	1,853	1,784	1,740	1,773	2,221
Recreation and culture	1,031	954	1,030	1,076	1,005	818	830	838
Post-retirement benefits	-	-	-	-	-	2,034	2,077	1,894
Capital outlay	2,921	2,354	2,550	1,393	2,841	2,501	5,193	2,662
Debt service:								
Principal	633	2,110	1,690	1,570	1,638	2,173	1,690	1,711
Interest and other fees	1,562	158	115	4	1	77	21	7
Total expenditures	<u>34,092</u>	<u>31,989</u>	<u>33,623</u>	<u>32,306</u>	<u>34,013</u>	<u>34,490</u>	<u>35,989</u>	<u>33,322</u>
Excess of revenues over (under) expenditures	<u>(1,463)</u>	<u>(110)</u>	<u>(951)</u>	<u>800</u>	<u>384</u>	<u>456</u>	<u>635</u>	<u>307</u>
Other financing sources (uses)								
Lease proceeds	-	31	-	29	-	14	-	4
Transfers in	2,201	2,397	1,717	2,537	841	907	770	1,571
Transfers (out)	(2,282)	(2,516)	(1,741)	(2,627)	(990)	(874)	(788)	(1,611)
Total other financing sources (uses)	<u>(81)</u>	<u>(88)</u>	<u>(24)</u>	<u>(61)</u>	<u>(149)</u>	<u>47</u>	<u>(18)</u>	<u>(36)</u>
Net change in fund balances	<u>\$ (1,544)</u>	<u>\$ (198)</u>	<u>\$ (975)</u>	<u>\$ 739</u>	<u>\$ 235</u>	<u>\$ 503</u>	<u>\$ 617</u>	<u>\$ 271</u>
Debt service as a percentage of noncapital expenditures	7.04%	7.65%	5.81%	5.09%	5.26%	7.03%	5.56%	5.60%

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

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

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Electric Operating</u>
2001	\$ 11,869,699	\$ 20,450,764
2002	12,912,724	23,069,774
2003	13,262,771	21,567,902
2004	13,142,381	21,987,493
2005	12,933,879	23,069,375
2006	13,591,533	23,776,213
2007	13,640,017	26,103,470
2008	14,043,854	29,072,729
2009	14,249,217	30,309,062
2010	14,012,116	29,876,398

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					
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	479,991	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%
2007	518,972	119,418	25,266	86,584	750,240	19.5503	1,500,480	50.00%
2008	518,669	119,280	25,815	85,948	749,712	19.5503	1,499,424	50.00%
2009	486,359	116,320	26,200	85,895	714,774	19.5503	1,429,548	50.00%
2010	432,491	99,277	24,700	65,117	621,585	19.5503	1,243,170	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 (3)</u>	<u>Debt Millage</u>	<u>Total City Millage</u>	<u>School District</u>	<u>Community College</u>	<u>County</u>	
2001	17.9500	0.0000	3.8000	21.7500	30.3594	2.0427	10.9478	65.0999
2002	17.8800	0.0000	3.5200	21.4000	30.1594	2.0427	10.9480	64.5501
2003	17.0130	1.2870	3.1000	21.4000	30.1594	2.5427	10.9486	65.0507
2004	17.8027	0.0000	3.4000	21.2027	29.0568	2.5427	10.9486	63.7508
2005	17.6905	0.0000	2.8600	20.5505	30.0458	2.5427	11.0326	64.1716
2006	17.3721	0.0000	2.6784	20.0505	30.0065	2.5427	11.0338	63.6335
2007	16.9615	(0.0971)	2.5888	19.4532	30.9480	2.0427	9.7100	62.1539
2008	16.9615	0.0000	2.5888	19.5503	31.2733	2.0427	10.8096	63.6759
2009	16.9615	0.0000	2.5888	19.5503	31.2733	2.0427	10.8138	63.6801
2010	16.9615	0.0000	2.5888	19.5503	31.2733	2.0427	10.8138	63.6801

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. 2001 refers to the 2002 tax collection, 2002 refers to the 2003 tax collection, and so on.
(3) In 2002 (FY 2003), the special levy was for the settlement of the Heather Ridge lawsuit. In 2006 (FY 2007), a credit was issued due to an over-levy of County millage in Winter 2005.

City of Bay City, Michigan
Principal Property Taxpayers and Electric Customers
June 30, 2010 and Ten Years Previous

<u>Taxpayer</u>	<u>2010</u>			<u>2000</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
General Motors Corporation	\$ 25,409,365	1	4.36%	\$ 98,247,400	1	17.37%
Consumers Energy Company	5,517,829	2	0.95%	7,600,390	3	1.34%
Wenonah Park Properties	3,169,650	3	0.54%	-	-	-
Carbone of America	2,843,076	4	0.49%	2,879,350	4	0.51%
Arthur P Dore	2,743,034	5	0.47%	-	-	-
F.P. Horak Company	2,540,600	6	0.44%	2,244,350	5	0.40%
Charter Communications	2,535,200	7	0.43%	-	-	-
Northern Concrete Pipe	2,300,987	8	0.39%	-	-	-
SC Johnson	2,215,150	9	0.38%	-	-	-
Bay City Housing Commission	2,032,050	10	0.35%	1,998,259	9	0.35%
Thompson Bay Company, Inc.	-	-	-	10,779,400	2	1.91%
National City Bank of MI/IL	-	-	-	2,206,961	6	0.39%
Kerkau Manufacturing	-	-	-	2,019,200	7	0.36%
Brennan Marine	-	-	-	2,010,594	8	0.36%
Art Van Furniture	-	-	-	1,883,700	10	0.33%
Totals	\$ 51,306,941		8.80%	\$ 131,869,604		23.32%

<u>Electric Customer</u>	<u>2010</u>			<u>2000</u>		
	<u>Revenues</u>	<u>Rank</u>	<u>Percentage of Total Revenue</u>	<u>Revenues</u>	<u>Rank</u>	<u>Percentage of Total Revenue</u>
Bay Medical Center	\$ 1,058,238	1	3.5%	\$ 734,889	2	3.1%
City of Bay City	1,054,168	2	3.5%	950,691	1	4.1%
Mersen USA	789,192	3	2.6%	-	-	0.0%
S.C. Johnson & Sons	484,698	4	1.6%	-	-	-
Bay County	437,216	5	1.4%	292,640	5	1.2%
Bay Cast	313,500	6	1.0%	283,994	6	1.2%
Doubletree Hotel	260,441	7	0.9%	-	-	-
Kerkau Manufacturing	259,079	8	0.9%	160,551	8	0.7%
Menards	239,812	9	0.8%	-	-	-
Valley Publishing	223,374	10	0.7%	-	-	-
Bay City Housing Commission	-	-	-	144,734	9	0.6%
Carbone USA	-	-	-	403,597	4	1.7%
Bay City Board of Education	-	-	-	432,840	3	1.8%
Thompson Bay Company	-	-	-	215,958	7	0.9%
F P Horak Company	-	-	-	139,256	10	0.6%
Totals	\$ 5,119,718		16.94%	\$ 1,718,356		14.52%

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

Fiscal Year Ended June 30,	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
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%
2007	12,762	11,970	93.79%	765	12,735	99.79%
2008	13,027	12,099	92.88%	917	13,016	99.92%
2009	13,072	12,176	93.15%	845	13,021	99.61%
2010	12,832	11,835	92.23%	927	12,762	99.45%

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	Term Loans	Capital Leases	Revenue Bonds	General Obligation Bonds	Term Loans			
2001	\$ 24,226,531	\$ 866,756	\$ -	\$ -	\$ 12,761,703	\$ 1,455,000	\$ 8,456,809	\$ 47,766,799	16.70%	\$ 1,301
2002	23,346,115	667,688	-	45,903	11,995,722	1,405,000	27,284,690	64,745,118	22.79%	1,784
2003	22,713,211	437,819	-	69,312	11,184,741	1,355,000	38,438,296	74,198,379	25.35%	2,063
2004	22,031,664	400,842	-	73,412	10,318,760	1,305,000	40,198,689	74,328,367	24.62%	2,091
2005	21,644,380	362,726	-	35,122	9,392,779	7,250,000	39,070,000	77,755,007	25.29%	2,212
2006	17,774,130	323,144	-	45,364	8,315,000	15,895,000	41,975,727	84,328,365	26.61%	2,427
2007	17,462,577	282,040	-	22,717	7,115,000	14,690,000	41,290,000	80,862,334	25.52%	2,355
2008	17,126,779	239,354	2,170,000	21,260	9,545,000	21,925,001	39,205,000	90,232,394	27.76%	2,652
2009	16,731,739	195,027	2,127,500	9,375	8,020,000	20,140,001	37,070,000	84,293,642	25.53%	2,488
2010	16,284,012	148,995	2,085,000	4,825	6,230,000	18,340,001	34,885,000	77,977,833	23.24%	2,308

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.

City of Bay City, Michigan
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(amounts expressed in thousands)

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)
2001	\$ 43,707	\$ 240	\$ 23,359	\$ 20,108	3.38%	547.51
2002	39,926	298	16,955	22,673	3.64%	624.60
2003	35,253	338	12,540	22,375	3.17%	622.09
2004	33,655	115	11,624	21,917	2.98%	616.66
2005	38,287	53	16,643	21,591	2.78%	614.11
2006	41,984	207	24,210	17,567	2.24%	505.62
2007	32,153	387	14,690	17,076	2.28%	497.24
2008	39,052	584	21,925	16,543	2.21%	486.18
2009	36,872	743	20,140	15,989	2.24%	472.01
2010	34,624	836	18,340	15,448	2.49%	457.31

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, 2010

<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	\$ 19,025,782	19.65%	\$ 3,738,566
Bay City School District	68,300,000	33.57%	22,928,310
Bangor Township Schools	15,265,000	0.34%	51,901
Bay-Arenac Intermediate School District	3,140,000	16.74%	<u>525,636</u>
TOTAL OVERLAPPING DEBT			27,244,413
<u>Direct Debt:</u>			
City of Bay City	16,284,012	100.00%	<u>16,284,012</u>
TOTAL DIRECT AND OVERLAPPING DEBT			<u>\$ 43,528,425</u>

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)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Debt limit	\$ 59,532	\$ 62,557	\$ 70,582	\$ 73,468	\$ 77,667	\$ 78,322	\$ 75,024	\$ 74,971	\$ 71,477	\$ 62,159
Total net debt applicable to limit	5,365	4,646	23,731	23,221	28,841	33,462	31,766	38,468	36,129	33,788
Legal debt margin	\$ 54,167	\$ 57,911	\$ 46,851	\$ 50,247	\$ 48,826	\$ 44,860	\$ 43,258	\$ 36,503	\$ 35,348	\$ 28,370
Total net debt applicable to the limit as a percentage of debt limit	9.01%	7.43%	33.62%	31.61%	37.13%	42.72%	42.34%	51.31%	50.55%	54.36%

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed valuation, December 31, 2009	<u>\$ 621,585</u>
Debt limit (10% of assessed valuation)	\$ 62,159
Debt applicable to limit: (1)	\$ 34,624
Less:	
Assets in Debt Service funds available for pymnt of principal	<u>836</u>
Total amount of debt applicable to debt limit	<u>33,788</u>
Legal debt margin	<u>\$ 28,370</u>

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

Water System Revenue Bonds

<u>Fiscal Year</u>	<u>Operating Revenue (1)</u>	<u>Operating Expenses (2)</u>	<u>Net Available Revenue</u>	<u>Debt Service</u>		<u>Total</u>	<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>		
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	-	-	-	-
2007	7,551,683	6,661,017	890,666	-	-	-	-
2008	8,147,163	6,799,859	1,347,304	-	-	-	-
2009	7,869,472	7,355,703	513,769	-	-	-	-
2010	8,372,601	7,170,965	1,201,636	-	-	-	-

Electric System Revenue Bonds

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
2007	26,985,022	24,582,860	2,402,162	1,200,000	409,300	1,609,300	1.49
2008	29,892,066	27,816,358	2,075,708	1,270,000	350,251	1,620,251	1.28
2009	30,890,109	28,101,504	2,788,605	1,750,000	336,538	2,086,538	1.34
2010	30,222,987	27,678,220	2,544,767	1,790,000	265,638	2,055,638	1.24

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**

Fiscal Year	Population (1)	Personal Income (2) (amounts expressed in thousands)	Per Capita Personal Income	School Enrollment (3)	Unemployment Rate (4)
2001	36,726	\$2,857,805	\$24,500	9,904	4.90%
2002	36,300	2,859,582	26,064	9,843	7.10%
2003	35,968	2,841,552	26,771	9,839	8.00%
2004	35,541	2,927,325	26,067	9,790	8.20%
2005	35,159	3,018,537	26,726	9,507	6.80%
2006	34,744	3,075,000	27,651	9,355	6.50%
2007	34,341	3,169,000	29,234	9,203	7.00%
2008	34,026	3,250,000	30,232	8,928	7.80%
2009	33,874	3,301,412	30,712	8,878	13.60%
2010	33,780	3,355,934	31,237	8,509	12.00%

Data Sources:

(1) Population Division, U.S. Census Bureau

(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.

**City of Bay City, Michigan
Principal Employers
2010 and 2000**

<u>Employer</u>	<u>2010</u>			<u>2000</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 (2) (3)	1,949	1	3.80%	2,455	1	4.57%
Bay City Public Schools (1) (3)	922	2	1.80%	1,313	2	2.45%
Bay County (3)	500	3	0.97%	593	4	1.10%
SC Johnson	400	4	0.78%	335	6	0.62%
General Motors Powertrain	328	5	0.64%	1,312	3	2.44%
City of Bay City	313	6	0.61%	429	5	0.80%
F.P. Horak Co.	196	7	0.38%	194	10	0.36%
Labadie Auto Group	160	8	0.31%			
Doubletree Hotel & Conference Center	138	9	0.27%			
Independent Bank & Mortgage Co.	134	10	0.26%			
Heartland Home Health Care				300	7	0.56%
Mortgage America						
RCW Inc.				219	9	0.41%
Bay City Times				238	8	0.44%
Totals	<u>5,040</u>		<u>9.82%</u>	<u>7,388</u>		<u>13.76%</u>

Source:

Bay City Economic Development Department and U.S. Department of Labor Bureau of Labor Statistics

(1) Excludes substitute teachers.

(2) Previously Bay Health Systems.

(3) Multiple locations within Bay County.

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Function										
General government	64	68	69	67	65	62	60	59	57	60
Public safety										
Police	100	100	96	88	71	66	66	61	59	58
Fire	60	60	61	61	58	58	57	57	54	53
Public works	71	67	68	67	65	64	61	52	48	48
Recreation and culture	12	17	17	17	17	17	15	12	11	10
Community and economic development	6	6	8	7	12	11	10	10	10	9
Electric	46	48	48	48	47	47	45	43	43	45
Water	44	44	43	44	44	43	42.5	41	40	40
Sewer	43	42	42	42	40	46	42.5	39	38	38
Total	446	452	452	441	419	414	399	374	360	361

Source: City of Bay City Finance Department

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Function										
General Government										
Elections										
Number of registered voters	26,031	25,733	23,779	23,988	24,772	24,311	24,509	24,864	24,947	23,452
Public safety										
Police Department										
Number of citations issued	10,480	11,925	9,910	7,989	6,183	5,796	8,343	5,836	3,190	3,568
Number of complaints filed	7,281	7,638	7,869	7,166	6,845	5,946	6,113	5,963	5,730	4,528
Number of calls for service	29,600	35,102	37,194	34,395	32,445	29,470	28,957	30,275	29,851	30,242
Number of DUI offenses	334	276	376	288	278	185	337	351	210	199
Fire Department										
Number of emergency runs	-	3,861	3,995	3,989	4,663	3,677	3,341	4,329	4,438	4,533
Number of fire prevention programs			7	7	7	7	7	14	187	187
Public works										
Streets										
Tons of salt used	-	2,190	2,884	2,607	2,784	3,060	2,280	3,529	2,958	1,485
Recreation and culture										
Park acreage maintained	-	-	-	-	-	-	238	238	233	223
Special events	-	-	-	-	-	-	58	43	33	43
Shelter rentals	-	-	-	-	-	-	63	57	60	67
Street trees planted	792	370	364	392	391	482	716	361	366	-
Street trees trimmed	-	-	-	-	-	-	2,998	1,576	1,977	-
Street trees removal	-	-	-	-	-	-	251	137	209	167
Community and Economic Development										
Housing units rehabilitated	9	6	14	10	13	5	6	8	3	5
Emergency housing units rehabilitated	23	20	29	27	47	33	23	42	50	42
Electric Department										
Generating capacity	33,295	33,295	33,290	33,295	33,295	33,295	33,295	33,295	33,295	33,295
Sewer System										
Sanitary and storm sewer (miles)	276.19	276.19	277.08	277	277	277	310	310	310	320
Daily average treatment (million gallons)	8	8	8	8.6	9	9	9	9	9	8
Maximum daily capacity (million gallons)	18	18	18	18	18	18	18	18	18	18
Water system										
Miles of water mains	230	230	232	232	232	231.86	232	232	196.87	196.87
Daily average consumption (million gallons)	9.76	9.76	10.52	9.76	9.31	9.7	8.90	8.58	8.03	7.46
Maximum daily treatment (million gallons)	40	40	40	40	40	40	40	40	40	40
Airport										
Private hanger land leases	-	-	-	-	-	20	22	22	23	23
Public hanger lease	-	-	-	-	-	1	1	1	1	1
Cell tower leases	-	-	-	-	-	1	1	1	1	1
Aviation fuel sold (gallons)	-	-	-	-	-	-	29,000	20,163	N/A	12,599
Cemetery										
Interments	-	-	-	-	-	58	35	35	51	57
Grave sales	-	-	-	-	-	25	30	40	16	35
Foundations set	-	-	-	-	-	21	21	19	29	25
Marina										
Seasonal Dock Leases	-	-	-	-	-	50	50	50	49	50
Transient Dock Rentals	-	-	-	-	-	1,540	1,585	1,116	542	419

Sources: Various city departments.

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Function										
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	42	39	42	40	34	31	25	25	25	25
Fire										
Stations	4	4	4	4	4	4	4	4	4	3
Vehicles	14	14	14	14	14	13	13	13	13	12
Public works										
Bascule span bridges	2	2	2	2	2	2	2	2	2	2
Streets (miles)	199	199	199	199	199	199	199	199	199	199
Recreation and culture										
Park areas	18	18	18	18	25	24	24	24	24	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.

**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 28, 2010

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above. However, we identified a certain deficiency in internal control over financial reporting, described in finding 2010-1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

2010-1 Internal Control Deficiency Considered to be a Significant Deficiency

Criteria: All governments are required to have in place internal controls over recording, processing and summarizing accounting data (e.g., maintaining internal books and records).

Condition: The City had an error in recording the year-end accounts payable accounts and cash which required a significant adjustment in various funds. In addition, a prior period adjustment was made to the Water Street DDA fund component unit which was material to the fund.

Effect: The City's general ledger account balances noted above were misstated during the year and were not properly reconciled until after June 30, 2010. This situation caused internally generated financial reports to be misstated.

Cause: The adjustments needed were errors made in the closing of accounts by the accounting department when preparing year-end adjustments.

Recommendation: We recommend that the City review their current procedures and make appropriate alterations to those procedures to ensure that all general ledger account balances are properly reconciled in a timely manner throughout the year.

View of Responsible Official: The accounting department has identified the opportunity to address the issue and will implement procedures to ensure the accounts are properly adjusted in the future.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Bay City, Michigan in a separate letter dated December 28, 2010.

The City's responses to the findings are described above. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Commission, others within the entity, 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.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.