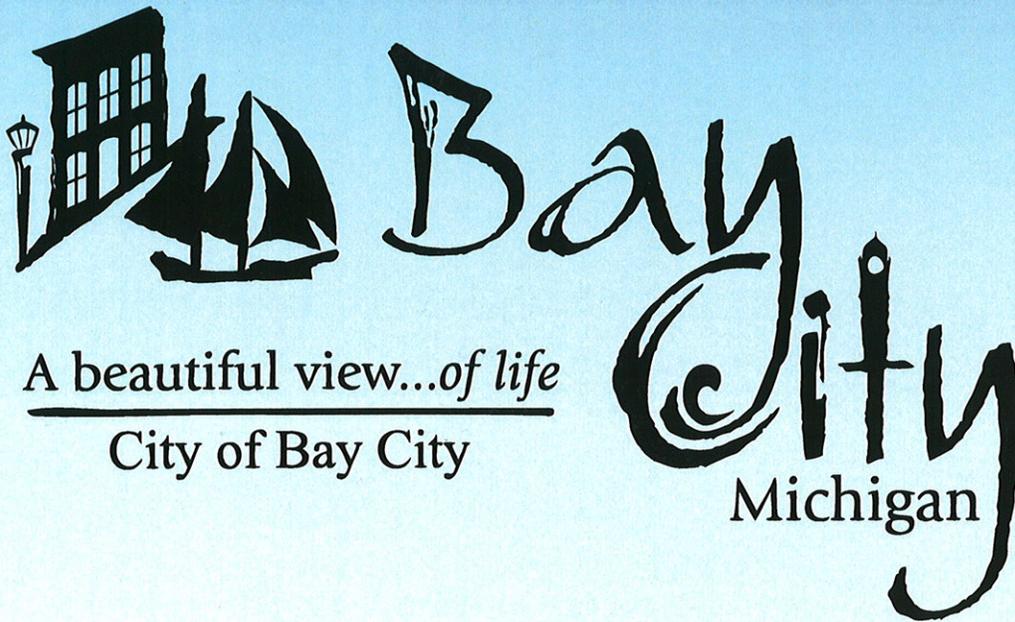


COMPREHENSIVE
ANNUAL
FINANCIAL REPORT



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

For the
Fiscal Year Ended
June 30, 2011

Bay City, Michigan

"Governmental imagination leading our community into the future."

CITY OF BAY CITY, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2011

LIST OF PRINCIPAL OFFICIALS

MAYOR

Christopher J. Shannon

CITY COMMISSIONERS

1st Ward: Lynn Stamiris	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

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December 23, 2011

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, 2011, 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, 2011.

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, 2011. 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.

Honorable Mayor, City Commission,
and Citizens of Bay City, Michigan
December 23, 2011

REPORTING ENTITY

The financial reporting entity includes all the funds of the primary government of the City of Bay City, Michigan as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable.

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. The Downtown Management Board, Midland Street Management Board, Columbus Avenue Management Board, Brownfield Redevelopment Authority, 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.

Honorable Mayor, City Commission,
and Citizens of Bay City, Michigan
December 23, 2011

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.

Honorable Mayor, City Commission,
and Citizens of Bay City, Michigan
December 23, 2011

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.

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 2011, Bay City businesses made notable investments expanding operations, acquiring new machinery and equipment, and rehabilitating obsolete structures.

GM Powertrain made significant investments of \$57.7 million into the Bay City Powertrain facility. On August 18, 2010, GM announced a \$20 million investment to produce camshafts for the next generation Ecotec engine. November 24, 2010, GM announced a \$12.7 million investment to increase production of the Ecotec 1.4 liter engine used in the Chevrolet Cruze and a 1.4 liter variant used in the Chevrolet Volt. And, on May 13, 2011, GM announced a \$25 million investment in Bay City's operations to increase connecting rod and camshaft production.

The Bay City City Commission granted the following businesses Public Act 198 or Public Act 146 tax abatements. For the fiscal year 2011, the total invested in Bay City is \$13,663,529.

Seven Tax Abatement (PA 198) Applications were processed and approved as follows:

<u>Application Date</u>	<u>Company</u>	<u>Investment</u>	<u>Project</u>
7/22/10	Mersen USA Bn Corp.	\$ 490,000	Building improvements and new machinery & equipment
9/10/10	Bay Cast Technologies	2,125,000	New building and new machinery and equipment
12/3/10	Die Stampco	88,752	New machinery and equipment

Honorable Mayor, City Commission,
and Citizens of Bay City, Michigan
December 23, 2011

12/6/10	Kerkau Manufacturing	1,469,764	New machinery and equipment
1/6/11	Michigan Brand	558,074	New building
1/14/11	Acra Cast	70,421	New machinery and equipment
6/2/11	Bay Cast Technologies	1,100,000	New machinery and equipment
		<u>5,902,011</u>	

Mersen USA Bn Corp., a manufacturer of graphite tooling for businesses worldwide, invested \$40,000 in building improvements to create a specialized machining cell within a new warehouse constructed in 2009. An additional investment included a new Okuma Vertical CNC lathe and peripheral equipment necessary for its operation at a cost of \$450,000.

Bay Cast Technologies, a steel casting supplier and major player in creating parts and machinery for the energy market, off-shore oil rigs, hydroelectric parts and pumps, completed a 17,600 sq. ft. expansion at a cost of over \$2 million. The company invested an additional \$1,100,000 for a Farrel swing and CNC Vertical Boring Mill allowing the company to pursue larger machining jobs it was previously incapable of handling.

Die Stampco, a manufacturer of silicone rubber hot stamp dies, magnesium dies, silicone rubber rollers and sheets, and custom fixtures and tooling for decorating projects serving the plastics decorating industry, invested \$88,752 in three CNC vertical mill machines and a vertical milling center to provide the highest detailing available in the industry.

Kerkau Manufacturing, a global supplier and manufacturer of precision machined parts, castings, and forgings invested \$1,469,764 in three CNC lathes and a robotic machine interface in an effort to continually provide high quality products as efficiently as possible.

Michigan Brand, a manufacturer of jerky, sausage, wild game and other meats, constructed a 6,800 sq. ft. building to meet the needs of increased business. An investment of \$558,074 more than doubled its headquarters' space.

Acra Cast, a metal casting and foundry operation, invested \$70,421 for an Optical Emission Spectrometer to improve quality control, reduce waste and expedite the process of manufacturing castings. The new equipment will also help the company

Honorable Mayor, City Commission,
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grow in the medical field and make products for the defense industry, which is approximately 60% of the company's business.

Nine Obsolete Property Tax Exemption (PA 146) Applications were processed and approved as follows:

<u>Application Date</u>	<u>Company</u>	<u>Investment</u>	<u>Rehabilitation of Obsolete Structure</u>
7/5/10	Steven Ingersoll	\$ 3,000,000	Wolverine Building
7/5/10	Steven Ingersoll	3,000,000	Bay Arts Academy
7/5/10	Steven Ingersoll	195,000	606 N. Grant – multi-family residential property
7/5/10	Steven Ingersoll	190,000	620 N. Grant – multi-family residential property
7/25/10	Thomas LaPorte MA Real Estate	170,000	Living Units
3/7/11	Kampber Management	296,000	Restaurant/bar, catering operation and living units
4/20/11	Steven Ingersoll	274,000	100 State Street -- multi-purpose office space
5/20/11	Steven Ingersoll	480,000	Perry House -- bed and breakfast facility
6/21/11	The Legion Building Corp.	156,518	Event Center
		\$7,761,518	

The former Madison Avenue Methodist Church underwent extensive historic rehabilitation along with complete mechanical updates. This structure located at 400 N. Madison Avenue was built in 1886 with attached classroom space constructed in 1958. The former church facility was converted to a Public Charter School at a cost of approximately \$3 Million to provide classrooms for grades K-6 as well as space for performing arts in the former church facility. The academy has 200 students and 17 full time professional staff for the first school year. The project qualified for approximately \$600,000 in historic and brownfield tax credits in support of this project.

Honorable Mayor, City Commission,
 and Citizens of Bay City, Michigan
 December 23, 2011

Other notable achievements in Bay City include the development of several new businesses, such as:

- Eovations, 1645 Marquette Avenue – a manufacturer of synthetic wood products
- Latitude 43 Grill & Bar, 1013 N. Henry
- World Café, 201 Center Avenue
- Magnolia Salon and Spa – 115 Third Street
- Kook’s Bar & Grill – 400 Washington Avenue
- Populac Coffee – 106 S. Linn Street
- Beth Trahan Fitness – 710 Washington Avenue
- Twice is Nice – 1624 Broadway Avenue
- Glad Rags – 814 Columbus Avenue
- Swimming in Chocolate – 3909 N. Euclid Avenue
- C.A.T. Works Art – 514 Washington Avenue
- Polka Dot Exchange & Tea Bar – 508 E. Salzburg Avenue
- Kaleidoscope Kandy – 801 Columbus Avenue
- Universal Cuts and Styles – 1102 Garfield Avenue
- Rusho’s Auto Detailing – 1101 Marquette Avenue
- Brian Jean’s Law Office – 306 Fifth Street
- Yarn Supply – 3480 E. North Union

Brownfield Assessment Projects:

<u>Property Name</u>	<u>Investigation</u>	<u>Cost</u>	<u>Proposed Development</u>
Former Bay Aggregate Site	Geophysical Survey	\$ 51,297	Proposed Mixed-Use
Former Wolverine Knitting Mill	Phase I ESA Sampling Plan Hazard Material Survey Brownfield Plan	17,511	Artisan Galleries/Artists Lofts

Honorable Mayor, City Commission,
and Citizens of Bay City, Michigan
December 23, 2011

Former Swarts Tower	Phase I ESA Sampling Plan Hazard Material Survey Brownfield Plan	22,051	Proposed Mixed-Use Commercial/Residential
Former Odd-Fellows Hall	Brownfield Plan	5,314	Performing Arts/Comedy Club
Former Magline Property	Subsurface Investigation	18,980	Waterfront Redevelopment Site
Consumers Energy	Phase I ESA	2,100	Waterfront Redevelopment Site
Former Portion of DeFoe Park	Phase I ESA	2,100	New West side fire station
		\$ 119,353	

LONG-TERM FINANCIAL PLANNING

Unassigned fund balance in the general fund is currently at 28% 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

The City continues with a major redevelopment project that is expected to transform and bring substantial investment to the Downtown Bay City riverfront. The property consists of a key 48 acre riverfront site known as the Uptown at Rivers Edge property. In the previous fiscal year, the City utilized EPA grant funds in two key areas of the site to cleanup impacted soil and groundwater contamination resulting from historical industrial use. In 2007, RiversEdge Development Corporation was created to facilitate and streamline the development of the property. The nonprofit public-private corporation is a partnership between the city and regional leaders who made private contributions of both time and capital toward the revitalization of the property. A real estate broker was engaged and as a result, in February 2011, Bay City entered into exclusive negotiations with a developer for the sale and redevelopment of the property. The developer plans

Honorable Mayor, City Commission,
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December 23, 2011

to initially invest \$25 million in the Uptown at River's Edge site and create at least 440 permanent full-time jobs new to Bay City.

The City has been able to leverage additional resources for the restoration of City Hall. On February 21, 2011, the City Commission authorized grant applications for this purpose. A total of \$145,362 was received in FY 2011 from four local foundations. These grants will be used to supplement restoration efforts funded through insurance proceeds, such as restoring the ornate painting scheme on the Commission Chambers ceiling and walls, flooring upgrades in select rooms, and new Victorian-inspired energy efficient LED lighting fixtures for the Commission Chambers, meeting room 306, public hallways and the main staircases.

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 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 project consists of a 107,000 square foot LEED Silver Certified building, and is estimated to cost approximately \$18.5 Million. The new facility is nearing completion and is anticipated to open at the end of December 2011.

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. Construction began in the Spring of 2011. Upgrades to the park include: utility improvements; wider pedestrian walks that meet ADA requirements; a new central plaza area paved in brick; improvements to the picnic shelter; and site beautification such as, landscaping, ornamental lighting and site furniture. A total of \$323,000 was expended in fiscal year 2011 with completion expected next fiscal year.

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

Honorable Mayor, City Commission,
and Citizens of Bay City, Michigan
December 23, 2011

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, 2010. 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 and Andrea Szymanski, Senior Staff Accountant, for their 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.

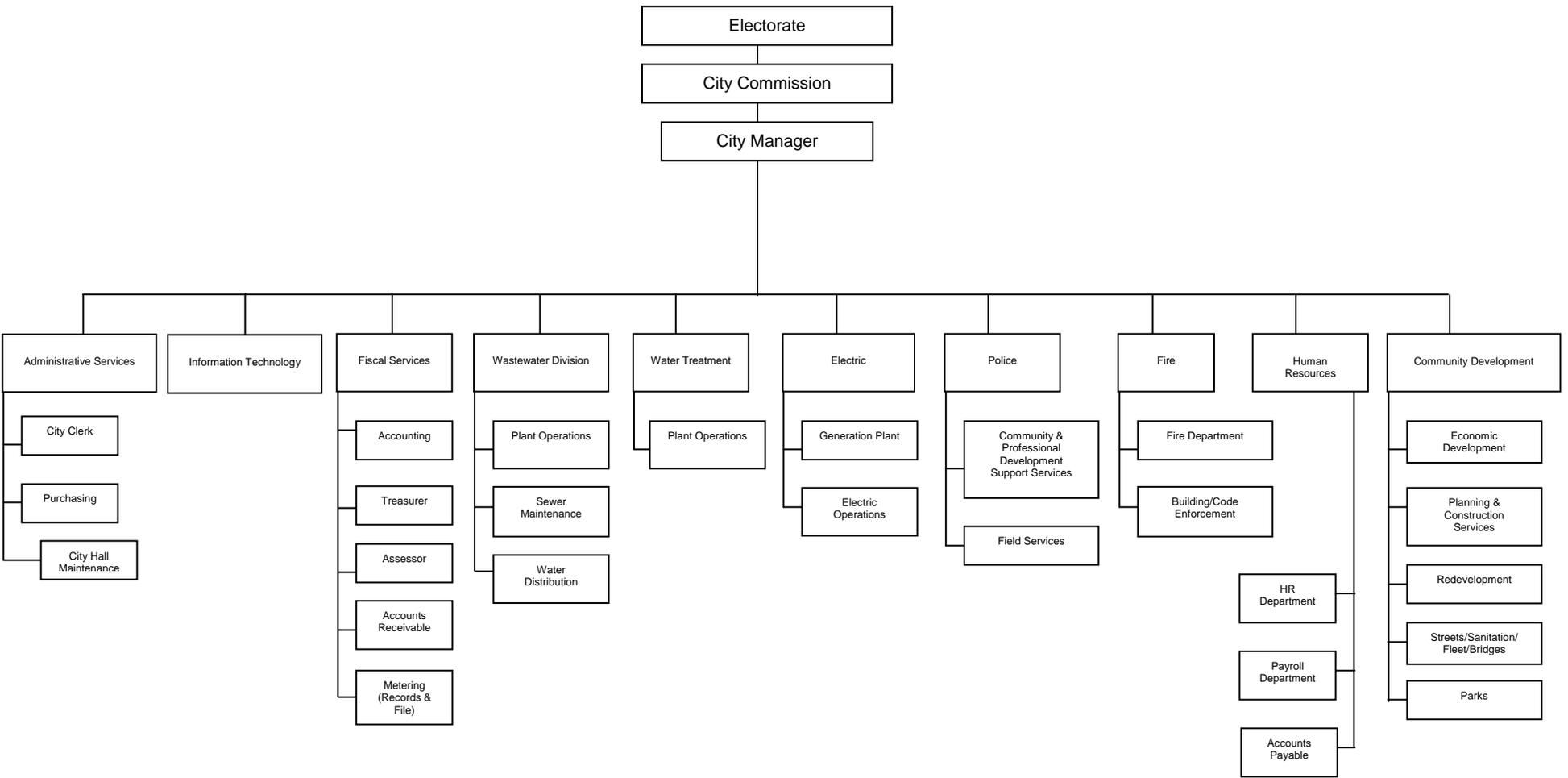
Respectfully submitted,



Robert V. Belleman
City Manager



Cathleen Szostak
Chief Accountant



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, 2010

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.



Linda C. Danison

President

Jeffrey R. Emsw

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 23, 2011

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, 2011, 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, 2011, 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 14, beginning net assets of the electric fund have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, on our consideration of the *City of Bay City, Michigan's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in for assessing the results of our audit.

The Management's Discussion and Analysis presented on pages 3-13 and the Schedules of Funding Progress and Employer's Contributions on pages 72-74 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the basic financial statements of the City. The combining and individual fund financial statements and schedules, and accompanying schedule of expenditures of federal awards 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.

As described in Note 12 to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. This statement revised the classifications of fund balance presented in the City's governmental funds.

A handwritten signature in black ink, appearing to read "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, 2011. 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, 2011:

- The assets of the City of Bay City exceeded its liabilities at the close of the most recent fiscal year by \$198,675,375 (net assets). Of this amount, \$41,726,503 (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 \$2,545,863 from the previous year due primarily to an increase in the City's obligation for other post-employment benefits of \$1,678,364 and a noncurrent liability of \$1,072,778 recorded as future project costs regarding the remediation of the Middlegrounds Landfill. The business-type activities net assets increased by \$5,655,168, due primarily to increased revenues in the water, sewer, and electric funds accompanied by a reduction in the cost of sales and service in the Water and sewer Funds. The net assets of the component units experienced a decrease of \$49,935 primarily due to decreased net assets of \$165,811 in the Marquette District TIFA as a result of decreased captured tax increment while expenditures remained constant. The other component units experienced small increases or decreases in net assets which when combined together resulted in a net increase of \$115,876.
- At the close of the fiscal year, the City of Bay City's governmental funds reported combined ending fund balances of \$9,320,546, a decrease of \$1,533,816 in comparison with the prior year. Of this amount, \$5,873,872 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the fiscal year, unassigned fund balance for the general fund was \$5,873,872 or about 28.5% of the total general fund expenditures.
- The City of Bay City's total debt decreased by \$238,067, or about 1%, during the fiscal year due to the fact that the bonded debt decreased of which was offset by an increase of \$2,721,534 in the net OPEB obligation.
- The City continues its commitment to improving its infrastructure and this year completed many projects including Birney Park at a total project cost of \$323,859, reconstruction/preservation of several streets totaling \$1,635,914 and spent an

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

additional \$449,302 on new sidewalks. These projects were primarily funded by grant dollars.

- State-shared revenue, the City's second largest revenue source in the general fund, remained about the same as last year, only experiencing an \$11,069 reduction. Since the State of Michigan has reduced the City's allocation for eight of the last nine years, the City anticipated a larger reduction than experienced 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 of the minor decrease in revenue accompanied by a larger reduction in expenditures, the general fund experienced an increase of \$440,837 in fund balance instead of the \$751,174 reduction 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.

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

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

The City as a Whole

For the fiscal year ended June 30, 2011, assets exceeded liabilities by \$198,675,375. By far, the largest portion of the City's net assets (72.1 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, 2011 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current and other assets	\$ 27,303	\$ 27,261	\$ 44,755	\$ 52,615	\$ 72,058	\$ 79,876
Capital assets	<u>77,040</u>	<u>77,187</u>	<u>144,624</u>	<u>139,992</u>	<u>221,664</u>	<u>217,179</u>
Total assets	104,343	104,448	189,379	192,607	293,722	297,055
Current and other liabilities	4,739	5,107	3,992	3,287	8,731	8,394
Long-term liabilities	<u>26,750</u>	<u>29,033</u>	<u>63,474</u>	<u>60,953</u>	<u>90,224</u>	<u>89,986</u>
Total liabilities	31,489	34,140	67,466	64,240	98,955	98,380
Net Assets:						
Invested in capital assets –						
Net of related debt	58,517	59,245	85,224	84,043	143,741	143,288
Restricted	2,054	1,759	-	11,901	2,054	13,660
Unrestricted	<u>12,283</u>	<u>9,304</u>	<u>36,689</u>	<u>32,423</u>	<u>48,972</u>	<u>41,727</u>
Total net assets	<u>\$ 72,854</u>	<u>\$ 70,308</u>	<u>\$ 121,913</u>	<u>\$ 128,367</u>	<u>\$ 194,767</u>	<u>\$ 198,675</u>

The City's governmental activities net assets decreased by \$2,545,863 while the net assets of its business-type activities increased by \$5,655,168. The change in net assets for the governmental activities was primarily due to an increase in the obligation for other post employment benefits and the recording of a \$1,072,778 future liability for the Middlegrounds landfill. 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 in the electric, water and sewer funds. In fiscal year 2011, both

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

water and sewer rates increased due to increased costs and unfunded obligations, as well as decreased usage. Additionally, the electric fund assessed a 1% fuel surcharge to its rates during the year. The net effect of the governmental and business-type activities resulted in the combined net assets increasing by \$3,109,305 from \$195,566,070 in 2010, to \$198,675,375 in 2011.

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 \$9,303,720, or about 26.65% of the governmental activities expenditures. An additional portion of the City's net assets of its governmental activities, \$1,758,988 or approximately 5%, 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>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Revenue						
Program revenue						
Charges for services	\$ 7,336	\$ 7,454	\$ 51,112	\$ 56,136	\$ 58,448	\$ 63,590
Operating grants and contributions	6,346	5,589	225	128	6,571	5,717
Capital grants and contributions	706	1,484	-	-	706	1,484
General revenue						
Property taxes	14,012	12,728	-	-	14,012	12,728
Grants and contributions not restricted to specific programs	4,383	4,614	-	-	4,383	4,614
Unrestricted investment earnings	462	115	580	152	1,042	267
Miscellaneous	<u>92</u>	<u>655</u>	<u>28</u>	<u>59</u>	<u>120</u>	<u>714</u>
Total Revenue	33,337	32,639	51,945	56,475	85,282	89,114
Program Expenses						
General Government	6,891	4,931	-	-	6,891	4,931
Public safety	12,811	12,106	-	-	12,811	12,106
Public works	11,437	13,761	528	559	11,965	14,320
Community and economic development	1,819	2,284	-	-	1,819	2,284
Recreation and culture	1,178	783	-	-	1,178	783
Interest on long-term debt	1,223	1,195	-	-	1,223	1,195
Electric	-	-	30,184	30,285	30,184	30,285
Water	-	-	8,705	8,193	8,705	8,193
Sewer	-	-	<u>12,511</u>	<u>11,908</u>	<u>12,511</u>	<u>11,908</u>
Total program expenses	35,359	35,060	51,928	50,945	87,287	86,005
Increase (decrease) in net assets before transfers and special items	(2,022)	(2,421)	17	5,530	(2,005)	3,109
Transfers	<u>(32)</u>	<u>(125)</u>	<u>32</u>	<u>125</u>	-	-
Change in net assets	(2,054)	(2,546)	49	5,655	(2,005)	3,109
Net assets beginning of year, as restated	<u>74,908</u>	<u>72,854</u>	<u>121,864</u>	<u>122,712</u>	<u>196,772</u>	<u>195,566</u>
Net assets end of year	<u>\$ 72,854</u>	<u>\$ 70,308</u>	<u>\$ 121,913</u>	<u>\$ 128,367</u>	<u>\$ 194,767</u>	<u>\$ 198,675</u>

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

Governmental Activities

The City's total governmental net assets decreased by \$2,545,863. Key elements of this decrease are as follows:

- The obligation for the other post employment benefits increased by \$1,770,934.
- Property taxes decreased by \$1,283,530 as a result of reduced property tax values with the housing market decline.
- Reduced investment earnings of approximately \$350,000.
- Closer management of resources to better control costs helped to lessen the decrease of net assets.

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 (which has since separated) and portions of Bangor, Monitor, and Portsmouth Townships. The business-type activities saw an overall increase in net assets of \$5,655,168 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 assessed a 1% fuel surcharge but did not raise commodity rates in fiscal year 2011, however sales increased and as a result, revenues also increased. As a result, operating income increased by \$5,272,865 over the previous fiscal year.
- The Site Remediation Fund received a transfer of \$500,000 from the Solid Waste Fund to assist with future remediation costs at the Middlegrounds Landfill Site.
- The Motor Equipment Revolving Fund also had an increase in net assets of \$535,352 as a result of the postponement of some capital purchases.

The above listed items, which caused an increase in net assets, were offset by the following:

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

- With the implementation of Governmental Accounting Standards Board Statement 45 (GASB 45) in 2008, the unfunded portion of the City's required contribution to retiree healthcare was placed on the balance sheet as a liability. In fiscal year 2011, this resulted in an additional liability of \$950,600 in the City's electric, water and sewer utilities.
- The Oakridge Cemetery fund reported a decrease in net assets of \$3,325 and James Clements Airport fund also reported a decrease in its net assets of \$25,734. As a result, both funds continued to require subsidies from the general fund in the amounts of \$67,368 and \$54,861, respectively, to assist with operating expenses. The Liberty Harbor Marina fund also realized a decrease in its net assets of \$60,567.

The City's Funds

An analysis of the City's major funds begins on page 17, 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 2011 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 \$9,356,485 in 2011. This is a decrease of approximately \$987,000 from the previous fiscal year. The most significant service accounted for in this fund is public safety, which incurred expenses of \$11,263,601 in 2011. This expenditure remained relatively the same as last year. Public safety expenditures equate to approximately 54.6% of the total expenditures of the general fund and are 20% more than the amount of property taxes generated. At the fiscal year ended June 30, 2011, the unassigned fund balance of the general fund was \$5,873,872. As a measure of the general funds liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 28.5% 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, 2011, \$1,467,686 was spent on capital outlay for reconstruction and resurfacing streets and an additional \$2,584,450 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, 2011, \$500,892 was spent to assist residents of the City with home improvements.

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

Some notable items in the other governmental activities are:

- The local street fund expended \$168,228 on reconstruction and resurfacing of various streets and an additional \$850,327 to maintain and preserve local streets within the City and ended the year with \$236,701 in fund balance.
- The building inspection fund ended the fiscal year with a restricted fund balance of \$195,079. No general fund subsidy was required to support the operations of the fund this year primarily due to a reduction in staff resulting in reduced expenditures. In addition, the building inspection fund does not reimburse the general fund for services provided by that fund.
- The solid waste fund ended the fiscal year with a restricted fund balance of \$479,246, despite the fact that a transfer of \$500,000 to the site remediation fund occurred to assist with future remediation costs associated with the Middlegrounds Landfill. This fund has not required a general fund subsidy since the City went to a fee-based system versus a millage. The solid waste fund paid back all previous subsidies from the general fund once the fund became self sufficient.
- The community development block grant fund expended \$763,026 on economic development activities and an additional \$294,101 on capital outlay.
- The public improvement fund expended \$1.6 million to replace the roof on City Hall and ended the year with a fund balance of \$102,415. The City Commission approved transfers from the general fund totaling \$1,489,352 in previous fiscal years in order to accumulate funding for the replacement of the doors and roof on City Hall. The City is eligible to receive historic tax credits through the State in the amount of \$445,000 to assist with the cost of this project.
- The bond sinking fund has accumulated a fund balance of \$703,983 to pay future debt service payments. This is representative of approximately 41% of the required bond payment in fiscal year 2012. The payments continue through fiscal year 2021.

General Fund Budgetary Highlights

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

- The Fire Department was awarded a Federal *Staffing for Adequate Fire and Emergency Response (SAFER)* grant which resulted in a budget amendment of \$219,520 to increase grant revenues and wage and fringe benefit expenditures.

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

- The Construction Services Department increased their professional services budget by \$25,000 to fund the cost of additional outside engineering services.
- The Police Department utilized previously reserved drug forfeiture funds to purchase drug enforcement equipment in the amount of \$67,335.
- A Justice Assistance grant was received by the Police Department in the amount of \$9,892 and the budget was amended to reflect the revenue and increase the Police equipment account to expend these funds.
- The Accounts Receivable Department completed the construction of a security counter and amended the budget by \$61,757 to accommodate the expenditure.
- The Police Department overtime budget was increased by \$66,510 for the cost of securing City Hall and equipment owned by the restoration company after a fire that damaged the building. The City expects reimbursement of these expenditures by the restoration company.
- The overtime budget for various departments was amended to accommodate the increase in overtime due to a fire at City Hall. Comparable revenue was also recorded to reflect a transfer from the self-insurance fund as these costs will be covered by insurance proceeds.
- Budget amendments to reduce personal service expenditures in various departments in the amount of \$263,759 were made to reflect union concessions associated with union contract settlements and adjustments to non-union benefits.

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 \$1,178,974 as a result of a portion of an EPA Brownfield grant not being received since the project was delayed into the following fiscal year. This was partially offset by state revenue sharing which was greater than anticipated in the budget by approximately \$440,000. Actual expenditures were also less than budgetary estimates by \$2,371,004. 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. In addition, the associated expenditures with the EPA Brownfield grant were not expended. As a result, the general fund experienced an increase of \$440,837 in fund balance instead of the budgeted reduction projected in the final amended budget to be \$751,174.

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

Capital Assets and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounted to \$217,179,155 (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 \$541,198 on various infrastructure rehabilitation projects.
- The water fund spent \$545,453 to complete various water system improvements and purchase equipment. An additional \$256,141 was spent to replace a portion of the water plant roof.
- The electric fund purchased materials and completed various capital projects totaling \$1,719,429.
- Local street improvements totaled \$168,228 and the major street fund spent an additional \$1,467,686 on street improvements.
- The renovation of Birney Park was substantially completed at a cost of \$323,859 within the general fund. A grant was received for this project.
- The addition of a security counter in the Accounts Receivable Department at a cost of \$73,906 was completed within the general fund.
- The public improvement fund expended approximately \$1.6 million to replace the roof on City Hall.

The investment in capital assets of the component units totals \$5,840,112 as of June 30, 2011. During fiscal year ended June 30, 2011, \$40,045 was spent on streetscaping within the Water Street DDA.

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

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

Long-term Debt. In the fiscal year ended June 30, 2011, the City had total outstanding debt of \$89,985,819, which included a current portion of \$8,042,293. 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:

	<u>2010</u>	<u>2011</u>
General obligation bonds	\$ 34,749,120	\$ 34,778,546
Revenue bonds	6,050,000	4,202,500
Other notes/leases payable	37,123,820	35,982,347
Retiree healthcare	8,309,077	11,030,611
Compensated absences	3,991,869	3,991,815
Total	<u>\$ 90,223,886</u>	<u>\$ 89,985,819</u>

The City's total debt decreased by \$238,067 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 \$62,000,000 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 remained about the same as last year due to some changes in the healthcare plan, 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 2011/2012 budget. With the decline in property tax values, property tax revenues decreased \$1,283,530 within the governmental funds.

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 \$105 million. In the fiscal year ended June 30, 2011, the City contributed an additional \$1.1 million over and above the required contribution of \$2.3 million to its defined benefit plan and another \$5.2 million towards its \$8.1 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

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

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, 2011. 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. In addition, decreased consumption has resulted in fewer units to spread the fixed costs over and has also contributed to the higher rates. All three utilities will be evaluated on a yearly basis to determine the appropriate charges for services reflective of the cost of doing business.

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

Contacting the City's Management

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

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, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 17,311,751	\$ 30,018,453	\$ 47,330,204	\$ 3,073,996
Receivables	11,526,479	9,207,234	20,733,713	51,870
Internal balances	(3,971,148)	3,971,148	-	-
Prepaid items and other assets	624,408	184,642	809,050	1,925
Inventories	254,267	3,501,503	3,755,770	-
Net pension asset	1,515,184	5,731,765	7,246,949	34,800
Nondepreciable capital assets	17,862,290	1,236,091	19,098,381	184,828
Depreciable capital assets, net	59,324,464	138,756,310	198,080,774	5,655,284
Total assets	104,447,695	192,607,146	297,054,841	9,002,703
Liabilities				
Accounts payable and other accrued expenses	5,009,161	2,711,621	7,720,782	181,245
Interest payable	97,206	397,568	494,774	26,209
Unearned revenue	-	178,091	178,091	-
Noncurrent liabilities				
Due within one year	1,620,492	6,814,121	8,434,613	225,100
Due in more than one year	20,002,614	50,517,981	70,520,595	3,181,300
Net OPEB obligation	7,410,118	3,620,493	11,030,611	-
Total liabilities	34,139,591	64,239,875	98,379,466	3,613,854
Net Assets				
Invested in capital assets, net of related debt	59,245,396	84,043,144	143,288,540	3,965,112
Restricted for				
Debt service	703,983	11,901,344	12,605,327	-
Capital projects	1,055,005	-	1,055,005	-
Unrestricted	9,303,720	32,422,783	41,726,503	1,423,737
Total net assets	\$ 70,308,104	\$ 128,367,271	\$ 198,675,375	\$ 5,388,849

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, 2011

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	\$ 4,931,295	\$ (3,833,194)	\$ 940,162	\$ 700,000	\$ -	\$ 542,061
Public safety	12,106,167	8,361	921,885	511,651	-	(10,680,992)
Public works	13,760,665	76,127	2,048,872	2,827,317	1,483,839	(7,476,764)
Recreation and cultural	782,966	-	58,527	-	-	(724,439)
Economic development	2,284,393	123,185	(140,735)	1,550,485	-	(997,828)
Interest on debt	1,194,571	-	-	-	-	(1,194,571)
Total governmental activities	<u>35,060,057</u>	<u>(3,625,521)</u>	<u>3,828,711</u>	<u>5,589,453</u>	<u>1,483,839</u>	<u>(20,532,533)</u>
Business-type activities						
Electric	28,890,109	1,394,782	32,263,079	11,559	-	1,989,747
Water	7,071,560	1,121,841	8,928,365	-	-	734,964
Sewer	10,838,798	1,069,806	14,715,192	-	-	2,806,588
Oak Ridge Cemetery	126,438	-	55,287	-	-	(71,151)
James Clements Airport	241,569	-	44,436	116,555	-	(80,578)
Liberty Harbor Marina	172,517	17,906	130,241	-	-	(60,182)
Total business-type activities	<u>47,340,991</u>	<u>3,604,335</u>	<u>56,136,600</u>	<u>128,114</u>	<u>-</u>	<u>5,319,388</u>
Total primary government	<u>\$ 82,401,048</u>	<u>\$ (21,186)</u>	<u>\$ 59,965,311</u>	<u>\$ 5,717,567</u>	<u>\$ 1,483,839</u>	<u>\$ (15,213,145)</u>
Component units						
Downtown Development Authority	\$ 147,929	\$ 4,728	\$ 145,056	\$ -	\$ -	\$ (7,601)
Midland Street TIFA	100,442	1,967	-	-	-	(102,409)
Kresge's DDA	2,503	-	-	-	-	(2,503)
Marquette District TIFA	491,266	9,434	-	-	-	(500,700)
Water Street DDA	282,793	5,057	-	-	-	(287,850)
Marina Development TIFA	9,373	-	-	-	-	(9,373)
Allen Healthcare DDA	-	-	-	-	-	-
Knepp's DDA	3,185	-	-	-	-	(3,185)
Brownfield Redevelopment	184,807	-	-	-	-	(184,807)
Columbus Avenue Management Board	7,037	-	7,975	505	-	1,443
Midland Street Management Board	27,752	-	19,360	-	-	(8,392)
P.O.W.E.R.	48,219	-	-	-	-	(48,219)
Downtown Management Board	291,644	-	81,243	108,795	-	(101,606)
Total component units	<u>\$ 1,596,950</u>	<u>\$ 21,186</u>	<u>\$ 253,634</u>	<u>\$ 109,300</u>	<u>\$ -</u>	<u>\$ (1,255,202)</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, 2011**

<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	\$ (20,532,533)	\$ 5,319,388	\$ (15,213,145)	\$ (1,255,202)
General revenues				
Property taxes	12,728,586	-	12,728,586	1,025,227
Grants and contributions not restricted to specific programs	4,613,982	-	4,613,982	-
Unrestricted investment earnings	114,651	151,826	266,477	59,684
Miscellaneous revenue	654,756	58,649	713,405	120,356
Transfers - internal activities	(125,305)	125,305	-	-
Total general revenues and transfers	17,986,670	335,780	18,322,450	1,205,267
Change in net assets	(2,545,863)	5,655,168	3,109,305	(49,935)
Net assets, beginning of year, as restated	72,853,967	122,712,103	195,566,070	5,438,784
Net assets, end of year	\$ 70,308,104	\$ 128,367,271	\$ 198,675,375	\$ 5,388,849

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, 2011**

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Rehabilitation Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and investments	\$ 4,472,435	\$ 324,974	\$ -	\$ 2,225,548	\$ 7,022,957
Receivables (net of allowance for uncollectibles)					
Accounts	429,342	12,213	9,300	910,426	1,361,281
Delinquent taxes	35,553	-	-	5,429	40,982
Special assessments	90,352	-	-	34,731	125,083
Accrued interest	10,000	645	-	4,394	15,039
Notes	-	-	7,437,257	-	7,437,257
Due from other funds	1,727,665	3,035	-	163,261	1,893,961
Due from other governments	430,009	313,801	11,567	506,260	1,261,637
Inventories	-	108,440	-	-	108,440
Other assets	334	-	-	-	334
Total assets	<u>\$ 7,195,690</u>	<u>\$ 763,108</u>	<u>\$ 7,458,124</u>	<u>\$ 3,850,049</u>	<u>\$ 19,266,971</u>
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 437,770	\$ 129,393	\$ 4,698	\$ 673,877	\$ 1,245,738
Accrued liabilities	480,406	24,236	-	45,722	550,364
Due to other funds	2,589	164,905	6,869	266,942	441,305
Due to other governmental units	423	126,301	-	-	126,724
Deposits	2,401	-	-	36,653	39,054
Deferred revenue	91,255	-	7,446,557	5,428	7,543,240
Total liabilities	<u>1,014,844</u>	<u>444,835</u>	<u>7,458,124</u>	<u>1,028,622</u>	<u>9,946,425</u>
Fund balances					
Nonspendable	334	108,440	-	-	108,774
Restricted	306,640	209,833	-	2,821,427	3,337,900
Unassigned	5,873,872	-	-	-	5,873,872
Total fund balances	<u>6,180,846</u>	<u>318,273</u>	<u>-</u>	<u>2,821,427</u>	<u>9,320,546</u>
Total liabilities and fund balances	<u>\$ 7,195,690</u>	<u>\$ 763,108</u>	<u>\$ 7,458,124</u>	<u>\$ 3,850,049</u>	<u>\$ 19,266,971</u>

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, 2011**

Fund balances - total governmental funds	\$ 9,320,546
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	166,308,140
Subtract: accumulated depreciation	(93,659,535)
Net pension assets of governmental activities are not financial resources, and are therefore not reported in the funds.	
Add: net pension asset	1,168,847
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	7,543,240
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	8,077,968
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	(95,921)
Subtract: bonds payable	(15,794,946)
Subtract: capital leases	(2,720)
Subtract: loans payable	(2,042,500)
Subtract: landfill remediation liability	(1,072,778)
Subtract: net OPEB liability	(6,995,567)
Subtract: compensated absences	(2,446,670)
Net assets of governmental activities	<u>\$ 70,308,104</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, 2011

	<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	\$ 9,356,485	\$ 709,603	\$ -	\$ 1,691,012	\$ 11,757,100
Licenses and permits	20,467	-	-	433,570	454,037
Intergovernmental	6,660,244	3,381,232	236,143	2,845,215	13,122,834
Charges for services	4,348,124	-	-	2,018,131	6,366,255
Fines and forfeitures	142,422	-	-	24,068	166,490
Interest revenue	44,660	2,643	5,567	13,970	66,840
Miscellaneous revenues	392,953	5,948	105,236	511,030	1,015,167
Total revenues	<u>20,965,355</u>	<u>4,099,426</u>	<u>346,946</u>	<u>7,536,996</u>	<u>32,948,723</u>
Expenditures					
Current					
General government	4,312,565	-	-	-	4,312,565
Public safety	11,263,601	-	-	436,257	11,699,858
Public works	1,057,450	2,584,450	-	850,327	4,492,227
Environmental	227,097	-	-	1,995,014	2,222,111
Parks and recreation	791,328	-	-	-	791,328
Economic development	345,837	-	500,892	1,592,232	2,438,961
Retiree healthcare	1,809,848	-	-	-	1,809,848
Retirement	298,685	-	-	-	298,685
Capital outlay	459,579	1,467,686	-	2,242,787	4,170,052
Debt service					
Principal retirement	44,605	-	-	1,680,000	1,724,605
Interest and fiscal charges	-	-	-	2,350	2,350
Total expenditures	<u>20,610,595</u>	<u>4,052,136</u>	<u>500,892</u>	<u>8,798,967</u>	<u>33,962,590</u>
Revenues over (under) expenditures	<u>354,760</u>	<u>47,290</u>	<u>(153,946)</u>	<u>(1,261,971)</u>	<u>(1,013,867)</u>
Other financing sources (uses)					
Transfers in	208,306	446	264,749	345,042	818,543
Transfers out	(122,229)	-	(110,803)	(1,105,460)	(1,338,492)
Total other financing sources (uses)	<u>86,077</u>	<u>446</u>	<u>153,946</u>	<u>(760,418)</u>	<u>(519,949)</u>
Net change in fund balance	440,837	47,736	-	(2,022,389)	(1,533,816)
Fund balance, beginning of year	<u>5,740,009</u>	<u>270,537</u>	<u>-</u>	<u>4,843,816</u>	<u>10,854,362</u>
Fund balance, end of year	<u>\$ 6,180,846</u>	<u>\$ 318,273</u>	<u>\$ -</u>	<u>\$ 2,821,427</u>	<u>\$ 9,320,546</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, 2011**

Net change in fund balances - total governmental funds **\$ (1,533,816)**

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	3,906,608
Subtract: depreciation expense	(3,846,281)

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	144,697
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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	1,680,000
Add: principal payments on capital leases	2,105
Add: principal payments on loans	42,500
Add: decrease in interest accrued on bonds	3,333
Subtract: interest expense on zero coupon bond	(1,190,934)

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.

Subtract: increase in the accrual for landfill remediation liability	(1,072,778)
Subtract: increase in the accrual of compensated absences	(9,784)
Subtract: increase in the accrual for the net OPEB liability	(1,678,364)
Add: increase in the net pension asset	145,122

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

Add: net operating income from governmental activities accounted for in internal service funds	454,006
Add: nonoperating revenue recorded in internal service funds	13,079
Add: net transfers	394,644

Change in net assets of governmental activities **\$ (2,545,863)**

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

**CITY OF BAY CITY, MICHIGAN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes	\$ 9,414,967	\$ 9,414,967	\$ 9,356,485	\$ (58,482)
Licenses and permits	23,115	23,115	20,467	(2,648)
Intergovernmental	7,404,510	7,727,409	6,660,244	(1,067,165)
Charges for services	4,347,636	4,347,636	4,348,124	488
Fines and forfeitures	114,000	114,000	142,422	28,422
Interest revenue	90,000	90,000	44,660	(45,340)
Miscellaneous revenues	293,356	427,202	392,953	(34,249)
Total revenues	<u>21,687,584</u>	<u>22,144,329</u>	<u>20,965,355</u>	<u>(1,178,974)</u>
Expenditures				
Current				
General government				
Legislative and executive	379,057	382,259	368,513	13,746
Administration	1,102,935	1,115,080	698,586	416,494
Finance	3,028,791	3,046,211	2,850,682	195,529
Legal counsel	156,000	156,000	117,271	38,729
Planning and zoning	271,511	270,965	277,513	(6,548)
Total general government	<u>4,938,294</u>	<u>4,970,515</u>	<u>4,312,565</u>	<u>657,950</u>
Community/economic development	<u>340,327</u>	<u>343,138</u>	<u>345,837</u>	<u>(2,699)</u>
Public safety				
Police	5,904,998	6,059,843	5,967,026	92,817
Fire	4,627,907	5,083,749	5,051,401	32,348
Community policing	252,008	251,987	245,174	6,813
Total public safety	<u>10,784,913</u>	<u>11,395,579</u>	<u>11,263,601</u>	<u>131,978</u>
Public works	<u>1,080,800</u>	<u>1,186,129</u>	<u>1,057,450</u>	<u>128,679</u>
Environmental	<u>1,300,000</u>	<u>1,300,000</u>	<u>227,097</u>	<u>1,072,903</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 FUND BALANCE
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures (continued)				
Parks and recreation	\$ 789,562	\$ 802,799	\$ 791,328	\$ 11,471
Retiree healthcare	1,809,848	1,809,848	1,809,848	-
Retirement	298,685	298,685	298,685	-
Capital outlay	682,300	825,406	459,579	365,827
Debt Service				
Principal retirement	49,500	49,500	44,605	4,895
Total expenditures	<u>22,074,229</u>	<u>22,981,599</u>	<u>20,610,595</u>	<u>2,371,004</u>
Revenues over (under) expenditures	<u>(386,645)</u>	<u>(837,270)</u>	<u>354,760</u>	<u>1,192,030</u>
Other financing sources (uses)				
Transfer in	110,933	208,325	208,306	(19)
Transfer out	<u>(122,229)</u>	<u>(122,229)</u>	<u>(122,229)</u>	<u>-</u>
Total other financing sources (uses)	<u>(11,296)</u>	<u>86,096</u>	<u>86,077</u>	<u>(19)</u>
Net change in fund balance	(397,941)	(751,174)	440,837	1,192,011
Fund balance, beginning of year	<u>5,740,009</u>	<u>5,740,009</u>	<u>5,740,009</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,342,068</u>	<u>\$ 4,988,835</u>	<u>\$ 6,180,846</u>	<u>\$ 1,192,011</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 FUND BALANCE
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 716,381	\$ 716,381	\$ 709,603	\$ (6,778)
Intergovernmental				
State	2,923,429	2,923,429	3,381,232	457,803
Miscellaneous				
Interest earnings	3,000	3,000	2,643	(357)
Reimbursements	1,000	1,000	-	(1,000)
Other	2,000	2,000	5,948	3,948
Total revenues	<u>3,645,810</u>	<u>3,645,810</u>	<u>4,099,426</u>	<u>453,616</u>
Expenditures				
Public works				
Highways, streets, and bridges	2,725,373	2,721,459	2,584,450	137,009
Debt Service				
Interest and fiscal charges	20,000	20,000	-	20,000
Capital outlay	997,000	1,098,735	1,467,686	(368,951)
Total expenditures	<u>3,742,373</u>	<u>3,840,194</u>	<u>4,052,136</u>	<u>(211,942)</u>
Revenues over (under) expenditures	(96,563)	(194,384)	47,290	241,674
Other financing sources				
Transfer in	-	102,181	446	(101,735)
Net change in fund balance	(96,563)	(92,203)	47,736	139,939
Fund balance, beginning of year	<u>270,537</u>	<u>270,537</u>	<u>270,537</u>	<u>-</u>
Fund balance, end of year	<u>\$ 173,974</u>	<u>\$ 178,334</u>	<u>\$ 318,273</u>	<u>\$ 139,939</u>

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

**CITY OF BAY CITY, MICHIGAN
REHABILITATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
Federal	\$ 522,970	\$ 522,970	\$ 236,143	\$ (286,827)
Miscellaneous				
Program income	59,500	59,500	105,236	45,736
Interest earnings	5,500	5,500	5,567	67
Total revenues	<u>587,970</u>	<u>587,970</u>	<u>346,946</u>	<u>(241,024)</u>
Expenditures				
Economic development	<u>1,261,979</u>	<u>1,261,979</u>	<u>500,892</u>	<u>761,087</u>
Revenues under expenditures	<u>(674,009)</u>	<u>(674,009)</u>	<u>(153,946)</u>	<u>520,063</u>
Other financing sources (uses)				
Transfer in	739,009	739,009	264,749	(474,260)
Transfer out	<u>(65,000)</u>	<u>(65,000)</u>	<u>(110,803)</u>	<u>(45,803)</u>
Total other financing sources (uses)	<u>674,009</u>	<u>674,009</u>	<u>153,946</u>	<u>(520,063)</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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, 2011

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Assets						
Current assets						
Cash and cash equivalents	\$ 5,738,285	\$ 5,822,982	\$ 6,174,903	\$ 380,939	\$ 18,117,109	\$ 10,288,794
Receivables (net of allowance for uncollectibles)						
Accounts	5,415,206	1,158,684	2,237,355	20,166	8,831,411	1,265,339
Special assessments	50,543	10,951	230,452	-	291,946	-
Accrued interest	20,892	17,554	13,667	764	52,877	19,861
Due from other funds	3,064	7,680	948	-	11,692	36,379
Due from other governments	-	-	-	31,000	31,000	-
Inventories	2,649,722	595,389	208,391	48,001	3,501,503	145,827
Prepaid expenses	-	-	-	73	73	395,895
Deposits	-	150	80	-	230	228,179
Total current assets	13,877,712	7,613,390	8,865,796	480,943	30,837,841	12,380,274
Noncurrent assets						
Restricted assets						
Debt service funds - cash and cash equivalents	4,929,270	3,030,000	3,942,074	-	11,901,344	-
Other assets						
Net pension asset	2,643,362	1,433,710	1,654,693	-	5,731,765	346,337
Unamortized issuance costs	-	-	184,339	-	184,339	-
Total other assets	2,643,362	1,433,710	1,839,032	-	5,916,104	346,337
Capital assets						
Land and improvements	182,602	6,888,145	15,080,573	5,142,765	27,294,085	-
Air rights	-	-	-	95,421	95,421	-
Buildings	1,339,556	2,022,490	26,251	1,163,329	4,551,626	57,349
Machinery and equipment	3,609,840	1,359,237	2,116,223	125,243	7,210,543	13,560,049
Utility plant in service	67,131,872	53,643,209	148,075,579	-	268,850,660	-
Construction in progress	72,451	220,695	-	26,100	319,246	-
	72,336,321	64,133,776	165,298,626	6,552,858	308,321,581	13,617,398
Less: accumulated depreciation	43,816,513	39,404,710	82,534,425	2,573,532	168,329,180	9,079,249
Net capital assets	28,519,808	24,729,066	82,764,201	3,979,326	139,992,401	4,538,149
Total noncurrent assets	36,092,440	29,192,776	88,545,307	3,979,326	157,809,849	4,884,486
Total assets	49,970,152	36,806,166	97,411,103	4,460,269	188,647,690	17,264,760

	Enterprise Funds				Total	Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds		
Liabilities						
Current liabilities						
Accounts payable	\$ 1,338,351	\$ 365,315	\$ 155,774	\$ 93,113	\$ 1,952,553	\$ 1,658,380
Accrued liabilities	149,291	91,173	70,891	517	311,872	34,075
Due to other funds	1,217,535	148,837	-	-	1,366,372	134,355
Due to other governmental units	85,197	-	8,981	-	94,178	26,282
Interest payable	-	80,054	317,514	-	397,568	1,285
Claims payable	-	-	-	-	-	1,328,544
Deposits	296,414	56,604	-	-	353,018	-
Unearned revenue	-	-	178,091	-	178,091	-
Accrued compensated absences - current	262,333	141,231	139,473	1,185	544,222	54,387
Notes payable - current	-	-	-	-	-	49,641
Bonds payable - current	1,940,000	678,594	3,651,305	-	6,269,899	-
Total current liabilities	5,289,121	1,561,808	4,522,029	94,815	11,467,773	3,286,949
Long-term liabilities						
Accrued compensated absences	469,458	217,826	149,499	1,840	838,623	107,913
Notes payable	-	-	-	-	-	51,551
Bonds payable	2,262,500	9,251,710	38,165,148	-	49,679,358	-
Net OPEB obligation	1,335,208	1,207,004	1,078,281	-	3,620,493	414,551
Total long-term liabilities	4,067,166	10,676,540	39,392,928	1,840	54,138,474	574,015
Total liabilities	9,356,287	12,238,348	43,914,957	96,655	65,606,247	3,860,964
Net assets						
Invested in capital assets, net of related debt	24,317,308	14,798,762	40,947,748	3,979,326	84,043,144	4,436,957
Restricted for						
Debt service	4,929,270	3,030,000	3,942,074	-	11,901,344	-
Unrestricted	11,367,287	6,739,056	8,606,324	384,288	27,096,955	8,966,839
Total net assets	\$ 40,613,865	\$ 24,567,818	\$ 53,496,146	\$ 4,363,614	\$ 123,041,443	\$ 13,403,796
Adjustment to reflect the consolidation of internal service funds related to enterprise funds					5,325,828	
Net assets of business-type activities					\$ 128,367,271	

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, 2011

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Operating revenues						
Charges for services						
Sales	\$ 30,983,793	\$ 8,868,209	\$ 14,666,406	\$ 119,036	\$ 54,637,444	\$ 17,316,678
Rents	-	-	-	129,199	129,199	-
Miscellaneous	1,284,411	65,792	69,267	42,641	1,462,111	7,542,770
Total operating revenues	<u>32,268,204</u>	<u>8,934,001</u>	<u>14,735,673</u>	<u>290,876</u>	<u>56,228,754</u>	<u>24,859,448</u>
Operating expenses						
Cost of sales and service	24,516,020	5,499,098	5,535,638	385,905	35,936,661	3,036,017
Administration	3,391,012	1,221,338	1,122,456	-	5,734,806	436,604
Claims and benefits	-	-	-	-	-	19,798,721
Depreciation	2,342,323	1,225,220	4,009,794	174,464	7,751,801	751,797
Total operating expenses	<u>30,249,355</u>	<u>7,945,656</u>	<u>10,667,888</u>	<u>560,369</u>	<u>49,423,268</u>	<u>24,023,139</u>
Operating income (loss)	<u>2,018,849</u>	<u>988,345</u>	<u>4,067,785</u>	<u>(269,493)</u>	<u>6,805,486</u>	<u>836,309</u>
Nonoperating revenues (expenses)						
Intergovernmental						
Federal grants	11,559	-	-	24,795	36,354	-
State grants	-	-	-	30,853	30,853	-
Interest earnings	56,556	49,366	43,914	1,990	151,826	48,380
Interest expense	(192,638)	(334,746)	(1,295,414)	-	(1,822,798)	(4,619)
Net loss on sale of capital assets	-	-	-	-	-	(30,682)
Amortization of bond premium/ discount/deferred costs	(22,500)	4,251	(35,912)	-	(54,161)	-
Total nonoperating revenues (expenses)	<u>(147,023)</u>	<u>(281,129)</u>	<u>(1,287,412)</u>	<u>57,638</u>	<u>(1,657,926)</u>	<u>13,079</u>
Income (loss) before transfers	<u>1,871,826</u>	<u>707,216</u>	<u>2,780,373</u>	<u>(211,855)</u>	<u>5,147,560</u>	<u>849,388</u>
Other financing sources (uses)						
Transfers in	3,064	12	-	122,229	125,305	527,189
Transfers out	-	-	-	-	-	(132,545)
Total other financing sources (uses)	<u>3,064</u>	<u>12</u>	<u>-</u>	<u>122,229</u>	<u>125,305</u>	<u>394,644</u>
Change in net assets	<u>1,874,890</u>	<u>707,228</u>	<u>2,780,373</u>	<u>(89,626)</u>	<u>5,272,865</u>	<u>1,244,032</u>
Net assets, beginning of year, as restated	<u>38,738,975</u>	<u>23,860,590</u>	<u>50,715,773</u>	<u>4,453,240</u>		<u>12,159,764</u>
Net assets, end of year	<u>\$ 40,613,865</u>	<u>\$ 24,567,818</u>	<u>\$ 53,496,146</u>	<u>\$ 4,363,614</u>		<u>\$ 13,403,796</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					382,303	
Change in net assets of business-type activities					<u>\$ 5,655,168</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, 2011

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities						
Cash received from customers and users	\$ 30,832,262	\$ 8,439,897	\$ 14,599,925	\$ 218,716	\$ 54,090,800	\$ -
Cash received from internal users	-	-	-	-	-	23,749,608
Cash payments to suppliers for goods and services	(24,771,638)	(2,569,194)	(3,316,551)	(317,473)	(30,974,856)	(22,329,933)
Cash payments to employees for services	(4,140,281)	(3,920,477)	(3,452,912)	(15,702)	(11,529,372)	(1,242,030)
Cash payments for internal services provided	(69,757)	(10,661)	(20,766)	-	(101,184)	-
Other receipts	1,284,411	65,792	69,267	42,641	1,462,111	-
Net cash provided (used) by operating activities	<u>3,134,997</u>	<u>2,005,357</u>	<u>7,878,963</u>	<u>(71,818)</u>	<u>12,947,499</u>	<u>177,645</u>
Cash flows from noncapital financing activities						
Intergovernmental - federal grants	11,559	-	-	24,795	36,354	-
Intergovernmental - state grants	-	-	-	30,853	30,853	-
Transfers in	3,064	12	-	122,229	125,305	527,189
Transfers out	-	-	-	-	-	(132,545)
Net cash provided by noncapital financing activities	<u>14,623</u>	<u>12</u>	<u>-</u>	<u>177,877</u>	<u>192,512</u>	<u>394,644</u>
Cash flows from capital and related financing activities						
Purchase of capital assets	(1,719,429)	(801,594)	(541,198)	(58,163)	(3,120,384)	(868,816)
Proceeds from issuance of debt	-	-	2,498,600	-	2,498,600	-
Premium/issuance costs paid on debt	-	-	(18,108)	-	(18,108)	-
Principal paid on debt	(1,870,000)	(657,566)	(3,437,434)	-	(5,965,000)	(47,803)
Interest paid on debt	(192,638)	(334,746)	(1,295,414)	-	(1,822,798)	(4,619)
Net cash used by capital and related financing activities	<u>(3,782,067)</u>	<u>(1,793,906)</u>	<u>(2,793,554)</u>	<u>(58,163)</u>	<u>(8,427,690)</u>	<u>(921,238)</u>
Cash flows from investing activities						
Interest received	56,556	49,366	43,914	1,990	151,826	48,380
Net increase (decrease) in cash and cash equivalents	<u>(575,891)</u>	<u>260,829</u>	<u>5,129,323</u>	<u>49,886</u>	<u>4,864,147</u>	<u>(300,569)</u>
Cash and cash equivalents, beginning of year	11,243,446	8,592,153	4,987,654	331,053	25,154,306	10,589,363
Cash and cash equivalents, end of year	<u>\$ 10,667,555</u>	<u>\$ 8,852,982</u>	<u>\$ 10,116,977</u>	<u>\$ 380,939</u>	<u>\$ 30,018,453</u>	<u>\$ 10,288,794</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ 2,018,849	\$ 988,345	\$ 4,067,785	\$ (269,493)	\$ 6,805,486	\$ 836,309
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Depreciation	2,342,323	1,225,220	4,009,794	174,464	7,751,801	751,797
(Increase) decrease in assets						
Accounts receivable	(72,818)	(475,161)	(94,878)	(117)	(642,974)	(1,261,975)
Special assessments receivable	15,072	4,483	25,392	-	44,947	-
Accrued interest receivable	56,613	42,366	3,005	1,598	103,582	54,159
Due from other funds	(3,064)	1,962	3,634	-	2,532	(36,379)
Due from other governments	-	-	-	(31,000)	(31,000)	-
Inventories	(495,834)	(35,146)	(25,540)	(18,484)	(575,004)	(4,077)
Prepaid expenses	-	-	-	(73)	(73)	(346,849)
Deposits	-	-	-	-	-	1,115
Net pension asset	(291,613)	(151,962)	(189,548)	-	(633,123)	(44,685)
Increase (decrease) in liabilities						
Accounts payable	(677,424)	158,873	(152,690)	68,226	(603,015)	877,970
Accrued liabilities	18,658	5,976	(2,032)	36	22,638	853
Due to other funds	(66,693)	(12,623)	(24,400)	-	(103,716)	134,355
Due to other governmental units	(5,982)	-	-	-	(5,982)	6,906
Interest payable	-	(4,843)	(3,336)	-	(8,179)	(607)
Claims payable	-	-	-	-	-	(865,251)
Deposits	61,973	(7,195)	-	-	54,778	-
Unearned revenue	(150,398)	-	(14,507)	-	(164,905)	(29,622)
Accrued compensated absences	27,576	(35,557)	(15,938)	3,025	(20,894)	11,056
Net OPEB obligation	357,759	300,619	292,222	-	950,600	92,570
Total adjustments	<u>1,116,148</u>	<u>1,017,012</u>	<u>3,811,178</u>	<u>197,675</u>	<u>6,142,013</u>	<u>(658,664)</u>
Net cash provided (used) by operating activities	<u>\$ 3,134,997</u>	<u>\$ 2,005,357</u>	<u>\$ 7,878,963</u>	<u>\$ (71,818)</u>	<u>\$ 12,947,499</u>	<u>\$ 177,645</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, 2011**

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 4,793,216	\$ 163,183
Investments		
Money market accounts	1,011,479	
Mutual funds	20,232,399	-
Government securities	6,060,507	-
Corporate bonds	6,037,314	-
Common stock	14,011,040	-
Accounts receivable	249,251	-
Interest receivable	110,080	-
Total assets	52,505,286	\$ 163,183
Liabilities		
Accounts payable	52,621	\$ 151,545
Deposits payable	-	11,638
Total liabilities	52,621	\$ 163,183
Net assets		
Held in trust for employees' pension benefits	46,282,935	
Held in trust for employees' postemployment health care benefits	6,169,730	
Total net assets	\$ 52,452,665	

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, 2011

Additions	
Contributions	
Employer	\$ 2,382,855
Current premium contributions	4,492,724
Plan members	<u>443,956</u>
Total contributions	<u>7,319,535</u>
Investment income	
Interest and dividends	992,493
Net appreciation in fair value of investments	8,363,581
Investment expense	<u>(186,055)</u>
Net investment income	<u>9,170,019</u>
Other additions	<u>16,481</u>
Total additions	<u>16,506,035</u>
Deductions	
Retiree healthcare premium payments	4,492,724
Benefits and refunds paid to participants	4,580,682
Administrative expenses	<u>157,098</u>
Total deductions	<u>9,230,504</u>
Net increase in plan net assets	7,275,531
Net assets held in trust for pension and other employee benefits	
Beginning of year	<u>45,177,134</u>
End of year	<u><u>\$ 52,452,665</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, 2011

	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	\$ 164,874	\$ 1,337,444	\$ 31,275	\$ 351,884	\$ 247,890	\$ -	\$ 4,201
Receivables							
Accounts	10,601	-	-	-	-	-	-
Delinquent taxes	1,013	-	-	-	-	-	-
Accrued interest	326	3,453	62	695	489	-	42
Notes	-	-	-	-	-	-	-
Allowance for uncollectible amounts	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-
Net pension asset	-	-	-	34,800	-	-	-
Nondepreciable capital assets	-	154,692	-	30,136	-	-	-
Depreciable capital assets, net	138,196	457,398	26,916	1,633,210	2,751,619	502,231	-
Total assets	315,010	1,952,987	58,253	2,050,725	2,999,998	502,231	4,243
Liabilities							
Accounts payable	10,298	43,334	-	1,075	12,668	-	-
Accrued liabilities	-	-	-	1,407	-	-	-
Interest payable	-	10,382	-	-	11,994	-	-
Long-term debt							
Bonds payable	-	1,118,456	-	-	1,875,000	-	-
Total liabilities	10,298	1,172,172	-	2,482	1,899,662	-	-
Net assets							
Invested in capital assets, net of related debt	138,196	612,090	26,916	1,663,346	876,619	502,231	-
Unrestricted	166,516	168,725	31,337	384,897	223,717	-	4,243
Total net assets	\$ 304,712	\$ 780,815	\$ 58,253	\$ 2,048,243	\$ 1,100,336	\$ 502,231	\$ 4,243

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	City Loans and Collections	Downtown Mgmt. Board	Totals
\$ 21,188	\$ 13,976	\$ 632,442	\$ 16,678	\$ 14,013	\$ 133,931	\$ 104,200	\$ 3,073,996
-	-	-	-	40	273,740	2,057	286,438
-	-	-	-	-	-	10,993	12,006
28	-	454	33	28	-	-	5,610
-	-	-	-	-	4,256,736	-	4,256,736
-	-	-	-	-	(4,530,476)	-	(4,530,476)
-	-	-	-	-	-	21,556	21,556
-	-	-	-	-	-	1,925	1,925
-	-	-	-	-	-	-	34,800
-	-	-	-	-	-	-	184,828
-	145,714	-	-	-	-	-	5,655,284
<u>21,216</u>	<u>159,690</u>	<u>632,896</u>	<u>16,711</u>	<u>14,081</u>	<u>133,931</u>	<u>140,731</u>	<u>9,002,703</u>
-	-	100,933	357	1,769	-	5,065	175,499
-	-	-	-	-	-	4,339	5,746
-	-	3,833	-	-	-	-	26,209
-	-	412,944	-	-	-	-	3,406,400
-	-	517,710	357	1,769	-	9,404	3,613,854
-	145,714	-	-	-	-	-	3,965,112
<u>21,216</u>	<u>13,976</u>	<u>115,186</u>	<u>16,354</u>	<u>12,312</u>	<u>133,931</u>	<u>131,327</u>	<u>1,423,737</u>
<u>\$ 21,216</u>	<u>\$ 159,690</u>	<u>\$ 115,186</u>	<u>\$ 16,354</u>	<u>\$ 12,312</u>	<u>\$ 133,931</u>	<u>\$ 131,327</u>	<u>\$ 5,388,849</u>

**CITY OF BAY CITY, MICHIGAN
ALL COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

<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	\$ 152,657	\$ 145,056	\$ -	\$ -	\$ (7,601)
Midland Street TIFA	102,409	-	-	-	(102,409)
Kresge's DDA	2,503	-	-	-	(2,503)
Marquette District TIFA	500,700	-	-	-	(500,700)
Water Street DDA	287,850	-	-	-	(287,850)
Marina Development TIFA	9,373	-	-	-	(9,373)
Knepp's DDA	3,185	-	-	-	(3,185)
Brownfield Redevelopment	184,807	-	-	-	(184,807)
Columbus Avenue Management Board	7,037	7,975	505	-	1,443
Midland Street Management Board	27,752	19,360	-	-	(8,392)
City Loans and Collections	48,219	-	-	-	(48,219)
Downtown Management Board	291,644	81,243	108,795	-	(101,606)
Total component units	\$ 1,618,136	\$ 253,634	\$ 109,300	\$ -	\$ (1,255,202)

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, 2011**

<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	\$ (7,601)	\$ (102,409)	\$ (2,503)	\$ (500,700)	\$ (287,850)	\$ (9,373)	\$ -
General revenues							
Property taxes	-	109,009	2,817	331,811	303,305	-	-
Unrestricted investment earnings	813	12,699	166	3,078	2,030	-	(1,137)
Miscellaneous revenue	38,356	-	-	-	-	-	-
Total general revenues	<u>39,169</u>	<u>121,708</u>	<u>2,983</u>	<u>334,889</u>	<u>305,335</u>	<u>-</u>	<u>(1,137)</u>
Change in net assets	31,568	19,299	480	(165,811)	17,485	(9,373)	(1,137)
Net assets, beginning of year	<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>
Net assets, end of year	<u>\$ 304,712</u>	<u>\$ 780,815</u>	<u>\$ 58,253</u>	<u>\$ 2,048,243</u>	<u>\$ 1,100,336</u>	<u>\$ 502,231</u>	<u>\$ 4,243</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	City Loans and Collections	Downtown Mgmt. Board	Totals
\$ -	\$ (3,185)	\$ (184,807)	\$ 1,443	\$ (8,392)	\$ (48,219)	\$ (101,606)	\$ (1,255,202)
-	-	181,835	-	-	-	96,450	1,025,227
91	37	1,238	76	65	40,337	191	59,684
-	-	2,000	-	-	80,000	-	120,356
91	37	185,073	76	65	120,337	96,641	1,205,267
91	(3,148)	266	1,519	(8,327)	72,118	(4,965)	(49,935)
21,125	162,838	114,920	14,835	20,639	61,813	136,292	5,438,784
<u>\$ 21,216</u>	<u>\$ 159,690</u>	<u>\$ 115,186</u>	<u>\$ 16,354</u>	<u>\$ 12,312</u>	<u>\$ 133,931</u>	<u>\$ 131,327</u>	<u>\$ 5,388,849</u>

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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, City Loans and Collection, 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, City Loans and Collections, 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.

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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

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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.

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 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

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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 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.

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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.

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

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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 *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance*, if any, is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, City Commission. A formal resolution of the City Commission is required to establish, modify or rescind a fund balance commitment. The City reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

**CITY OF BAY CITY, MICHIGAN
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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. 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.

Excess of expenditures over appropriations in budgeted funds – During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund:			
General government:			
Planning and zoning	\$ 270,965	\$ 277,513	\$ 6,548
Community/economic development	343,138	345,837	2,699
Major streets fund:			
Capital outlay	1,098,735	1,467,686	368,951
Rehabilitation fund:			
Transfers out	65,000	110,803	45,803
Local streets fund:			
Capital outlay	156,778	168,228	11,450
Solid waste management fund:			
Environmental	1,994,428	1,995,014	586

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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	\$ 17,311,751	\$ 30,018,453	\$ 47,330,204	\$ 4,956,399	\$3,073,996	\$ 55,360,599
Investments	-	-	-	47,352,739	-	47,352,739
Total	<u>\$ 17,311,751</u>	<u>\$ 30,018,453</u>	<u>\$ 47,330,204</u>	<u>\$ 52,309,138</u>	<u>\$3,073,996</u>	<u>\$ 102,713,338</u>

Deposit and investments:

Bank deposits (checking, savings, and certificates of deposit)	\$ 18,401,523
Cash on hand	5,545
Investments (securities, stocks, and money market accounts)	<u>84,306,270</u>
Total	<u>\$102,713,338</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, 2011, the carrying value of deposits owned by the City was \$18,804,953. \$17,473,819 of the City's bank balance was covered by federal depository insurance. The remaining balance of \$1,331,134 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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Custodial Credit Risk – Investments. Following is a summary of the City’s investments as of June 30, 2011:

Money market accounts	\$ 21,303,233
Mutual funds	20,232,399
Government securities	22,722,284
Corporate debt	6,037,314
Corporate stock	<u>14,011,040</u>
Total	<u>\$ 84,306,270</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, 2011, 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 counterparty.

Interest Rate Risk - As of June 30, 2011, 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	\$ 21,303,233	\$ 21,303,233	\$ -	\$ -	\$ -	\$ -	N/A
Mutual funds	20,232,399	20,232,399	-	-	-	-	N/A
Government securities	22,722,284	-	1,078,824	18,005,076	350,723	3,287,661	AAA - NR
Corporate debt	6,037,314	-	-	1,786,993	2,991,670	1,258,651	AAA-CAA1
Corporate stock							
Common	14,002,440	14,002,440	-	-	-	-	N/A
Preferred	8,600	-	-	-	-	8,600	N/A
Total investments	<u>\$ 84,306,270</u>	<u>\$ 55,538,072</u>	<u>\$ 1,078,824</u>	<u>\$ 19,792,069</u>	<u>\$ 3,342,393</u>	<u>\$ 4,554,912</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, 2011. 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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4. ACCOUNTS RECEIVABLE AND ALLOWANCES FOR UNCOLLECTIBLES

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

	Governmental Activities	Business-type Activities	Component Units	Total
Receivables:				
Accounts	\$ 2,702,291	\$ 9,897,111	\$ 286,438	\$ 12,885,840
Taxes	195,873	291,946	12,006	499,825
Interest	34,900	52,877	5,610	93,387
Intergovernmental	1,261,637	31,000	21,556	1,314,193
Notes	<u>7,437,257</u>	<u>-</u>	<u>4,256,736</u>	<u>11,693,993</u>
Gross receivables	11,631,958	10,272,934	4,582,346	26,487,238
Less: Allowance for Uncollectibles	<u>(105,479)</u>	<u>(1,065,700)</u>	<u>(4,530,476)</u>	<u>(5,701,655)</u>
Net total receivables	<u>\$ 11,526,479</u>	<u>\$ 9,207,234</u>	<u>\$ 51,870</u>	<u>\$ 20,785,583</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 City loans and collections 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	\$ 7,446,557	\$ -
Special assessments (non-current portion)	55,703	-
Delinquent personal property taxes receivable	<u>40,980</u>	<u>-</u>
Total	<u>\$ 7,543,240</u>	<u>\$ -</u>

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5. CAPITAL ASSETS

Capital asset activity of the City's governmental activities for the year ended June 30, 2011, was as follows:

Governmental Activities	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 17,152,382	\$ 18,705	\$ -	\$ 17,171,087
Construction in progress	1,545,814	306,174	1,536,785	315,203
Other intangible assets	376,000	-	-	376,000
Subtotal	<u>19,074,196</u>	<u>324,879</u>	<u>1,536,785</u>	<u>17,862,290</u>
Capital assets being depreciated:				
Roads and sidewalks	134,011,920	3,406,095	-	137,418,015
Buildings and improvements	6,861,306	1,653,545	-	8,514,851
Vehicles	12,584,456	888,158	402,268	13,070,346
Office furnishings	39,293	-	-	39,293
Other tools and equipment	3,146,103	39,532	164,892	3,020,743
Subtotal	<u>156,643,078</u>	<u>5,987,330</u>	<u>567,160</u>	<u>162,063,248</u>
Accumulated depreciation:				
Roads and sidewalks	83,798,151	3,418,715	-	87,216,866
Buildings and improvements	4,193,604	209,370	-	4,402,974
Vehicles	8,254,765	735,722	371,585	8,618,902
Office furnishings	19,700	1,965	-	21,665
Other tools and equipment	2,410,963	232,306	164,892	2,478,377
Subtotal	<u>98,677,183</u>	<u>4,598,078</u>	<u>536,477</u>	<u>102,738,784</u>
Net capital assets being depreciated	<u>57,965,895</u>	<u>1,389,252</u>	<u>30,683</u>	<u>59,324,464</u>
Governmental activities capital assets, net	<u>\$ 77,040,091</u>	<u>\$ 1,714,131</u>	<u>\$ 1,567,468</u>	<u>\$ 77,186,754</u>

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Capital asset activity of the City's business-type activities for the year ended June 30, 2011, was as follows:

Business-type Activities	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 821,424.00	\$ -	\$ -	\$ 821,424
Construction in progress	78,283	240,963	-	319,246
Other	95,421	-	-	95,421
Subtotal	<u>995,128</u>	<u>240,963</u>	<u>-</u>	<u>1,236,091</u>
Capital assets being depreciated:				
Utility plant and systems	267,354,230	1,609,498	113,068	268,850,660
Land improvements	25,545,734	714,361	23,258	26,236,837
Buildings and improvements	4,485,222	302,228	-	4,787,450
Machinery and equipment	6,957,207	253,336	-	7,210,543
Subtotal	<u>304,342,393</u>	<u>2,879,423</u>	<u>136,326</u>	<u>307,085,490</u>
Accumulated depreciation:				
Utility plant and systems	150,211,207	6,837,976	113,068	156,936,115
Land improvements	3,978,875	565,748	23,258	4,521,365
Buildings and improvements	2,281,007	109,994	-	2,391,001
Machinery and equipment	4,242,616	238,083	-	4,480,699
Subtotal	<u>160,713,705</u>	<u>7,751,801</u>	<u>136,326</u>	<u>168,329,180</u>
Net capital assets being depreciated	<u>143,628,688</u>	<u>(4,872,378)</u>	<u>-</u>	<u>138,756,310</u>
Business-type activities capital assets, net	<u>\$ 144,623,816</u>	<u>\$ (4,631,415)</u>	<u>\$ -</u>	<u>\$ 139,992,401</u>

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Capital asset activity of the City's component units for the year ended June 30, 2011, was as follows:

Component Units	Balance July 1, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 54,136	\$ -	\$ -	\$ 54,136
Construction in progress	91,561	39,131	-	130,692
Subtotal	<u>145,697</u>	<u>39,131</u>	<u>-</u>	<u>184,828</u>
Capital assets being depreciated:				
Infrastructure	8,153,959	-	-	8,153,959
Land improvements	-	8,346	-	8,346
Furniture and equipment	78,973	-	-	78,973
Subtotal	<u>8,232,932</u>	<u>8,346</u>	<u>-</u>	<u>8,241,278</u>
Accumulated depreciation:				
Infrastructure	2,242,070	302,267	-	2,544,337
Land improvements	-	167	-	167
Furniture and equipment	33,403	8,087	-	41,490
Subtotal	<u>2,275,473</u>	<u>310,521</u>	<u>-</u>	<u>2,585,994</u>
Net capital assets being depreciated	<u>5,957,459</u>	<u>(302,175)</u>	<u>-</u>	<u>5,655,284</u>
Component Units				
capital assets, net	<u>\$ 6,103,156</u>	<u>\$ (263,044)</u>	<u>\$ -</u>	<u>\$ 5,840,112</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	\$ 46,288
Public safety	179,983
Public works	3,215,822
Recreation and cultural	232,221
Economic development	171,967
Internal service fund depreciation is charged to the various functions based on their usage of the asset	751,797
Total governmental activities	<u><u>\$ 4,598,078</u></u>

Business-type activities:

Electric	\$ 2,342,323
Water	1,225,220
Sewer	4,009,794
Other enterprise funds	174,464
Total business-type activities	<u><u>\$ 7,751,801</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
NOTES TO THE FINANCIAL STATEMENTS
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The composition of interfund balances is as follows:

	Due From							Total
	General Fund	Major Streets Fund	Rehabilitation Fund	Nonmajor Governmental Funds	Electric Fund	Water Fund	Internal Service Funds	
Due to								
General fund	\$ -	\$ 6,105	\$ 6,869	\$ 259,562	\$ 1,208,919	\$ 148,837	\$ 97,373	\$ 1,727,665
Major streets fund	2,589	-	-	-	-	-	446	3,035
Nonmajor								
governmental	-	158,800	-	-	-	-	4,461	163,261
Electric fund							3,064	3,064
Water fund	-	-	-	-	7,668	-	12	7,680
Sewer fund	-	-	-	-	948	-	-	948
Internal service funds	-	-	-	7,380	-	-	28,999	36,379
Total	<u>\$ 2,589</u>	<u>\$ 164,905</u>	<u>\$ 6,869</u>	<u>\$ 266,942</u>	<u>\$ 1,217,535</u>	<u>\$ 148,837</u>	<u>\$ 134,355</u>	<u>\$ 1,942,032</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	Internal Service Funds	
Transfer to					
General fund	\$ -	\$ -	\$ 110,933	\$ 97,373	\$ 208,306
Major streets fund				446	446
Rehabilitation fund	-	-	264,749	-	264,749
Nonmajor					
governmental funds	-	110,803	229,778	4,461	345,042
Electric fund				3,064	3,064
Water fund				12	12
Nonmajor					
enterprise funds	122,229	-	-	-	122,229
Internal service funds	-	-	500,000	27,189	527,189
Total	<u>\$ 122,229</u>	<u>\$ 110,803</u>	<u>\$ 1,105,460</u>	<u>\$ 132,545</u>	<u>\$ 1,471,037</u>

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

7. CAPITAL LEASES

The City of Bay City has entered into a lease agreement as lessee of copiers with Lease Corporation of America. The original amount of the copiers was \$3,840. The remaining balance is \$2,720. Annual lease payments required under the capital lease are as follows:

<u>Fiscal Year End</u>	<u>Payment</u>
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</u> <u>July 1, 2010</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>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.	\$ 16,284,012	\$ 1,190,934 (1,680,000)	\$ 15,794,946	\$ 392,320
Capital Lease due in installments through 2011. Original amount \$13,729.	1,145	(1,145)	-	-

**CITY OF BAY CITY, MICHIGAN
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JUNE 30, 2011**

Governmental activities (continued):

	<u>Balance July 1, 2010</u>	<u>Additions (Reductions)</u>	<u>Balance June 30, 2011</u>	<u>Due Within One-Year</u>
Capital Lease due in installments through 2014. Original amount \$3,840.	\$ 3,680	\$ (960)	\$ 2,720	\$ 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.	85,000	(42,500)	42,500	42,500
Purchase Agreement due in installments, including interest, through 2013. Originated in Motor Equipment Revolving Internal Service Fund. Original amount \$437,819.	148,995	(47,803)	101,192	49,641
Landfill remediation liability	-	1,072,778	1,072,778	107,278
Retiree Healthcare	5,639,184	1,770,934	7,410,118	-
Employee Compensated Absences	<u>2,588,130</u>	<u>56,022 (35,182)</u>	<u>2,608,970</u>	<u>1,027,793</u>
Total Governmental Activities	<u>\$ 26,750,146</u>	<u>\$2,283,078</u>	<u>\$ 29,033,224</u>	<u>\$ 1,620,492</u>

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

CITY OF BAY CITY, MICHIGAN
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Business-type activities:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2011</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.	\$ 935,000	\$ (75,000)	\$ 860,000	\$ 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.	1,500,000	(470,000)	1,030,000	510,000
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.	29,895,000	(1,975,000)	27,920,000	2,025,000
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.	3,230,000	(605,000)	2,625,000	625,000
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.	5,150,000	(235,000)	4,915,000	245,000

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Business-type activities (continued):

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2011</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.	\$ 1,999,399	\$ (77,435)	\$ 1,921,964	\$ 81,405
2.0% to 4.5% G.O. Capital Improvement Bonds, Series 2010A, principal due in annual installments of \$89,900 to \$179,800 through 10/1/30, interest due semi-annually April 1 and October 1. Original amount \$2,498,600.	-	2,498,600	2,498,600	89,900
Premium on bond issuance	48,588	(2,699)	45,889	-

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.	6,230,000	(1,870,000)	4,360,000	1,940,000
Less deferred costs	(180,000)	22,500	(157,500)	-

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.	4,990,000	(265,000)	4,725,000	270,000
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CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Business-type activities (continued):

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One-Year</u>
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.	\$ 2,490,000	\$ (275,000)	\$ 2,215,000	\$ 285,000
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.	3,035,602	(117,566)	2,918,036	123,594
Premium on bond issuance	76,519	(4,251)	72,268	-
<u>Other</u>				
Retiree Healthcare	2,669,893	950,600	3,620,493	-
Employee Compensated Absences	<u>1,403,739</u>	<u>52,939</u> <u>(73,833)</u>	<u>1,382,845</u>	<u>544,222</u>
Total	<u>\$ 63,473,740</u>	<u>\$ (2,521,145)</u>	<u>\$ 60,952,595</u>	<u>\$ 6,814,121</u>

The aggregate debt service requirements to pay principal and interest on the various bonds and loans outstanding with interest of \$13,323,977 and deferred costs of \$157,500 in the business-type activities, interest of \$19,284,871 including capital appreciation of \$11,894,066 in the governmental activities bonded debt, and interest of \$743,005 in governmental activities other debt are as follows:

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
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Fiscal Year <u>End</u>	Governmental <u>Activities</u>				Business-type <u>Activities</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>		
2012	\$ 392,320	\$ 1,312,680	\$ 93,101	\$ 97,363	\$ 6,269,899	\$ 1,707,935
2013	486,892	1,783,108	52,511	95,454	4,808,000	1,514,798
2014	457,863	1,832,137	85,800	92,276	4,418,000	1,378,460
2015	433,310	1,891,690	165,000	87,160	4,556,100	1,244,481
2016	408,265	1,941,735	175,000	79,956	3,979,201	1,117,750
2017 – 2021	1,722,230	10,523,521	1,060,000	264,092	19,065,600	4,384,114
2022 – 2026	-	-	515,000	26,704	11,283,400	1,696,582
2027 – 2031	-	-	-	-	1,608,400	279,857
Total	<u>\$ 3,900,880</u>	<u>\$19,284,871</u>	<u>\$2,146,412</u>	<u>\$ 743,005</u>	<u>\$ 55,988,600</u>	<u>\$13,323,977</u>

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 \$1,585,000 at June 30, 2011.

Component units:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One-Year</u>
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.	\$ 2,030,000	\$ (155,000)	\$ 1,875,000	\$ 170,000

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Component units (continued):

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One-Year</u>
2.0% to 4.5% Midland Street TIFA G.O. Capital Improvement Bonds, Series 2010A, principal due in annual installments of \$40,242 to \$80,484 through 10/1/30, interest due semi- annually April 1 and October 1. Original amount \$1,118,456.	\$ -	\$ 1,118,456	\$ 1,118,456	\$ 40,242
2.0% to 4.5% Brownfield G.O. Capital Improvement Bonds, Series 2010A, principal due in annual installments of \$14,858 to \$29,716 through 10/1/30, interest due semi-annually April 1 and October 1. Original amount \$412,944.	-	412,944	412,944	14,858
Total Long-Term Debt-Component Units	<u>\$ 2,030,000</u>	<u>\$ 1,376,400</u>	<u>\$ 3,406,400</u>	<u>\$ 225,100</u>

The aggregate debt service requirement for the component units to pay principal and interest on the various outstanding loans with interest included of \$1,032,617 are as follows:

<u>Fiscal Year End</u>	Component Units	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 225,100	\$ 128,276
2013	257,000	120,992
2014	287,000	112,210
2015	323,900	102,366
2016	360,800	90,781
2017-2021	1,044,400	267,334
2012-2026	406,600	152,560
2027-2031	501,600	58,098
Total	<u>\$ 3,406,400</u>	<u>\$ 1,032,617</u>

**CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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.

The changes in the claims liability for the years ended June 30, 2010 and 2011, are as follows:

<u>Fiscal Year</u>	<u>Beginning of Period Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Period Liability</u>
2010	\$ 772,730	\$ 1,282,126	\$ (1,043,784)	\$ 1,011,072
2011	1,011,072	1,032,929	(1,550,283)	493,718

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

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
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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, 2010 and 2011, are as follows:

Fiscal Year	Beginning of Period Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Period Liability
2010	\$ 369,020	\$ 8,318,987	\$ (8,377,783)	\$ 310,224
2011	310,224	8,736,472	(8,767,234)	279,462

Workers' Compensation

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

The changes in the claims liability for the years ended June 30, 2010 and 2011 are as follows:

Fiscal Year	Beginning of Period Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Period Liability
2010	\$ 700,620	\$ 532,056	\$ (360,177)	\$ 872,499
2011	872,499	283,968	(601,103)	555,364

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011, the City's annual pension cost was \$2,600,008 and the City contributed \$3,426,474 for MERS including the City's required contribution of \$2,330,973 and an additional contribution of \$1,095,501. The required contribution was determined as part of the December 31, 2008 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 percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the latest actuarial valuation, was 12 years.

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
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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	\$ 2,330,973
Interest on net pension asset	(516,423)
Adjustment to annual required contribution	<u>785,457</u>
Annual pension cost	2,600,007
Contributions made	<u>(3,426,474)</u>
Increase in net pension asset	(826,467)
Net pension asset, beginning of year	<u>(6,455,282)</u>
Net pension asset, end of year	<u>\$(7,281,749)</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>
6/30/09	\$ 2,226,792	198.4%	\$ 5,658,879
6/30/10	2,524,390	131.5%	6,455,282
6/30/11	2,600,007	131.8%	7,281,749

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>
12/31/10	\$45,270,314	\$65,636,445	\$20,366,131	69%	\$4,126,308	494%

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.

CITY OF BAY CITY, MICHIGAN
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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 between 8% and 10% 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, 2011, the actuarially determined employer contribution rate was 35.30% of covered payroll for firefighters, 23.38% for police patrol and 30.89% for police command.

**CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

For the year ended June 30, 2011, the City's annual pension cost of \$1,622,079 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, 2010, 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, 2011, 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 Global Equity Fund – Mid Cap and Blackrock Russell 1000 Index/Alpha Tilts Fund A) represent 10% and 25% of the System's total assets, respectively, at June 30, 2011.

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>
6/30/09	\$ 1,618,068	100 %
6/30/10	1,483,085	100 %
6/30/11	1,622,079	100 %

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Funded Status and Funding Progress – As of June 30, 2010, the most recent actuarial valuation date, the plan was 70.2 percent funded. The actuarial accrued liability for benefits was \$61,823,912, and the actuarial value of assets was \$43,369,680, resulting in an unfunded actuarial accrued liability (UAAL) of \$18,454,232. The covered payroll (annual payroll of active employees covered by the plan) was \$5,669,560, and the ratio of the UAAL to the covered payroll was 325.5%.

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, 2011, the City's required and actual contributions amounted to \$482,764. Employees made contributions amounting to \$1,085,880.

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

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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.

This is a single employee 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, 474 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 contributions for retiree healthcare for the year ended June 30, 2011, were \$5,253,500.

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	\$ 8,092,665
Interest on net OPEB obligation	484,282
Adjustment to annual required contribution	<u>(601,913)</u>
Annual OPEB cost (expense)	7,975,034
Contributions made	<u>(5,253,500)</u>
Increase in net OPEB obligation	2,721,534
Net OPEB obligation, beginning of year	<u>8,309,077</u>
Net OPEB obligation, end of year	<u>\$11,030,611</u>

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

The City's annual OPEB cost, percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the years 2009, 2010 and 2011 is as follows:

Three-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
6/30/11	7,975,034	65.9%	11,030,611

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, 2011, the City contributed an additional \$754,379.

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%	\$ 18,881,086	558%

Membership of the 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>

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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. 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%
Inflation rate	4.5% per year compounded annually
Additional projected salary increases	0.30% to 44.00% per year, depending on age, attributable to seniority/merit
Healthcare cost trend rate	11.5% Initial 4.5% Ultimate

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Following are the financial statements for the Retirement Health Savings Plan for the year ended June 30, 2011.

Statement of Plan Net Assets

Assets	
Cash and cash equivalents	\$ 4,793,216
Investments - governmental securities	1,338,223
Accounts receivable	28,802
Interest receivable	9,489
	<u>6,169,730</u>
Total assets	<u>6,169,730</u>
Net assets held in trust for employee's postemployment health care benefits	<u>\$ 6,169,730</u>

Statement of Changes in Plan Net Assets

Additions	
Contributions	
Employer	\$ 760,776
Current premium contributions	4,492,724
	<u>5,253,500</u>
Total contributions	
	5,253,500
Investment income	
Interest and dividends	39,867
Net appreciation in fair value of investments	314,204
	<u>354,071</u>
Net investment income	
	354,071
Total additions	<u>5,607,571</u>
Deductions	
Retiree healthcare premium payments	4,492,724
	<u>4,492,724</u>
Net increase in plan net assets	1,114,847
Net assets held in trust for employee's postemployment health care benefits	
Beginning of year	<u>5,054,883</u>
End of year	<u>\$ 6,169,730</u>

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 principle responsible parties. GM was a responsible party at 61.25% of the environmental liability associated with the site, along with the City at 30% and Honeywell at 8.75%

In 2009, General Motors filed for bankruptcy. As a result, the remaining principle responsible parties are responsible for GM's proportionate share 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 Middlegrounds Landfill site.

The City worked with the Michigan Attorney General and United States Environmental Protection Agency ("EPA") regarding the proposed GM bankruptcy "Environmental Response Trust" participating in holding these costs. With the bankruptcy, the 61.25% shifted to the City and Honeywell. The new allocated costs percentages for the City and Honeywell are 60.625% and 39.375%, respectively. During the fiscal year, the City was able to determine their portion of liability to be \$1,072,775.

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.

**CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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:

Fiscal Year	Belle River
<u>Ending</u>	<u>Project</u>
2012	\$ 1,129,255
2013	1,129,291
2014	1,129,149
2015	1,129,419
2016	1,129,277
2017-2019	<u>3,762,800</u>
Total	<u>\$ 9,409,191</u>

Subsequent Events

On October 12, 2010, City Hall caught fire and incurred substantial water and smoke damage to the building. City Hall is expected to be fully restored by Spring of 2012. There will be no liability to the City as all costs will be covered by insurance.

Subsequent to year-end, on August 29, 2011, the City issued new general obligation capital improvement refunding bonds in an amount of \$884,000 with a premium of \$24,500 for a total repayment amount of \$885,000.

Additionally, on September 12, 2011, the City Commission authorized the City to issue a Limited Tax General Obligation Bond, Series 2011 in an amount not to exceed \$3,000,000 for the replacement of the City Hall HVAC system. The final bond was issued in the amount of \$1,630,000.

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, 2011

12. FUND BALANCE – GOVERNMENTAL FUNDS

The City adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. While the classifications of fund balance in the City's various governmental funds were revised, the implementation of this standard had no effect on total fund balance. Detail information of fund balances of governmental funds is as follows:

	General Fund	Major Streets Fund	Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Nonspendable			
Inventory	\$ -	\$ 108,440	\$ -
Prepays	334	-	-
	<u> </u>	<u> </u>	<u> </u>
Total nonspendable	334	108,440	-
	<u> </u>	<u> </u>	<u> </u>
Restricted			
Drug enforcement	306,640	-	-
Special revenue funding source restrictions	-	209,833	1,062,439
Debt service	-	-	703,983
Capital projects	-	-	1,055,005
	<u> </u>	<u> </u>	<u> </u>
Total restricted	306,640	209,833	2,821,427
	<u> </u>	<u> </u>	<u> </u>
Unassigned	5,873,872	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	\$ 6,180,846	\$ 318,273	\$ 2,821,427
	<u> </u>	<u> </u>	<u> </u>

**CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

13. INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Nondepreciable assets	\$ 17,862,290	\$ 995,128	\$ 160,828
Depreciable capital assets, net	59,324,464	138,997,373	5,679,285
Less related debt:			
Bonded debt	(15,794,946)	(55,949,257)	(1,875,000)
Other debt	<u>(2,146,412)</u>	<u>-</u>	<u>-</u>
Invested in capital assets, net of related debt	<u>\$ 59,245,396</u>	<u>\$ 84,043,244</u>	<u>\$ 3,965,113</u>

14. RESTATEMENT

There was an adjustment made to the electric fund's federal grant revenue for the year ended June 30, 2011. The adjustment had the following effect on the beginning net assets:

	<u>Electric Fund</u>
Net assets as previously reported	\$ 37,940,280
Prior period adjustment	
Adjust revenue for amounts related to previous years	<u>798,695</u>
Net asset, as restated	<u>\$ 38,738,975</u>
	<u>Business-type Activities</u>
Net assets as previously reported	\$ 121,913,408
Prior period adjustment	
Operating grants	<u>798,695</u>
Net assets, as restated	<u>\$ 122,712,103</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, 2011**

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
2005	\$ 37,180,546	\$ 62,785,985	\$ 25,605,439	59.2%	\$ 6,206,879	412.5%
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%	4,721,445	434.7%
2010	45,270,314	65,636,445	20,366,131	69.0%	4,126,308	493.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
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%
2011	2,330,973	3,426,474	147.00%

**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, 2011**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date (June 30)	(a) Actuarial Value of Assets	(b)	(b-a)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
		Actuarial Accrued Liability (AAL) Attained Age	Unfunded Actuarial Accrued Liability (Asset)			
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%
2010	43,369,680	61,823,912	18,454,232	70.2%	5,669,560	325.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
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%
2011	1,622,079	1,622,079	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, 2011**

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%	\$ 18,022,546	685.2%
2008	3,855,958	109,208,397	105,352,439	3.5%	18,881,086	558.0%

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%
2011	8,092,665	5,253,500	64.92%

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.

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.

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.

Public Improvement Fund

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

**CITY OF BAY CITY, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	Special Revenue Funds						
	Local Streets	Parking Enforcement	Solid Waste Management	Community Development Block Grant	Building Inspection	Neighborhood Opportunity	Neighborhood Stabilization
Assets							
Cash and cash equivalents	\$ 71,881	\$ 8,524	\$ 164,273	\$ -	\$ 132,049	\$ 151,114	\$ -
Receivables (net of allowance for uncollectibles)							
Accounts	2,201	-	354,043	5,320	101,844	-	-
Delinquent taxes	-	-	-	-	-	-	-
Special assessments	-	-	25,700	-	9,031	-	-
Accrued interest	143	17	323	-	263	299	-
Due from other funds	159,599	-	703	1,299	1,660	-	-
Due from other governments	100,326	-	-	304,697	-	-	87,663
Total assets	\$ 334,150	\$ 8,541	\$ 545,042	\$ 311,316	\$ 244,847	\$ 151,413	\$ 87,663
Liabilities and fund balances							
Liabilities							
Accounts payable	\$ 90,571	\$ 8,541	\$ 34,304	\$ 250,048	\$ 6,413	\$ -	\$ -
Accrued liabilities	6,878	-	23,712	8,030	7,102	-	-
Due to other funds	-	-	7,380	53,238	-	-	87,663
Deposits payable	-	-	400	-	36,253	-	-
Deferred revenues	-	-	-	-	-	-	-
Total liabilities	97,449	8,541	65,796	311,316	49,768	-	87,663
Fund balances							
Restricted	236,701	-	479,246	-	195,079	151,413	-
Total liabilities and fund balances	\$ 334,150	\$ 8,541	\$ 545,042	\$ 311,316	\$ 244,847	\$ 151,413	\$ 87,663

Homeless Prevention Rehousing	Total	Debt Service Fund		Capital Projects Funds			Total	Total
		Bond Sinking Fund	Riverfront Redevelopment	Economic Opportunities	Public Improvement	Total		
\$ -	\$ 527,841	\$ 702,599	\$ 420,189	\$ 574,919	\$ -	\$ 995,108	\$ 2,225,548	
-	463,408	-	1,700	-	445,318	447,018	910,426	
-	-	5,429	-	-	-	-	5,429	
-	34,731	-	-	-	-	-	34,731	
-	1,045	1,383	830	1,136	-	1,966	4,394	
-	163,261	-	-	-	-	-	163,261	
13,574	506,260	-	-	-	-	-	506,260	
<u>\$ 13,574</u>	<u>\$ 1,696,546</u>	<u>\$ 709,411</u>	<u>\$ 422,719</u>	<u>\$ 576,055</u>	<u>\$ 445,318</u>	<u>\$ 1,444,092</u>	<u>\$ 3,850,049</u>	
\$ 13,249	\$ 403,126	\$ -	\$ 44,793	\$ 1,391	\$ 224,567	\$ 270,751	\$ 673,877	
-	45,722	-	-	-	-	-	45,722	
325	148,606	-	-	-	118,336	118,336	266,942	
-	36,653	-	-	-	-	-	36,653	
-	-	5,428	-	-	-	-	5,428	
13,574	634,107	5,428	44,793	1,391	342,903	389,087	1,028,622	
-	1,062,439	703,983	377,926	574,664	102,415	1,055,005	2,821,427	
<u>\$ 13,574</u>	<u>\$ 1,696,546</u>	<u>\$ 709,411</u>	<u>\$ 422,719</u>	<u>\$ 576,055</u>	<u>\$ 445,318</u>	<u>\$ 1,444,092</u>	<u>\$ 3,850,049</u>	

CITY OF BAY CITY, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds						
	Local Streets	Parking Enforcement	Solid Waste Management	Community Development Block Grant	Building Inspection	Neighborhood Opportunity	Neighborhood Stabilization
Revenues							
Property taxes	\$ 148,521	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	433,570	-	-
Intergovernmental							
Federal	-	-	-	1,550,485	-	-	-
State	739,352	-	-	-	-	-	349,799
Local	-	20,085	-	-	-	-	-
Charges for services							
Sales	-	-	2,018,131	-	-	-	-
Fines and forfeitures	-	24,068	-	-	-	-	-
Miscellaneous							
Interest earnings	178	51	812	-	569	790	-
Reimbursements	-	-	-	-	10,551	-	-
Other	50	-	25,815	-	19,048	-	3,795
Total revenues	888,101	44,204	2,044,758	1,550,485	463,738	790	353,594
Expenditures							
Current							
Public safety	-	44,204	-	-	392,053	-	-
Public works							
Highways, streets and bridges	850,327	-	-	-	-	-	-
Environmental	-	-	1,995,014	-	-	-	-
Economic development	-	-	-	763,026	-	13,509	353,594
Capital outlay	168,228	-	-	294,101	-	-	-
Debt service							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	1,018,555	44,204	1,995,014	1,057,127	392,053	13,509	353,594
Excess of revenues over (under) expenditures	(130,454)	-	49,744	493,358	71,685	(12,719)	-
Other financing sources (uses)							
Transfers in	230,577	-	703	112,102	1,660	-	-
Transfers out	-	-	(500,000)	(605,460)	-	-	-
Total other financing sources (uses)	230,577	-	(499,297)	(493,358)	1,660	-	-
Net change in fund balances	100,123	-	(449,553)	-	73,345	(12,719)	-
Fund balances, beginning of year	136,578	-	928,799	-	121,734	164,132	-
Fund balances, end of year	\$ 236,701	\$ -	\$ 479,246	\$ -	\$ 195,079	\$ 151,413	\$ -

		Debt Service Fund		Capital Projects Funds			
Homeless Prevention Rehousing	Total	Bond Sinking Fund	Riverfront Redevelopment	Economic Opportunities	Public Improvement	Total	Total
\$ -	\$ 148,521	\$ 1,542,491	\$ -	\$ -	\$ -	\$ -	\$ 1,691,012
-	433,570	-	-	-	-	-	433,570
185,494	1,735,979	-	-	-	-	-	1,735,979
-	1,089,151	-	-	-	-	-	1,089,151
-	20,085	-	-	-	-	-	20,085
-	2,018,131	-	-	-	-	-	2,018,131
-	24,068	-	-	-	-	-	24,068
-	2,400	7,517	2,240	2,845	(1,032)	4,053	13,970
-	10,551	-	-	-	-	-	10,551
-	48,708	-	3,678	2,775	445,318	451,771	500,479
185,494	5,531,164	1,550,008	5,918	5,620	444,286	455,824	7,536,996
-	436,257	-	-	-	-	-	436,257
-	850,327	-	-	-	-	-	850,327
-	1,995,014	-	-	-	-	-	1,995,014
185,494	1,315,623	-	134,309	142,300	-	276,609	1,592,232
-	462,329	-	-	-	1,780,458	1,780,458	2,242,787
-	-	1,680,000	-	-	-	-	1,680,000
-	-	2,350	-	-	-	-	2,350
185,494	5,059,550	1,682,350	134,309	142,300	1,780,458	2,057,067	8,798,967
-	471,614	(132,342)	(128,391)	(136,680)	(1,336,172)	(1,601,243)	(1,261,971)
-	345,042	-	-	-	-	-	345,042
-	(1,105,460)	-	-	-	-	-	(1,105,460)
-	(760,418)	-	-	-	-	-	(760,418)
-	(288,804)	(132,342)	(128,391)	(136,680)	(1,336,172)	(1,601,243)	(2,022,389)
-	1,351,243	836,325	506,317	711,344	1,438,587	2,656,248	4,843,816
\$ -	\$ 1,062,439	\$ 703,983	\$ 377,926	\$ 574,664	\$ 102,415	\$ 1,055,005	\$ 2,821,427

**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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 151,405	\$ 151,405	\$ 148,521	\$ (2,884)
Intergovernmental				
State	724,139	724,139	739,352	15,213
Miscellaneous				
Interest earnings	500	500	178	(322)
Reimbursements	200	200	-	(200)
Other	200	200	50	(150)
Total revenues	876,444	876,444	888,101	11,657
Expenditures				
Public works				
Highways, streets, and bridges	874,444	858,837	850,327	8,510
Capital outlay	77,000	156,778	168,228	(11,450)
Total expenditures	951,444	1,015,615	1,018,555	(2,940)
Excess of revenues over (under) expenditures	(75,000)	(139,171)	(130,454)	8,717
Other financing sources				
Transfers in	75,000	155,577	230,577	75,000
Net change in fund balance	-	16,406	100,123	83,717
Fund balance, beginning of year	136,578	136,578	136,578	-
Fund balance, end of year	\$ 136,578	\$ 152,984	\$ 236,701	\$ 83,717

**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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
Local	\$ 24,514	\$ 24,514	\$ 20,085	\$ (4,429)
Fines and forfeitures	22,000	22,000	24,068	2,068
Miscellaneous				
Interest earnings	-	-	51	51
Total revenues	46,514	46,514	44,204	(2,310)
Expenditures				
Public safety	46,514	46,514	44,204	2,310
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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Charges for services				
Sales	\$ 2,082,494	\$ 2,082,494	\$ 2,018,131	\$ (64,363)
Miscellaneous				
Interest earnings	7,500	7,500	812	(6,688)
Other	16,600	16,600	25,815	9,215
Total revenues	2,106,594	2,106,594	2,044,758	(61,836)
Expenditures				
Environmental	2,003,508	1,994,428	1,995,014	(586)
Revenues over expenditures	103,086	112,166	49,744	(62,422)
Other financing sources (uses)				
Transfers in	-	703	703	-
Transfers out	(500,000)	(500,000)	(500,000)	-
Total other financing sources (uses)	(500,000)	(499,297)	(499,297)	-
Net change in fund balance	(396,914)	(387,131)	(449,553)	(62,422)
Fund balance, beginning of year	928,799	928,799	928,799	-
Fund balances, end of year	\$ 531,885	\$ 541,668	\$ 479,246	\$ (62,422)

**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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
Federal	\$ 2,031,835	\$ 2,111,613	\$ 1,550,485	\$ (561,128)
Expenditures				
Economic development	830,196	831,495	763,026	68,469
Capital outlay	341,697	341,697	294,101	47,596
Total expenditures	<u>1,171,893</u>	<u>1,173,192</u>	<u>1,057,127</u>	<u>116,065</u>
Revenues over expenditures	859,942	938,421	493,358	(445,063)
Other financing sources (uses)				
Transfers in	65,000	66,299	112,102	45,803
Transfers out	<u>(924,942)</u>	<u>(1,004,720)</u>	<u>(605,460)</u>	<u>399,260</u>
Total other financing sources (uses)	<u>(859,942)</u>	<u>(938,421)</u>	<u>(493,358)</u>	<u>445,063</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Licenses and permits	\$ 403,700	\$ 403,700	\$ 433,570	\$ 29,870
Miscellaneous				
Interest earnings	-	-	569	569
Reimbursements	20,000	20,000	10,551	(9,449)
Other	22,700	22,700	19,048	(3,652)
Total revenues	446,400	446,400	463,738	17,338
Expenditures				
Public safety	419,481	414,411	392,053	22,358
Revenues over expenditures	26,919	31,989	71,685	39,696
Other financing sources (uses)				
Transfers in	-	1,660	1,660	-
Net change in fund balance	26,919	33,649	73,345	39,696
Fund balance, beginning of year	121,734	121,734	121,734	-
Fund balance, end of year	<u>\$ 148,653</u>	<u>\$ 155,383</u>	<u>\$ 195,079</u>	<u>\$ 39,696</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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Miscellaneous				
Interest earnings	\$ 2,000	\$ 2,000	\$ 790	\$ (1,210)
Expenditures				
Economic development	<u>157,000</u>	<u>157,000</u>	<u>13,509</u>	<u>143,491</u>
Net change in fund balance	(155,000)	(155,000)	(12,719)	142,281
Fund balance, beginning of year	<u>164,132</u>	<u>164,132</u>	<u>164,132</u>	<u>-</u>
Fund balance, end of year	<u>\$ 9,132</u>	<u>\$ 9,132</u>	<u>\$ 151,413</u>	<u>\$ 142,281</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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
State	\$ 455,500	\$ 455,500	\$ 349,799	\$ (105,701)
Miscellaneous				
Other	-	-	3,795	3,795
	<u>455,500</u>	<u>455,500</u>	<u>353,594</u>	<u>(101,906)</u>
Total revenues	455,500	455,500	353,594	(101,906)
Expenditures				
Economic development	<u>450,000</u>	<u>450,000</u>	<u>353,594</u>	<u>96,406</u>
Net change in fund balance	5,500	5,500	-	(5,500)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,500</u>	<u>\$ 5,500</u>	<u>\$ -</u>	<u>\$ (5,500)</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, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental				
Federal	\$ 505,164	\$ 505,164	\$ 185,494	\$ (319,670)
Expenditures				
Economic development	<u>505,164</u>	<u>505,164</u>	<u>185,494</u>	<u>319,670</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property taxes	\$ 1,554,770	\$ 1,554,770	\$ 1,542,491	\$ (12,279)
Miscellaneous				
Interest earnings	12,500	12,500	7,517	(4,983)
Total revenues	<u>1,567,270</u>	<u>1,567,270</u>	<u>1,550,008</u>	<u>(17,262)</u>
Expenditures				
Debt service				
Principal	1,680,000	1,680,000	1,680,000	-
Interest and fiscal charges	2,350	2,350	2,350	-
Total expenditures	<u>1,682,350</u>	<u>1,682,350</u>	<u>1,682,350</u>	<u>-</u>
Net change in fund balance	(115,080)	(115,080)	(132,342)	(17,262)
Fund balance, beginning of year	<u>836,325</u>	<u>836,325</u>	<u>836,325</u>	<u>-</u>
Fund balance, end of year	<u>\$ 721,245</u>	<u>\$ 721,245</u>	<u>\$ 703,983</u>	<u>\$ (17,262)</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, 2011**

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 126,056	\$ 70,267	\$ 184,616	\$ 380,939
Receivables (net of allowance for uncollectibles)				
Accounts	4,839	15,201	126	20,166
Accrued interest	260	139	365	764
Due from other governments	-	31,000	-	31,000
Prepaid expenses	-	73	-	73
Inventories	-	48,001	-	48,001
Total current assets	131,155	164,681	185,107	480,943
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	41,446	82,667	125,243
Construction in progress	-	26,100	-	26,100
	369,187	3,168,605	3,015,066	6,552,858
Less: accumulated depreciation	177,508	1,222,277	1,173,747	2,573,532
Net capital assets	191,679	1,946,328	1,841,319	3,979,326
Total assets	322,834	2,111,009	2,026,426	4,460,269
Liabilities				
Current liabilities				
Accounts payable	12,367	71,713	9,033	93,113
Accrued liabilities	-	-	517	517
Accrued compensated absences - current	-	-	1,185	1,185
Total current liabilities	12,367	71,713	10,735	94,815
Long-term liabilities				
Accrued compensated absences	-	-	1,840	1,840
Total liabilities	12,367	71,713	12,575	96,655
Net assets				
Invested in capital assets	191,679	1,946,328	1,841,319	3,979,326
Unrestricted	118,788	92,968	172,532	384,288
Total net assets	\$ 310,467	\$ 2,039,296	\$ 2,013,851	\$ 4,363,614

**CITY OF BAY CITY, MICHIGAN
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Operating revenues				
Charges for services				
Sales	\$ 55,287	\$ 60,907	\$ 2,842	\$ 119,036
Rents	-	1,800	127,399	129,199
Miscellaneous	-	42,636	5	42,641
Total operating revenues	<u>55,287</u>	<u>105,343</u>	<u>130,246</u>	<u>290,876</u>
Operating expenses				
Cost of sales and service	124,605	129,875	131,425	385,905
Depreciation	2,123	112,153	60,188	174,464
Total operating expenses	<u>126,728</u>	<u>242,028</u>	<u>191,613</u>	<u>560,369</u>
Operating loss	<u>(71,441)</u>	<u>(136,685)</u>	<u>(61,367)</u>	<u>(269,493)</u>
Nonoperating revenues				
Intergovernmental				
Federal grants	-	24,795	-	24,795
State grants	-	30,853	-	30,853
Interest earnings	748	442	800	1,990
Total nonoperating revenues	<u>748</u>	<u>56,090</u>	<u>800</u>	<u>57,638</u>
Loss before transfers	(70,693)	(80,595)	(60,567)	(211,855)
Transfers in	<u>67,368</u>	<u>54,861</u>	<u>-</u>	<u>122,229</u>
Change in net assets	(3,325)	(25,734)	(60,567)	(89,626)
Net assets, beginning of year	<u>313,792</u>	<u>2,065,030</u>	<u>2,074,418</u>	<u>4,453,240</u>
Net assets, end of year	<u>\$ 310,467</u>	<u>\$ 2,039,296</u>	<u>\$ 2,013,851</u>	<u>\$ 4,363,614</u>

**CITY OF BAY CITY, MICHIGAN
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Cash flows from operating activities				
Cash received from customers and users	\$ 55,367	\$ 32,296	\$ 131,053	\$ 218,716
Cash payments to suppliers for goods and services	(121,659)	(79,089)	(116,725)	(317,473)
Cash payments to employees for services	-	-	(15,702)	(15,702)
Other receipts	-	42,636	5	42,641
Net cash used by operating activities	<u>(66,292)</u>	<u>(4,157)</u>	<u>(1,369)</u>	<u>(71,818)</u>
Cash flows from noncapital financing activities				
Intergovernmental - federal grant	-	24,795	-	24,795
Intergovernmental - state grant	-	30,853	-	30,853
Transfers in	67,368	54,861	-	122,229
Net cash provided by noncapital financing activities	<u>67,368</u>	<u>110,509</u>	<u>-</u>	<u>177,877</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	-	(58,163)	-	(58,163)
Cash flows from investing activities				
Interest received	748	442	800	1,990
Net increase (decrease) in cash and cash equivalents	1,824	48,631	(569)	49,886
Cash and cash equivalents, beginning of year	124,232	21,636	185,185	331,053
Cash and cash equivalents, end of year	<u>\$ 126,056</u>	<u>\$ 70,267</u>	<u>\$ 184,616</u>	<u>\$ 380,939</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating loss	\$ (71,441)	\$ (136,685)	\$ (61,367)	\$ (269,493)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation	2,123	112,153	60,188	174,464
(Increase) decrease in assets:				
Accounts receivable	(567)	576	(126)	(117)
Accrued interest receivable	647	13	938	1,598
Due from other funds	-	-	-	-
Due from other governments	-	(31,000)	-	(31,000)
Inventories	-	(18,484)	-	(18,484)
Prepaid expenses	-	(73)	-	(73)
Increase (decrease) in liabilities:				
Accounts payable	2,946	69,343	(4,063)	68,226
Accrued liabilities	-	-	36	36
Compensated absences	-	-	3,025	3,025
Total adjustments	<u>5,149</u>	<u>132,528</u>	<u>59,998</u>	<u>197,675</u>
Net cash used by operating activities	<u>\$ (66,292)</u>	<u>\$ (4,157)</u>	<u>\$ (1,369)</u>	<u>\$ (71,818)</u>

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, 2011

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 3,602,776	\$ 413,834	\$ 1,749,948	\$ 613,835	\$ 3,908,401	\$ 10,288,794
Receivables (net of allowance for uncollectibles)						
Accounts	42,510	508	72,321	-	1,150,000	1,265,339
Accrued interest	7,135	821	3,455	915	7,535	19,861
Due from other funds	2,245	24,944	-	-	9,190	36,379
Inventories	137,640	8,187	-	-	-	145,827
Prepaid expenses	-	-	-	-	395,895	395,895
Deposits	-	-	-	-	228,179	228,179
Total current assets	3,792,306	448,294	1,825,724	614,750	5,699,200	12,380,274
Noncurrent assets						
Net pension asset	198,858	147,479	-	-	-	346,337
Capital assets						
Buildings and improvements	57,349	-	-	-	-	57,349
Machinery and equipment	12,908,581	651,468	-	-	-	13,560,049
Less: accumulated depreciation	8,600,361	478,888	-	-	-	9,079,249
Net capital assets	4,365,569	172,580	-	-	-	4,538,149
Total noncurrent assets	4,564,427	320,059	-	-	-	4,884,486
Total assets	8,356,733	768,353	1,825,724	614,750	5,699,200	17,264,760
Liabilities						
Current liabilities						
Accounts payable	681,297	25,592	277,796	1,723	671,972	1,658,380
Accrued liabilities	21,360	9,233	-	-	3,482	34,075
Interest payable	1,285	-	-	-	-	1,285
Claims payable	-	-	493,718	-	834,826	1,328,544
Due to other funds	1,810	-	132,545	-	-	134,355
Due to other governments	-	-	-	-	26,282	26,282
Accrued compensated absences - current	32,848	19,647	-	-	1,892	54,387
Notes payable - current	49,641	-	-	-	-	49,641
Total current liabilities	788,241	54,472	904,059	1,723	1,538,454	3,286,949
Long-term liabilities						
Accrued compensated absences	62,374	43,598	-	-	1,941	107,913
Notes payable	51,551	-	-	-	-	51,551
Net OPEB obligation	301,951	112,600	-	-	-	414,551
Total long-term liabilities	415,876	156,198	-	-	1,941	574,015
Total liabilities	1,204,117	210,670	904,059	1,723	1,540,395	3,860,964
Net assets						
Invested in capital assets, net of related debt	4,264,377	172,580	-	-	-	4,436,957
Unrestricted	2,888,239	385,103	921,665	613,027	4,158,805	8,966,839
Total net assets	\$ 7,152,616	\$ 557,683	\$ 921,665	\$ 613,027	\$ 4,158,805	\$ 13,403,796

**CITY OF BAY CITY, MICHIGAN
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Operating revenues						
Charges for services	\$ 3,522,759	\$ 856,090	\$ 744,125	\$ 29,622	\$ 12,164,082	\$ 17,316,678
Miscellaneous						
Employee contributions	-	-	-	-	715,634	715,634
Other	47,430	3,481	5,373,497	152,752	1,249,976	6,827,136
Total operating revenues	<u>3,570,189</u>	<u>859,571</u>	<u>6,117,622</u>	<u>182,374</u>	<u>14,129,692</u>	<u>24,859,448</u>
Operating expenses						
Cost of sales and service	2,343,626	620,667	-	71,724	-	3,036,017
Administration	-	-	7,557	-	429,047	436,604
Claims and benefits	-	-	6,336,824	-	13,461,897	19,798,721
Depreciation	676,060	75,737	-	-	-	751,797
Total operating expenses	<u>3,019,686</u>	<u>696,404</u>	<u>6,344,381</u>	<u>71,724</u>	<u>13,890,944</u>	<u>24,023,139</u>
Operating income (loss)	<u>550,503</u>	<u>163,167</u>	<u>(226,759)</u>	<u>110,650</u>	<u>238,748</u>	<u>836,309</u>
Nonoperating revenues (expenses)						
Interest earnings	17,905	1,915	9,364	2,377	16,819	48,380
Interest expense	(4,619)	-	-	-	-	(4,619)
Loss on disposal of capital assets	(30,682)	-	-	-	-	(30,682)
Total nonoperating revenues (expenses)	<u>(17,396)</u>	<u>1,915</u>	<u>9,364</u>	<u>2,377</u>	<u>16,819</u>	<u>13,079</u>
Income (loss) before transfers	<u>533,107</u>	<u>165,082</u>	<u>(217,395)</u>	<u>113,027</u>	<u>255,567</u>	<u>849,388</u>
Other financing sources (uses)						
Transfers in	2,245	24,944	-	500,000	-	527,189
Transfers out	-	-	(132,545)	-	-	(132,545)
Total other financing sources (uses)	<u>2,245</u>	<u>24,944</u>	<u>(132,545)</u>	<u>500,000</u>	<u>-</u>	<u>394,644</u>
Change in net assets	<u>535,352</u>	<u>190,026</u>	<u>(349,940)</u>	<u>613,027</u>	<u>255,567</u>	<u>1,244,032</u>
Net assets, beginning 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>
Net assets, end of year	<u>\$ 7,152,616</u>	<u>\$ 557,683</u>	<u>\$ 921,665</u>	<u>\$ 613,027</u>	<u>\$ 4,158,805</u>	<u>\$ 13,403,796</u>

**CITY OF BAY CITY, MICHIGAN
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	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	\$ 3,539,180	\$ 834,547	\$ 6,195,417	\$ 181,675	\$ 12,998,789	\$ 23,749,608
Cash payments to suppliers for goods and services	(1,116,724)	(134,786)	(6,833,138)	(102,564)	(14,142,721)	(22,329,933)
Cash payments to employees for services	(650,949)	(477,000)	-	-	(114,081)	(1,242,030)
Net cash provided (used) by operating activities	<u>1,771,507</u>	<u>222,761</u>	<u>(637,721)</u>	<u>79,111</u>	<u>(1,258,013)</u>	<u>177,645</u>
Cash flows from noncapital financing activities						
Transfers in	2,245	24,944	-	500,000	-	527,189
Transfers out	-	-	(132,545)	-	-	(132,545)
Net cash provided (used) by noncapital financing activities	<u>2,245</u>	<u>24,944</u>	<u>(132,545)</u>	<u>500,000</u>	<u>-</u>	<u>394,644</u>
Cash flows from capital and related financing activities						
Purchase of capital assets	(852,574)	(16,242)	-	-	-	(868,816)
Principal paid on debt	(47,803)	-	-	-	-	(47,803)
Interest paid on debt	(4,619)	-	-	-	-	(4,619)
Net cash used by capital and related financing activities	<u>(904,996)</u>	<u>(16,242)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(921,238)</u>
Cash flows from investing activities						
Interest received	17,905	1,915	9,364	2,377	16,819	48,380
Net increase (decrease) in cash and cash equivalents	<u>886,661</u>	<u>233,378</u>	<u>(760,902)</u>	<u>581,488</u>	<u>(1,241,194)</u>	<u>(300,569)</u>
Cash and cash equivalents, beginning of year	2,716,115	180,456	2,510,850	32,347	5,149,595	10,589,363
Cash and cash equivalents, end of year	<u>\$ 3,602,776</u>	<u>\$ 413,834</u>	<u>\$ 1,749,948</u>	<u>\$ 613,835</u>	<u>\$ 3,908,401</u>	<u>\$ 10,288,794</u>
Reconciliation of operating loss to net cash provided (used) by operating activities						
Operating income (loss)	\$ 550,503	\$ 163,167	\$ (226,759)	\$ 110,650	\$ 238,748	\$ 836,309
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	676,060	75,737	-	-	-	751,797
(Increase) decrease in assets:						
Accounts receivable	(42,510)	(508)	(68,957)	-	(1,150,000)	(1,261,975)
Accrued interest	11,936	428	14,207	(699)	28,287	54,159
Due from other funds	(2,245)	(24,944)	-	-	(9,190)	(36,379)
Inventories	(10,234)	6,157	-	-	-	(4,077)
Prepaid expenses	-	-	-	-	(346,849)	(346,849)
Deposits	-	-	-	-	1,115	1,115
Net pension asset	(29,052)	(15,633)	-	-	-	(44,685)
Increase (decrease) in liabilities:						
Accounts payable	519,069	16,308	28,597	(1,218)	315,214	877,970
Accrued liabilities	2,879	(3,846)	-	-	1,820	853
Interest payable	(607)	-	-	-	-	(607)
Claims payable	-	-	(517,354)	-	(347,897)	(865,251)
Due to other funds	1,810	-	132,545	-	-	134,355
Due to other governments	-	-	-	-	6,906	6,906
Unearned revenue	-	-	-	(29,622)	-	(29,622)
Net OPEB obligation	70,407	22,163	-	-	-	92,570
Accrued compensated absences	23,491	(16,268)	-	-	3,833	11,056
Total adjustments	<u>1,221,004</u>	<u>59,594</u>	<u>(410,962)</u>	<u>(31,539)</u>	<u>(1,496,761)</u>	<u>(658,664)</u>
Net cash provided (used) by operating activities	<u>\$ 1,771,507</u>	<u>\$ 222,761</u>	<u>\$ (637,721)</u>	<u>\$ 79,111</u>	<u>\$ (1,258,013)</u>	<u>\$ 177,645</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, 2011**

	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	\$ -	\$ 3,432,290	\$ 1,360,926	\$ 4,793,216	\$ 4,793,216
Investments					
Money market accounts	1,011,479		-	-	1,011,479
Mutual funds	20,232,399			-	20,232,399
Government securities	4,722,284	809,175	529,048	1,338,223	6,060,507
Corporate debt	6,037,314	-	-	-	6,037,314
Common stock	14,011,040	-	-	-	14,011,040
Accounts receivable	220,449	18,143	10,659	28,802	249,251
Interest receivable	100,591	6,794	2,695	9,489	110,080
Total assets	46,335,556	4,266,402	1,903,328	6,169,730	52,505,286
Liabilities					
Accounts payable	52,621	-	-	-	52,621
Net assets					
Held in trust for employees' pension benefits	46,282,935	-	-	-	46,282,935
Held in trust for employees' postemployment health care benefits	-	4,266,402	1,903,328	6,169,730	6,169,730
Total net assets	\$ 46,282,935	\$ 4,266,402	\$ 1,903,328	\$ 6,169,730	\$ 52,452,665

CITY OF BAY CITY, MICHIGAN
FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	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	\$ 1,622,079	\$ 480,054	\$ 280,722	\$ 760,776	\$ 2,382,855
Current premium contributions	-	2,907,691	1,585,033	4,492,724	4,492,724
Plan members	443,956	-	-	-	443,956
Total contributions	<u>2,066,035</u>	<u>3,387,745</u>	<u>1,865,755</u>	<u>5,253,500</u>	<u>7,319,535</u>
Investment income					
Interest and dividends	952,626	23,083	16,784	39,867	992,493
Net appreciation in fair value of investments	8,049,377	189,682	124,522	314,204	8,363,581
Investment expense	(186,055)	-	-	-	(186,055)
Net investment income	<u>8,815,948</u>	<u>212,765</u>	<u>141,306</u>	<u>354,071</u>	<u>9,170,019</u>
Other additions	<u>16,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,481</u>
Total additions	<u>10,898,464</u>	<u>3,600,510</u>	<u>2,007,061</u>	<u>5,607,571</u>	<u>16,506,035</u>
Deductions					
Retiree healthcare premium payments	-	2,907,691	1,585,033	4,492,724	4,492,724
Benefits and refunds paid to participants	4,580,682	-	-	-	4,580,682
Administrative expenses	157,098	-	-	-	157,098
Total deductions	<u>4,737,780</u>	<u>2,907,691</u>	<u>1,585,033</u>	<u>4,492,724</u>	<u>9,230,504</u>
Net increase in plan net assets	<u>6,160,684</u>	<u>692,819</u>	<u>422,028</u>	<u>1,114,847</u>	<u>7,275,531</u>
Net assets held in trust for pension and other employee benefits					
Beginning 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>
End of year	<u>\$ 46,282,935</u>	<u>\$ 4,266,402</u>	<u>\$ 1,903,328</u>	<u>\$ 6,169,730</u>	<u>\$ 52,452,665</u>

**CITY OF BAY CITY, MICHIGAN
 AGENCY FUNDS
 COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 JUNE 30, 2011**

	Trust and Agency	Current Tax Collection	Total
Assets			
Cash and cash equivalents	\$ 163,183	\$ -	\$ 163,183
Liabilities			
Accounts payable	\$ 151,545	\$ -	\$ 151,545
Deposits	11,638	-	11,638
Total liabilities	\$ 163,183	\$ -	\$ 163,183

CITY OF BAY CITY, MICHIGAN
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
<u>Trust & Agency Fund</u>				
Assets				
Cash and cash equivalents	\$ 156,768	\$ 4,432,731	\$ 4,426,316	\$ 163,183
Liabilities				
Accounts payable	\$ 141,910	\$ 153,833	\$ 144,198	\$ 151,545
Due to other governmental units	-	4,421,689	4,421,689	-
Deposits	14,858	11,043	14,263	11,638
Total liabilities	\$ 156,768	\$ 4,586,565	\$ 4,580,150	\$ 163,183
<u>Current Tax Collection Fund</u>				
Assets				
Cash and cash equivalents	\$ -	\$ 28,496,748	\$ 28,496,748	\$ -
Accounts receivable	669	-	669	-
Total assets	\$ 669	\$ 28,496,748	\$ 28,497,417	\$ -
Liabilities				
Accounts payable	\$ 669	\$ 353,701	\$ 354,370	\$ -
Due to other funds	-	11,070,583	11,070,583	-
Due to other governmental units	-	17,473,865	17,473,865	-
Total liabilities	\$ -	\$ 28,898,149	\$ 28,898,818	\$ -
<u>Total - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 156,768	\$ 32,929,479	\$ 32,923,064	\$ 163,183
Accounts receivable	669	-	669	-
Total assets	\$ 157,437	\$ 32,929,479	\$ 32,923,733	\$ 163,183
Liabilities				
Accounts payable	\$ 142,579	\$ 507,534	\$ 498,568	\$ 151,545
Due to other funds	-	11,070,583	11,070,583	-
Due to other governmental units	-	21,895,554	21,895,554	-
Deposits	14,858	11,043	14,263	11,638
Total liabilities	\$ 157,437	\$ 33,484,714	\$ 33,478,968	\$ 163,183

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, 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, 2011

	<u>Downtown Development Authority</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>	<u>Midland Street TIFA</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets						
Cash and cash equivalents	\$ 164,874	\$ -	\$ 164,874	\$ 1,337,444	\$ -	\$ 1,337,444
Receivables						
Accounts	10,601	-	10,601	-	-	-
Delinquent taxes	1,013	-	1,013	-	-	-
Accrued interest	326	-	326	3,453	-	3,453
Net pension asset	-	-	-	-	-	-
Capital assets, net	-	138,196	138,196	-	612,090	612,090
Total assets	<u>\$ 176,814</u>	<u>138,196</u>	<u>315,010</u>	<u>\$ 1,340,897</u>	<u>612,090</u>	<u>1,952,987</u>
Liabilities						
Accounts payable	\$ 10,298	-	10,298	\$ 43,334	-	43,334
Accrued liabilities	-	-	-	-	10,382	10,382
Deferred / unearned revenue	1,013	(1,013)	-	-	-	-
Long-term debt:						
Bonds payable	-	-	-	-	1,118,456	1,118,456
Total liabilities	<u>11,311</u>	<u>(1,013)</u>	<u>10,298</u>	<u>43,334</u>	<u>1,128,838</u>	<u>1,172,172</u>
Fund balances / net assets						
Unassigned	<u>165,503</u>	<u>(165,503)</u>	<u>-</u>	<u>1,297,563</u>	<u>(1,297,563)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 176,814</u>			<u>\$ 1,340,897</u>		
Net assets						
Invested in capital assets, net of related debt		138,196	138,196		612,090	612,090
Unrestricted		166,516	166,516		168,725	168,725
Total net assets		<u>\$ 304,712</u>	<u>\$ 304,712</u>		<u>\$ 780,815</u>	<u>\$ 780,815</u>

<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>
\$ 31,275	\$ -	\$ 31,275	\$ 351,884	\$ -	\$ 351,884
-	-	-	-	-	-
-	-	-	-	-	-
62	-	62	695	-	695
-	-	-	-	34,800	34,800
-	26,916	26,916	-	1,663,346	1,663,346
<u>\$ 31,337</u>	<u>26,916</u>	<u>58,253</u>	<u>\$ 352,579</u>	<u>1,698,146</u>	<u>2,050,725</u>
\$ -	-	-	\$ 1,075	-	1,075
-	-	-	1,407	-	1,407
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,482	-	2,482
<u>31,337</u>	<u>(31,337)</u>	<u>-</u>	<u>350,097</u>	<u>(350,097)</u>	<u>-</u>
<u>\$ 31,337</u>			<u>\$ 352,579</u>		
	26,916	26,916		1,663,346	1,663,346
	<u>31,337</u>	<u>31,337</u>		<u>384,897</u>	<u>384,897</u>
	<u>\$ 58,253</u>	<u>\$ 58,253</u>		<u>\$ 2,048,243</u>	<u>\$ 2,048,243</u>

CITY OF BAY CITY, MICHIGAN
WATER STREET DDA, MARINA DEVELOPMENT TIFA, ALLEN HEALTHCARE DDA,
KNEPP'S DDA, AND BROWNFIELD REDEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2011

	Water Street DDA	Adjustments	Statement of Net Assets	Marina Develop. TIFA	Adjustments	Statement of Net Assets
Assets						
Cash and cash equivalents	\$ 247,890	\$ -	\$ 247,890	\$ -	\$ -	\$ -
Receivables:						
Accounts	-	-	-	-	-	-
Delinquent taxes	-	-	-	-	-	-
Accrued interest	489	-	489	-	-	-
Net pension asset	-	-	-	-	-	-
Capital assets, net	-	2,751,619	2,751,619	-	502,231	502,231
Total assets	<u>\$ 248,379</u>	<u>2,751,619</u>	<u>2,999,998</u>	<u>\$ -</u>	<u>502,231</u>	<u>502,231</u>
Liabilities						
Accounts payable	\$ 12,668	-	12,668	\$ -	-	-
Accrued liabilities	-	11,994	11,994	-	-	-
Deferred / unearned revenue	-	-	-	-	-	-
Long-term debt:						
Bonds payable	-	1,875,000	1,875,000	-	-	-
Total liabilities	<u>12,668</u>	<u>1,886,994</u>	<u>1,899,662</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances / net assets						
Unassigned	235,711	(235,711)	-	-	-	-
Total liabilities and fund balances	<u>\$ 248,379</u>			<u>\$ -</u>		
Net assets						
Invested in capital assets, net of related debt		876,619	876,619		502,231	502,231
Unrestricted		223,717	223,717		-	-
Total net assets		<u>\$ 1,100,336</u>	<u>\$ 1,100,336</u>		<u>\$ 502,231</u>	<u>\$ 502,231</u>

<u>Allen Healthcare DDA</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>	<u>Knapp's DDA</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>	<u>Brownfield Redevelopment Authority</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 4,201	\$ -	\$ 4,201	\$ 13,976	\$ -	\$ 13,976	\$ 632,442	\$ -	\$ 632,442
-	-	-	-	-	-	-	-	-
42	-	42	-	-	-	454	-	454
-	-	-	-	-	-	-	-	-
-	-	-	-	145,714	145,714	-	-	-
<u>\$ 4,243</u>	<u>-</u>	<u>4,243</u>	<u>\$ 13,976</u>	<u>145,714</u>	<u>159,690</u>	<u>\$ 632,896</u>	<u>-</u>	<u>632,896</u>
\$ -	-	-	\$ -	-	-	\$ 100,933	-	100,933
-	-	-	-	-	-	-	3,833	3,833
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	412,944	412,944
-	-	-	-	-	-	100,933	416,777	517,710
4,243	(4,243)	-	13,976	(13,976)	-	531,963	(531,963)	-
<u>\$ 4,243</u>			<u>\$ 13,976</u>			<u>\$ 632,896</u>		
				145,714	145,714			
	4,243	4,243		13,976	13,976		115,186	115,186
<u>\$ 4,243</u>	<u>\$ 4,243</u>	<u>\$ 4,243</u>		<u>\$ 159,690</u>	<u>\$ 159,690</u>		<u>\$ 115,186</u>	<u>\$ 115,186</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, 2011

	Downtown Development Authority	Adjustments	Statement of Activities	Midland St. TIFA	Adjustments	Statement of Activities
Revenues						
Taxes						
Tax increment	\$ -	\$ -	\$ -	\$ 109,009	\$ -	\$ 109,009
Special assessments	69,548	(3,969)	65,579	-	-	-
Charges for services						
Rents	79,477	-	79,477	-	-	-
Miscellaneous						
Interest earnings	813	-	813	12,699	-	12,699
Other	38,356	-	38,356	-	-	-
Total revenues	188,194	(3,969)	184,225	121,708	-	121,708
Expenditures/Expenses						
Current						
Economic development	142,982	-	142,982	20,318	-	20,318
Depreciation	-	9,675	9,675	-	26,544	26,544
Capital outlay	8,346	(8,346)	-	51,274	(39,131)	12,143
Debt service						
Principal	-	-	-	-	-	-
Interest	-	-	-	24,918	10,382	35,300
Total expenditures/expenses	151,328	1,329	152,657	96,510	(2,205)	94,305
Revenue over (under) expenditures	36,866	(5,298)	31,568	25,198	2,205	27,403
Other financing sources (uses)						
Issuance of debt	-	-	-	1,118,456	(1,118,456)	-
Bond discount	-	-	-	(2,029)	-	(2,029)
Bond issuance costs	-	-	-	(6,075)	-	(6,075)
Total other financing sources (uses)	-	-	-	1,110,352	(1,118,456)	(8,104)
Net change in fund balance/net assets	36,866	(5,298)	31,568	1,135,550	(1,116,251)	19,299
Fund balances / net assets, beginning of year	128,637	144,507	273,144	162,013	599,503	761,516
Fund balances / net assets, end of year	\$ 165,503	\$ 139,209	\$ 304,712	\$ 1,297,563	\$ (516,748)	\$ 780,815

<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>
\$ 2,817	\$ -	\$ 2,817	\$ 331,811	\$ -	\$ 331,811
-	-	-	-	-	-
-	-	-	-	-	-
166	-	166	3,078	-	3,078
-	-	-	-	-	-
<u>2,983</u>	<u>-</u>	<u>2,983</u>	<u>334,889</u>	<u>-</u>	<u>334,889</u>
554	-	554	397,090	(3,537)	393,553
-	1,949	1,949	-	107,147	107,147
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>554</u>	<u>1,949</u>	<u>2,503</u>	<u>397,090</u>	<u>103,610</u>	<u>500,700</u>
2,429	(1,949)	480	(62,201)	(103,610)	(165,811)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>2,429</u>	<u>(1,949)</u>	<u>480</u>	<u>(62,201)</u>	<u>(103,610)</u>	<u>(165,811)</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>
<u>\$ 31,337</u>	<u>\$ 26,916</u>	<u>\$ 58,253</u>	<u>\$ 350,097</u>	<u>\$ 1,698,146</u>	<u>\$ 2,048,243</u>

CITY OF BAY CITY, MICHIGAN
WATER STREET DDA, MARINA DEVELOPMENT TIFA, ALLEN HEALTHCARE DDA,
KNEPP'S DDA, AND BROWNFIELD REDEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Water Street DDA</u>	<u>Adjustments</u>	<u>Statement of Activities</u>	<u>Marina Develop. TIFA</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues						
Intergovernmental						
State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes:						
Tax increment	303,305	-	303,305	-	-	-
Miscellaneous						
Interest earnings	2,030	-	2,030	-	-	-
Other	-	-	-	-	-	-
Total revenues	<u>305,335</u>	<u>-</u>	<u>305,335</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures/Expenses						
Current						
Economic development	58,715	-	58,715	-	-	-
Depreciation	-	152,648	152,648	-	9,373	9,373
Capital outlay	-	-	-	-	-	-
Debt service						
Principal	155,000	(155,000)	-	-	-	-
Interest	77,391	(904)	76,487	-	-	-
Total expenditures/expenses	<u>291,106</u>	<u>(3,256)</u>	<u>287,850</u>	<u>-</u>	<u>9,373</u>	<u>9,373</u>
Revenue over (under) expenditures	14,229	3,256	17,485	-	(9,373)	(9,373)
Other financing sources (uses)						
Issuance of debt	-	-	-	-	-	-
Bond discount	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance/net assets	14,229	3,256	17,485	-	(9,373)	(9,373)
Fund balances / net assets, beginning 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>
Fund balances / net assets, end of year	<u>\$ 235,711</u>	<u>\$ 864,625</u>	<u>\$ 1,100,336</u>	<u>\$ -</u>	<u>\$ 502,231</u>	<u>\$ 502,231</u>

Allen Health- care DDA	Adjustments	Statement of Activities	Knepp's DDA	Adjustments	Statement of Activities	Brownfield Redevelopment Authority	Adjustments	Statement of Activities
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	181,835	-	181,835
(1,137)	-	(1,137)	37	-	37	1,238	-	1,238
-	-	-	-	-	-	2,000	-	2,000
<u>(1,137)</u>	<u>-</u>	<u>(1,137)</u>	<u>37</u>	<u>-</u>	<u>37</u>	<u>185,073</u>	<u>-</u>	<u>185,073</u>
-	-	-	-	-	-	168,780	-	168,780
-	-	-	-	3,185	3,185	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,200</u>	<u>3,833</u>	<u>13,033</u>
-	-	-	-	3,185	3,185	177,980	3,833	181,813
(1,137)	-	(1,137)	37	(3,185)	(3,148)	7,093	(3,833)	3,260
-	-	-	-	-	-	412,944	(412,944)	-
-	-	-	-	-	-	(750)	-	(750)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,244)</u>	<u>-</u>	<u>(2,244)</u>
-	-	-	-	-	-	409,950	(412,944)	(2,994)
(1,137)	-	(1,137)	37	(3,185)	(3,148)	417,043	(416,777)	266
<u>5,380</u>	<u>-</u>	<u>5,380</u>	<u>13,939</u>	<u>148,899</u>	<u>162,838</u>	<u>114,920</u>	<u>-</u>	<u>114,920</u>
<u>\$ 4,243</u>	<u>\$ -</u>	<u>\$ 4,243</u>	<u>\$ 13,976</u>	<u>\$ 145,714</u>	<u>\$ 159,690</u>	<u>\$ 531,963</u>	<u>\$ (416,777)</u>	<u>\$ 115,186</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 Nine Fiscal Years
(accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Fiscal Year</u> <u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</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	\$ 59,245,396
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	1,758,988
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	9,303,720
Total governmental activities net assets	\$ 75,788,519	\$ 74,865,961	\$ 72,091,524	\$ 74,866,448	\$ 74,678,251	\$ 72,883,040	\$ 74,907,797	\$ 72,853,967	\$ 70,308,104
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	\$ 84,043,144
Restricted	1,160,696	-	-	-	-	-	-	-	11,901,344
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	32,422,783
Total business-type activities net assets	\$ 130,148,412	\$ 128,655,578	\$ 127,130,480	\$ 121,716,552	\$ 122,278,208	\$ 123,073,730	\$ 121,864,304	\$ 121,913,408	\$ 128,367,271
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	\$ 143,288,540
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	13,660,332
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	41,726,503
Total primary government net assets	\$ 205,936,931	\$ 203,521,539	\$ 199,222,004	\$ 196,583,000	\$ 196,956,459	\$ 195,956,770	\$ 196,772,101	\$ 194,767,375	\$ 198,675,375

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

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental activities:									
Public safety	\$ 13,145	\$ 13,014	\$ 13,429	\$ 14,170	\$ 14,640	\$ 13,094	\$ 12,808	\$ 12,811	\$ 12,115
Community and economic development	1,859	-	2,037	2,116	2,602	2,148	1,903	1,819	2,408
Public works	5,638	11,019	10,909	9,871	9,236	9,633	10,919	11,437	13,836
General government	3,333	3,028	2,286	1,614	2,064	3,168	2,730	3,087	1,098
Recreation and culture	1,046	941	1,129	1,249	1,164	1,016	1,074	1,178	783
Interest on long-term debt	1,562	1,358	1,544	1,298	1,302	1,399	1,267	1,223	1,195
Total governmental activities expenses	26,583	29,360	31,334	30,318	31,008	30,458	30,701	31,555	31,435
Business-type activities:									
Electric	22,574	22,116	24,134	26,079	26,537	30,012	30,419	30,184	30,285
Water	7,330	6,939	6,870	7,231	7,694	8,072	8,746	8,705	8,193
Sewer	8,318	10,340	11,468	12,487	12,165	11,987	12,573	12,511	11,909
Public works	421	435	421	463	519	541	524	528	558
Total business-type activities expenses	38,643	39,830	42,893	46,260	46,915	50,612	52,262	51,928	50,945
Total primary government expenses	\$ 65,226	\$ 69,190	\$ 74,227	\$ 76,578	\$ 77,923	\$ 81,070	\$ 82,963	\$ 83,483	\$ 82,380
Program Revenues									
Governmental activities:									
Charges for services									
Public safety	\$ 665	\$ 640	\$ 768	\$ 960	\$ 811	\$ 716	\$ 727	\$ 837	\$ 922
General government	88	1,036	1,299	1,419	1,256	925	677	845	940
Public works	1,961	2,006	1,923	1,939	1,973	2,010	2,065	2,052	2,049
Recreation and culture	4	6	13	8	10	25	23	61	59
Other	-	-	(16)	125	71	97	(138)	(263)	(141)
Operating grants and contributions	2,849	5,899	6,296	5,797	5,646	6,252	7,760	6,346	5,589
Capital grants and contributions	35	21	618	47	1,659	1,259	1,461	706	1,484
Total governmental activities program revenues	5,602	9,608	10,901	10,295	11,426	11,284	12,575	10,584	10,902
Business-type activities:									
Charges for services									
Electric	21,480	21,972	22,991	23,770	26,060	29,067	30,270	29,870	32,263
Water	6,758	7,060	7,342	7,204	7,246	7,800	7,540	8,193	8,928
Sewer	7,576	8,358	9,931	11,512	11,726	12,346	11,761	12,826	14,715
Public works	399	230	219	215	188	264	194	223	231
Operating grants and contributions	-	26	164	246	102	115	51	225	128
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	56,265
Total primary government program revenues	\$ 41,815	\$ 47,254	\$ 51,548	\$ 53,697	\$ 57,230	\$ 61,303	\$ 62,489	\$ 61,921	\$ 67,167
Net (expense)/revenue									
Governmental activities	\$ (20,981)	\$ (19,773)	\$ (20,433)	\$ (20,023)	\$ (19,582)	\$ (19,174)	\$ (18,126)	\$ (20,971)	\$ (20,533)
Business-type activities	(2,430)	(2,184)	(2,246)	(2,858)	(1,111)	(593)	(2,348)	(591)	5,320
Total primary government net expense	\$ (23,411)	\$ (21,936)	\$ (22,679)	\$ (22,881)	\$ (20,693)	\$ (19,767)	\$ (20,474)	\$ (21,562)	\$ (15,213)

Table 2

	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>	<u>2011</u>
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	\$ 12,728
Unrestricted grants and contributions	5,572	5,458	5,395	5,172	5,127	4,911	5,104	4,383	4,614
Investment earnings	260	274	381	398	702	1,022	709	462	114
Miscellaneous	4,519	67	71	111	74	80	107	92	655
Transfers	(81)	(119)	(311)	3,525	(149)	34	(18)	(32)	(125)
Total governmental activities	<u>23,533</u>	<u>18,822</u>	<u>18,470</u>	<u>22,798</u>	<u>19,394</u>	<u>20,091</u>	<u>20,151</u>	<u>18,917</u>	<u>17,986</u>
Business-type activities:									
Investment earnings	658	438	841	922	1,459	1,398	1,048	580	152
Miscellaneous	117	40	213	47	64	25	72	28	59
Transfers	81	119	311	(3,525)	149	(34)	18	32	125
Total business-type activities	<u>856</u>	<u>597</u>	<u>1,365</u>	<u>(2,556)</u>	<u>1,672</u>	<u>1,389</u>	<u>1,138</u>	<u>640</u>	<u>336</u>
Total primary government	<u>\$ 24,389</u>	<u>\$ 19,419</u>	<u>\$ 19,835</u>	<u>\$ 20,242</u>	<u>\$ 21,066</u>	<u>\$ 21,480</u>	<u>\$ 21,289</u>	<u>\$ 19,557</u>	<u>\$ 18,322</u>
Change in Net Assets									
Governmental activities	\$ 2,552	\$ (951)	\$ (1,963)	\$ 2,775	\$ (188)	\$ 917	\$ 2,025	\$ (2,054)	\$ (2,547)
Business-type activities	(1,574)	(1,587)	(881)	(5,414)	561	796	(1,210)	49	5,656
Total primary government	<u>\$ 978</u>	<u>\$ (2,538)</u>	<u>\$ (2,844)</u>	<u>\$ (2,639)</u>	<u>\$ 373</u>	<u>\$ 1,713</u>	<u>\$ 815</u>	<u>\$ (2,005)</u>	<u>\$ 3,109</u>

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 Nine 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>	<u>2011</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	-
Restricted	-	-	-	-	-	-	-	-	307
Unassigned	-	-	-	-	-	-	-	-	5,874
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>	<u>\$ 6,181</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	-
Nonspendable	-	-	-	-	-	-	-	-	108
Restricted	-	-	-	-	-	-	-	-	3,031
Assigned	-	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-
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>	<u>\$ 3,139</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 Nine Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues									
Property taxes and other taxes	\$ 13,263	\$ 12,469	\$ 12,528	\$ 12,557	\$ 12,816	\$ 13,227	\$ 13,271	\$ 13,020	\$ 11,757
Licenses and permits	452	402	513	663	532	497	498	515	454
Federal grants	2,869	2,092	3,630	2,804	3,737	3,352	3,473	3,618	2,603
State shared revenues and grants	8,761	10,246	9,441	9,595	9,820	8,062	10,725	7,606	9,063
Local contributions	-	88	66	54	16	1,763	1,502	1,489	1,457
Interest, rents and royalties	280	243	332	367	613	712	427	246	67
Charges for services	5,295	5,389	5,466	5,969	5,856	6,038	6,215	6,466	6,366
Fines and forfeits	161	171	153	136	132	150	165	149	167
Reimbursements, refunds and other revenue	1,206	779	543	961	875	1,145	348	520	1,015
Cable franchise fees	342	-	-	-	-	-	-	-	-
Total revenues	32,629	31,879	32,672	33,106	34,397	34,946	36,624	33,629	32,949
Expenditures									
General government	6,988	4,959	5,470	5,381	5,609	5,387	5,007	5,183	4,659
Public safety	12,505	12,530	13,205	13,826	14,358	12,960	12,419	12,071	11,700
Public works	6,275	6,894	7,158	7,203	6,777	6,800	6,979	6,735	6,693
Community and economic development	2,177	2,030	2,405	1,853	1,784	1,740	1,773	2,221	2,093
Recreation and culture	1,031	954	1,030	1,076	1,005	818	830	838	813
Post-retirement benefits	-	-	-	-	-	2,034	2,077	1,894	2,108
Capital outlay	2,921	2,354	2,550	1,393	2,841	2,501	5,193	2,662	4,170
Debt service:									
Principal	633	2,110	1,690	1,570	1,638	2,173	1,690	1,711	1,725
Interest and other fees	1,562	158	115	4	1	77	21	7	2
Total expenditures	34,092	31,989	33,623	32,306	34,013	34,490	35,989	33,322	33,963
Excess of revenues over (under) expenditures	(1,463)	(110)	(951)	800	384	456	635	307	(1,014)
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	818
Transfers (out)	(2,282)	(2,516)	(1,741)	(2,627)	(990)	(874)	(788)	(1,611)	(1,338)
Total other financing sources (uses)	(81)	(88)	(24)	(61)	(149)	47	(18)	(36)	(520)
Net change in fund balances	\$ (1,544)	\$ (198)	\$ (975)	\$ 739	\$ 235	\$ 503	\$ 617	\$ 271	\$ (1,534)
Debt service as a percentage of noncapital expenditures	7.04%	7.65%	5.81%	5.09%	5.26%	7.03%	5.56%	5.60%	5.80%

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>
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
2011	12,728,586	32,268,204

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					
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	26,201	85,895	714,775	19.5503	1,429,550	50.00%
2010	432,491	99,278	24,700	65,117	621,586	19.5503	1,243,172	50.00%
2011	440,003	96,855	25,924	57,217	619,999	19.5503	1,239,998	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>	
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
2011	16.9615	0.0000	2.5888	19.5503	31.9133	2.0427	10.8138	64.3201

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. 2002 refers to the 2003 tax collection, 2003 refers to the 2004 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, 2011 and Ten Years Previous

<u>Taxpayer</u>	<u>2011</u>			<u>2001</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	\$ 12,391,750	1	2.00%	\$ 99,425,400	1	16.67%
Consumers Energy Company	5,453,307	2	0.88%	7,571,694	3	1.27%
Charter Communications	4,611,850	3	0.74%	-	-	-
Nexteer Automotive	4,358,700	4	0.70%	-	-	-
SC Johnson	4,213,750	5	0.68%	5,972,600	4	1.00%
Northern Concrete Pipe	2,323,631	6	0.37%	-	-	-
Bay City Housing Commission	2,014,250	7	0.32%	2,061,373	9	0.35%
Wenonah Park Properties	1,924,236	8	0.31%	-	-	-
Mersen USA	1,830,600	9	0.30%	-	-	-
F.P. Horak Company	1,802,300	10	0.29%	2,190,600	8	0.37%
Thompson Bay Company, Inc.	-	-	-	10,040,000	2	1.68%
Bresnan Communications Co.	-	-	-	3,015,900	5	0.51%
Carbone of America	-	-	-	2,641,300	6	0.44%
National City Bank of MI/IL	-	-	-	2,281,086	7	0.38%
Kerkau Manufacturing	-	-	-	2,054,300	10	0.34%
Totals	\$ 40,924,374		6.60%	\$ 137,254,253		23.02%

<u>Electric Customer</u>	<u>2011</u>			<u>2001</u>		
	<u>Usage kWh</u>	<u>Rank</u>	<u>Percentage of Total Usage</u>	<u>Usage kWh</u>	<u>Rank</u>	<u>Percentage of Total Usage</u>
Bay Medical Center	16,764,051	1	5.1%	15,998,268	1	5.3%
Mersen USA	14,196,160	2	4.3%	-	-	-
City of Bay City	13,180,377	3	4.0%	2,506,942	10	0.8%
S.C. Johnson & Sons	6,463,830	4	2.0%	2,847,449	8	0.9%
Bay Cast	4,357,877	5	1.3%	3,956,183	6	1.3%
Doubletree Hotel	3,739,961	6	1.1%	-	-	-
Menards	3,266,296	7	1.0%	-	-	-
Kerkau Manufacturing	3,266,040	8	1.0%	-	-	-
Valley Publishing	3,055,840	9	0.9%	-	-	-
Bay City Schools	2,950,874	10	0.9%	-	-	0.0%
Bay Metro Water Plant	-	-	-	6,080,828	4	2.0%
Wastewater Treatment Plant	-	-	-	5,003,928	5	1.7%
Bay County Law Enforcement Cent	-	-	-	2,826,480	9	0.9%
Carbone USA	-	-	-	6,838,080	2	2.3%
Bay City Board of Education	-	-	-	6,764,776	3	2.3%
Thompson Bay Company	-	-	-	2,937,600	7	1.0%
Totals	\$ 71,241,306		21.60%	\$ 55,760,534		18.50%

Note: Information for 2002 was not readily available, therefore 2001 information is being used.

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
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	12,647	99.98%
2007	12,762	11,970	93.79%	765	12,735	99.79%
2008	13,027	12,099	92.88%	917	13,016	99.91%
2009	13,072	12,176	93.15%	845	13,021	99.62%
2010	12,832	11,835	92.23%	927	12,762	99.45%
2011	11,584	10,584	91.37%	906	11,490	99.19%

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			
2002	\$ 23,346,115	\$ 667,688	\$ -	\$ 45,903	\$ 11,995,722	\$ 1,405,000	\$ 27,284,690	\$ 64,745,118	22.35%	\$ 1,801
2003	22,713,211	437,819	-	69,312	11,184,741	1,355,000	38,438,296	74,198,379	24.73%	2,089
2004	22,031,664	400,842	-	73,412	10,318,760	1,305,000	40,198,689	74,328,367	24.61%	2,116
2005	21,644,380	362,726	-	35,122	9,392,779	7,250,000	39,070,000	77,755,007	25.60%	2,240
2006	17,774,130	323,144	-	45,364	8,315,000	15,895,000	41,975,727	84,328,365	26.91%	2,458
2007	17,462,577	282,040	-	22,717	7,115,000	14,690,000	41,290,000	80,862,334	24.99%	2,380
2008	17,126,779	239,354	2,170,000	21,260	9,545,000	21,925,001	39,205,000	90,232,394	26.83%	2,661
2009	16,731,739	195,027	2,127,500	9,375	8,020,000	20,140,001	37,070,000	84,293,642	25.18%	2,495
2010	16,284,012	148,995	2,085,000	4,825	6,230,000	18,340,001	34,885,000	77,977,833	22.67%	2,232
2011	15,794,946	101,192	2,042,500	2,720	4,360,000	18,983,600	32,645,000	73,929,958	(2)	2,116

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

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

(2) This information is not yet available.

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

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita (1)
2002	\$ 39,926	\$ 298	\$ 39,628	3.64%	\$ 1,102.12
2003	35,253	338	34,915	3.17%	982.88
2004	33,655	115	33,540	2.98%	954.70
2005	38,287	53	38,234	2.78%	1,101.59
2006	41,984	207	41,777	5.33%	1,217.60
2007	32,153	387	31,766	4.23%	934.91
2008	39,052	584	38,468	5.13%	1,134.58
2009	36,872	743	36,129	5.05%	1,069.53
2010	34,624	836	33,788	5.44%	967.25
2011	34,779	704	34,075	5.50%	975.45

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, 2011

<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	\$ 16,985,154	19.59%	\$ 3,327,392
Bay City School District	65,930,000	33.35%	21,987,655
Bangor Township Schools	14,491,667	0.35%	50,721
Bay-Arenac Intermediate School District	3,550,000	16.63%	<u>590,365</u>
TOTAL OVERLAPPING DEBT			25,956,133
<u>Direct Debt:</u>			
City of Bay City	15,794,946	100.00%	<u>15,794,946</u>
TOTAL DIRECT AND OVERLAPPING DEBT			<u><u>\$ 41,751,079</u></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>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>	<u>2011</u>
Debt limit	\$ 62,557	\$ 70,582	\$ 73,468	\$ 77,667	\$ 78,322	\$ 75,024	\$ 74,971	\$ 71,477	\$ 62,159	\$ 62,000
Total net debt applicable to limit	4,646	23,731	23,221	28,841	33,462	31,766	38,468	36,129	33,788	34,075
Legal debt margin	<u>\$ 57,911</u>	<u>\$ 46,851</u>	<u>\$ 50,247</u>	<u>\$ 48,826</u>	<u>\$ 44,860</u>	<u>\$ 43,258</u>	<u>\$ 36,503</u>	<u>\$ 35,348</u>	<u>\$ 28,371</u>	<u>\$ 27,925</u>
Total net debt applicable to the limit as a percentage of debt limit	7.43%	33.62%	31.61%	37.13%	42.72%	42.34%	51.31%	50.55%	54.36%	54.96%

Legal Debt Margin Calculation for Fiscal Year 2011

Assessed valuation, December 31, 2010	<u>\$ 619,999</u>
Debt limit (10% of assessed valuation)	\$ 62,000
Debt applicable to limit: (1)	\$ 34,779
Less:	
Assets in Debt Service funds available for payment of principal	<u>704</u>
Total amount of debt applicable to debt limit	<u>34,075</u>
Legal debt margin	<u>\$ 27,925</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>		
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	-	-	-	-
2011	8,983,367	6,850,993	2,132,374	-	-	-	-

Electric System Revenue Bonds

2002	\$ 23,866,773	\$ 18,890,250	\$ 4,976,523	\$ 925	\$ 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
2011	32,324,760	28,068,721	4,256,039	1,870,000	192,638	2,062,638	2.06

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)
2002	35,956	\$2,896,753	\$26,367	9,843	7.50%
2003	35,523	3,000,488	27,387	9,839	8.80%
2004	35,132	3,020,243	27,594	9,790	8.40%
2005	34,708	3,037,255	27,823	9,507	7.50%
2006	34,311	3,133,643	28,825	9,355	7.40%
2007	33,977	3,236,161	29,928	9,203	7.30%
2008	33,905	3,363,052	31,047	8,928	8.30%
2009	33,780	3,348,135	31,026	8,878	13.30%
2010	34,932	3,439,004	31,930	8,509	12.60%
2011	34,932	(5)	(5)	8,586	10.60%

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.

(5) This information is not yet available.

**City of Bay City, Michigan
Principal Employers
2011 and 2001**

<u>Employer</u>	<u>2011</u>			<u>2001</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Bay Regional Medical Center (2) (3)	1,748	1	10.94%	2,200	1	12.51%
Bay City Public Schools (1) (3)	922	2	5.77%	1,368	2	7.78%
Bay County (3)	525	3	3.28%	633	4	3.60%
SC Johnson	398	4	2.49%	-	-	-
City of Bay City	345	5	2.16%	437	5	2.48%
General Motors Powertrain	325	6	2.03%	1,344	3	7.64%
Doubletree Hotel & Conference Center	133	7	0.83%	-	-	-
Chemical Bank & Trust	128	8	0.80%	-	-	-
Independent Bank & Mortgage Co.	125	9	0.78%	-	-	-
F.P. Horak Co.	124	10	0.78%	194	9	1.10%
Heartland Home Health Care	-	-	-	250	6	1.42%
Bay City Times	-	-	-	215	7	1.22%
National Bank	-	-	-	209	8	1.19%
RCW Inc.	-	-	-	170	10	0.97%
Totals	<u>4,773</u>		<u>29.86%</u>	<u>7,020</u>		<u>39.90%</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.

Note: Information for 2002 was not readily available, therefore 2001 information is being used.

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

	<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>	<u>2011</u>
Function										
General government	68	69	67	65	62	60	59	57	60	58
Public safety										
Police	100	96	88	71	66	66	61	60	58	60
Fire	60	61	61	58	58	57	57	53	47	46
Public works	67	68	67	65	64	61	52	48	48	49
Recreation and culture	17	17	17	17	17	15	12	11	10	7
Community and economic development	6	8	7	12	11	10	10	7	7	7
Electric	48	48	48	47	47	45	43	44	45	47
Water	44	43	44	44	43	42.5	41	40	40	40
Sewer	42	42	42	40	46	42.5	39	38	38	33
Total	452	452	441	419	414	399	374	358	353	347

Source: City of Bay City Finance Department

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

	<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>	<u>2011</u>
Function										
General Government										
Elections										
Number of registered voters	25,733	23,779	23,988	24,772	24,311	24,509	24,864	24,947	23,452	23,338
Public safety										
Police Department										
Number of citations issued	11,925	9,910	7,989	6,183	5,796	8,343	5,836	3,190	3,568	2,792
Number of complaints filed	7,638	7,869	7,166	6,845	5,946	6,113	5,963	5,730	4,528	5,907
Number of calls for service	35,102	37,194	34,395	32,445	29,470	28,957	30,275	29,851	30,242	25,189
Number of DUI offenses	276	376	288	278	185	337	351	210	199	156
Fire Department										
Number of emergency runs	3,861	3,995	3,989	4,663	3,677	3,341	4,329	4,438	4,533	4,785
Number of fire prevention programs		7	7	7	7	7	14	187	187	111
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	2,948
Recreation and culture										
Park acreage maintained	-	-	-	-	-	238	238	233	223	223
Special events	-	-	-	-	-	58	43	33	43	40
Shelter rentals	-	-	-	-	-	63	57	60	67	50
Street trees planted	370	364	392	391	482	716	361	366	-	-
Street trees trimmed	-	-	-	-	-	2,998	1,576	1,977	-	-
Street trees removal	-	-	-	-	-	251	137	209	167	101
Community and Economic Development										
Housing units rehabilitated	6	14	10	13	5	6	8	3	5	3
Emergency housing units rehabilitated	20	29	27	47	33	23	42	50	42	32
Electric Department										
Generating capacity	33,295	33,290	33,295	33,295	33,295	33,295	33,295	33,295	33,295	33,295
Sewer System										
Sanitary and storm sewer (miles)	276.19	277.08	277	277	277	310	310	310	320	320
Daily average treatment (million gallons)	8	8	8.6	9	9	9	9	9	8	7
Maximum daily capacity (million gallons)	18	18	18	18	18	18	18	18	18	18
Water system										
Miles of water mains	230	232	232	232	231.86	232	232	196.87	196.87	196.87
Daily average consumption (million gallons)	9.76	10.52	9.76	9.31	9.7	8.90	8.58	8.03	7.46	7.47
Maximum daily treatment (million gallons)	22.16	15.23	13.55	12.38	12.35	12.96	12.10	13.85	10.12	14.45
Airport										
Private hanger land leases	-	-	-	-	20	22	22	23	23	23
Public hanger lease	-	-	-	-	1	1	1	1	1	2
Cell tower leases	-	-	-	-	1	1	1	1	1	1
Aviation fuel sold (gallons)	-	-	-	-	-	29,000	20,163	N/A	12,599	14,665
Cemetery										
Interments	-	-	-	-	58	35	35	51	57	48
Grave sales	-	-	-	-	25	30	40	16	35	42
Foundations set	-	-	-	-	21	21	19	29	25	18
Right of 2nd Interment	-	-	-	-	-	-	6	5	5	5
Marina										
Seasonal Dock Leases	-	-	-	-	50	50	50	49	50	50
Transient Dock Rentals	-	-	-	-	1,540	1,585	1,116	542	419	337

Sources: Various city departments.

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

	<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>	<u>2011</u>
Function										
Public safety										
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	39	42	40	34	31	25	25	25	25	25
Fire										
Stations	4	4	4	4	4	4	4	4	3	3
Vehicles	14	14	14	14	13	13	13	13	12	14
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	25	24	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.

SINGLE AUDIT ACT COMPLIANCE

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

**CITY OF BAY CITY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Federal or (Pass-Through) Grant Number	Amended Grant Amount	Adjustments to Prior Years' Schedule	Federal Expenditures
U.S. Department of Housing and Urban Development					
Community Development Block Grant					
Grant Entitlements - 2007 (a)	14.218	B-07-MC-26-0003	\$ 1,479,833	\$ -	\$ 43,897
Grant Entitlements - 2008 (a)	14.218	B-08-MC-26-0003	1,426,021	-	33,565
Grant Entitlements - 2009 (a)	14.218	B-09-MC-26-0003	1,448,807	-	134,603
Grant Entitlements - 2010 (a)	14.218	B-10-MC-26-0003	1,569,172	-	1,183,642
Grant Entitlements - 2010 (a)	14.218	N/A	N/A	-	110,803
				-	1,506,510
American Recovery & Reinvestment Act - ARRA					
Community Development Block Grant (R) (a)	14.253	B-09-MY-26-0003	387,207	-	154,778
HOME Program - 2009	14.239	M09-MC260219	275,967	-	221,602
HOME Program - 2010	14.239	M10-MC260219	274,524	-	541
HOME Program - 2010	14.239	N/A	N/A	-	14,000
				-	236,143
American Recovery & Reinvestment Act					
Homelessness Prevention and Rapid Rehousing Program ARRA	14.257	S-09-MY-26-0003	592,249	-	185,494
Total U.S. Department of Housing and Urban Development				-	2,082,925
U.S. Department of Justice					
Local Law Enforcement Block Grant - Vests 2008	16.592		5,923	-	2,377
Office of Justice Program Awards					
Cops Hiring Recovery Program	16.710	2009-RK-WX-0433	601,869	-	74,026
Bryne Justice Assistance Grant	16.738	2010-DJ-BX-1509	19,556	-	9,778
Total U.S. Department of Justice				-	86,181
U.S. Department of Transportation					
Passed through Michigan Department of State through Bay County					
Highway Safety Cluster:					
Safe Communities - Enforcement	20.600	PT-10-25		-	1,824
Safe Communities - Enforcement	20.600	PT-11-37		-	5,478
Safe Communities - Youth Alcohol	20.601	PT-10-25		-	6,079
Safe Communities - Youth Alcohol	20.601	AL-11-32		-	1,553
				-	14,934
Passed through Michigan Department of Transportation					
Federal Aviation Administration	20.106	B-26-0010-1109		-	24,795
National Byways Grant	20.205	2007-0356	125,200	(2,431)	17,711
Highway Planning & Construction	20.205	08-5137	825,900	798,695	11,559
Total U.S. Department of Transportation				796,264	68,999
U.S. Environmental Protection Agency					
EPA Brownfield Grant	66.818	BF00E91201	400,000	-	190,572
U.S. Department of Homeland Security					
Passed through FEMA					
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083		880,314	-	322,069
Total Expenditures of Federal Awards				\$ 796,264	\$ 2,750,746

The accompanying notes are an integral part of this schedule.

(a) These grants comprise the CDBG - Entitlement Grants Cluster.

CITY OF BAY CITY, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Bay City, Michigan under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in the prior years. Pass-through entity identifying numbers are presented where available.

3. SUBRECIPIENTS

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

<u>Federal/Pass-through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipient</u>
Community Development Block Grant Entitlements	14.218	\$ 212,704
HOME Program	14.239	222,143
Homeless Prevention and Rapid Rehousing Program	14.257	185,494

* * * * *

**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 23, 2011

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 discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Bay City, Michigan* (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 23, 2011. 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.

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 the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompany *schedule of findings and questioned costs* at item 2011-1 to be a material weakness.

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*.

In addition, we noted certain matters that we reported to management of the City of Bay City in a separate letter dated December 23, 2011.

The City's response to the finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. We did not audit the City's response and, accordingly, we express no opinion on it.

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 23, 2011

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

Compliance

We have audited the compliance of the *City of Bay City, Michigan* (the “City”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2011. The City’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *City of Bay City, Michigan’s* management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City’s compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance

of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-2.

Internal Control Over Compliance

The management of the *City of Bay City, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the City Commission, management, others in the organization, 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, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style.

**CITY OF BAY CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: *Unqualified*

Internal control over financial reporting:
 Material weakness(es) identified? X yes no

Significant deficiencies identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? yes X no

Significant deficiencies identified? yes X none reported

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

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

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218 and 14.253	CDBG – Entitlement Grant Cluster
20.205	Highway Planning & Construction
97.083	Staffing for Adequate Fire and Emergency Response (SAFER)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

**CITY OF BAY CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-1 – Internal Control Deficiency Considered to be a Material Weakness

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

Condition: The City recognized material amounts of expenses in the prior year which were expected to be reimbursed through grant funding. No receivable or revenue was booked in the fiscal years in which the expenses were incurred in order to match revenues and expenses for the year. Therefore, a prior period adjustment was made to the electric fund to properly recognize the revenue in the previous years instead of in the current year. This prior period adjustment was material to the fund.

Cause: The adjustments needed were errors in properly matching revenues to expenses in the appropriate year.

Effect: The City's general ledger account balances noted above were misstated during the year.

Recommendation:

We recommend that the City ensure that the accounting department is aware of all expected grant revenue which is expected to be received at a future time in order to properly accrue for expected revenue.

**View of
Responsible
Officials:**

The general ledger has been corrected for the above listed grant revenues which were not recorded in the previous year. In addition, all departments within the City have been advised that all grant documents must be provided to the Accounting Department. We believe that appropriate steps have been taken to ensure that all grant revenue is properly accrued in the future

**CITY OF BAY CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

U.S. Department of Transportation – Passed through Michigan Department of Transportation

Highway Planning & Construction grant CFDA #20.205

2011-2 – Preparation of the Schedule of Expenditures of Federal Awards – Immaterial Noncompliance

Criteria: All grant expenditures need to be recorded on the schedule of expenditures of federal awards in the fiscal year of which the expenditure was incurred.

Condition: In the prior fiscal years 2009 and 2010, the City had incurred grant expenditures related to the Highway Planning & Construction grant in the amount of \$798,695 which were recorded appropriately in the general ledger for each fiscal year; however no amounts were reported on the schedule of expenditures of federal awards related to these expenditures in the appropriate fiscal years. Therefore, an adjustment to the prior years' schedule of expenditures of federal awards was made to properly report the expenditures on the schedule.

Cause: The adjustments needed were errors in properly reporting expenditures incurred in the appropriate fiscal year on the schedule of expenditures of federal awards.

Effect: The City's schedule of expenditures of federal awards was incorrectly stated in the fiscal years 2009 and 2010.

Recommendation:

We recommend that the City ensure that the accounting department is aware of all grant expenditures which were incurred during the fiscal year to ensure proper reporting on the schedule of expenditures of federal awards.

View of Responsible

Officials: All departments within the City have been advised that all grant documents must be provided to the Accounting Department. We believe that appropriate steps have been taken to ensure proper reporting of grant expenditures on the schedule of federal awards.

SECTION IV – PRIOR YEAR FINDINGS

2010-1 – This item was corrected by the City.