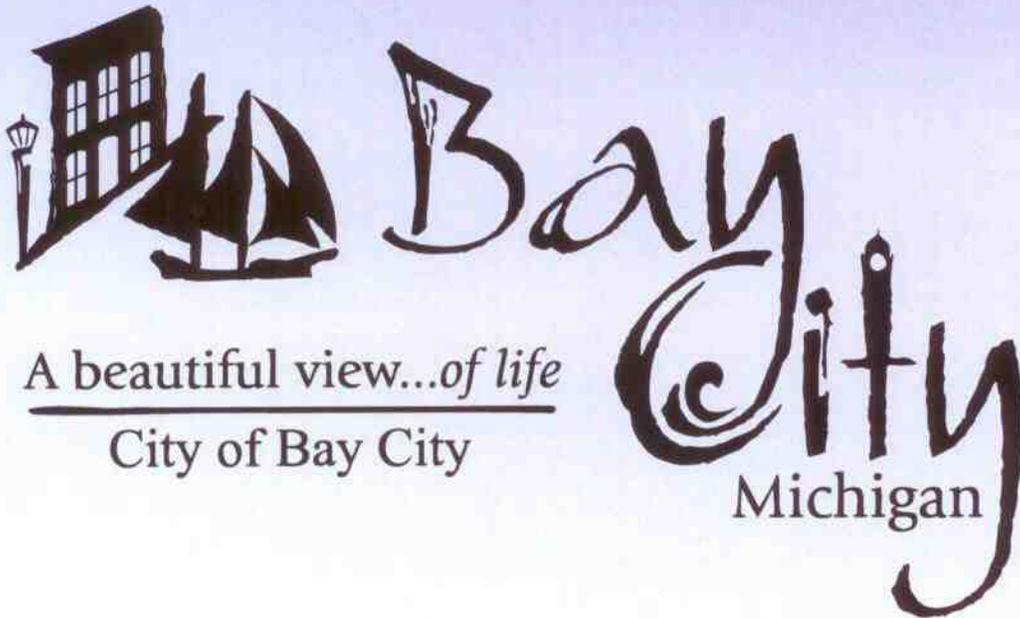


COMPREHENSIVE
ANNUAL
FINANCIAL REPORT



For the
Fiscal Year Ended
June 30, 2012

Bay City, Michigan

"Governmental imagination leading our community into the future."

CITY OF BAY CITY, MICHIGAN

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CITY OF BAY CITY, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2012

LIST OF PRINCIPAL OFFICIALS

MAYOR

Christopher J. Shannon

CITY COMMISSIONERS

1st Ward: Lynn D. Stamiris	5th Ward: James Irving
2nd Ward: Elizabeth Peters	6th Ward: Christopher Girard
3rd Ward: Dennis Banaszak	7th Ward: Douglas Sommer
4th Ward: Lori Dufresne	8th Ward: Chad Sibley
9th Ward: Larry Elliott	

ADMINISTRATION

CITY MANAGER

Robert V. Belleman

DEPUTY CITY MANAGER
OF ADMINISTRATIVE
SERVICES/CITY CLERK

Dana L. Muscott

ACTING WATER TREATMENT
SUPERINTENDENT

Thomas Levensgood

HUMAN RESOURCES
DIRECTOR

Wendy R. White

POLICE

CHIEF

Michael Cecchini

INTERIM
FISCAL SERVICES
DIRECTOR

Michael J. Regulski

WASTEWATER TREATMENT
SUPERINTENDENT

William Kaiser

ELECTRIC
DIRECTOR

Phil Newton

ACTING FIRE

CHIEF

Karey Prieur

Prepared By
City of Bay City
Accounting Department



December 26, 2012

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, 2012, 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, 2012.

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, 2012. The auditors' report on the financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

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

Reporting Entity

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

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, McLaren Bay Region, a healthcare provider, is now the largest employer in the City.

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

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

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

Financial Information

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

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

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

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

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

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.

Bay City has a diverse local economy comprised of mature and emerging industries including semiconductors, business and financial services, manufacturing, educational services, healthcare, social services, and retail as primary sectors. Michigan's and Bay City's economy are showing signs of rebounding. Bay City's unemployment rate has dropped approximately 1.5% within the last year and is lower than the state's average. The housing market is improving as sales and home values have been on the rise.

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 2012, Bay City businesses made notable investments expanding operations, acquiring new machinery and equipment, and rehabilitating obsolete structures. The Economic Development staff has been working on a number of economic projects and several more are slated to break ground in the next fiscal year. The following information is a list of private investments made between July 1, 2011 and June 30, 2012, which total nearly 39 million dollars of economic investment in the community.

PA 210 Applications - Commercial Rehabilitations

<u>Company</u>	<u>Investment</u>	<u>Project</u>
Gulfshore Investments	\$ 7,416,134	Construction of a new three-story, 54,000 sq. ft. building for the development of upscale rental units and retail businesses. This project is Commonly known as Mill End Lofts.

PA 198 Applications - Industrial Facilities

Eovations	\$ 476,857	Building renovations necessary for process improvement and new equipment to develop a composite building material called EoTek, a type of synthetic wood.
Mersen USA Bn Corp.	2,728,010	Building improvements and new equipment to service the needs of the solar industry.
Cambron Engineering	239,481	New equipment to produce die sets previously outsourced and expedite turnaround times.
Cambron Engineering	282,188	New equipment to produce die sets and expedite turn-around times.
Kerkau Manufacturing	1,416,000	New CNC equipment to expedite turn-around times of precision machined parts, castings, and forgings.
Universal Printing	80,000	New equipment to fuse pigments onto glassware.

Gougeon Brothers 1,200,000 New building and equipment to provide an updated and enhanced laboratory and technical area for the company's ongoing research and product development in the area of epoxies.

Additional Industrial Facilities Investments

General Motors Powertrain 25,000,000 New equipment to increase production on camshafts and connecting rods for the 1.4 liter Ecotec engine found in the Chevrolet Cruze, Volt, and Sonic.

The City of Bay City has continued to support the redevelopment of vacant and underutilized Brownfield properties throughout the City. The following table summarizes the brownfield properties, activity, and costs of brownfield assessment and incentives activities supported by the City between July 1, 2011 and June 30, 2012.

Property Common Name/Address:	Assessment Scope of Work	Purpose	Cost
Consumers Energy at Uptown/203 North Water	Phase I Environmental Site Assessment and Phase II Subsurface Investigation	Evaluate for the presence of contamination and support the sale and redevelopment of this property.	\$12,517
Uptown at River's Edge/202 Saginaw Street	Supplemental Subsurface Investigation, Cleanup Planning, and Brownfield Incentives Reporting	The property is planned for mixed use commercial redevelopment. The completed assessment activities facilitated the successful purchase and redevelopment.	\$88,430
Swartz Tower Redevelopment/108-116 Linn Street	Phase I Environmental Site Assessment, Pre-Renovation Asbestos Survey, and Phase II Subsurface Investigation	The assessment activities were completed to support the redevelopment of this property with a mixed use commercial development. The final planning and design is in progress to rehabilitate this historic building.	\$6,282
Former Lind Brothers Furniture/100 State Street	Phase I Environmental Site Assessment, Pre-Renovation Asbestos Survey, and Phase II Subsurface Investigation	The assessment activities were completed to support the redevelopment of this historic building for professional office purposes.	\$10,469
Total Expended			\$117,698

The City of Bay City continues to work with developers and community stake holders to identify Brownfield properties and developers.

Long-term Financial Planning

Unassigned fund balance in the general fund is currently at 8.5% 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, this amount is included in the committed fund balance of the general fund. 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 mixed use development project, estimated at \$150 million, 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 years, 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. Bay City entered into exclusive negotiations with a developer for the sale and redevelopment of the property. This riverfront development will invigorate the Bay City economy and create hundreds of job opportunities and provide more options for office, retail and living space. The initial stages of site preparation are anticipated once closing has occurred and the launch of major construction is slated to begin in FY 2013. Additionally, several grants were successfully pursued by the Economic Development staff in which the City was awarded \$400,000 in new funding from the US Environmental Protection Agency with several million dollars more anticipated to be awarded next fiscal year from State and Federal agencies to assist with this project.

The City continues its restoration efforts of City Hall. The City Commission, at its September 12, 2011 meeting, approved and authorized the sale of up to \$3 million in tax exempt, limited tax general obligation (LTGO) bonds for certain improvements to City Hall. The listing of building renovations was reviewed to determine which items could be covered by existing resources and which items should be covered by the capital improvement bond. After a thorough analysis it was determined that the City could cover many of the improvements except the HVAC System from resources on hand. As such, the City Hall Capital Improvement Bonds were sold for \$1,550,000 plus issuance costs, for a total bond issuance of \$1,630,000. It is expected that government operations will return to City Hall in the spring of 2013.

In addition, a number of 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.

During the fiscal year, a major area of concentration for the City was the collaboration with Bay County to construct a Membrane Water Filtration Plant. In 2012, Bay County submitted a project plan and application for funding through the State's Drinking Water Revolving Loan Fund (DWRFL) to construct a new membrane water filtration plant. The proposed project includes purchase of raw water from the Saginaw-Midland Municipal Water Supply Corporation. The project would serve all communities currently served by the existing Bay Metropolitan Plant (Bay City Water Plant). A governance structure for the proposed plan has not yet been determined. The County and City are working together to create the governance by December 2012. Failure to do so could result in losing favorable funding status from the Michigan Department of Environmental Quality. Once the Governance is established, the planning stage to begin construction of the Filtration Plant will commence.

Another area of concentration was the development and potential implementation of a Public Safety Department. The City developed an implementation plan for public safety merging the Police and Fire Departments into a Public Safety Department. The plan is scheduled for presentation to the City Commission for possible approval and adoption late in 2012. If this occurs, the City would cross-train twelve police officers as firefighters for deployment as complimentary fire suppression on or about July 1, 2013. With the implementation of a Public Safety Department the City would save approximately \$1.8m by 2017 by reducing 15 fulltime firefighters.

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

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bay City for its comprehensive annual financial report for the fiscal year ended June 30, 2011. 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,



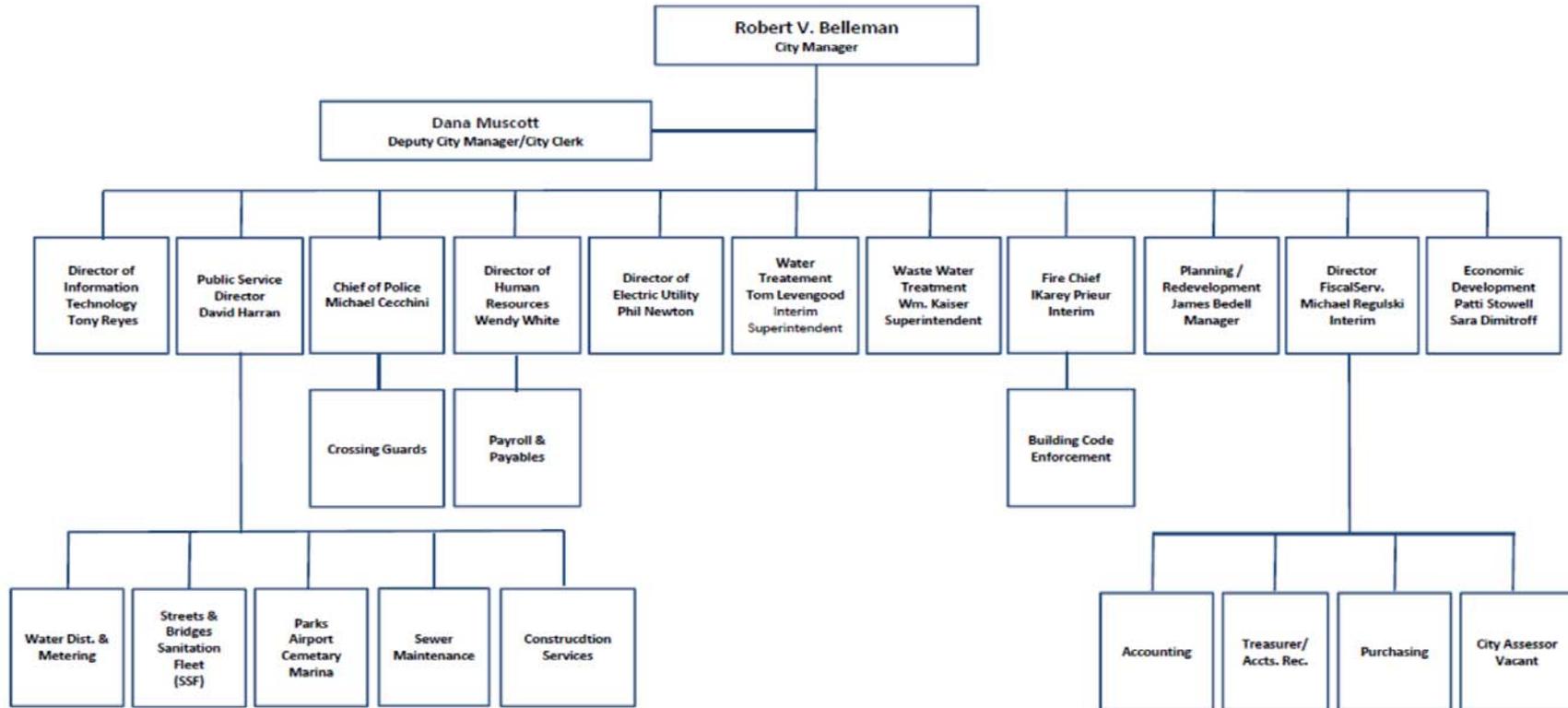
Robert V. Belleman
City Manager



Cathleen Szostak
Chief Accountant

CITY OF BAY CITY, MICHIGAN

Table of Organization



CITY OF BAY CITY, MICHIGAN

GFOA Certificate of Achievement

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, 2011

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. Enen

Executive Director

FINANCIAL SECTION



Bay

City
Michigan

A beautiful view...of life

City of Bay City

INDEPENDENT AUDITORS' REPORT

December 26, 2012

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* (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Bay City, Michigan. 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 previously 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, beginning fund balance of the general fund and net assets of the electric fund have been restated.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated December 26, 2012, on our consideration of the City of Bay City, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Funding Progress and Employer Contributions for the pension and other postemployment benefit plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's 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 Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. 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, 2012:

- The assets of the City of Bay City exceeded its liabilities at the close of the most recent fiscal year by \$201,884,504 (net assets). Of this amount, \$32,369,338 (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 \$1,646,848 from the previous year due primarily to an increase in the City's obligation for other post-employment benefits of \$1,219,686 and the interest payment on the zero coupon bond within the sinking fund amounted to \$1,150,943. The business-type activities net assets increased by \$3,088,571, due primarily to the increase in the net assets of the Sewer Fund of \$2,260,894. The increase occurred due to cost containment and excess revenues directed to a capital replacement reserve intended for future projects and a low income assistance program. In addition the Water and Sewer Funds received a transfer from the Street Fund in a combined amount of \$500,000 to assist with their portion of the Walnut Street Reconstruction Project. The net assets of the component units decreased by \$128,003 primarily due to a transfer in the City Loans and Collections Fund to the Street Fund in the amount of \$80,000 to assist with capital projects and the decrease in net assets of the Marquette District TIFA due to depreciation of capital assets.
- At the close of the fiscal year, the City of Bay City's governmental funds reported combined ending fund balances of \$10,274,090, a decrease of \$14,659 in comparison with the prior year. Of this amount, \$1,782,639 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 \$1,782,639, or about 8.4% of the total general fund expenditures.
- The City of Bay City's total debt decreased by \$4,010,705, or about 4.5%, during the fiscal year due to the fact that the bonded debt decreased of which was offset by an increase of \$1,838,439 in the net OPEB obligation.
- The City continues its commitment to improving its infrastructure and this year completed many projects including Adams Street reconstruction at a cost of \$568,778, the rehabilitation of Independence Bridge totalling \$996,881, repairs on Liberty Bridge in the amount of \$197,923 and spent an additional \$329,308 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, decreased by \$384,000, or about 9% from last year. Since the State of Michigan has reduced the City's allocation for nine of the last ten 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 community development, public safety, purchasing and assessing departments. The decreased revenue was accompanied by a reduction in expenditures, and as a result, the general fund experienced a decrease in fund balance of \$587,763 instead of the \$243,387 reduction that was anticipated in the final amended 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.

CITY OF BAY CITY, MICHIGAN

Management's Discussion and Analysis

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

Complete financial statements for the Downtown Management Board may be obtained at their administrative offices located at Commerce One, 901 Saginaw Street, Bay City, Michigan 48708. Separate financial statements for the remaining component units are not prepared.

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

The City as a Whole

For the fiscal year ended June 30, 2012, assets exceeded liabilities by \$201,884,504. By far, the largest portion of the City's net assets (77.7 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, 2012:

	Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 27,896,353	\$ 27,260,941	\$ 54,013,999	\$ 52,614,745	\$ 81,910,352	\$ 79,875,686
Capital assets, net	77,025,816	77,186,754	136,715,662	139,992,401	213,741,478	217,179,155
Total assets	<u>104,922,169</u>	<u>104,447,695</u>	<u>190,729,661</u>	<u>192,607,146</u>	<u>295,651,830</u>	<u>297,054,841</u>
Other liabilities	4,260,808	5,106,367	3,531,404	3,287,280	7,792,212	8,393,647
Long-term liabilities	31,031,902	29,033,224	54,943,212	60,952,595	85,975,114	89,985,819
Total liabilities	<u>35,292,710</u>	<u>34,139,591</u>	<u>58,474,616</u>	<u>64,239,875</u>	<u>93,767,326</u>	<u>98,379,466</u>
Net assets:						
Invested in capital assets, net of related debt	69,853,228	59,245,396	87,016,755	84,043,144	156,869,983	143,288,540
Restricted	1,746,583	1,758,988	10,898,600	11,901,344	12,645,183	13,660,332
Unrestricted	(1,970,352)	10,271,923	34,339,690	33,221,986	32,369,338	43,493,909
Total net assets	<u>\$ 69,629,459</u>	<u>\$ 71,276,307</u>	<u>\$132,255,045</u>	<u>\$129,166,474</u>	<u>\$201,884,504</u>	<u>\$200,442,781</u>

The City's governmental activities net assets decreased by \$1,646,848 while the net assets of its business-type activities increased by \$3,088,571. The change in net assets for the governmental activities was primarily due to an increase in the City's obligation for other post-employment benefits of \$1,219,686. The change in net assets of the business-type activities is attributable to the increase in the net assets of the Sewer Fund of \$2,260,894. The increase occurred due to cost containment and excess revenues directed to a capital replacement reserve intended for future projects and a low income assistance program. In addition the Water and Sewer Funds received a transfer from the Street Fund in a combined amount of \$500,000 to assist with their portion of the Walnut Street Reconstruction Project.

CITY OF BAY CITY, MICHIGAN

Management's Discussion and Analysis

As we look at the governmental activities separately from the business-type activities, we can see that \$69,853,228 is invested in capital assets, net of related debt, and is not available to meet the government's ongoing obligations to citizens and creditors. An additional portion of the City's net assets of its governmental activities, \$1,746,583 or approximately 5.0% of governmental activities expenditures, 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:

	Change in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenue:						
Charges for services	\$ 8,261,109	\$ 7,454,232	\$ 55,627,265	\$ 56,136,600	\$ 63,888,374	\$ 63,590,832
Operating grants	7,966,848	5,589,453	359,193	128,114	8,326,041	5,717,567
Capital grants	171,428	1,483,839	-	-	171,428	1,483,839
General revenue:						
Property taxes	12,357,132	12,728,586	-	-	12,357,132	12,728,586
Grants and contributions not restricted to specific programs	3,904,290	4,613,982	-	-	3,904,290	4,613,982
Unrestricted investment earnings	182,029	114,651	212,507	151,826	394,536	266,477
Miscellaneous	766,114	654,756	69,411	58,649	835,525	713,405
Total revenue	33,608,950	32,639,499	56,268,376	56,475,189	89,877,326	89,114,688
Expenses:						
General government	5,140,791	4,931,295	-	-	5,140,791	4,931,295
Public safety	12,596,556	12,106,167	-	-	12,596,556	12,106,167
Public works	11,988,850	13,760,665	589,836	558,430	12,578,686	14,319,095
Community and economic development	2,712,828	2,284,393	-	-	2,712,828	2,284,393
Recreation and culture	923,948	782,966	-	-	923,948	782,966
Interest on long-term debt	1,282,674	1,194,571	-	-	1,282,674	1,194,571
Electric	-	-	32,375,251	30,284,891	32,375,251	30,284,891
Water	-	-	9,076,919	8,193,401	9,076,919	8,193,401
Sewer	-	-	11,747,950	11,908,604	11,747,950	11,908,604
Total expenses	34,645,647	35,060,057	53,789,956	50,945,326	88,435,603	86,005,383
Increase (decrease) in net assets before transfers	(1,036,697)	(2,420,558)	2,478,420	5,529,863	1,441,723	3,109,305
Transfers	(610,151)	(125,305)	610,151	125,305	-	-
Change in net assets	(1,646,848)	(2,545,863)	3,088,571	5,655,168	1,441,723	3,109,305
Net assets:						
Beginning of year (as restated)	71,276,307	72,853,967	129,166,474	122,712,103	200,442,781	195,566,070
End of year	\$ 69,629,459	\$ 70,308,104	\$ 132,255,045	\$ 128,367,271	\$ 201,884,504	\$ 198,675,375

CITY OF BAY CITY, MICHIGAN

Management's Discussion and Analysis

Governmental Activities

The City's total governmental net assets decreased by \$1,646,848. Key elements of this decrease are as follows:

- The obligation for the other post employment benefits increased by \$1,219,686.
- Property taxes decreased by \$371,454 as a result of reduced property tax values with the housing market decline.
- State-shared revenues decreased by \$384,000, or nine percent from last year.
- While existing debt was reduced, the City issued new debt for renovations at City Hall in the amount of \$1,630,000.
- 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 \$3,088,571, due primarily to the following:

- The sewer fund experienced increased revenues due to a rate increase in the previous fiscal year while reducing operating expenses. In addition, the fund received a transfer from the Street Fund in the amount of \$282,560 intended to be used to assist with the Sewer Rehabilitation project on Walnut Street. As a result, the fund's change in net assets was \$2,260,894.
- The Water Fund also received a transfer from the Street Fund in the amount of \$217,440 to assist with the water line replacement on Walnut Street.
- James Clements Airport experienced an increase in its net assets of \$182,189 due to a federal grant it received for design and rehabilitation of the taxiway.
- The Motor Equipment Revolving Fund also had an increase in net assets of \$510,295 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:

- 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 2012, this resulted in an additional liability of \$618,753 in the City's electric, water and sewer utilities.
- The Site Remediation Fund experienced a decrease in its net assets of \$389,410 due to expenses related to the remediation of the middlegrounds landfill.

The City's Funds

An analysis of the City's major funds begins on page , 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 2012 include the general fund, major streets fund and the rehabilitation fund.

CITY OF BAY CITY, MICHIGAN

Management's Discussion and Analysis

The general fund is the chief operating fund of the City. The most significant source of revenue is property taxes, which generated \$9,110,999 in 2012. This is a decrease of approximately \$245,500 from the previous fiscal year. The most significant service accounted for in this fund is public safety, which incurred expenses of \$11,278,218 in 2012. This expenditure remained relatively the same as last year. Public safety expenditures equate to approximately 53% of the total expenditures of the general fund and are nearly 24% more than the amount of property taxes generated. At the fiscal year ended June 30, 2012, the unassigned fund balance of the general fund was \$1,782,639. 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 8.4% of the total general fund expenditures. In fiscal year 2012, there was an accounting change in the general fund. Specifically, the May/June 2012 distribution of state shared revenues was accrued, resulting in the restating of the beginning fund balance for the May/June 2011 distribution. Previously, these funds had not been received within 60 days after the end of the fiscal year and had not been accrued. In recent years, the distribution has been received within 60 days, therefore, the accounting change was made. This accounts for the majority of the reduction in state shared revenues in this fiscal year.

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, 2012, the City received \$3,638,389 in grants and State maintenance funds and \$583,605 in property taxes and expended \$1,201,952 on capital outlay primarily for the rehabilitation of its two bascule bridges and an additional \$2,363,165 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, 2012, \$628,860 was spent to assist residents of the City with home improvements.

Some notable items in the other governmental activities are:

- The local street fund expended \$518,374 on reconstruction and resurfacing of various streets and an additional \$926,876 to maintain and preserve local streets within the City and ended the year with \$449,998 in fund balance.
- The building inspection fund ended the fiscal year with a restricted fund balance of \$174,952. 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. However, 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 \$421,435. 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 \$646,072 on economic development activities and an additional \$326,053 on capital outlay.
- The public improvement fund expended \$1.7 million to replace the HVAC system and electrical wiring within City Hall. A bond was issued in the amount of \$1,630,000 in order to fund this project. The fund ended the year with a fund balance of \$856,276 primarily due to revenues in the form of historic tax credits which the City is eligible to receive through the State to assist with the cost of this project.
- The economic opportunities fund transferred \$304,300 to the riverfront redevelopment fund to assist with the mixed use development project along the Saginaw River known as Uptown at Rivers Edge.

CITY OF BAY CITY, MICHIGAN

Management's Discussion and Analysis

General Fund Budgetary Highlights

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

- The general fund budget was amended to reflect an anticipated increase in State Shared revenues in the amount of \$620,000 and subsequently the appropriated use of fund balance was reduced.
- The Fire Department utilized the remaining balance of a federal Staffing for Adequate Fire and Emergency Response (SAFER) grant which resulted in an increase to grant revenues in the amount of \$116,581 and also reduced the appropriated use of fund balance.
- A budget amendment in the amount of \$75,121 was made to the building improvement expenditure account in the City Hall and Grounds department to reflect the cost of rewiring City Hall to increase data speed and accommodate the IP based phone system.
- A Byrne Justice Assistance grant was received by the Police Department in the amount of \$22,500 and the budget was amended to reflect the revenue and increase the expenditure accounts utilized to purchase a Crimeview Dashboard Software package and a one year maintenance agreement.
- The Accounts Receivable Department required additional overtime in order to comply with the State of Michigan escheats process and amended the budget by \$10,854 to accommodate the expenditure.
- The Police Department overtime and applicable fringe benefits budget was increased by \$120,785 for the cost of securing City Hall and equipment owned by the restoration company after a fire damaged the building. A corresponding amendment was made to revenue for reimbursement of services as the City expects reimbursement of these expenditures by the restoration company.
- A budget amendment in the amount of \$70,000 was approved to reduce the Payment in Lieu of Taxes revenue from the Water Fund. The funds remained within the Water Fund to reduce the amount of the utility rate increase needed within the fund.

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 \$1,742,327 as a result of a portion of an EPA Brownfield grant not being received since the project was delayed until the following fiscal year. In addition, property taxes, interest revenue, and miscellaneous revenue were all less than anticipated due to the economic downturn. Actual expenditures were also less than budgetary estimates by \$1,397,951. 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 a decrease of \$587,763 in fund balance instead of the budgeted reduction projected in the final amended budget to be \$243,387.

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, 2012 amounted to \$213,741,478 (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 \$887,108 on various infrastructure rehabilitation projects including \$583,787 on the Walnut Street reconstruction and an additional \$47,091 on capital purchases.
- The water fund spent \$593,697 to complete various water system improvements including \$220,208 on its portion of the Walnut Street reconstruction.
- The electric fund purchased materials and completed various capital projects totaling \$2,124,450. This included improvements to the Henry Street Generating Plant in the amount of \$213,716 and the Saginaw substation in the amount of \$419,620.
- The local street fund expended \$568,778 on the reconstruction of Adams Street.
- Within the major street fund, Independence Bridge and Liberty Bridge, the City's two bascule bridges, were rehabilitated with expenditures totaling \$996,881 and \$197,923, respectively.
- The public improvement fund expended approximately \$1,725,000 to replace the HVAC system, replace lighting and perform other minor renovations at City Hall.

The investment in capital assets of the component units totals \$6,424,897 as of June 30, 2012. During the year, the Midland Street DDA component unit expended \$981,887 on the reconstruction of Walnut Street and an additional \$41,495 on streetscaping along Midland Street.

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

Long-term Debt. In the fiscal year ended June 30, 2012, the City had total outstanding debt of \$85,975,114, which included a current portion of \$6,955,970. Of this amount, \$64,284,796 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:

	2012	2011
General obligation bonds	\$ 33,934,796	\$ 34,778,546
Revenue bonds	2,285,000	4,202,500
Other notes/leases payable	33,410,614	35,982,347
Retiree healthcare	12,869,050	11,030,611
Compensated absences	3,475,654	3,991,815
Total	<u>\$ 85,975,114</u>	<u>\$ 89,985,819</u>

The City's total debt decreased by \$4,010,705 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 \$58,506,000 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.

CITY OF BAY CITY, MICHIGAN

Management's Discussion and Analysis

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. No additional reductions have been forecast for the next fiscal year, as the City is optimistic that this revenue source will remain relatively constant. 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 2012/2013 budget. With the decline in property tax values, property tax revenues decreased an additional \$300,000 within the governmental funds. The City will also be faced with the loss of approximately \$1.1 million in personal property tax if legislation passes in the State of Michigan to reform the State's Business Personal Property tax.

Another issue of concern to the City is the unfunded liabilities of its defined benefit retirement plan of approximately \$23 million and its retiree healthcare plan of approximately \$102 million. In the fiscal year ended June 30, 2012, the City contributed an additional \$1.1 million over and above the required contribution of \$2.1 million to its defined benefit plan and another \$6.5 million towards its \$8.4 million required contribution for retiree healthcare. The City budgeted an additional contribution to its defined benefit retirement plan in the upcoming fiscal year and intends to continue this trend in future budgets as well. The City will address the unfunded liability within its retiree healthcare plan by continuing its contribution to a healthcare trust fund for future retiree healthcare obligations along with funding its current obligation for present retirees until it is financially able to contribute the entire required contribution.

The City's water and electric utilities instituted a rate increase in the upcoming year. 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.



Bay

City
Michigan

A beautiful view...of life

City of Bay City

BASIC FINANCIAL STATEMENTS

CITY OF BAY CITY, MICHIGAN

Statement of Net Assets

June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 17,187,920	\$ 29,292,997	\$ 46,480,917	\$ 1,963,926
Receivables	12,880,679	9,529,314	22,409,993	68,156
Internal balances	(4,633,534)	4,633,534	-	-
Prepaid items and other assets	419,732	839,375	1,259,107	1,862
Inventories	324,513	3,313,670	3,638,183	-
Net pension asset	1,717,043	6,405,109	8,122,152	38,561
Nondepreciable capital assets	20,474,050	1,666,069	22,140,119	54,136
Depreciable capital assets, net	56,551,766	135,049,593	191,601,359	6,370,761
Total assets	104,922,169	190,729,661	295,651,830	8,497,402
Liabilities				
Accounts payable and other accrued expenses	4,083,977	3,015,005	7,098,982	38,516
Interest payable	160,965	359,428	520,393	24,907
Unearned revenue	15,866	156,971	172,837	-
Noncurrent liabilities				
Due within one year	1,730,174	5,225,796	6,955,970	257,000
Due in more than one year	20,671,924	45,478,170	66,150,094	2,924,300
Net OPEB obligation	8,629,804	4,239,246	12,869,050	-
Total liabilities	35,292,710	58,474,616	93,767,326	3,244,723
Net Assets				
Invested in capital assets, net of related debt	69,853,228	87,016,755	156,869,983	3,641,683
Restricted for				
Debt service	456,260	10,898,600	11,354,860	-
Capital projects	1,290,323	-	1,290,323	-
Unrestricted (deficit)	(1,970,352)	34,339,690	32,369,338	1,610,996
Total net assets	\$ 69,629,459	\$ 132,255,045	\$ 201,884,504	\$ 5,252,679

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, 2012

Functions / Programs	Expenses	Indirect	Program Revenue			Net (Expense) Revenue
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government						
Governmental activities:						
General government	\$ 5,140,791	\$ (4,158,606)	\$ 836,695	\$ 768,881	\$ -	\$ 623,391
Public safety	12,596,556	9,445	844,597	880,714	-	(10,880,690)
Public works	11,988,850	94,455	2,528,188	4,471,370	171,428	(4,912,319)
Recreation and cultural	923,948	-	66,703	26,209	-	(831,036)
Economic development	2,712,828	119,830	50,050	1,819,674	-	(962,934)
Interest on debt	1,282,674	-	-	-	-	(1,282,674)
Total governmental activities	34,645,647	(3,934,876)	4,326,233	7,966,848	171,428	(18,246,262)
Business-type activities:						
Electric	30,903,673	1,471,578	32,240,382	-	-	(134,869)
Water	7,894,060	1,182,859	9,500,642	-	-	423,723
Sewer	10,652,759	1,095,191	13,666,645	-	-	1,918,695
Oak Ridge Cemetery	125,407	-	51,898	-	-	(73,509)
James Clements Airport	267,595	-	44,362	359,193	-	135,960
Liberty Harbor Marina	175,936	20,898	123,336	-	-	(73,498)
Total business-type activities	50,019,430	3,770,526	55,627,265	359,193	-	2,196,502
Total primary government	\$ 84,665,077	\$ (164,350)	\$ 59,953,498	\$ 8,326,041	\$ 171,428	\$ (16,049,760)
Component units						
Downtown Development Authority	\$ 140,080	\$ 9,439	\$ 131,183	\$ -	\$ -	\$ (18,336)
Midland Street TIFA	83,996	2,181	-	-	-	(86,177)
Kresge's DDA	3,289	-	-	-	-	(3,289)
Marquette District TIFA	397,094	6,439	-	-	-	(403,533)
Water Street DDA	289,728	5,991	-	-	-	(295,719)
Marina Development TIFA	9,373	-	-	-	-	(9,373)
Allen Healthcare DDA	-	-	-	-	-	-
Knepp's DDA	5,872	-	-	-	-	(5,872)
Brownfield Redevelopment	131,776	-	-	-	-	(131,776)
Columbus Avenue Management Board	8,943	-	7,900	500	-	(543)
Midland Street Management Board	12,278	-	19,360	-	-	7,082
P.O.W.E.R.	94,784	-	-	-	-	(94,784)
Downtown Management Board	249,942	-	79,766	86,570	-	(83,606)
Total component units	\$ 1,427,155	\$ 24,050	\$ 238,209	\$ 87,070	\$ -	\$ (1,125,926)

continued.....

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

CITY OF BAY CITY, MICHIGAN

Statement of Activities (Continued)
For the Year Ended June 30, 2012

Functions/Programs	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (18,246,262)	\$ 2,196,502	\$ (16,049,760)	\$ (1,125,926)
General revenue				
Property taxes	12,357,132	-	12,357,132	967,804
Grants and contributions not restricted to specific programs	3,904,290	-	3,904,290	-
Unrestricted investment earnings	182,029	212,507	394,536	20,119
Miscellaneous revenue	766,114	69,411	835,525	10,000
Transfers - internal activities	(610,151)	610,151	-	-
Total general revenue and transfers	<u>16,599,414</u>	<u>892,069</u>	<u>17,491,483</u>	<u>997,923</u>
Change in net assets	(1,646,848)	3,088,571	1,441,723	(128,003)
Net assets, beginning of year (as restated)	<u>71,276,307</u>	<u>129,166,474</u>	<u>200,442,781</u>	<u>5,380,682</u>
Net assets, end of year	<u>\$ 69,629,459</u>	<u>\$ 132,255,045</u>	<u>\$ 201,884,504</u>	<u>\$ 5,252,679</u>

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

CITY OF BAY CITY, MICHIGAN

Balance Sheet Governmental Funds June 30, 2012

	General Fund	Major Streets Fund	Rehabilitation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 3,499,348	\$ 847,472	\$ -	\$ 1,773,806	\$ 6,120,626
Receivables (net of allowance for uncollectibles)					
Accounts	269,341	12,245	9,612	1,634,374	1,925,572
Delinquent taxes	45,664	-	-	4,888	50,552
Special assessments	96,344	-	-	27,744	124,088
Accrued interest	15,624	3,458	-	6,101	25,183
Notes	-	-	7,519,443	-	7,519,443
Due from other funds	1,611,684	3,119	-	252,877	1,867,680
Due from other governments	2,066,805	862,743	-	234,487	3,164,035
Inventories	-	128,628	-	-	128,628
Prepaid assets	2,045	-	-	495	2,540
Total assets	\$ 7,606,855	\$ 1,857,665	\$ 7,529,055	\$ 3,934,772	\$ 20,928,347
Liabilities					
Accounts payable	\$ 328,161	\$ 118,488	\$ -	\$ 436,757	\$ 883,406
Accrued liabilities	527,161	32,589	-	40,617	600,367
Due to other funds	3,119	750,627	-	162,560	916,306
Due to other governmental units	383,867	148,567	-	64,446	596,880
Deposits	5,497	-	-	19,657	25,154
Deferred revenue	95,336	-	7,529,055	7,753	7,632,144
Total liabilities	1,343,141	1,050,271	7,529,055	731,790	10,654,257
Fund balances					
Nonspendable	2,045	128,628	-	495	131,168
Restricted	37,851	678,766	-	3,202,487	3,919,104
Committed	4,441,179	-	-	-	4,441,179
Unassigned	1,782,639	-	-	-	1,782,639
Total fund balances	6,263,714	807,394	-	3,202,982	10,274,090
Total liabilities and fund balances	\$ 7,606,855	\$ 1,857,665	\$ 7,529,055	\$ 3,934,772	\$ 20,928,347

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

CITY OF BAY CITY, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Assets of Governmental Activities
June 30, 2012

Fund balances - total governmental funds	\$ 10,274,090
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.	
Capital assets	169,825,423
Accumulated depreciation	(97,154,357)
Net pension assets of governmental activities are not financial resources, and are therefore not reported in the funds.	
Net pension asset	1,323,182
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.	
Deferred receivables	7,616,278
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.	
Net assets of governmental activities accounted for in internal service funds	8,279,533
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Interest payable	(160,310)
Bonds payable	(16,870,889)
Capital leases	(1,760)
Loans payable	(2,000,000)
Landfill remediation liability	(1,007,303)
Net OPEB liability	(8,163,789)
Compensated absences	(2,330,639)
Net assets of governmental activities	<u>\$ 69,629,459</u>

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

CITY OF BAY CITY, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2012

	General Fund	Major Streets Fund	Rehabilitation Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 9,110,999	\$ 583,605	\$ -	\$ 1,764,143	\$ 11,458,747
Licenses and permits	26,478	-	-	388,555	415,033
Intergovernmental	6,503,195	3,638,389	373,886	3,049,079	13,564,549
Charges for services	4,670,905	-	-	2,013,393	6,684,298
Fines and forfeitures	82,653	-	-	20,775	103,428
Interest revenue	54,398	6,348	6,976	18,972	86,694
Miscellaneous revenues	394,533	325,896	80,503	777,756	1,578,688
Total revenue	20,843,161	4,554,238	461,365	8,032,673	33,891,437
Expenditures					
Current					
General government	4,569,833	-	-	-	4,569,833
Public safety	11,278,218	-	-	650,241	11,928,459
Public works	1,123,383	2,363,165	-	926,876	4,413,424
Environmental	182,135	-	-	2,092,631	2,274,766
Parks and recreation	835,721	-	-	-	835,721
Economic development	390,179	-	628,860	1,614,339	2,633,378
Retiree healthcare	2,149,517	-	-	-	2,149,517
Retirement	340,382	-	-	-	340,382
Capital outlay	384,139	1,201,952	-	2,465,939	4,052,030
Debt service					
Principal retirement	43,460	-	-	1,705,000	1,748,460
Interest and fiscal charges	-	-	-	64,585	64,585
Total expenditures	21,296,967	3,565,117	628,860	9,519,611	35,010,555
Revenue over (under) expenditures	(453,806)	989,121	(167,495)	(1,486,938)	(1,119,118)
Other financing sources (uses)					
Transfers in	114,882	-	254,974	1,184,812	1,554,668
Bond proceeds	-	-	-	1,630,000	1,630,000
Proceeds from sale of asset	-	-	-	84,610	84,610
Transfers out	(248,839)	(500,000)	(87,479)	(1,328,501)	(2,164,819)
Total other financing sources (uses)	(133,957)	(500,000)	167,495	1,570,921	1,104,459
Net change in fund balance	(587,763)	489,121	-	83,983	(14,659)
Fund balance, beginning of year (as restated)	6,851,477	318,273	-	3,118,999	10,288,749
Fund balance, end of year	\$ 6,263,714	\$ 807,394	\$ -	\$ 3,202,982	\$ 10,274,090

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

CITY OF BAY CITY, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Assets of Governmental Activities
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds \$ (14,659)

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.

Capital outlay	3,569,321
Net value of assets disposed	(52,038)
Depreciation expense	(3,494,822)

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.

Current year change in long-term receivables	73,038
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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.

Principal payments on bonds	1,705,000
Principal payments on capital leases	960
Principal payments on loans	42,500
Change in interest accrued on bonds	(64,389)
Proceeds on new capital lease	(1,630,000)
Interest expenditure on zero coupon bond	(1,150,943)

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.

Decrease in the accrual for landfill remediation liability	65,475
Change in the accrual of compensated absences	116,031
Change in the accrual for the net OPEB liability	(1,168,222)
Change in the net pension asset	154,335

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.

Net operating income from governmental activities accounted for in internal service funds	119,815
Nonoperating revenue recorded in internal service funds	81,750

Change in net assets of governmental activities \$ (1,646,848)

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

CITY OF BAY CITY, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual - General Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue				
Taxes	\$ 9,217,438	\$ 9,217,438	\$ 9,110,999	\$ (106,439)
Licenses and permits	20,665	28,792	26,478	(2,314)
Intergovernmental	7,073,688	8,100,378	6,503,195	(1,597,183)
Charges for services	4,645,358	4,664,728	4,670,905	6,177
Fines and forfeitures	144,000	76,620	82,653	6,033
Interest revenue	75,000	75,000	54,398	(20,602)
Miscellaneous revenue	292,244	422,532	394,533	(27,999)
Total revenue	21,468,393	22,585,488	20,843,161	(1,742,327)
Expenditures				
Current				
General government				
Legislative and executive Administration	385,100	328,887	323,718	5,169
Finance	746,699	713,205	618,453	94,752
Legal counsel	3,112,729	2,952,647	3,249,431	(296,784)
Planning and zoning	143,500	143,500	127,380	16,120
Total general government	248,210	249,160	250,851	(1,691)
Community/economic development	4,636,238	4,387,399	4,569,833	(182,434)
Public safety				
Police	362,101	382,315	390,179	(7,864)
Fire	5,640,271	5,947,585	5,829,332	118,253
Community policing	5,310,981	5,245,342	5,150,297	95,045
Total public safety	302,093	304,343	298,589	5,754
Public works	11,253,345	11,497,270	11,278,218	219,052
Environmental	1,228,998	1,210,085	1,123,383	86,702
Parks and recreation	1,153,008	1,153,008	182,135	970,873
Retiree healthcare	870,771	870,190	835,721	34,469
Retirement	2,149,517	2,149,517	2,149,517	-
Capital outlay	340,382	340,382	340,382	-
Debt Service	182,049	662,252	384,139	278,113
Principal retirement	42,500	42,500	43,460	(960)
Total expenditures	22,218,909	22,694,918	21,296,967	1,397,951

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CITY OF BAY CITY, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual - General Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue over (under) expenditures	\$ (750,516)	\$ (109,430)	\$ (453,806)	\$ (344,376)
Other financing sources (uses)				
Transfer in	297,085	302,941	114,882	(188,059)
Transfer out	(834,648)	(436,898)	(248,839)	188,059
Total other financing sources (uses)	(537,563)	(133,957)	(133,957)	-
Net change in fund balance	(1,288,079)	(243,387)	(587,763)	(344,376)
Fund balance, beginning of year, as restated	6,851,477	6,851,477	6,851,477	-
Fund balance, end of year	\$ 5,563,398	\$ 6,608,090	\$ 6,263,714	\$ (344,376)

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

CITY OF BAY CITY, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual - Major Streets Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue				
Property taxes	\$ 593,644	\$ 593,644	\$ 583,605	\$ (10,039)
Intergovernmental				
State	2,929,861	3,429,861	3,600,216	170,355
Federal	-	-	38,173	38,173
Miscellaneous				
Interest earnings	3,000	3,000	6,348	3,348
Reimbursements	500	325,896	325,396	(500)
Other	500	500	500	-
Total revenue	3,527,505	4,352,901	4,554,238	201,337
Expenditures				
Public works				
Highways, streets, and bridges	2,314,710	2,292,533	2,363,165	(70,632)
Capital outlay	994,000	1,002,215	1,201,952	(199,737)
Total expenditures	3,308,710	3,294,748	3,565,117	(270,369)
Revenue over (under) expenditures	218,795	1,058,153	989,121	(69,032)
Other financing uses				
Transfer out	-	(500,000)	(500,000)	-
Net change in fund balance	218,795	558,153	489,121	(69,032)
Fund balance, beginning of year	318,273	318,273	318,273	-
Fund balance, end of year	\$ 537,068	\$ 876,426	\$ 807,394	\$ (69,032)

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

CITY OF BAY CITY, MICHIGAN

Statement of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual - Rehabilitation Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue				
Intergovernmental				
Federal	\$ 590,872	\$ 592,473	\$ 373,886	\$ (218,587)
Miscellaneous				
Program income	94,500	94,500	80,503	(13,997)
Interest earnings	5,500	7,720	6,976	(744)
	<u>690,872</u>	<u>694,693</u>	<u>461,365</u>	<u>(233,328)</u>
Total revenue				
Expenditures				
Economic development	<u>1,295,643</u>	<u>1,287,044</u>	<u>628,860</u>	<u>658,184</u>
Revenue under expenditures	<u>(604,771)</u>	<u>(592,351)</u>	<u>(167,495)</u>	<u>424,856</u>
Other financing sources (uses)				
Transfer in	704,771	694,571	254,974	(439,597)
Transfer out	<u>(100,000)</u>	<u>(102,220)</u>	<u>(87,479)</u>	<u>14,741</u>
Total other financing sources (uses)	<u>604,771</u>	<u>592,351</u>	<u>167,495</u>	<u>(424,856)</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, 2012

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Assets						
Current assets:						
Cash and cash equivalents	\$ 3,409,708	\$ 6,187,860	\$ 8,432,983	\$ 363,846	\$ 18,394,397	\$ 11,067,294
Receivables (net of allowance for uncollectibles)						
Accounts	5,840,713	1,070,317	2,165,969	21,735	9,098,734	27,412
Special assessments	90,565	15,255	236,113	-	341,933	-
Accrued interest	34,207	37,276	15,599	1,537	88,619	44,391
Due from other funds	-	234,207	291,043	-	525,250	-
Due from other governments	-	-	-	28	28	-
Inventories	2,493,412	601,806	196,924	21,528	3,313,670	195,885
Prepaid expenses	-	-	-	-	-	196,885
Deposits	675,311	150	80	-	675,541	220,307
Total current assets	12,543,916	8,146,871	11,338,711	408,674	32,438,172	11,752,174
Noncurrent assets:						
Restricted assets						
Debt service funds - cash and cash equivalents	4,899,334	2,947,528	3,051,738	-	10,898,600	-
Other assets						
Net pension asset	2,953,500	1,595,327	1,856,282	-	6,405,109	393,861
Unamortized issuance costs	-	-	163,834	-	163,834	-
Total other assets	2,953,500	1,595,327	2,020,116	-	6,568,943	393,861
Capital assets						
Land and improvements	182,602	7,307,861	15,967,681	5,201,941	28,660,085	-
Air rights	-	-	-	95,421	95,421	-
Buildings	1,372,223	2,022,490	26,251	1,399,153	4,820,117	65,329
Machinery and equipment	3,720,292	1,359,237	2,163,314	143,483	7,386,326	13,726,296
Utility plant in service	69,050,644	53,750,908	148,075,579	-	270,877,131	-
Construction in progress	563,480	110,173	45,571	30,000	749,224	-
	74,889,241	64,550,669	166,278,396	6,869,998	312,588,304	13,791,625
Less: accumulated depreciation	45,968,480	40,583,548	86,563,806	2,756,808	175,872,642	9,436,873
Net capital assets	28,920,761	23,967,121	79,714,590	4,113,190	136,715,662	4,354,752
Total noncurrent assets	36,773,595	28,509,976	84,786,444	4,113,190	154,183,205	4,748,613
Total assets	49,317,511	36,656,847	96,125,155	4,521,864	186,621,377	16,500,787

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CITY OF BAY CITY, MICHIGAN

Statement of Net Assets

Proprietary Funds

June 30, 2012

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Liabilities						
Current liabilities:						
Accounts payable	\$ 1,859,588	\$ 146,781	\$ 231,145	\$ 46,484	\$ 2,283,998	\$ 757,701
Accrued liabilities	157,645	95,302	75,453	567	328,967	44,828
Due to other funds	1,234,169	75,000	-	-	1,309,169	167,455
Due to other governmental units	68,590	-	8,981	-	77,571	35,439
Interest payable	-	75,045	284,383	-	359,428	655
Claims payable	-	-	-	-	-	1,140,202
Deposits	272,030	52,920	(481)	-	324,469	-
Unearned revenue	-	-	156,971	-	156,971	-
Accrued compensated absences	196,926	117,356	95,462	1,053	410,797	63,342
Notes payable	-	-	-	-	-	51,551
Bonds payable	365,000	696,609	3,753,390	-	4,814,999	-
Total current liabilities	4,153,948	1,259,013	4,605,304	48,104	10,066,369	2,261,173
Long-term liabilities:						
Accrued compensated absences	314,846	173,245	104,504	1,667	594,262	76,613
Notes payable	-	-	-	-	-	-
Bonds payable	1,920,000	8,550,850	34,413,058	-	44,883,908	-
Net OPEB obligation	1,558,576	1,435,421	1,245,249	-	4,239,246	466,015
Total long-term liabilities	3,793,422	10,159,516	35,762,811	1,667	49,717,416	542,628
Total liabilities	7,947,370	11,418,529	40,368,115	49,771	59,783,785	2,803,801
Net assets						
Invested in capital assets, net of related debt	26,635,761	14,719,662	41,548,142	4,113,190	87,016,755	4,303,201
Restricted for:						
Debt service	4,899,334	2,947,528	3,051,738	-	10,898,600	-
Unrestricted	9,835,046	7,571,128	11,157,160	358,903	28,922,237	9,393,785
Total net assets	\$ 41,370,141	\$ 25,238,318	\$ 55,757,040	\$ 4,472,093	\$ 126,837,592	\$ 13,696,986
Adjustment to reflect the consolidation of internal service funds related to enterprise funds					5,417,453	
Net assets of business-type activities					\$ 132,255,045	

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

CITY OF BAY CITY, MICHIGAN

Statement of Revenue, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2012

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Operating revenue						
Charges for services						
Sales	\$ 31,670,810	\$ 9,465,064	\$ 13,604,442	\$ 122,321	\$ 54,862,637	\$ 18,257,480
Rents	-	-	-	123,577	123,577	-
Miscellaneous	576,118	40,687	88,009	41,436	746,250	5,242,217
Total operating revenue	32,246,928	9,505,751	13,692,451	287,334	55,732,464	23,499,697
Operating expenses						
Cost of sales and service	25,776,511	5,696,020	5,370,863	404,116	37,247,510	3,384,499
Administration	4,234,709	1,886,644	1,139,028	-	7,260,381	1,347,086
Claims and benefits	-	-	-	-	-	17,893,562
Depreciation	2,214,528	1,245,120	4,029,381	183,277	7,672,306	663,110
Total operating expenses	32,225,748	8,827,784	10,539,272	587,393	52,180,197	23,288,257
Operating income (loss)	21,180	677,967	3,153,179	(300,059)	3,552,267	211,440
Nonoperating revenue (expenses)						
Intergovernmental						
Federal grants	-	-	-	283,955	283,955	-
State grants	-	-	-	7,500	7,500	-
Interest earnings	85,557	87,252	36,372	3,326	212,507	95,907
Interest expense	(125,962)	(315,208)	(1,191,930)	-	(1,633,100)	(2,757)
Net loss on disposal of capital assets	-	-	-	-	-	(11,400)
Bond issuance costs	-	-	(25,280)	-	(25,280)	-
Amortization of bond premium/ discount/deferred costs	(22,500)	4,251	7,195	-	(11,054)	-
Total nonoperating revenue (expenses)	(62,905)	(223,705)	(1,173,643)	294,781	(1,165,472)	81,750
Income (loss) before transfers	(41,725)	454,262	1,979,536	(5,278)	2,386,795	293,190
Transfers						
Transfers in	-	217,440	282,560	113,757	613,757	-
Transfers out	(1,202)	(1,202)	(1,202)	-	(3,606)	-
Total transfers	(1,202)	216,238	281,358	113,757	610,151	-
Change in net assets	(42,927)	670,500	2,260,894	108,479	2,996,946	293,190
Net assets, beginning of year (as restated)	41,413,068	24,567,818	53,496,146	4,363,614		13,403,796
Net assets, end of year	\$ 41,370,141	\$ 25,238,318	\$ 55,757,040	\$ 4,472,093		\$ 13,696,986
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					91,625	
Change in net assets of business-type activities					\$ 3,088,571	

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

CITY OF BAY CITY, MICHIGAN

Combining Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2012

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities						
Cash received from customers and users	\$ 31,191,966	\$ 9,529,405	\$ 13,668,235	\$ 274,528	\$ 54,664,134	\$ -
Cash received from internal users	-	-	-	-	-	24,782,573
Cash payments to suppliers for goods and services	(24,521,395)	(3,878,353)	(3,238,675)	(408,052)	(32,046,475)	(22,333,114)
Cash payments to employees for services	(5,027,812)	(3,935,482)	(3,358,175)	(16,402)	(12,337,871)	(1,223,355)
Cash payments for internal services provided	19,698	(300,364)	(290,095)	-	(570,761)	-
Other receipts	576,118	40,687	88,009	41,436	746,250	-
Net cash provided (used) by operating activities	2,238,575	1,455,893	6,869,299	(108,490)	10,455,277	1,226,104
Cash flows from noncapital financing activities						
Intergovernmental - federal grants	-	-	-	283,955	283,955	-
Intergovernmental - state grants	-	-	-	7,500	7,500	-
Transfers in	-	217,440	282,560	113,757	613,757	-
Transfers out	(1,202)	(1,202)	(1,202)	-	(3,606)	-
Net cash provided (used) by noncapital financing activities	(1,202)	216,238	281,358	405,212	901,606	-
Cash flows from capital and related financing activities						
Purchase of capital assets	(2,615,481)	(483,175)	(979,770)	(317,141)	(4,395,567)	(491,113)
Proceeds from issuance of debt	-	-	884,000	-	884,000	-
Bond issuance costs	-	-	(25,280)	-	(25,280)	-
Premium on debt issuance	-	-	25,000	-	25,000	-
Principal paid on debt	(1,940,000)	(678,594)	(4,531,305)	-	(7,149,899)	(49,641)
Interest paid on debt	(125,962)	(315,208)	(1,191,930)	-	(1,633,100)	(2,757)
Net cash used by capital and related financing activities	(4,681,443)	(1,476,977)	(5,819,285)	(317,141)	(12,294,846)	(543,511)
Cash flows from investing activities						
Interest received	85,557	87,252	36,372	3,326	212,507	95,907
Net increase (decrease) in cash and cash equivalents	(2,358,513)	282,406	1,367,744	(17,093)	(725,456)	778,500
Cash and cash equivalents, beginning of year	10,667,555	8,852,982	10,116,977	380,939	30,018,453	10,288,794
Cash and cash equivalents, end of year	\$ 8,309,042	\$ 9,135,388	\$ 11,484,721	\$ 363,846	\$ 29,292,997	\$ 11,067,294

continued...

CITY OF BAY CITY, MICHIGAN

Combining Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2012

	Enterprise Funds					Internal Service Funds
	Electric	Water	Sewer	Nonmajor Enterprise Funds	Total	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities						
Operating income (loss)	\$ 21,180	\$ 677,967	\$ 3,153,179	\$ (300,059)	\$ 3,552,267	\$ 211,440
Adjustments to reconcile operating income to net cash provided (used) by operating activities						
Depreciation	2,214,528	1,245,120	4,029,381	183,277	7,672,306	663,110
(Increase) decrease in assets						
Accounts receivable	(425,507)	88,367	71,386	(1,569)	(267,323)	1,237,927
Special assessments receivable	(40,022)	(4,304)	(5,661)	-	(49,987)	-
Accrued interest receivable	(13,315)	(19,722)	(1,932)	(773)	(35,742)	(24,530)
Due from other funds	3,064	(226,527)	(290,095)	-	(513,558)	36,379
Due from other governments	-	-	-	30,972	30,972	-
Inventories	156,310	(6,417)	11,467	26,473	187,833	(50,058)
Prepaid expenses	-	-	-	73	73	199,010
Deposits	123,892	-	-	-	123,892	7,872
Net pension asset	(310,138)	(161,617)	(201,589)	-	(673,344)	(47,524)
Increase (decrease) in liabilities						
Accounts payable	521,237	(218,534)	75,371	(46,629)	331,445	(900,679)
Accrued liabilities	8,354	4,129	4,562	50	17,095	10,753
Due to other funds	16,634	(73,837)	-	-	(57,203)	33,100
Due to other governmental units	(16,607)	-	-	-	(16,607)	9,157
Interest payable	-	(5,009)	(33,131)	-	(38,140)	(630)
Claims payable	-	-	-	-	-	(188,342)
Deposits	(24,384)	(3,684)	(481)	-	(28,549)	-
Unearned revenue	-	-	(21,120)	-	(21,120)	-
Accrued compensated absences	(220,019)	(68,456)	(89,006)	(305)	(377,786)	(22,345)
Net OPEB obligation	223,368	228,417	166,968	-	618,753	51,464
Total adjustments	2,217,395	777,926	3,716,120	191,569	6,903,010	1,014,664
Net cash provided (used) by operating activities	\$ 2,238,575	\$ 1,455,893	\$ 6,869,299	\$ (108,490)	\$ 10,455,277	\$ 1,226,104

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

CITY OF BAY CITY, MICHIGAN

Statement of Fiduciary Net Assets
 Fiduciary Funds
 June 30, 2012

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 6,398,671	\$ 169,772
Investments		
Money market accounts	646,374	-
Mutual funds	19,094,402	-
Government securities	8,018,408	-
Corporate bonds	5,384,212	-
Common stock	13,232,744	-
Accounts receivable	177,492	-
Interest receivable	128,532	-
Total assets	<u>53,080,835</u>	<u>\$ 169,772</u>
Liabilities		
Accounts payable	51,758	\$ 146,649
Deposits payable	-	23,123
Total liabilities	<u>51,758</u>	<u>\$ 169,772</u>
Net assets		
Held in trust for employees' pension benefits	44,779,617	
Held in trust for employees' postemployment health care benefits	8,249,460	
Total net assets	<u>\$ 53,029,077</u>	

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

CITY OF BAY CITY, MICHIGAN

Statement of Changes in Fiduciary Net Assets Fiduciary Funds For the Year Ended June 30, 2012

Additions	
Contributions:	
Employer	\$ 3,674,533
Current premium contributions	4,427,137
Plan members	<u>458,068</u>
Total contributions	<u>8,559,738</u>
Investment income:	
Interest and dividends	1,031,222
Net appreciation in fair value of investments	148,543
Investment expense	<u>(181,022)</u>
Net investment income	<u>998,743</u>
Other additions	<u>32,087</u>
Total additions	<u>9,590,568</u>
Deductions	
Retiree healthcare premium payments	4,427,137
Benefits and refunds paid to participants	4,447,669
Administrative expenses	<u>139,350</u>
Total deductions	<u>9,014,156</u>
Net increase in plan net assets	576,412
Change in net assets	
Net assets, beginning of year	<u>52,452,665</u>
Net assets, end of year	<u><u>\$ 53,029,077</u></u>

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

CITY OF BAY CITY, MICHIGAN

Combining Statement of Net Assets

All Component Units

June 30, 2012

	Downtown Development Authority	Midland St. TIFA	Kresge's DDA	Marquette District TIFA	Water Street DDA
Assets					
Cash and cash equivalents	\$ 173,990	\$ 424,656	\$ 32,961	\$ 347,755	\$ 218,839
Receivables:					
Accounts	11,990	-	-	-	-
Delinquent taxes	498	-	-	-	-
Accrued interest	669	1,733	135	1,419	934
Notes	-	-	-	-	-
Allowance for uncollectible amounts	-	-	-	-	-
Due from other governments	-	-	-	-	-
Prepaid items	-	-	-	-	-
Net pension asset	-	-	-	38,561	-
Nondepreciable capital assets	-	24,000	-	30,136	-
Depreciable capital assets, net	128,842	1,448,582	24,967	1,526,062	2,598,970
Total assets	315,989	1,898,971	58,063	1,943,933	2,818,743
Liabilities					
Accounts payable	18,124	1,424	-	989	5,031
Accrued liabilities	-	-	-	1,226	-
Interest payable	-	10,181	-	-	10,967
Bonds payable:					
Due within one year	-	41,630	-	-	200,000
Due in more than one year	-	1,036,584	-	-	1,505,000
Total liabilities	18,124	1,089,819	-	2,215	1,720,998
Net assets					
Invested in capital assets, net of related debt	128,842	394,368	24,967	1,556,198	893,970
Unrestricted	169,023	414,784	33,096	385,520	203,775
Total net assets	\$ 297,865	\$ 809,152	\$ 58,063	\$ 1,941,718	\$ 1,097,745

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

Marina Develop. TIFA	Allen Health-care DDA	Research Center Develop. TIFA	Knepp's DDA	Brownfield Redevelopment Authority	Columbus Avenue Mgmt. Board	Midland St. Mgmt. Board
\$ -	\$ 4,230	\$ 21,331	\$ 3,372	\$ 568,945	\$ 17,227	\$ 20,942
-	-	-	-	-	-	40
-	-	-	-	-	-	-
-	-	87	14	2,322	70	85
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
492,858	-	-	150,480	-	-	-
492,858	4,230	21,418	153,866	571,267	17,297	21,067
-	-	-	-	2,136	1,343	1,532
-	-	-	-	-	-	-
-	-	-	-	3,759	-	-
-	-	-	-	15,370	-	-
-	-	-	-	382,716	-	-
-	-	-	-	403,981	1,343	1,532
492,858	-	-	150,480	-	-	-
-	4,230	21,418	3,386	167,286	15,954	19,535
\$ 492,858	\$ 4,230	\$ 21,418	\$ 153,866	\$ 167,286	\$ 15,954	\$ 19,535

CITY OF BAY CITY, MICHIGAN

Combining Statement of Net Assets (concluded)

All Component Units

June 30, 2012

	City Loans and Collections	Downtown Mgmt. Board	Total
Assets			
Cash and cash equivalents	\$ 39,627	\$ 90,051	1,963,926
Receivables:			-
Accounts	303,041	2,603	317,674
Delinquent taxes	-	8,407	8,905
Accrued interest	-	-	7,468
Notes	4,000,000	-	4,000,000
Allowance for uncollectible amounts	(4,303,041)	-	(4,303,041)
Due from other governments	-	37,150	37,150
Prepaid items	-	1,862	1,862
Net pension asset	-	-	38,561
Nondepreciable capital assets	-	-	54,136
Depreciable capital assets, net	-	-	6,370,761
Total assets	39,627	140,073	8,497,402
Liabilities			
Accounts payable	-	5,105	35,684
Accrued liabilities	-	1,606	2,832
Interest payable	-	-	24,907
Bonds payable:			
Due within one year	-	-	257,000
Due in more than one year	-	-	2,924,300
Total liabilities	-	6,711	3,244,723
Net assets			
Invested in capital assets, net of related debt	-	-	3,641,683
Unrestricted	39,627	133,362	1,610,996
Total net assets	\$ 39,627	\$ 133,362	\$ 5,252,679

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

CITY OF BAY CITY, MICHIGAN

Combining Statement of Activities
For the Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Component units					
Downtown Development Authority	\$ 149,519	\$ 131,183	\$ -	\$ -	\$ (18,336)
Midland Street TIFA	86,177	-	-	-	(86,177)
Kresge's DDA	3,289	-	-	-	(3,289)
Marquette District TIFA	403,533	-	-	-	(403,533)
Water Street DDA	295,719	-	-	-	(295,719)
Marina Development TIFA	9,373	-	-	-	(9,373)
Allen Healthcare DDA	-	-	-	-	-
Research Center Development TIFA	-	-	-	-	-
Knepp's DDA	5,872	-	-	-	(5,872)
Brownfield Redevelopment	131,776	-	-	-	(131,776)
Columbus Avenue Management Board	8,943	7,900	500	-	(543)
Midland Street Management Board	12,278	19,360	-	-	7,082
City Loans and Collections	94,784	-	-	-	(94,784)
Downtown Management Board	249,942	79,766	86,570	-	(83,606)
Total component units	\$ 1,451,205	\$ 238,209	\$ 87,070	\$ -	\$ (1,125,926)

continued...

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

CITY OF BAY CITY, MICHIGAN

Combining Statement of Activities
 All Component Units
 For the Year Ended June 30, 2012

Functions/Programs	Downtown Development Authority	Midland St. TIFA	Kresge's DDA	Marquette District TIFA	Water Street DDA
Changes in net assets					
Net (expense) revenue	\$ (18,336)	\$ (86,177)	\$ (3,289)	\$ (403,533)	\$ (295,719)
General revenue					
Property taxes	-	109,332	2,791	293,150	290,254
Unrestricted investment earnings	1,489	5,182	308	3,858	2,874
Miscellaneous revenue	10,000	-	-	-	-
Total general revenue	11,489	114,514	3,099	297,008	293,128
Change in net assets	(6,847)	28,337	(190)	(106,525)	(2,591)
Net assets, beginning of year	304,712	780,815	58,253	2,048,243	1,100,336
Net assets, end of year	\$ 297,865	\$ 809,152	\$ 58,063	\$ 1,941,718	\$ 1,097,745

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

CITY OF BAY CITY, MICHIGAN

Combining Statement of Activities (continued)

All Component Units

For the Year Ended June 30, 2012

Functions/Programs	Marina Develop. TIFA	Allen Health- care DDA	Research Center Develop. TIFA	Knepp's DDA	Brownfield Redevelopment Authority
Changes in net assets					
Net (expense) revenue	\$ (9,373)	\$ -	\$ -	\$ (5,872)	\$ (131,776)
General revenue					
Property taxes	-	-	-	-	178,616
Unrestricted investment earnings	-	(13)	202	48	5,260
Miscellaneous revenue	-	-	-	-	-
Total general revenue	-	(13)	202	48	183,876
Change in net assets	(9,373)	(13)	202	(5,824)	52,100
Net assets, beginning of year	502,231	4,243	21,216	159,690	115,186
Net assets, end of year	\$ 492,858	\$ 4,230	\$ 21,418	\$ 153,866	\$ 167,286

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

CITY OF BAY CITY, MICHIGAN

Combining Statement of Activities (concluded)

All Component Units

For the Year Ended June 30, 2012

Functions/Programs	Columbus Avenue Mgmt. Board	Midland St. Mgmt. Board	City Loans and Collections	Downtown Mgmt. Board	Totals
Changes in net assets					
Net (expense) revenue	\$ (543)	\$ 7,082	\$ (94,784)	\$ (83,606)	\$ (1,125,926)
General revenue					
Property taxes	-	-	-	93,661	967,804
Unrestricted investment earnings	143	141	480	147	20,119
Miscellaneous revenue	-	-	-	-	10,000
Total general revenue	<u>143</u>	<u>141</u>	<u>480</u>	<u>93,808</u>	<u>997,923</u>
Change in net assets	(400)	7,223	(94,304)	10,202	(128,003)
Net assets, beginning of year	<u>16,354</u>	<u>12,312</u>	<u>133,931</u>	<u>123,160</u>	<u>5,380,682</u>
Net assets, end of year	<u>\$ 15,954</u>	<u>\$ 19,535</u>	<u>\$ 39,627</u>	<u>\$ 133,362</u>	<u>\$ 5,252,679</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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:

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 Collections, 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.

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.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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.

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 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.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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.

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.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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 depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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 governmentwide 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.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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.

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:

	Years
Buildings	50
Land improvements	50
Machinery and equipment	5-20
Vehicles	3-10
Infrastructure assets:	
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 OF BAY CITY, MICHIGAN

Notes to Financial Statements

City employees earn vacation leave at rates ranging between 12 and 28 days per year depending on their union membership and length of service. All outstanding vacation is payable upon resignation, retirement, or death. Sick pay is accumulated by employees at rates ranging between 6.67 hours to one day per month of employment. Depending on the union contract, some employees earn one additional day if the employee does not use any sick leave days within a three-month period. Outstanding sick pay is payable only upon qualified retirement. The amount paid is one-half of the accumulated sick days ranging from 0 to a maximum of 200 days dependent upon the union contract under which the employee is covered. Employees with over 25 years of service (with the maximum 160 days of sick leave) receive 20 additional days of sick leave pay for each year of service in excess of 25 years but cannot exceed 80 additional days. The maximum number of days an employee may be compensated for cannot exceed 180 days.

Long-Term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report *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.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

2. 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.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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.

During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Amended Budget	Actual	Variance
General fund:			
General government:			
Finance	\$ 2,952,647	\$ 3,249,431	\$ 296,784
Planning and zoning	249,160	250,851	1,691
Community/economic development	382,315	390,179	7,864
Debt services - principal retirement	42,500	43,460	960
Major streets fund:			
Capital outlay	1,002,215	1,201,952	199,737
Drug law enforcement fund:			
Public safety	6,721	6,722	1
Bond sinking fund:			
Interest and fiscal charges	2,350	64,585	62,235

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.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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

Statement of net assets:

	Governmental Activities	Business - type Activities	Total Primary Government	Fiduciary Funds	Component Units	Total
Cash	\$ 17,187,920	\$ 29,292,997	\$ 46,480,917	\$ 6,568,443	\$ 1,963,926	\$ 55,013,286
Investments	-	-	-	46,376,140	-	46,376,140
Total	\$ 17,187,920	\$ 29,292,997	\$ 46,480,917	\$ 52,944,583	\$ 1,963,926	\$ 101,389,426

Deposits and investments:

Bank deposits (checking, savings, and certificates of deposit)	\$ 32,913,467
Cash on hand	5,545
Investments (securities, stocks, and money market accounts)	68,470,414
Total	\$ 101,389,426

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, 2012, the carrying value of deposits owned by the City was \$33,035,716. \$31,662,701 of the City's bank balance was covered by federal depository insurance. The remaining balance of \$1,373,015 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. Following is a summary of the City's investments as of June 30, 2012:

Money market accounts	\$ 12,534,312
Mutual funds	19,094,402
Government securities	18,224,744
Corporate debt	5,384,212
Corporate stock	13,232,744
Total	\$ 68,470,414

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. 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, 2012, 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.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

Interest Rate Risk - As of June 30, 2012, maturities and ratings of the City's debt securities were as follows:

	Fair Value	Investment Maturities (In Years)		
		N/A	Less Than 1	1-5
Money market funds	\$ 12,534,312	\$ 12,534,312	\$ -	\$ -
Mutual funds	19,094,402	19,094,402	-	-
Government securities	18,224,744	-	-	13,856,573
Corporate debt	5,384,212	-	130,287	945,003
Corporate stock				
Common	13,226,224	13,226,224	-	-
Preferred	6,520	6,520	-	-
Total investments	\$ 68,470,414	\$ 44,861,458	\$ 130,287	\$ 14,801,576

	Investment Maturities (In Years) (Concluded)		
	6-10	More Than 10	Moody's Investors Services Rating
Money market funds	\$ -	\$ -	N/A
Mutual funds	-	-	N/A
Government securities	554,703	3,813,468	AAA-NR
Corporate debt	3,064,242	1,244,680	AAA-B1
Corporate stock			
Common	-	-	N/A
Preferred	-	-	N/A
Total investments	\$ 3,618,945	\$ 5,058,148	

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. Longterm funds (capital, debt services, etc.) matched to a specific cash flow requirement may be invested in securities maturing not more than five (5) years from the date of purchase.

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

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

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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, 2012. 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.

4. RECEIVABLES

	Governmental Activities	Business-type Activities	Component Units	Total
Receivables:				
Account	\$ 2,034,093	\$ 10,287,968	\$ 317,674	\$ 12,639,735
Taxes	197,285	341,933	8,905	548,123
Interest	69,574	88,619	7,468	165,661
Intergovernmental	3,164,035	28	37,150	3,201,213
Notes	7,519,443	-	4,000,000	11,519,443
Gross receivables	12,984,430	10,718,548	4,371,197	28,074,175
Less: allowance for uncollectibles	(103,751)	(1,189,234)	(4,303,041)	(5,596,026)
Total receivables, net	\$ 12,880,679	\$ 9,529,314	\$ 68,156	\$ 22,478,149

The receivables not expected to be collected within one year are approximately \$7.5 million of the notes receivable reported in the rehabilitation fund and \$4 million of notes receivable in the City loans and collections 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:

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

	Unavailable	Unearned
Notes and accounts receivable from homeowners expected to be collected over several years	\$ 7,529,055	\$ -
Special assessments (non-current portion)	50,319	-
Delinquent personal property taxes receivable	36,904	-
Restricted donation	-	13,000
Unspent grant revenue	-	2,866
	<u>\$ 7,616,278</u>	<u>\$ 15,866</u>

5. CAPITAL ASSETS

Capital asset activity of the City's governmental activities for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 17,171,087	\$ 35,550	\$ 52,038	\$ 17,154,599
Construction in progress	315,203	2,928,199	299,951	2,943,451
Other intangible assets	376,000	-	-	376,000
	<u>17,862,290</u>	<u>2,963,749</u>	<u>351,989</u>	<u>20,474,050</u>
Capital assets being depreciated:				
Roads and sidewalks	137,418,015	247,462	-	137,665,477
Buildings and improvements	8,514,851	607,748	-	9,122,599
Vehicles	13,070,346	390,633	166,459	13,294,520
Office furnishings	39,293	-	-	39,293
Other tools and equipment	3,020,743	150,791	150,426	3,021,108
	<u>162,063,248</u>	<u>1,396,634</u>	<u>316,885</u>	<u>163,142,997</u>
Accumulated depreciation:				
Roads and sidewalks	87,216,866	3,162,806	-	90,379,672
Buildings and improvements	4,402,974	220,618	-	4,623,592
Vehicles	8,618,902	625,728	155,059	9,089,571
Office furnishings	21,665	1,965	-	23,630
Other tools and equipment	2,478,377	146,815	150,426	2,474,766
	<u>102,738,784</u>	<u>4,157,932</u>	<u>305,485</u>	<u>106,591,231</u>
Net capital assets being depreciated	<u>59,324,464</u>	<u>(2,761,298)</u>	<u>11,400</u>	<u>56,551,766</u>
Governmental activities capital assets, net	<u>\$ 77,186,754</u>	<u>\$ 202,451</u>	<u>\$ 363,389</u>	<u>\$ 77,025,816</u>

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

Capital asset activity of the City's business-type activities for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 821,424	\$ -	\$ -	\$ 821,424
Construction in progress	319,246	619,550	189,572	749,224
Other	95,421	-	-	95,421
	<u>1,236,091</u>	<u>619,550</u>	<u>189,572</u>	<u>1,666,069</u>
Capital assets, being depreciated:				
Utility plant and systems	268,850,660	2,107,502	81,031	270,877,131
Land improvements	26,236,837	1,649,637	47,813	27,838,661
Buildings and improvements	4,787,450	32,667	-	4,820,117
Machinery and equipment	7,210,543	175,783	-	7,386,326
	<u>307,085,490</u>	<u>3,965,589</u>	<u>128,844</u>	<u>310,922,235</u>
Accumulated depreciation:				
Utility plant and systems	156,936,115	6,706,562	81,031	163,561,646
Land improvements	4,521,365	594,181	47,813	5,067,733
Buildings and improvements	2,391,001	119,394	-	2,510,395
Machinery and equipment	4,480,699	252,169	-	4,732,868
	<u>168,329,180</u>	<u>7,672,306</u>	<u>128,844</u>	<u>175,872,642</u>
Net capital assets, being depreciated	<u>138,756,310</u>	<u>(3,706,717)</u>	<u>-</u>	<u>135,049,593</u>
Business-type activities capital assets, net	<u>\$ 139,992,401</u>	<u>\$ (3,087,167)</u>	<u>\$ 189,572</u>	<u>\$ 136,715,662</u>

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

Capital asset activity of the City's component units for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Component Units:				
Capital assets, not being depreciated:				
Land	\$ 54,136	\$ -	\$ -	\$ 54,136
Construction in progress	130,692	-	130,692	-
	<u>184,828</u>	<u>-</u>	<u>130,692</u>	<u>54,136</u>
Capital assets, being depreciated				
Infrastructure	8,153,959	1,023,479	-	9,177,438
Land improvements	8,346	8,296	-	16,642
Furniture and equipment	78,973	-	-	78,973
	<u>8,241,278</u>	<u>1,031,775</u>	<u>-</u>	<u>9,273,053</u>
Accumulated depreciation:				
Infrastructure	2,544,337	308,019	-	2,852,356
Land improvements	167	680	-	847
Furniture and equipment	41,490	7,599	-	49,089
	<u>2,585,994</u>	<u>316,298</u>	<u>-</u>	<u>2,902,292</u>
Net capital assets being depreciated	<u>5,655,284</u>	<u>715,477</u>	<u>-</u>	<u>6,370,761</u>
Component Units				
Capital assets, net	<u>\$ 5,840,112</u>	<u>\$ 715,477</u>	<u>\$ 130,692</u>	<u>\$ 6,424,897</u>

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

Governmental activities:	
General government	\$ 57,161
Public safety	82,189
Public works	2,948,589
Recreation and culture	224,818
Economic development	182,065
Internal service fund depreciation is charged to the various functions based on their usage of the asset	<u>663,110</u>
Total governmental activities	<u>\$ 4,157,932</u>
Business-type activities	
Electric	\$ 2,214,528
Water	1,245,120
Sewer	4,029,381
Other enterprise funds	<u>183,277</u>
Total business-type activities	<u>\$ 7,672,306</u>

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

6. INTERFUND RECEIVABLES AND 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.”

The composition of interfund balances is as follows:

	Due from Funds	Due to Other Funds
General Fund	\$ 1,611,684	\$ 3,119
Major streets fund	3,119	750,627
Nonmajor governmental funds	252,877	162,560
Electric fund	-	1,234,169
Water fund	234,207	75,000
Sewer fund	291,043	-
Internal service funds		167,455
	<u>\$ 2,392,930</u>	<u>\$ 2,392,930</u>

The amount due from the electric fund to the general fund is for the current year PILOT calculation.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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:

Transfers To	Transfers From							Total
	General Fund	Major Streets Fund	Rehabilitation Fund	Nonmajor Governmental Funds	Electric Fund	Water Fund	Sewer Fund	
General Fund	\$ -	\$ -	\$ -	\$ 111,276	\$ 1,202	\$ 1,202	\$ 1,202	\$ 114,882
Rehabilitation fund	-	-	-	254,974	-	-	-	254,974
Nonmajor governmental funds	135,082	-	87,479	962,251	-	-	-	1,184,812
Water fund	-	217,440	-	-	-	-	-	217,440
Sewer fund	-	282,560	-	-	-	-	-	282,560
Nonmajor enterprise fund	113,757	-	-	-	-	-	-	113,757
	<u>\$ 248,839</u>	<u>\$ 500,000</u>	<u>\$ 87,479</u>	<u>\$ 1,328,501</u>	<u>\$ 1,202</u>	<u>\$ 1,202</u>	<u>\$ 1,202</u>	<u>\$ 2,168,425</u>

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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 \$1,760. Annual lease payments required under the capital lease are as follows:

Fiscal Year End	Payment
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:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities:					
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	\$ 15,794,946	1,150,943	\$ (1,705,000)	\$ 15,240,889	\$ 486,892
Capital lease due in installments through 2014. Original amount \$3,840	2,720	-	(960)	1,760	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	-

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
0.0% Michigan Urban Land Assembly Promissory Note, principal payments beginning 9/1/06 through 9/1/11. Original amount \$255,000	\$ 42,500	\$ -	\$ (42,500)	\$ -	\$ -
2.0% to 3.65% Limited Tax G.O Bonds, Series 2012A dated 1/10/12, aggregate principal due at maturity beginning 10/1/12 through 10/1/31. Original amount \$1,630,000	-	1,630,000	-	1,630,000	55,000
Purchase agreement due in installments, including interest, through 2013. Originated in Motor Equipment Revolving Internal Service Fund. Original amount \$437,819.	101,192	-	(49,641)	51,551	51,551
Total bonds and notes payable	17,941,358	2,780,943	(1,798,101)	18,924,200	594,403
Landfill remediation liability	1,072,778	-	(65,475)	1,007,303	100,730
Retiree Healthcare	7,410,118	1,219,686	-	8,629,804	-
Employee compensated absences	2,608,971	58,550	(196,926)	2,470,595	1,035,041
	<u>\$ 29,033,225</u>	<u>\$ 4,059,179</u>	<u>\$ (2,060,502)</u>	<u>\$ 31,031,902</u>	<u>\$ 1,730,174</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

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type activities:					
Sewer:					
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 semiannually April 1 and October 1. Original amount \$1,500,000.	\$ 860,000	\$ -	\$ (860,000)	\$ -	\$ -
2.0% to 3.75% G.O. Sewage System Improvement Refunding Bonds, principal due in annual installments through 9/1/12, interest payable semiannually March 1 and September 1. Original amount \$4,040,000.	1,030,000	-	(510,000)	520,000	520,000
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.	27,920,000	-	(2,025,000)	25,895,000	2,075,000
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.	2,625,000	-	(625,000)	2,000,000	645,000

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
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.	\$ 4,915,000	\$ -	\$ (245,000)	\$ 4,670,000	\$ 250,000
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 \$2,166,181.	1,921,964	-	(81,405)	1,840,559	83,390
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	-	(89,900)	2,408,700	93,000
3.261% G.O. Improvement Refunding Bonds, Series 2011, principal due in annual installments of \$95,000 to \$112,000 through 4/1/20, interest annually on April 1. Original amount \$884,000	-	884,000	(95,000)	789,000	87,000
Premium on bond issuance	45,889	-	(2,700)	43,189	-

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
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.	\$ 4,360,000	\$ -	\$ (1,940,000)	\$ 2,420,000	\$ 365,000
Less: deferred costs	(157,500)	22,500	-	(135,000)	-
Water Fund:					
2.125% Michigan State Revolving Fund loan issued June 23, 2005, principal due in annual installments of \$245,000 to \$365,000 beginning 4/1/07 through 4/1/26, interest due semi-annually April 1 and October 1. Original amount \$6,000,000.	4,725,000	-	(270,000)	4,455,000	275,000
3.5% to 4.0% G.O. Capital Improvement Bonds, Series 2008A, principal due in annual installments of \$265,000 to \$350,000 through 4/1/18, interest due semi-annually April 1 and October 1. Original amount \$3,030,000.	2,215,000	-	(285,000)	1,930,000	295,000

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
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 \$3,288,819.	2,918,036	-	(123,594)	2,794,442	126,609
Premium on bond issuance	72,268	-	(4,251)	68,017	-
Total bonds and loans payable	55,949,257	906,500	(7,156,850)	49,698,907	4,814,999
Other					
Retiree Healthcare	3,620,493	618,753	-	4,239,246	-
Employee compensated absences	1,382,845	16	(377,802)	1,005,059	410,797
Total	\$ 60,952,595	\$ 1,525,269	\$ (7,534,652)	\$ 54,943,212	\$ 5,225,796

The aggregate debt service requirements to pay principal and interest on the various bonds and loans outstanding with interest of \$10,408,747 and deferred costs of \$135,000 in the business-type activities, interest of \$18,540,748 including capital appreciation of \$11,751,612 in the governmental activities bonded debt, and interest of \$644,164 in governmental activities other debt are as follows:

Year Ended June 30,	Governmental Activities			
	Bonded Debt		Other Debt	
	Principal	Interest	Principal	Interest
2013	\$ 541,892	\$ 1,836,804	\$ 52,511	\$ 93,976
2014	522,863	1,876,229	85,800	92,276
2015	498,310	1,934,482	165,000	87,160
2016	478,265	1,983,177	175,000	79,956
2017	449,638	2,034,137	190,000	71,911
2018-2022	1,698,309	8,705,981	1,120,000	212,088
2023-2027	425,000	123,507	265,000	6,797
2028-2032	505,000	46,431	-	-
	\$ 5,119,277	\$ 18,540,748	\$ 2,053,311	\$ 644,164

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

Year Ended June 30,	Business-type Activities	
	Principal	Interest
2013	\$ 4,814,999	\$ 1,497,062
2014	4,424,001	1,362,127
2015	4,560,100	1,229,686
2016	3,981,201	1,104,930
2017	4,097,300	988,811
2018-2022	18,659,199	3,229,065
2023-2027	8,111,301	912,907
2028-2031	1,074,600	84,159
	<u>\$ 49,722,701</u>	<u>\$ 10,408,747</u>

Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
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Component units:

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.

\$ 1,875,000	\$ -	\$ (170,000)	\$ 1,705,000	\$ 200,000
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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 semiannually April 1 and October 1. Original amount \$1,118,456.

1,118,456	-	(40,242)	1,078,214	41,630
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CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
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	-	(14,858)	398,086	15,370
Total long-term debt, component Units	\$ 3,406,400	\$ -	\$ (225,100)	\$ 3,181,300	\$ 257,000

The aggregate debt service requirement for the component units to pay principal and interest on the various outstanding loans with interest included of \$904,341 are as follows:

Year Ended June 30,	Component Units	
	Principal	Interest
2013	\$ 257,000	\$ 120,992
2014	287,000	112,210
2015	323,900	102,366
2016	360,800	90,781
2017	397,700	77,379
2018-2022	720,800	226,843
2023-2027	423,700	135,841
2028-2031	410,400	37,929
	<u>\$ 3,181,300</u>	<u>\$ 904,341</u>

9. RISK MANAGEMENT

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

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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, 2011 and 2012, are as follows:

Fiscal Year	Beginning of Period Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Period Liability
2011	\$ 1,011,072	\$ 1,032,929	\$ (1,550,283)	\$ 493,718
2012	493,718	798,729	(862,745)	429,702

Health and Dental Insurance

The self-insurance program for health and dental insurance is accounted for as part of the benefits program (an internal service fund). An independent administrator (Blue Cross) is hired to process the daily claims. The City is responsible for individual claims up to \$40,000 and Blue Cross is responsible for paying claims above this amount up to \$5,000,000. There were no reductions of insurance coverage from the prior year. The City is also responsible for paying administrative charges. The revenues for this Fund's operation are reimbursements from various funds and employee payroll withholdings. The liability at the end of the year is based on claims already incurred and reported as provided by Blue Cross and on estimates of incurred but not reported claims as estimated by management. Settled claims have not exceeded insurance coverage in any of the past three years.

The changes in the claims liability for the years ended June 30, 2011 and 2012, are as follows:

Fiscal Year	Beginning of Period Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Period Liability
2011	\$ 310,224	\$ 8,736,472	\$ (8,767,234)	\$ 279,462
2012	279,462	8,085,621	(8,085,770)	279,313

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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, 2011 and 2012 are as follows:

Fiscal Year	Beginning of Period Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Period Liability
2011	\$ 872,499	\$ 283,968	\$ (601,103)	\$ 555,364
2012	555,364	313,848	(438,025)	431,187

10. BENEFIT PLANS

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.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

Annual Pension Cost - For the year ended June 30, 2012, the City's annual pension cost was \$2,396,246 and the City contributed \$3,275,210 for MERS including the City's required contribution of \$2,179,717 and an additional contribution of \$1,095,493. The required contribution was determined as part of the December 31, 2009 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, 2011, the date of the latest actuarial valuation, was 10 years.

Annual Pension Cost and Net Pension Asset

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

Annual required contribution	\$ 2,179,717
Interest on net pension asset	(582,540)
Adjustment to annual required contribution	<u>799,069</u>
Annual pension cost	2,396,246
Contributions made	<u>(3,275,210)</u>
Increase in net pension asset	(878,964)
Net pension asset, beginning of year	<u>(7,281,749)</u>
Net pension asset, end of year	<u><u>\$ (8,160,713)</u></u>

Three-Year Trend Information			
Years Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed	Net Pension Asset
2010	\$ 2,524,390	131.5%	\$ 6,455,282
2011	2,600,007	131.8%	7,281,749
2012	2,396,246	136.7%	8,160,713

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
12/31/11	\$ 46,136,051	\$ 67,083,655	\$ 20,947,604	69%	\$ 3,718,679	563%

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

Notes to Financial Statements

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.

For the year ended June 30, 2012, the City's annual pension cost of \$1,725,255 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, 2011 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 5% to 49% per year.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

Both (a) and (b) included an inflation component of 4%. 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, 2011, the date of the latest actuarial valuation, was 29 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, 2012, there were no individual investments with a value that represents 5% or more of the System's net assets. However, amounts invested in three mutual funds (Guggenheim Mid-Cap Value, Russell 1000 Index and Hexavest Eafe Equity Fund) represent 9%, 17% and 6% of the System's total assets, respectively, at June 30, 2012.

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		
Years Ended June 30,	Annual Pension Cost (APC)	Percentage Contributed
2010	\$ 1,483,085	100%
2011	1,622,079	100%
2012	1,725,255	100%

Funded Status and Funding Progress - As of June 30, 2011, the most recent actuarial valuation date, the plan was 64.9 percent funded. The actuarial accrued liability for benefits was \$64,843,292, and the actuarial value of assets was \$42,095,297, resulting in an unfunded actuarial accrued liability (UAAL) of \$22,747,995. The covered payroll (annual payroll of active employees covered by the plan) was \$5,464,690, and the ratio of the UAAL to the covered payroll was 416.3%.

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 MERS. 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 between 0.0% and 2.5% and requires between 2.5% and 5.0% contribution by the City. There is immediate vesting with Plan A. Plan B allows the employee to contribute between 3.0% and 5.5% while the City contributes between 6.0% and 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, 2012, the City's required and actual contributions amounted to \$451,935. Employees made contributions amounting to \$292,174.

Postretirement Healthcare

As authorized by the City Commission, the City has elected to provide post-retirement healthcare benefits to certain retirees and their beneficiaries. Substantially all of the City's employees become eligible for post-retirement health care benefits if they reach normal retirement age and are eligible for retirement benefits from the City. However, depending on the union contract, some employees hired after July 1, 2007 are not eligible for City provided healthcare benefits upon retirement. Instead the City has established a Retirement Health Savings (RHS) Plan in which the City contributes 6% of their salary on an annual basis. The benefits a participant will receive within the RHS plan depend solely on the amount contributed to each participant's account and the returns earned on the investments of those contributions.

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

Currently, 351 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, 2012, were \$6,376,415.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

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	\$ 8,363,912
Interest on net OPEB obligation	661,837
Adjustment to annual required contribution	<u>(810,895)</u>
Annual OPEB cost (expense)	8,214,854
Contributions made	<u>(6,376,415)</u>
Increase in net OPEB obligation	1,838,439
Net OPEB obligation, beginning of year	<u>11,030,611</u>
Net OPEB obligation, end of year	<u><u>\$ 12,869,050</u></u>

The City's annual OPEB cost, percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the years 2010, 2011 and 2012 is as follows:

Three-Year Trend Information			
Years Ended June 30,	Annual OPEB Cost (AOC)	Percentage Contributed	Net OPEB Obligation
2010	\$ 9,235,628	52.9%	\$ 8,309,077
2011	7,975,034	65.9%	11,030,611
2012	8,214,854	77.6%	12,869,050

The present value of all benefits expected to be paid to current plan members as of June 30, 2011, the most recent actuarial report, is \$124,991,599. The actuarial accrued liability, which is the portion of the \$124,991,599 attributable to service accrued by plan members as of June 30, 2011, is \$107,810,721. As of June 30, 2011, there is \$6,169,730 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 June 30, 2011, is 5.7%. During the fiscal year ended June 30, 2012, the City contributed an additional \$1,949,278.

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

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/11	\$ 6,169,730	\$ 107,810,721	\$ 101,640,991	5.7%	\$ 16,400,560	620%

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

Membership of the plan consisted of the following at June 30, 2011, the date of the latest actuarial valuation:

Retiree and beneficiaries receiving benefits	403
Active plan members	<u>311</u>
 Total	 <u><u>714</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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	6/30/11
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 8.40% 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 Financial Statements

Following are the financial statements for the Retirement Health Savings Plan for the year ended June 30, 2012.

Statement of Plan Net Assets

Assets	
Cash and cash equivalents	\$ 6,398,671
Investments - governmental securities	1,814,974
Accounts receivable	9,705
Interest receivable	<u>26,110</u>
Total assets	<u><u>\$ 8,249,460</u></u>
Net assets held in trust for employees' postemployment health care benefits	<u><u>\$ 8,249,460</u></u>

Statement of Changes in Plan Net Assets

Additions	
Contributions:	
Employer	\$ 1,949,278
Current premium contributions	4,427,137
Total contributions	<u>6,376,415</u>
Investment income:	
Interest and dividends	130,062
Net appreciation in fair value of investments	<u>390</u>
Net investment income	<u>130,452</u>
Total additions	6,506,867
Deductions	
Retiree healthcare premium payments	<u>4,427,137</u>
Net increase in plan net assets	<u>2,079,730</u>
Net assets held in trust for employee's postemployment health care benefits	
Beginning of year	<u>6,169,730</u>
End of year	<u><u>\$ 8,249,460</u></u>

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

11. 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 these holding costs. With the bankruptcy, the 61.25% shifted to the City and Honeywell. The City Commission approved on February 7, 2011 a resolution that authorized the City to establish a trust fund for placement of funds obtained from any settlement with, or payment from the estate of, General Motors, Inc. and its successor entities. To date the City received stocks and warrants and with their liquidation received \$152,998 from the GM bankruptcy settlement. And, as a result of the settlement, the City's total exposure is 60.25% and Honeywell's is 39.75%.

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

Commitments

The Electric Department, along with other Michigan municipal utilities, is a member of the Michigan Public Power Agency (MPPA). The agency was formed to acquire interests in certain electric generating plants and related transmission lines. MPPA has acquired a 4.8% undivided interest in the Consumers Power Campbell 3 plant and 18.61% undivided interest in the Detroit Edison Company Belle River project. The Electric Department has entered into power supply and project support contracts with MPPA. Under the agreement, the Electric Department will purchase 13.18% of the energy generated by the Campbell 3 plant and 3.71% of the energy generated by the Belle River plant. Under the terms of the contract, the Electric Department must make annual payments to cover their share of annual debt service requirements and fixed operation costs of the Campbell and Belle River projects. During the fiscal year ended June 30, 2009, the final payment was made on the Campbell project. The estimated annual debt payments with interest included of \$2,347,218 on the Belle River Project and AFEC projects are as follows:

Fiscal Year Ending	Belle River Project	AFEC Project
2013	\$ 1,129,291	\$ 210,515
2014	1,129,149	408,952
2015	1,129,419	408,202
2016	1,129,277	408,407
2017	1,129,368	408,956
2018-2022	2,633,432	2,042,380
2023-2027	-	2,042,130
2028-2032	-	2,042,502
2033-2037	-	2,041,817
2038-2042	-	2,041,719
2043	-	408,305
Total	\$ 8,279,936	\$ 12,463,885

Subsequent Events

On December 17, 2012, the City Commission adopted a resolution pledging its full faith and credit and authorizing the issuance of Tax Increment Finance Authority Bonds in an amount not to exceed \$23,000,000. The bond proceeds will be used for the purpose of financing a portion of the cost of the infrastructure improvements for the Uptown at Rivers Edge Redevelopment Project.

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 Financial Statements

12. FUND BALANCES - GOVERNMENTAL FUNDS

The City has adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. 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. Detail information of fund balances of governmental funds is as follows:

	General Fund	Major Streets Fund	Nonmajor Governmental Funds
Nonspendable:			
Inventory	\$ -	\$ 128,628	\$ -
Prepaid	2,045	-	495
Total nonspendable	2,045	128,628	495
Restricted:			
Waysign grant	37,851	-	-
Special revenue funding source restrictions	-	678,766	1,455,904
Debt service	-	-	456,260
Capital projects	-	-	1,290,323
Total restricted	37,851	678,766	3,202,487
Committed:			
Future general fund operations	3,126,474	-	-
COPS Hiring Recovery Program	250,000	-	-
City Hall restoration	1,064,705	-	-
Total nonspendable	4,441,179	-	-
Unassigned	1,782,639	-	-
Total fund balance	\$ 6,263,714	\$ 807,394	\$ 3,202,982

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

13. INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

	Governmental Activities	Business-type Activities	Component Units
Nondepreciable assets	\$ 20,474,050	\$ 1,666,069	\$ 54,136
Depreciable capital assets, net	56,551,766	135,049,593	6,370,761
Less related debt			
Bonds and notes payable	(18,924,200)	(49,698,907)	(3,181,300)
Capital appreciation	11,751,612		
Debt not applicable to capital assets	-	-	398,086
	<u>-</u>	<u>-</u>	<u>398,086</u>
Invested in capital assets, net of related debt	<u>\$ 69,853,228</u>	<u>\$ 87,016,755</u>	<u>\$ 3,641,683</u>

14. RESTATEMENTS

There was an adjustment made to the general fund's revenue sharing income for the year ended June 30, 2012. The adjustment had the following effect on the beginning fund balance and net assets:

	General Fund
Fund balance as previously reported	\$ 6,180,846
Separation of Drug Law Fund	(297,572)
Prior period adjustment	
Adjust revenue for amounts related to previous years	<u>968,203</u>
Fund balance, as restated	<u>\$ 6,851,477</u>
	Governmental Activities
Net assets as previously reported	\$ 70,308,104
Prior period adjustment	
Revenue sharing	<u>968,203</u>
Net assets, as restated	<u>\$ 71,276,307</u>

CITY OF BAY CITY, MICHIGAN

Notes to Financial Statements

There was an adjustment made to the electric fund to include deposits held with Michigan Public Power Agency for the year ended June 30, 2012. The adjustment had the following effect on the beginning fund balance and net assets:

	Electric Fund
Fund balance as previously reported	\$ 40,613,865
Prior period adjustment	
Adjust revenue for amounts related to previous years	<u>799,203</u>
Net assets, as restated	<u>\$ 41,413,068</u>
	Business-Type Activities
Net assets as previously reported	\$ 128,367,271
Prior period adjustment	
Charges for services	<u>799,203</u>
Net assets, as restated	<u>\$ 129,166,474</u>

■■■■■

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BAY CITY, MICHIGAN

Required Supplementary Information

Employees' Retirement Plan - MERS
For the Year Ended June 30, 2012

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	\$ 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%
2011	46,136,051	67,083,655	20,947,604	68.8%	3,718,679	563.3%

Schedule of Employer Contributions

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
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%
2012	2,179,717	3,275,210	150.26%

CITY OF BAY CITY, MICHIGAN

Required Supplementary Information

City of Bay City Police and Fire Retirement System
For the Year Ended June 30, 2012

Schedule of Funding Progress

Actuarial Valuation Date (June 30)	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Attained Age	(b-a) Unfunded Actuarial Accrued Liability (Asset)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
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%
2011	42,095,297	64,843,292	22,747,995	64.9%	5,464,690	416.3%

Schedule of Employer Contributions

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
2007	\$ 1,635,150	\$ 2,123,900	129.89% Note
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%
2012	1,725,255	1,725,255	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
For the Year Ended June 30, 2012

Schedule of Funding Progress

Actuarial Valuation Date (June 30)	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Attained Age	(b-a) Unfunded Actuarial Accrued Liability (Asset)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
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%
2011	6,169,730	107,810,721	101,640,991	5.7%	16,400,560	619.7%

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%
2012	8,363,912	6,376,415	76.24%

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**



Bay

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City of Bay City

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).

Drug Law Enforcement Fund - This fund is used to account for revenues received from Federal and State drug forfeitures restricted for law enforcement purposes.

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 is used to account for various economic development projects throughout the City and to provide assistance to other funds relative to economic development.

Public Improvement Fund - This fund is used to account for monies set aside for public improvement projects.

CITY OF BAY CITY, MICHIGAN

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2012

	Special Revenue Funds				
	Local Streets	Parking Enforcement	Solid Waste Management	Community Development Block Grant	Building Inspection
Assets					
Cash and cash equivalents	\$ 115,080	\$ 14,516	\$ 118,416	\$ -	\$ 94,441
Receivables (net of allowance for uncollectibles)					
Accounts	2,201	-	365,409	5,081	119,868
Delinquent taxes	-	-	-	-	-
Special assessments	-	-	23,479	-	4,265
Accrued interest	469	59	483	-	386
Due from other funds	252,877	-	-	-	-
Due from other governments	104,499	-	-	88,755	-
Prepaid assets	-	495	-	-	-
Total assets	<u>\$ 475,126</u>	<u>\$ 15,070</u>	<u>\$ 507,787</u>	<u>\$ 93,836</u>	<u>\$ 218,960</u>
Liabilities					
Accounts payable	\$ 22,069	\$ 15,070	\$ 60,922	\$ 86,553	\$ 14,203
Accrued liabilities	3,059	-	22,819	4,191	10,548
Due to other funds	-	-	-	3,092	-
Due to other governments	-	-	2,211	-	-
Deposits payable	-	-	400	-	19,257
Deferred revenues	-	-	-	-	-
Total liabilities	<u>25,128</u>	<u>15,070</u>	<u>86,352</u>	<u>93,836</u>	<u>44,008</u>
Fund balances					
Nonspendable	-	495	-	-	-
Restricted	449,998	(495)	421,435	-	174,952
Total fund balances	<u>449,998</u>	<u>-</u>	<u>421,435</u>	<u>-</u>	<u>174,952</u>
Total liabilities and fund balances	<u>\$ 475,126</u>	<u>\$ 15,070</u>	<u>\$ 507,787</u>	<u>\$ 93,836</u>	<u>\$ 218,960</u>

Special Revenue Funds					Debt Service Fund
Neighborhood Opportunity	Neighborhood Stabilization	Homeless Prevention Rehousing	Drug Law Enforcement	Total	Bond Sinking Fund
\$ 78,439	\$ 2,866	\$ -	\$ 330,891	\$ 754,649	\$ 516,392
-	-	-	-	492,559	-
-	-	-	-	-	4,888
-	-	-	-	27,744	-
684	-	-	-	2,081	2,107
-	-	-	-	252,877	-
-	-	23,506	-	216,760	-
-	-	-	-	495	-
<u>\$ 79,123</u>	<u>\$ 2,866</u>	<u>\$ 23,506</u>	<u>\$ 330,891</u>	<u>\$ 1,747,165</u>	<u>\$ 523,387</u>
\$ -	\$ -	\$ 23,506	\$ -	\$ 222,323	\$ 5
-	-	-	-	40,617	-
-	-	-	-	3,092	-
-	-	-	-	2,211	62,235
-	-	-	-	19,657	-
-	2,866	-	-	2,866	4,887
-	2,866	23,506	-	290,766	67,127
-	-	-	-	495	-
<u>79,123</u>	<u>-</u>	<u>-</u>	<u>330,891</u>	<u>1,455,904</u>	<u>456,260</u>
<u>79,123</u>	<u>-</u>	<u>-</u>	<u>330,891</u>	<u>1,456,399</u>	<u>456,260</u>
<u>\$ 79,123</u>	<u>\$ 2,866</u>	<u>\$ 23,506</u>	<u>\$ 330,891</u>	<u>\$ 1,747,165</u>	<u>\$ 523,387</u>



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City of Bay City

CITY OF BAY CITY, MICHIGAN

Combining Balance Sheet (concluded)

Nonmajor Governmental Funds

June 30, 2012

	Capital Projects Funds				Total
	Riverfront Redevelopment	Economic Opportunities	Public Improvement	Total	
Assets					
Cash and cash equivalents	\$ 338,212	\$ 164,553	\$ -	\$ 502,765	\$ 1,773,806
Receivables (net of allowance for uncollectibles)					
Accounts	1,700	-	1,140,115	1,141,815	1,634,374
Delinquent taxes	-	-	-	-	4,888
Special assessments	-	-	-	-	27,744
Accrued interest	-	1,913	-	1,913	6,101
Due from other funds	-	-	-	-	252,877
Due from other governments	-	-	17,727	17,727	234,487
Other assets	-	-	-	-	495
Total assets	<u>\$ 339,912</u>	<u>\$ 166,466</u>	<u>\$ 1,157,842</u>	<u>\$ 1,664,220</u>	<u>\$ 3,934,772</u>
Liabilities					
Accounts payable	\$ 61,013	\$ 11,318	\$ 142,098	\$ 214,429	\$ 436,757
Accrued liabilities	-	-	-	-	40,617
Due to other funds	-	-	159,468	159,468	162,560
Due to other governments	-	-	-	-	64,446
Deposits payable	-	-	-	-	19,657
Deferred revenues	-	-	-	-	7,753
Total liabilities	<u>61,013</u>	<u>11,318</u>	<u>301,566</u>	<u>373,897</u>	<u>731,790</u>
Fund balances					
Nonspendable	-	-	-	-	495
Restricted	278,899	155,148	856,276	1,290,323	3,202,487
Total fund balances	<u>278,899</u>	<u>155,148</u>	<u>856,276</u>	<u>1,290,323</u>	<u>3,202,982</u>
Total liabilities and fund balances	<u>\$ 339,912</u>	<u>\$ 166,466</u>	<u>\$ 1,157,842</u>	<u>\$ 1,664,220</u>	<u>\$ 3,934,772</u>

CITY OF BAY CITY, MICHIGAN

Combining Statement of Revenue, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2012

	Special Revenue Funds				
	Local Streets	Parking Enforcement	Solid Waste Management	Community Development Block Grant	Building Inspection
Revenues					
Property taxes	\$ 250,627	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	388,555
Intergovernmental					
Federal	-	-	-	1,811,674	-
State	757,381	-	-	8,000	-
Local	80,000	22,750	-	-	-
Charges for services					
Sales	-	-	2,013,393	-	-
Fines and forfeitures	-	20,775	-	-	-
Interest earnings	794	117	1,360	-	572
Reimbursements	-	-	-	-	15,134
Other	967	-	20,067	-	40,407
Total revenues	1,089,769	43,642	2,034,820	1,819,674	444,668
Expenditures					
Current					
Public safety	-	43,642	-	-	599,877
Public works					
Highways, streets and bridges	926,876	-	-	-	-
Environmental	-	-	2,092,631	-	-
Economic development	-	-	-	646,072	-
Capital outlay	518,374	-	-	326,053	-
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	1,445,250	43,642	2,092,631	972,125	599,877
Revenues over (under) expenditures	(355,481)	-	(57,811)	847,549	(155,209)
Other financing sources (uses)					
Transfers in	568,778	-	-	87,479	135,082
Bond proceeds	-	-	-	-	-
Proceeds from sale of asset	-	-	-	-	-
Transfers out	-	-	-	(935,028)	-
Total other financing sources (uses)	568,778	-	-	(847,549)	135,082
Net change in fund balances	213,297	-	(57,811)	-	(20,127)
Fund balances, beginning of year	236,701	-	479,246	-	195,079
Fund balances, end of year	\$ 449,998	\$ -	\$ 421,435	\$ -	\$ 174,952

Special Revenue Funds					Debt Service Fund
Neighborhood Opportunity	Neighborhood Stabilization	Homeless Prevention Rehousing	Drug Law Enforcement	Total	Bond Sinking Fund
\$ -	\$ -	\$ -	\$ -	\$ 250,627	\$ 1,513,516
-	-	-	-	388,555	-
-	-	153,341	2,261	1,967,276	-
-	22,430	-	37,780	825,591	-
-	-	-	-	102,750	-
-	-	-	-	2,013,393	-
-	-	-	-	20,775	-
1,510	-	-	-	4,353	8,346
-	-	-	-	15,134	-
-	-	-	-	61,441	-
<u>1,510</u>	<u>22,430</u>	<u>153,341</u>	<u>40,041</u>	<u>5,649,895</u>	<u>1,521,862</u>
-	-	-	6,722	650,241	-
-	-	-	-	926,876	-
-	-	-	-	2,092,631	-
19,187	22,430	153,341	-	841,030	-
-	-	-	-	844,427	-
-	-	-	-	-	1,705,000
-	-	-	-	-	64,585
<u>19,187</u>	<u>22,430</u>	<u>153,341</u>	<u>6,722</u>	<u>5,355,205</u>	<u>1,769,585</u>
<u>(17,677)</u>	<u>-</u>	<u>-</u>	<u>33,319</u>	<u>294,690</u>	<u>(247,723)</u>
-	-	-	-	791,339	-
-	-	-	-	-	-
34,560	-	-	-	34,560	-
(89,173)	-	-	-	(1,024,201)	-
<u>(54,613)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(198,302)</u>	<u>-</u>
<u>(72,290)</u>	<u>-</u>	<u>-</u>	<u>33,319</u>	<u>96,388</u>	<u>(247,723)</u>
<u>151,413</u>	<u>-</u>	<u>-</u>	<u>297,572</u>	<u>1,360,011</u>	<u>703,983</u>
<u>\$ 79,123</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 330,891</u>	<u>\$ 1,456,399</u>	<u>\$ 456,260</u>

CITY OF BAY CITY, MICHIGAN

Combining Statement of Revenue, Expenditures and Changes in Fund Balances (concluded)
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2012

	Capital Projects Funds				Total
	Riverfront Redevelopment	Economic Opportunities	Public Improvement	Total	
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,764,143
Licenses and permits	-	-	-	-	388,555
Intergovernmental					
Federal	-	-	75,600	75,600	2,042,876
State	-	-	-	-	825,591
Local	-	-	77,862	77,862	180,612
Charges for services					
Sales	-	-	-	-	2,013,393
Fines and forfeitures	-	-	-	-	20,775
Interest earnings	986	4,481	806	6,273	18,972
Reimbursements	-	-	-	-	15,134
Other	3,609	2,775	694,797	701,181	762,622
Total revenues	4,595	7,256	849,065	860,916	8,032,673
Expenditures					
Current					
Public safety	-	-	-	-	650,241
Public works					
Highways, streets and bridges	-	-	-	-	926,876
Environmental	-	-	-	-	2,092,631
Economic development	497,095	165,844	110,370	773,309	1,614,339
Capital outlay	-	6,678	1,614,834	1,621,512	2,465,939
Debt service					
Principal	-	-	-	-	1,705,000
Interest	-	-	-	-	64,585
Total expenditures	497,095	172,522	1,725,204	2,394,821	9,519,611
Revenues over (under) expenditures	(492,500)	(165,266)	(876,139)	(1,533,905)	(1,486,938)
Other financing sources (uses)					
Transfers in	393,473	-	-	393,473	1,184,812
Bond proceeds	-	-	1,630,000	1,630,000	1,630,000
Gain on sale of asset	-	50,050	-	50,050	84,610
Transfers out	-	(304,300)	-	(304,300)	(1,328,501)
Total other financing sources (uses)	393,473	(254,250)	1,630,000	1,769,223	1,570,921
Net change in fund balances	(99,027)	(419,516)	753,861	235,318	83,983
Fund balances, beginning of year	377,926	574,664	102,415	1,055,005	3,118,999
Fund balances, end of year	\$ 278,899	\$ 155,148	\$ 856,276	\$ 1,290,323	\$ 3,202,982

CITY OF BAY CITY, MICHIGAN

Schedule of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual
 Local Streets Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes	\$ 256,095	\$ 256,095	\$ 250,627	\$ (5,468)
Intergovernmental				
State	725,439	725,439	757,381	31,942
Local	-	80,000	80,000	-
Interest earnings	500	500	794	294
Other	100	992	967	(25)
Total revenues	982,134	1,063,026	1,089,769	26,743
Expenditures				
Public works				
Highways, streets, and bridges	962,691	951,709	926,876	24,833
Capital outlay	706,000	750,474	518,374	232,100
Total expenditures	1,668,691	1,702,183	1,445,250	256,933
Excess of revenues over (under) expenditures	(686,557)	(639,157)	(355,481)	283,676
Other financing sources				
Transfers in	669,274	713,748	568,778	(144,970)
Net change in fund balance	(17,283)	74,591	213,297	138,706
Fund balance, beginning of year	236,701	236,701	236,701	-
Fund balance, end of year	\$ 219,418	\$ 311,292	\$ 449,998	\$ 138,706

CITY OF BAY CITY, MICHIGAN

Schedule of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual
 Parking Enforcement Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental				
Local	\$ 25,095	\$ 20,145	\$ 22,750	\$ 2,605
Fines and forfeitures	25,500	30,450	20,775	(9,675)
Interest earnings	-	-	117	117
	<u>50,595</u>	<u>50,595</u>	<u>43,642</u>	<u>(6,953)</u>
Total revenues	50,595	50,595	43,642	(6,953)
Expenditures				
Public safety	<u>50,595</u>	<u>50,595</u>	<u>43,642</u>	<u>6,953</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

Schedule of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual
 Solid Waste Management Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Charges for services				
Sales	\$ 2,085,867	\$ 2,085,867	\$ 2,013,393	\$ (72,474)
Interest earnings	7,500	7,500	1,360	(6,140)
Other	21,100	24,719	20,067	(4,652)
Total revenues	2,114,467	2,118,086	2,034,820	(83,266)
Expenditures				
Environmental	2,159,009	2,162,529	2,092,631	69,898
Net change in fund balance	(44,542)	(44,443)	(57,811)	(13,368)
Fund balance, beginning of year	479,246	479,246	479,246	-
Fund balances, end of year	\$ 434,704	\$ 434,803	\$ 421,435	\$ (13,368)

CITY OF BAY CITY, MICHIGAN

Schedule of Revenue, Expenditures and Changes in Fund Balances

Budget and Actual
 Community Development Block Grant Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental				
Federal	\$ 2,598,283	\$ 2,647,037	\$ 1,811,674	\$ (835,363)
State	-	-	8,000	8,000
Total revenues	<u>2,598,283</u>	<u>2,647,037</u>	<u>1,819,674</u>	<u>(827,363)</u>
Expenditures				
Economic development	796,265	833,685	646,072	187,613
Capital outlay	416,697	420,977	326,053	94,924
Total expenditures	<u>1,212,962</u>	<u>1,254,662</u>	<u>972,125</u>	<u>282,537</u>
Revenues over expenditures	<u>1,385,321</u>	<u>1,392,375</u>	<u>847,549</u>	<u>(544,826)</u>
Other financing sources (uses)				
Transfers in	100,000	102,220	87,479	(14,741)
Transfers out	(1,485,321)	(1,494,595)	(935,028)	559,567
Total other financing sources (uses)	<u>(1,385,321)</u>	<u>(1,392,375)</u>	<u>(847,549)</u>	<u>544,826</u>
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

Schedule of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual
 Building Inspection Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Licenses and permits	\$ 429,500	\$ 435,606	\$ 388,555	\$ (47,051)
Miscellaneous				
Interest earnings	-	260	572	312
Reimbursements	22,000	22,000	15,134	(6,866)
Other	12,200	34,450	40,407	5,957
Total revenues	<u>463,700</u>	<u>492,316</u>	<u>444,668</u>	<u>(47,648)</u>
Expenditures				
Public safety	637,027	637,148	599,877	37,271
Capital outlay	18,000	18,000	-	18,000
Total expenditures	<u>655,027</u>	<u>655,148</u>	<u>599,877</u>	<u>55,271</u>
Revenues over expenditures	(191,327)	(162,832)	(155,209)	7,623
Other financing sources (uses)				
Transfers in	135,082	135,082	135,082	-
Net change in fund balance	(56,245)	(27,750)	(20,127)	7,623
Fund balance, beginning of year	195,079	195,079	195,079	-
Fund balance, end of year	<u>\$ 138,834</u>	<u>\$ 167,329</u>	<u>\$ 174,952</u>	<u>\$ 7,623</u>

CITY OF BAY CITY, MICHIGAN

Schedule of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual
 Neighborhood Opportunity Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue				
Gain on sale of asset	\$ -	\$ 34,560	\$ 34,560	\$ -
Interest earnings	1,200	1,200	1,510	310
Total revenue	1,200	35,760	36,070	310
Expenditures				
Economic development	160,000	26,000	19,187	6,813
Revenue over (under) expenditures	(158,800)	9,760	16,883	7,123
Other financing uses				
Transfers out	-	(89,173)	(89,173)	-
Net change in fund balance	(158,800)	(79,413)	(72,290)	7,123
Fund balance, beginning of year	151,413	151,413	151,413	-
Fund balance (deficit), end of year	\$ (7,387)	\$ 72,000	\$ 79,123	\$ 7,123

CITY OF BAY CITY, MICHIGAN

Schedule of Revenue, Expenditures and Changes in Fund Balances

Budget and Actual

Neighborhood Stabilization Fund

For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental				
State	\$ 87,814	\$ 87,814	\$ 22,430	\$ (65,384)
Expenditures				
Economic development	<u>87,814</u>	<u>87,814</u>	<u>22,430</u>	<u>65,384</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

Schedule of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual
 Homeless Prevention Rehousing Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental				
Federal	\$ 180,244	\$ 180,244	\$ 153,341	\$ (26,903)
Expenditures				
Economic development	<u>180,244</u>	<u>180,244</u>	<u>153,341</u>	<u>26,903</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>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CITY OF BAY CITY, MICHIGAN

Schedule of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual
 Drug Law Enforcement Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenue				
Intergovernmental				
Federal	\$ -	\$ 2,262	\$ 2,261	\$ (1)
State	-	40,634	37,780	(2,854)
Total revenue	-	42,896	40,041	(2,855)
Expenditures				
Public safety	-	6,721	6,722	(1)
Net change in fund balance	-	36,175	33,319	(2,854)
Fund balance, beginning of year	297,572	297,572	297,572	-
Fund balance, end of year	\$ 297,572	\$ 333,747	\$ 330,891	\$ (2,854)

CITY OF BAY CITY, MICHIGAN

Schedule of Revenue, Expenditures and Changes in Fund Balances
 Budget and Actual
 Bond Sinking Fund
 For the Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property taxes	\$ 1,522,994	\$ 1,522,994	\$ 1,513,516	\$ (9,478)
Interest earnings	7,500	7,500	8,346	846
Total revenues	1,530,494	1,530,494	1,521,862	(8,632)
Expenditures				
Debt service				
Principal	1,705,000	1,705,000	1,705,000	-
Interest and fiscal charges	2,350	2,350	64,585	(62,235)
Total expenditures	1,707,350	1,707,350	1,769,585	(62,235)
Net change in fund balance	(176,856)	(176,856)	(247,723)	(70,867)
Fund balance, beginning of year	703,983	703,983	703,983	-
Fund balance, end of year	\$ 527,127	\$ 527,127	\$ 456,260	\$ (70,867)

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

Combining Statement of Net Assets
 Nonmajor Enterprise Funds
 June 30, 2012

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 124,242	\$ 64,691	\$ 174,913	\$ 363,846
Receivables (net of allowance for uncollectibles)				
Accounts	5,636	15,977	122	21,735
Accrued interest	550	266	721	1,537
Due from other governments	-	28	-	28
Inventories	-	21,528	-	21,528
Total current assets	<u>130,428</u>	<u>102,490</u>	<u>175,756</u>	<u>408,674</u>
Capital assets				
Land and improvements	300,888	2,162,479	2,738,574	5,201,941
Air rights	-	95,421	-	95,421
Buildings	67,169	1,138,159	193,825	1,399,153
Machinery and equipment	1,130	41,446	100,907	143,483
Construction in progress	-	30,000	-	30,000
Total capital assets	<u>369,187</u>	<u>3,467,505</u>	<u>3,033,306</u>	<u>6,869,998</u>
Less: accumulated depreciation	<u>179,410</u>	<u>1,343,407</u>	<u>1,233,991</u>	<u>2,756,808</u>
Net capital assets	<u>189,777</u>	<u>2,124,098</u>	<u>1,799,315</u>	<u>4,113,190</u>
Total assets	<u>320,205</u>	<u>2,226,588</u>	<u>1,975,071</u>	<u>4,521,864</u>
Liabilities				
Current liabilities:				
Accounts payable	12,360	5,103	29,021	46,484
Accrued liabilities	-	-	567	567
Accrued compensated absences - current	-	-	1,053	1,053
Total current liabilities	<u>12,360</u>	<u>5,103</u>	<u>30,641</u>	<u>48,104</u>
Long-term liabilities:				
Accrued compensated absences	-	-	1,667	1,667
Total liabilities	<u>12,360</u>	<u>5,103</u>	<u>32,308</u>	<u>49,771</u>
Net assets				
Invested in capital assets	189,777	2,124,098	1,799,315	4,113,190
Unrestricted	118,068	97,387	143,448	358,903
Total net assets	<u>\$ 307,845</u>	<u>\$ 2,221,485</u>	<u>\$ 1,942,763</u>	<u>\$ 4,472,093</u>

CITY OF BAY CITY, MICHIGAN

Combining Statement of Revenue, Expenditures and Changes in Fund Net Assets
 Nonmajor Enterprise Funds
 For the Year Ended June 30, 2012

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Operating revenues				
Charges for services				
Sales	\$ 51,898	\$ 67,738	\$ 2,685	\$ 122,321
Rents	-	2,930	120,647	123,577
Miscellaneous	-	41,432	4	41,436
Total operating revenues	51,898	112,100	123,336	287,334
Operating expenses				
Cost of sales and service	123,114	145,347	135,655	404,116
Depreciation	1,902	121,131	60,244	183,277
Total operating expenses	125,016	266,478	195,899	587,393
Operating loss	(73,118)	(154,378)	(72,563)	(300,059)
Nonoperating revenues				
Intergovernmental				
Federal grants	-	283,955	-	283,955
State grants	-	7,500	-	7,500
Interest earnings	1,301	550	1,475	3,326
Total nonoperating revenues	1,301	292,005	1,475	294,781
Income (loss) before transfers	(71,817)	137,627	(71,088)	(5,278)
Transfers in	69,195	44,562	-	113,757
Change in net assets	(2,622)	182,189	(71,088)	108,479
Net assets, beginning of year	310,467	2,039,296	2,013,851	4,363,614
Net assets, end of year	\$ 307,845	\$ 2,221,485	\$ 1,942,763	\$ 4,472,093

CITY OF BAY CITY, MICHIGAN

Combining Schedule of Cash Flows

Nonmajor Enterprise Funds

For the Year Ended June 30, 2012

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Cash flows from operating activities				
Cash received from customers and users	\$ 50,811	\$ 100,737	\$ 122,980	\$ 274,528
Cash payments to suppliers for goods and services	(123,121)	(185,411)	(99,520)	(408,052)
Cash payments to employees for services	-	-	(16,402)	(16,402)
Other receipts	-	41,432	4	41,436
Net cash provided by (used by) operating activities	(72,310)	(43,242)	7,062	(108,490)
Cash flows from noncapital financing activities				
Intergovernmental - federal grant	-	283,955	-	283,955
Intergovernmental - state grant	-	7,500	-	7,500
Transfers in	69,195	44,562	-	113,757
Net cash provided by noncapital financing activities	69,195	336,017	-	405,212
Cash flows from capital and related financing activities				
Purchase of capital assets	-	(298,901)	(18,240)	(317,141)
Cash flows from investing activities				
Interest received	1,301	550	1,475	3,326
Net increase (decrease) in cash and cash equivalents	(1,814)	(5,576)	(9,703)	(17,093)
Cash and cash equivalents, beginning of year	126,056	70,267	184,616	380,939
Cash and cash equivalents, end of year	\$ 124,242	\$ 64,691	\$ 174,913	\$ 363,846

CITY OF BAY CITY, MICHIGAN

Combining Schedule of Cash Flows
 Nonmajor Enterprise Funds
 For the Year Ended June 30, 2012

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Reconciliation of operating income to net cash provided by operating activities				
Operating loss	\$ (73,118)	\$ (154,378)	\$ (72,563)	\$ (300,059)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation	1,902	121,131	60,244	183,277
(Increase) decrease in assets:				
Accounts receivable	(797)	(776)	4	(1,569)
Accrued interest receivable	(290)	(127)	(356)	(773)
Due from other governments	-	30,972	-	30,972
Inventories	-	26,473	-	26,473
Prepaid expenses	-	73	-	73
Increase (decrease) in liabilities:				
Accounts payable	(7)	(66,610)	19,988	(46,629)
Accrued liabilities	-	-	50	50
Compensated absences	-	-	(305)	(305)
Total adjustments	808	111,136	79,625	191,569
Net cash provided by (used by) operating activities	\$ (72,310)	\$ (43,242)	\$ 7,062	\$ (108,490)



Bay

City
Michigan

A beautiful view...of life

City of Bay City

Internal Service Funds

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

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

Information Systems Fund - This fund accounts for all activities necessary to provide technology services to all City departments.

Liability/Property Self-Insurance Fund - The function of this fund is to provide liability and property insurance to all City departments.

Site Remediation Fund - This fund accounts for the expenditures relative to the cleanup and remediation of the Middlegrounds Landfill.

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

CITY OF BAY CITY, MICHIGAN

Combining Statement of Net Assets

Internal Service Funds

June 30, 2012

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Assets						
Current assets:						
Cash and cash equivalents	\$ 3,677,825	\$ 565,417	\$ 1,741,723	\$ 543,024	\$ 4,539,305	\$ 11,067,294
Receivables (net of allowance for uncollectibles)						
Accounts	376	107	26,929	-	-	27,412
Accrued interest	15,008	2,307	7,107	1,621	18,348	44,391
Inventories	151,303	44,582	-	-	-	195,885
Prepaid expenses	-	-	-	-	196,885	196,885
Deposits	-	-	-	-	220,307	220,307
Total current assets	3,844,512	612,413	1,775,759	544,645	4,974,845	11,752,174
Noncurrent assets:						
Net pension asset	229,756	164,105	-	-	-	393,861
Capital assets						
Buildings and improvements	65,329	-	-	-	-	65,329
Machinery and equipment	13,009,934	716,362	-	-	-	13,726,296
Less: accumulated depreciation	8,914,120	522,753	-	-	-	9,436,873
Net capital assets	4,161,143	193,609	-	-	-	4,354,752
Total noncurrent assets	4,390,899	357,714	-	-	-	4,748,613
Total assets	8,235,411	970,127	1,775,759	544,645	4,974,845	16,500,787
Liabilities						
Current liabilities:						
Accounts payable	77,864	6,265	38,596	320,877	314,099	757,701
Accrued liabilities	21,773	19,309	-	-	3,746	44,828
Interest payable	655	-	-	-	-	655
Claims payable	-	-	429,702	-	710,500	1,140,202
Due to other funds	-	-	167,455	-	-	167,455
Due to other governments	-	-	-	-	35,439	35,439
Accrued compensated absences - current	31,935	27,854	-	108	3,445	63,342
Notes payable - current	51,551	-	-	-	-	51,551
Total current liabilities	183,778	53,428	635,753	320,985	1,067,229	2,261,173
Long-term liabilities:						
Accrued compensated absences	41,012	33,612	-	43	1,946	76,613
Net OPEB obligation	347,710	118,305	-	-	-	466,015
Total long-term liabilities	388,722	151,917	-	43	1,946	542,628
Total liabilities	572,500	205,345	635,753	321,028	1,069,175	2,803,801
Net assets						
Invested in capital assets, net of related debt	4,109,592	193,609	-	-	-	4,303,201
Unrestricted	3,553,319	571,173	1,140,006	223,617	3,905,670	9,393,785
Total net assets	\$ 7,662,911	\$ 764,782	\$ 1,140,006	\$ 223,617	\$ 3,905,670	\$ 13,696,986

CITY OF BAY CITY, MICHIGAN

Combining Statement of Revenue, Expenditures and

Changes in Fund Net Assets

Internal Service Funds

For the Year Ended June 30, 2012

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Operating revenues						
Charges for services	\$ 3,390,794	\$ 951,949	\$ 744,502	\$ -	\$ 13,170,235	\$ 18,257,480
Employee contributions	-	-	-	-	911,340	911,340
Other	3,366	3,934	4,080,344	245	242,988	4,330,877
Total operating revenues	3,394,160	955,883	4,824,846	245	14,324,563	23,499,697
Operating expenses						
Cost of sales and service	2,308,667	682,284	-	393,548	-	3,384,499
Administration	-	-	5,351	-	1,341,735	1,347,086
Claims and benefits	-	-	4,616,507	-	13,277,055	17,893,562
Depreciation	591,639	71,471	-	-	-	663,110
Total operating expenses	2,900,306	753,755	4,621,858	393,548	14,618,790	23,288,257
Operating income (loss)	493,854	202,128	202,988	(393,303)	(294,227)	211,440
Nonoperating revenues (expenses)						
Interest earnings	30,598	4,971	15,353	3,893	41,092	95,907
Interest expense	(2,757)	-	-	-	-	(2,757)
Loss on disposal of capital assets	(11,400)	-	-	-	-	(11,400)
Total nonoperating revenues (expenses)	16,441	4,971	15,353	3,893	41,092	81,750
Change in net assets	510,295	207,099	218,341	(389,410)	(253,135)	293,190
Net assets, beginning of year	7,152,616	557,683	921,665	613,027	4,158,805	13,403,796
Net assets, end of year	\$ 7,662,911	\$ 764,782	\$ 1,140,006	\$ 223,617	\$ 3,905,670	\$ 13,696,986

CITY OF BAY CITY, MICHIGAN

Combining Schedule of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2012

	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	\$ 3,428,856	\$ 979,742	\$ 4,901,496	\$ (461)	\$ 15,472,940	\$ 24,782,573
Cash payments to suppliers for goods and services	(2,242,472)	(261,456)	(4,925,074)	(74,243)	(14,829,869)	(22,333,114)
Cash payments to employees for services	(690,922)	(479,174)	-	-	(53,259)	(1,223,355)
Net cash provided (used) by operating activities	495,462	239,112	(23,578)	(74,704)	589,812	1,226,104
Cash flows from capital and related financing activities						
Purchase of capital assets	(398,613)	(92,500)	-	-	-	(491,113)
Principal paid on debt	(49,641)	-	-	-	-	(49,641)
Interest paid on debt	(2,757)	-	-	-	-	(2,757)
Net cash used by capital and related financing activities	(451,011)	(92,500)	-	-	-	(543,511)
Cash flows from investing activities						
Interest received	30,598	4,971	15,353	3,893	41,092	95,907
Net increase (decrease) in cash and cash equivalent	75,049	151,583	(8,225)	(70,811)	630,904	778,500
Cash and cash equivalents, beginning of year	3,602,776	413,834	1,749,948	613,835	3,908,401	10,288,794
Cash and cash equivalents, end of year	\$ 3,677,825	\$ 565,417	\$ 1,741,723	\$ 543,024	\$ 4,539,305	\$ 11,067,294
Reconciliation of operating loss to net cash provided (used) by operating activities						
Operating income (loss)	\$ 493,854	\$ 202,128	\$ 202,988	\$ (393,303)	\$ (294,227)	\$ 211,440
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	591,639	71,471	-	-	-	663,110
(Increase) decrease in assets:						
Accounts receivable	42,134	401	45,392	-	1,150,000	1,237,927
Accrued interest	(7,873)	(1,486)	(3,652)	(706)	(10,813)	(24,530)
Due from other funds	2,245	24,944	-	-	9,190	36,379
Inventories	(13,663)	(36,395)	-	-	-	(50,058)
Prepaid expenses	-	-	-	-	199,010	199,010
Deposits	-	-	-	-	7,872	7,872
Net pension asset	(30,898)	(16,626)	-	-	-	(47,524)
Increase (decrease) in liabilities:						
Accounts payable	(603,433)	(19,327)	(239,200)	319,154	(357,873)	(900,679)
Accrued liabilities	413	10,076	-	-	264	10,753
Interest payable	(630)	-	-	-	-	(630)
Claims payable	-	-	(64,016)	-	(124,326)	(188,342)
Due to other funds	(1,810)	-	34,910	-	-	33,100
Due to other governments	-	-	-	-	9,157	9,157
Unearned revenue	-	-	-	-	-	-
Net OPEB obligation	45,759	5,705	-	-	-	51,464
Accrued compensated absences	(22,275)	(1,779)	-	151	1,558	(22,345)
Total adjustments	1,608	36,984	(226,566)	318,599	884,039	1,014,664
Net cash provided (used) by operating activities	\$ 495,462	\$ 239,112	\$ (23,578)	\$ (74,704)	\$ 589,812	\$ 1,226,104

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

Statement of Plan Net Assets
 Fiduciary Funds
 June 30, 2012

	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	\$ -	\$ 4,536,436	\$ 1,862,235	\$ 6,398,671	\$ 6,398,671
Investments					
Money market accounts	646,374	-	-	-	646,374
Mutual funds	19,094,402	-	-	-	19,094,402
Government securities	6,203,434	1,095,564	719,410	1,814,974	8,018,408
Corporate debt	5,384,212	-	-	-	5,384,212
Common stock	13,232,744	-	-	-	13,232,744
Accounts receivable	167,787	6,252	3,453	9,705	177,492
Interest receivable	102,422	18,511	7,599	26,110	128,532
Total assets	44,831,375	5,656,763	2,592,697	8,249,460	53,080,835
Liabilities					
Accounts payable	51,758	-	-	-	51,758
Net assets					
Held in trust for employees' pension benefits	44,779,617	-	-	-	44,779,617
Held in trust for employees' postemployment health care benefits	-	5,656,763	2,592,697	8,249,460	8,249,460
Total net assets	\$ 44,779,617	\$ 5,656,763	\$ 2,592,697	\$ 8,249,460	\$ 53,029,077

CITY OF BAY CITY, MICHIGAN

Combining Statement of Changes in Plan Net Assets

Fiduciary Funds

For the Year Ended June 30, 2012

	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	\$ 1,725,255	\$ 1,305,849	\$ 643,429	\$ 1,949,278	\$ 3,674,533
Current premium contributions	-	2,965,802	1,461,335	4,427,137	4,427,137
Plan members	458,068	-	-	-	458,068
Total contributions	2,183,323	4,271,651	2,104,764	6,376,415	8,559,738
Investment income					
Interest and dividends	901,160	84,252	45,810	130,062	1,031,222
Net appreciation in fair value of investments	148,153	260	130	390	148,543
Investment expense	(181,022)	-	-	-	(181,022)
Net investment income	868,291	84,512	45,940	130,452	998,743
Other additions	32,087	-	-	-	32,087
Total additions	3,083,701	4,356,163	2,150,704	6,506,867	9,590,568
Deductions					
Retiree healthcare premium payments	-	2,965,802	1,461,335	4,427,137	4,427,137
Benefits and refunds paid to participants	4,447,669	-	-	-	4,447,669
Administrative expenses	139,350	-	-	-	139,350
Total deductions	4,587,019	2,965,802	1,461,335	4,427,137	9,014,156
Net increase (decrease) in plan net assets	(1,503,318)	1,390,361	689,369	2,079,730	576,412
Net assets held in trust for pension and other employee benefits					
Beginning of year	46,282,935	4,266,402	1,903,328	6,169,730	52,452,665
End of year	\$ 44,779,617	\$ 5,656,763	\$ 2,592,697	\$ 8,249,460	\$ 53,029,077

CITY OF BAY CITY, MICHIGAN

Combining Statement of Fiduciary Assets and Liabilities

Agency Funds
June 30, 2012

	Trust and Agency	Current Tax Collection	Total
Assets			
Cash and cash equivalents	\$ 169,772	\$ -	\$ 169,772
Liabilities			
Accounts payable	\$ 146,649	\$ -	\$ 146,649
Deposits	23,123	-	23,123
Total liabilities	<u>\$ 169,772</u>	<u>\$ -</u>	<u>\$ 169,772</u>

CITY OF BAY CITY, MICHIGAN

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Trust & Agency Fund				
Assets				
Cash and cash equivalents	\$ 163,183	\$ 4,248,905	\$ 4,242,316	\$ 169,772
Liabilities				
Accounts payable	\$ 151,545	\$ 154,137	\$ 159,033	\$ 146,649
Due to other governmental units	-	4,232,370	4,232,370	-
Deposits	11,638	16,535	5,050	23,123
Total liabilities	<u>\$ 163,183</u>	<u>\$ 4,403,042</u>	<u>\$ 4,396,453</u>	<u>\$ 169,772</u>
Current Tax Collection Fund				
Assets				
Cash and cash equivalents	\$ -	\$ 28,303,345	\$ 28,303,345	\$ -
Liabilities				
Accounts payable	\$ -	\$ 464,335	\$ 464,335	\$ -
Due to other funds	-	10,372,764	10,372,764	-
Due to other governmental units	-	18,069,655	18,069,655	-
Total liabilities	<u>\$ -</u>	<u>\$ 28,906,754</u>	<u>\$ 28,906,754</u>	<u>\$ -</u>
Total - All Agency Funds				
Assets				
Cash and cash equivalents	\$ 163,183	\$ 32,552,250	\$ 32,545,661	\$ 169,772
Accounts receivable	-	-	-	-
Total assets	<u>\$ 163,183</u>	<u>\$ 32,552,250</u>	<u>\$ 32,545,661</u>	<u>\$ 169,772</u>
Liabilities				
Accounts payable	\$ 151,545	\$ 618,472	\$ 623,368	\$ 146,649
Due to other funds	-	10,372,764	10,372,764	-
Due to other governmental units	-	22,302,025	22,302,025	-
Deposits	11,638	16,535	5,050	23,123
Total liabilities	<u>\$ 163,183</u>	<u>\$ 33,309,796</u>	<u>\$ 33,303,207</u>	<u>\$ 169,772</u>



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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, Knepp's DDA, and Brownfield Redevelopment Authority.

CITY OF BAY CITY, MICHIGAN

Statement of Net Assets and Governmental Fund Balance Sheet

Downtown Development Authority, Midland Street TIFA,
Kresge's DDA and Marquette District TIFA
June 30, 2012

	Downtown Development Authority	Adjustments	Statement of Net Assets	Midland Street TIFA	Adjustments	Statement of Net Assets
Assets						
Cash and cash equivalents	\$ 173,990	\$ -	\$ 173,990	\$ 424,656	\$ -	\$ 424,656
Receivables:						
Accounts	11,990	-	11,990	-	-	-
Delinquent taxes	498	-	498	-	-	-
Accrued interest	669	-	669	1,733	-	1,733
Net pension asset	-	-	-	-	-	-
Capital assets, net	-	128,842	128,842	-	1,472,582	1,472,582
Total assets	<u>\$ 187,147</u>	<u>128,842</u>	<u>315,989</u>	<u>\$ 426,389</u>	<u>1,472,582</u>	<u>1,898,971</u>
Liabilities						
Accounts payable	\$ 18,124	-	18,124	\$ 1,424	-	1,424
Accrued liabilities	-	-	-	-	10,181	10,181
Deferred / unearned revenue	523	(523)	-	-	-	-
Bonds payable:						
Due within one year	-	-	-	-	41,630	41,630
Due in more than one year	-	-	-	-	1,036,584	1,036,584
Total liabilities	<u>18,647</u>	<u>(523)</u>	<u>18,124</u>	<u>1,424</u>	<u>1,088,395</u>	<u>1,089,819</u>
Fund balances / net assets						
Unassigned	168,500	(168,500)	-	424,965	(424,965)	-
Total liabilities and fund balances	<u>\$ 187,147</u>			<u>\$ 426,389</u>		
Net assets						
Invested in capital assets, net of related debt		128,842	128,842		394,368	394,368
Unrestricted (deficit)		169,023	169,023		414,784	414,784
Total net assets		<u>\$ 297,865</u>	<u>\$ 297,865</u>		<u>\$ 809,152</u>	<u>\$ 809,152</u>

Kresge's DDA	Adjustments	Statement of Net Assets	Marquette District TIFA	Adjustments	Statement of Net Assets
\$ 32,961	\$ -	\$ 32,961	\$ 347,755	\$ -	\$ 347,755
-	-	-	-	-	-
-	-	-	-	-	-
135	-	135	1,419	-	1,419
-	-	-	-	38,561	38,561
-	24,967	24,967	-	1,556,198	1,556,198
<u>\$ 33,096</u>	<u>24,967</u>	<u>58,063</u>	<u>\$ 349,174</u>	<u>1,594,759</u>	<u>1,943,933</u>
\$ -	-	-	\$ 989	-	989
-	-	-	1,226	-	1,226
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	2,215	-	2,215
33,096	(33,096)	-	346,959	(346,959)	-
<u>\$ 33,096</u>			<u>\$ 349,174</u>		
	24,967	24,967		1,556,198	1,556,198
	33,096	33,096		385,520	385,520
	<u>\$ 58,063</u>	<u>\$ 58,063</u>		<u>\$ 1,941,718</u>	<u>\$ 1,941,718</u>

CITY OF BAY CITY, MICHIGAN

Statement of Net Assets and Governmental Fund Balance Sheet

Water Street DDA, Marina Development TIFA, Allen Healthcare DDA,
Knepp's DDA and Brownfield Redevelopment Authority
June 30, 2012

	Water Street DDA	Adjustments	Statement of Net Assets	Marina Develop. TIFA	Adjustments	Statement of Net Assets
Assets						
Cash and cash equivalents	\$ 218,839	\$ -	\$ 218,839	\$ -	\$ -	\$ -
Receivables:						
Accrued interest	934	-	934	-	-	-
Net pension asset	-	-	-	-	-	-
Capital assets, net	-	2,598,970	2,598,970	-	492,858	492,858
Total assets	<u>\$ 219,773</u>	<u>2,598,970</u>	<u>2,818,743</u>	<u>\$ -</u>	<u>492,858</u>	<u>492,858</u>
Liabilities						
Accounts payable	\$ 5,031	-	5,031	\$ -	-	-
Accrued liabilities	-	10,967	10,967	-	-	-
Bonds payable:						
Due within one year	-	200,000	200,000	-	-	-
Due in more than one year	-	1,505,000	1,505,000	-	-	-
Total liabilities	<u>5,031</u>	<u>1,715,967</u>	<u>1,720,998</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances / net assets						
Unassigned	<u>214,742</u>	<u>(214,742)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 219,773</u>			<u>\$ -</u>		
Net assets						
Invested in capital assets, net of related debt		893,970	893,970		492,858	492,858
Unrestricted		203,775	203,775		-	-
Total net assets		<u>\$ 1,097,745</u>	<u>\$ 1,097,745</u>		<u>\$ 492,858</u>	<u>\$ 492,858</u>

Allen Healthcare DDA	Adjustments	Statement of Net Assets	Knepp's DDA	Adjustments	Statement of Net Assets
\$ 4,230	\$ -	\$ 4,230	\$ 3,372	\$ -	\$ 3,372
-	-	-	14	-	14
-	-	-	-	-	-
-	-	-	-	150,480	150,480
<u>\$ 4,230</u>	<u>-</u>	<u>4,230</u>	<u>\$ 3,386</u>	<u>150,480</u>	<u>153,866</u>
\$ -	-	-	\$ -	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,230	(4,230)	-	3,386	(3,386)	-
<u>\$ 4,230</u>			<u>\$ 3,386</u>		
	-	-		150,480	150,480
	4,230	4,230		3,386	3,386
<u>\$ 4,230</u>	<u>\$ 4,230</u>		<u>\$ 153,866</u>	<u>\$ 153,866</u>	



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CITY OF BAY CITY, MICHIGAN

Statement of Net Assets and Governmental Fund Balance Sheet (concluded)

Water Street DDA, Marina Development TIFA, Allen Healthcare DDA,
Knepp's DDA and Brownfield Redevelopment Authority
June 30, 2012

	Brownfield Redevelopment Authority	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 568,945	\$ -	\$ 568,945
Receivables:			
Accrued interest	2,322	-	2,322
Net pension asset	-	-	-
Capital assets, net	-	-	-
Total assets	<u>\$ 571,267</u>	<u>-</u>	<u>571,267</u>
Liabilities			
Accounts payable	\$ 2,136	-	2,136
Accrued liabilities	-	3,759	3,759
Bonds payable:			
Due within one year	-	15,370	15,370
Due in more than one year	-	382,716	382,716
Total liabilities	<u>2,136</u>	<u>401,845</u>	<u>403,981</u>
Fund balances / net assets			
Unassigned	<u>569,131</u>	<u>(569,131)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 571,267</u>		
Net assets			
Invested in capital assets, net of related debt		-	-
Unrestricted		<u>167,286</u>	<u>167,286</u>
Total net assets		<u>\$ 167,286</u>	<u>\$ 167,286</u>

CITY OF BAY CITY, MICHIGAN

Statement of Activities and Governmental Fund Statement of
 Revenues, Expenditures and Changes in Fund Balances
 Downtown Development Authority, Midland Street TIFA,
 Kresge's DDA and Marquette District TIFA
 For the Year Ended June 30, 2012

	Downtown Development Authority	Adjustments	Statement of Activities	Midland St. TIFA	Adjustments	Statement of Activities
Revenues						
Taxes						
Tax increment	\$ -	\$ -	\$ -	\$ 109,332	\$ -	\$ 109,332
Special assessments	66,850	(491)	66,359	-	-	-
Charges for services						
Rents	64,824	-	64,824	-	-	-
Miscellaneous						
Interest earnings	1,489	-	1,489	5,182	-	5,182
Other	10,000	-	10,000	-	-	-
Total revenues	143,163	(491)	142,672	114,514	-	114,514
Expenditures/Expenses						
Current						
Economic development	140,166	-	140,166	11,364	-	11,364
Depreciation	-	9,353	9,353	-	32,298	32,298
Capital outlay	-	-	-	894,379	(892,789)	1,590
Debt service						
Principal	-	-	-	40,242	(40,242)	-
Interest	-	-	-	41,127	(202)	40,925
Total expenditures/expenses	140,166	9,353	149,519	987,112	(900,935)	86,177
Change in fund balance / net assets	2,997	(9,844)	(6,847)	(872,598)	900,935	28,337
Fund balance / Net assets, beginning of year	165,503	139,209	304,712	1,297,563	(516,748)	780,815
Fund Balance / Net assets, end of year	\$ 168,500	\$ 129,365	\$ 297,865	\$ 424,965	\$ 384,187	\$ 809,152

Kresge's DDA	Adjustments	Statement of Activities	Marquette District TIFA	Adjustments	Statement of Activities
\$ 2,791	\$ -	\$ 2,791	\$ 293,150	\$ -	\$ 293,150
-	-	-	-	-	-
-	-	-	-	-	-
308	-	308	3,858	-	3,858
-	-	-	-	-	-
<u>3,099</u>	<u>-</u>	<u>3,099</u>	<u>297,008</u>	<u>-</u>	<u>297,008</u>
1,340	-	1,340	300,146	(3,760)	296,386
-	1,949	1,949	-	107,147	107,147
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>1,340</u>	<u>1,949</u>	<u>3,289</u>	<u>300,146</u>	<u>103,387</u>	<u>403,533</u>
1,759	(1,949)	(190)	(3,138)	(103,387)	(106,525)
<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>
<u>\$ 33,096</u>	<u>\$ 24,967</u>	<u>\$ 58,063</u>	<u>\$ 346,959</u>	<u>\$ 1,594,759</u>	<u>\$ 1,941,718</u>

CITY OF BAY CITY, MICHIGAN

Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances
 Water Street DDA, Marina Development TIFA, Allen Healthcare DDA, Knepp's DDA and Brownfield Redevelopment Authority
 For the Year Ended June 30, 2012

	Water Street DDA	Adjustments	Statement of Activities	Marina Develop. TIFA	Adjustments	Statement of Activities
Revenues						
Intergovernmental						
State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes:						
Tax increment	290,254	-	290,254	-	-	-
Miscellaneous						
Interest earnings	2,874	-	2,874	-	-	-
Other	-	-	-	-	-	-
Total revenues	293,128	-	293,128	-	-	-
Expenditures/Expenses						
Current						
Economic development	72,134	-	72,134	-	-	-
Depreciation	-	152,648	152,648	-	9,373	9,373
Capital outlay	-	-	-	-	-	-
Debt service						
Principal	170,000	(170,000)	-	-	-	-
Interest	71,963	(1,026)	70,937	-	-	-
Total expenditures/expenses	314,097	(18,378)	295,719	-	9,373	9,373
Change in fund balance / net assets	(20,969)	18,378	(2,591)	-	(9,373)	(9,373)
Fund balance / Net assets, beginning of year	235,711	864,625	1,100,336	-	502,231	502,231
Fund balance / Net assets, end of year	\$ 214,742	\$ 883,003	\$ 1,097,745	\$ -	\$ 492,858	\$ 492,858

Allen Health-care DDA	Adjustments	Statement of Activities	Knepp's DDA	Adjustments	Statement of Activities
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
(13)	-	(13)	48	-	48
-	-	-	-	-	-
(13)	-	(13)	48	-	48
-	-	-	2,342	-	2,342
-	-	-	-	3,530	3,530
-	-	-	8,296	(8,296)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	10,638	(4,766)	5,872
(13)	-	(13)	(10,590)	4,766	(5,824)
4,243	-	4,243	13,976	145,714	159,690
\$ 4,230	\$ -	\$ 4,230	\$ 3,386	\$ 150,480	\$ 153,866

CITY OF BAY CITY, MICHIGAN

Statement of Activities and Governmental Fund Statement of
 Revenues, Expenditures and Changes in Fund Balances
 Water Street DDA, Marina Development TIFA, Allen Healthcare DDA,
 Knepp's DDA and Brownfield Redevelopment Authority
 For the Year Ended June 30, 2012

	Brownfield Redevelopment Authority	Adjustments	Statement of Activities
Revenues			
Intergovernmental			
State	\$ -	\$ -	\$ -
Taxes:			
Tax increment	178,616	-	178,616
Miscellaneous			
Interest earnings	5,260	-	5,260
Other	-	-	-
Total revenues	<u>183,876</u>	<u>-</u>	<u>183,876</u>
Expenditures/Expenses			
Current			
Economic development	116,666	-	116,666
Depreciation	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	14,858	(14,858)	-
Interest	15,184	(74)	15,110
Total expenditures/expenses	<u>146,708</u>	<u>(14,932)</u>	<u>131,776</u>
Change in fund balance / net assets	<u>37,168</u>	<u>14,932</u>	<u>52,100</u>
Fund balance / Net assets, beginning of year	<u>531,963</u>	<u>(416,777)</u>	<u>115,186</u>
Fund balance / Net assets, end of year	<u>\$ 569,131</u>	<u>\$ (401,845)</u>	<u>\$ 167,286</u>

STATISTICAL SECTION

City of Bay City, Michigan

Net Assets by Component

Last Ten Fiscal Years

(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 64,467,354	\$ 58,960,994	\$ 60,326,443	\$ 61,608,056
Restricted	1,377,911	2,270,720	1,400,317	1,669,514
Unrestricted (deficit)	9,943,254	13,634,247	10,364,764	11,588,878
Total governmental activities net assets	\$ 75,788,519	\$ 74,865,961	\$ 72,091,524	\$ 74,866,448
Business-type activities				
Invested in capital assets, net of related debt	\$ 102,647,067	\$ 98,389,242	\$ 96,461,842	\$ 89,473,335
Restricted	1,160,696	-	-	-
Unrestricted	26,340,649	30,266,336	30,668,638	32,243,217
Total business-type activities net assets	\$ 130,148,412	\$ 128,655,578	\$ 127,130,480	\$ 121,716,552
Primary government				
Invested in capital assets, net of related debt	\$ 167,114,421	\$ 157,350,236	\$ 156,788,285	\$ 151,081,391
Restricted	2,538,607	2,270,720	1,400,317	1,669,514
Unrestricted	36,283,903	43,900,583	41,033,402	43,832,095
Total primary government net assets	\$ 205,936,931	\$ 203,521,539	\$ 199,222,004	\$ 196,583,000



Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 60,760,119	\$ 68,777,346	\$ 70,688,130	\$ 58,517,259	\$ 59,245,396	\$ 69,853,228
1,832,805	2,180,059	2,228,927	2,053,986	1,758,988	1,746,583
12,085,327	1,925,635	1,990,740	12,282,722	10,271,923	(1,970,352)
<u>\$ 74,678,251</u>	<u>\$ 72,883,040</u>	<u>\$ 74,907,797</u>	<u>\$ 72,853,967</u>	<u>\$ 71,276,307</u>	<u>\$ 69,629,459</u>
\$ 90,735,387	\$ 79,329,188	\$ 82,703,164	\$ 85,223,708	\$ 84,043,144	\$ 87,016,755
-	-	-	-	11,901,344	10,898,600
31,542,821	43,744,542	39,161,140	36,689,700	33,221,986	34,339,690
<u>\$ 122,278,208</u>	<u>\$ 123,073,730</u>	<u>\$ 121,864,304</u>	<u>\$ 121,913,408</u>	<u>\$ 129,166,474</u>	<u>\$ 132,255,045</u>
\$ 151,495,506	\$ 148,106,534	\$ 153,391,294	\$ 143,740,967	\$ 143,288,540	\$ 156,869,983
1,832,805	2,180,059	2,228,927	2,053,986	13,660,332	12,645,183
43,628,148	45,670,177	41,151,880	48,972,422	43,493,909	32,369,338
<u>\$ 196,956,459</u>	<u>\$ 195,956,770</u>	<u>\$ 196,772,101</u>	<u>\$ 194,767,375</u>	<u>\$ 200,442,781</u>	<u>\$ 201,884,504</u>

City of Bay City, Michigan

Changes in Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
Public safety	\$ 13,145	\$ 13,014	\$ 13,429	\$ 14,170
Community and economic development	1,859	-	2,037	2,116
Public works	5,638	11,019	10,909	9,871
General government	3,333	3,028	2,286	1,614
Recreation and culture	1,046	941	1,129	1,249
Interest on long-term debt	1,562	1,358	1,544	1,298
Total governmental activities expenses	<u>26,583</u>	<u>29,360</u>	<u>31,334</u>	<u>30,318</u>
Business-type activities:				
Electric	22,574	22,116	24,134	26,079
Water	7,330	6,939	6,870	7,231
Sewer	8,318	10,340	11,468	12,487
Public works	421	435	421	463
Total business-type activities expenses	<u>38,643</u>	<u>39,830</u>	<u>42,893</u>	<u>46,260</u>
Total primary government expenses	<u>\$ 65,226</u>	<u>\$ 69,190</u>	<u>\$ 74,227</u>	<u>\$ 76,578</u>
Program Revenues				
Governmental activities:				
Charges for services				
Public safety	\$ 665	\$ 640	\$ 768	\$ 960
General government	88	1,036	1,299	1,419
Public works	1,961	2,006	1,923	1,939
Recreation and culture	4	6	13	8
Other	-	-	(16)	125
Operating grants and contributions	2,849	5,899	6,296	5,797
Capital grants and contributions	35	21	618	47
Total governmental activities program revenues	<u>5,602</u>	<u>9,608</u>	<u>10,901</u>	<u>10,295</u>
Business-type activities:				
Charges for services				
Electric	21,480	21,972	22,991	23,770
Water	6,758	7,060	7,342	7,204
Sewer	7,576	8,358	9,931	11,512
Public works	399	230	219	215
Operating grants and contributions	-	26	164	246
Capital grants and contributions	-	-	-	455
Total business-type activities program revenues	<u>36,213</u>	<u>37,646</u>	<u>40,647</u>	<u>43,402</u>
Total primary government program revenues	<u>\$ 41,815</u>	<u>\$ 47,254</u>	<u>\$ 51,548</u>	<u>\$ 53,697</u>



Fiscal Year					
2007	2008	2009	2010	2011	2012

\$ 14,640	\$ 13,094	\$ 12,808	\$ 12,811	\$ 12,115	\$ 12,606
2,602	2,148	1,903	1,819	2,408	2,833
9,236	9,633	10,919	11,437	13,836	12,083
2,064	3,168	2,730	3,087	1,098	982
1,164	1,016	1,074	1,178	783	924
1,302	1,399	1,267	1,223	1,195	1,283
<u>31,008</u>	<u>30,458</u>	<u>30,701</u>	<u>31,555</u>	<u>31,435</u>	<u>30,711</u>
26,537	30,012	30,419	30,184	30,285	32,375
7,694	8,072	8,746	8,705	8,193	9,077
12,165	11,987	12,573	12,511	11,909	11,748
519	541	524	528	558	590
<u>46,915</u>	<u>50,612</u>	<u>52,262</u>	<u>51,928</u>	<u>50,945</u>	<u>53,790</u>
<u>\$ 77,923</u>	<u>\$ 81,070</u>	<u>\$ 82,963</u>	<u>\$ 83,483</u>	<u>\$ 82,380</u>	<u>\$ 84,501</u>

\$ 811	\$ 716	\$ 727	\$ 837	\$ 922	\$ 845
1,256	925	677	845	940	837
1,973	2,010	2,065	2,052	2,049	2,528
10	25	23	61	59	67
71	97	(138)	(263)	(141)	50
5,646	6,252	7,760	6,346	5,589	7,967
1,659	1,259	1,461	706	1,484	171
<u>11,426</u>	<u>11,284</u>	<u>12,575</u>	<u>10,584</u>	<u>10,902</u>	<u>12,465</u>

26,060	29,067	30,270	29,870	32,263	32,240
7,246	7,800	7,540	8,193	8,928	9,501
11,726	12,346	11,761	12,826	14,715	13,667
188	264	194	223	231	220
102	115	51	225	128	359
482	427	98	-	-	-
<u>45,804</u>	<u>50,019</u>	<u>49,914</u>	<u>51,337</u>	<u>56,265</u>	<u>55,986</u>
<u>\$ 57,230</u>	<u>\$ 61,303</u>	<u>\$ 62,489</u>	<u>\$ 61,921</u>	<u>\$ 67,167</u>	<u>\$ 68,451</u>

	Fiscal Year			
	2003	2004	2005	2006
Net (expense)/revenue				
Governmental activities	\$ (20,981)	\$ (19,773)	\$ (20,433)	\$ (20,023)
Business-type activities	(2,430)	(2,184)	(2,246)	(2,858)
Total primary government net expense	<u>\$ (23,411)</u>	<u>\$ (21,936)</u>	<u>\$ (22,679)</u>	<u>\$ (22,881)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Property taxes	\$ 13,263	\$ 13,142	\$ 12,934	\$ 13,592
Unrestricted grants and contributions	5,572	5,458	5,395	5,172
Investment earnings	260	274	381	398
Miscellaneous	4,519	67	71	111
Transfers	(81)	(119)	(311)	3,525
Total governmental activities	<u>23,533</u>	<u>18,822</u>	<u>18,470</u>	<u>22,798</u>
Business-type activities:				
Investment earnings	658	438	841	922
Miscellaneous	117	40	213	47
Transfers	81	119	311	(3,525)
Total business-type activities	<u>856</u>	<u>597</u>	<u>1,365</u>	<u>(2,556)</u>
Total primary government	<u>\$ 24,389</u>	<u>\$ 19,419</u>	<u>\$ 19,835</u>	<u>\$ 20,242</u>
Change in Net Assets				
Governmental activities	\$ 2,552	\$ (951)	\$ (1,963)	\$ 2,775
Business-type activities	(1,574)	(1,587)	(881)	(5,414)
Total primary government	<u>\$ 978</u>	<u>\$ (2,538)</u>	<u>\$ (2,844)</u>	<u>\$ (2,639)</u>

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ (19,582)	\$ (19,174)	\$ (18,126)	\$ (20,971)	\$ (20,533)	\$ (18,246)
(1,111)	(593)	(2,348)	(591)	5,320	2,197
<u>\$ (20,693)</u>	<u>\$ (19,767)</u>	<u>\$ (20,474)</u>	<u>\$ (21,562)</u>	<u>\$ (15,213)</u>	<u>\$ (16,050)</u>
\$ 13,640	\$ 14,044	\$ 14,249	\$ 14,012	\$ 12,728	\$ 12,357
5,127	4,911	5,104	4,383	4,614	3,904
702	1,022	709	462	114	182
74	80	107	92	655	766
(149)	34	(18)	(32)	(125)	(610)
<u>19,394</u>	<u>20,091</u>	<u>20,151</u>	<u>18,917</u>	<u>17,986</u>	<u>16,599</u>
1,459	1,398	1,048	580	152	213
64	25	72	28	59	69
149	(34)	18	32	125	610
<u>1,672</u>	<u>1,389</u>	<u>1,138</u>	<u>640</u>	<u>336</u>	<u>892</u>
<u>\$ 21,066</u>	<u>\$ 21,480</u>	<u>\$ 21,289</u>	<u>\$ 19,557</u>	<u>\$ 18,322</u>	<u>\$ 17,491</u>
\$ (188)	\$ 917	\$ 2,025	\$ (2,054)	\$ (2,547)	\$ (1,647)
561	796	(1,210)	49	5,656	3,089
<u>\$ 373</u>	<u>\$ 1,713</u>	<u>\$ 815</u>	<u>\$ (2,005)</u>	<u>\$ 3,109</u>	<u>\$ 1,442</u>

City of Bay City, Michigan

Fund Balances of Governmental Funds

Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

	2003	2004	2005	2006
General fund				
Reserved	\$ 46	\$ 4	\$ 3	\$ -
Unreserved	4,951	5,460	5,380	5,353
Nonspendable	-	-	-	-
Committed	-	-	-	-
Restricted	-	-	-	-
Unassigned	-	-	-	-
Total general fund	\$ 4,997	\$ 5,464	\$ 5,383	\$ 5,353
All other governmental funds				
Reserved	\$ 316	\$ 42	\$ 42	\$ 36
Unreserved, reported in:				
Special revenue funds	1,793	1,951	1,663	2,168
Capital projects funds	2,632	2,156	1,347	1,463
Debt service fund	338	115	53	207
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total all other governmental funds	\$ 5,079	\$ 4,264	\$ 3,105	\$ 3,874

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ -	\$ 342	\$ 268	\$ 300	\$ -	\$ -
5,086	4,878	5,677	5,440	-	-
-	-	-	-	-	2
-	-	-	-	-	4,441
-	-	-	-	307	38
-	-	-	-	5,874	1,783
<u>\$ 5,086</u>	<u>\$ 5,220</u>	<u>\$ 5,945</u>	<u>\$ 5,740</u>	<u>\$ 6,181</u>	<u>\$ 6,264</u>
\$ 65	\$ 37	\$ 41	\$ 157	\$ -	\$ -
2,479	2,529	2,368	2,903	-	-
1,446	1,596	1,486	1,218	-	-
387	584	743	836	-	-
-	-	-	-	108	129
-	-	-	-	3,031	3,881
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 4,377</u>	<u>\$ 4,746</u>	<u>\$ 4,638</u>	<u>\$ 5,114</u>	<u>\$ 3,139</u>	<u>\$ 4,010</u>

City of Bay City, Michigan

Changes in Fund Balances of Governmental Funds

Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year			
	2003	2004	2005	2006
Revenues				
Property taxes and other taxes	\$ 13,263	\$ 12,469	\$ 12,528	\$ 12,557
Licenses and permits	452	402	513	663
Federal grants	2,869	2,092	3,630	2,804
State shared revenues and grants	8,761	10,246	9,441	9,595
Local contributions	-	88	66	54
Interest, rents and royalties	280	243	332	367
Charges for services	5,295	5,389	5,466	5,969
Fines and forfeits	161	171	153	136
Reimbursements, refunds and other revenue	1,206	779	543	961
Total revenues	32,629	31,879	32,672	33,106
Expenditures				
General government	6,988	4,959	5,470	5,381
Public safety	12,505	12,530	13,205	13,826
Public works	6,275	6,894	7,158	7,203
Community and economic development	2,177	2,030	2,405	1,853
Recreation and culture	1,031	954	1,030	1,076
Post-retirement benefits	-	-	-	-
Capital outlay	2,921	2,354	2,550	1,393
Debt service:				
Principal	633	2,110	1,690	1,570
Interest and other fees	1,562	158	115	4
Total expenditures	34,092	31,989	33,623	32,306
Excess of revenues over (under) expenditures	(1,463)	(110)	(951)	800
Other financing sources (uses)				
Lease proceeds	-	31	-	29
Bond proceeds	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Transfers in	2,201	2,397	1,717	2,537
Transfers (out)	(2,282)	(2,516)	(1,741)	(2,627)
Total other financing sources (uses)	(81)	(88)	(24)	(61)
Net change in fund balances	\$ (1,544)	\$ (198)	\$ (975)	\$ 739
Debt service as a percentage of noncapital expenditures	7.04%	7.65%	5.81%	5.09%

Fiscal Year						
2007	2008	2009	2010	2011	2012	
\$ 12,816	\$ 13,227	\$ 13,271	\$ 13,020	\$ 11,757	\$ 11,459	
532	497	498	515	454	415	
3,737	3,352	3,473	3,618	2,603	3,411	
9,820	8,062	10,725	7,606	9,063	8,555	
16	1,763	1,502	1,489	1,457	1,598	
613	712	427	246	67	87	
5,856	6,038	6,215	6,466	6,366	6,684	
132	150	165	149	167	103	
875	1,145	348	520	1,015	1,579	
<u>34,397</u>	<u>34,946</u>	<u>36,624</u>	<u>33,629</u>	<u>32,949</u>	<u>33,891</u>	
5,609	5,387	5,007	5,183	4,659	4,570	
14,358	12,960	12,419	12,071	11,700	11,928	
6,777	6,800	6,979	6,735	6,693	6,688	
1,784	1,740	1,773	2,221	2,093	2,633	
1,005	818	830	838	813	836	
-	2,034	2,077	1,894	2,108	2,490	
2,841	2,501	5,193	2,662	4,170	4,052	
1,638	2,173	1,690	1,711	1,725	1,748	
1	77	21	7	2	65	
<u>34,013</u>	<u>34,490</u>	<u>35,989</u>	<u>33,322</u>	<u>33,963</u>	<u>35,011</u>	
<u>384</u>	<u>456</u>	<u>635</u>	<u>307</u>	<u>(1,014)</u>	<u>(1,119)</u>	
-	14	-	4	-	-	
-	-	-	-	-	1,630	
-	-	-	-	-	85	
841	907	770	1,571	818	1,555	
(990)	(874)	(788)	(1,611)	(1,338)	(2,165)	
<u>(149)</u>	<u>47</u>	<u>(18)</u>	<u>(36)</u>	<u>(520)</u>	<u>1,104</u>	
<u>\$ 235</u>	<u>\$ 503</u>	<u>\$ 617</u>	<u>\$ 271</u>	<u>\$ (1,534)</u>	<u>\$ (15)</u>	
5.26%	7.03%	5.56%	5.60%	5.80%	5.77%	

City of Bay City, Michigan

Revenue By Source

Last Ten Fiscal Years

(accrual basis of accounting)

Fiscal Year	Property Taxes	Electric Operating
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
2012	12,357,132	32,246,928

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					
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%
2012	405,281	93,352	23,958	62,467	585,058	20.0935	1,170,116	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

Fiscal Year (1) (2)	Bay City				Overlapping Rates			Total Direct & Overlapping Rates
	Operating Millage	Special Millage (3)	Debt Millage	Total City Millage	School District	Community College	County	
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
2012	16.9615	0.0000	3.1320	20.0935	31.9133	2.0427	10.8138	64.8633

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. 2003 refers to the 2004 tax collection, 2004 refers to the 2005 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, 2012 and Ten Years Previous

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
General Motors Corporation	\$ 15,513,000	1	2.65%	\$ 30,143,200	1	4.55%
Consumers Energy Company	5,179,600	2	0.89%	7,537,000	2	1.14%
Charter Communications	4,686,500	3	0.80%	2,039,227	5	0.31%
SC Johnson	3,872,500	4	0.66%	-		-
General Motors Corporation	3,427,750	5	0.59%	-		-
Bay City Housing Commission	1,989,400	6	0.34%	2,135,468	4	0.32%
Mersen USA	1,764,650	7	0.30%	-		-
Art Van Furniture - Conner Inc	1,521,200	8	0.26%	1,869,122	6	0.28%
Wenonah Park Properties	1,502,933	9	0.26%	-		-
Baldauf Enterprises Inc	1,484,300	10	0.25%	-		-
Chev-Pontiac-Canada Group	-		-	4,786,300	3	0.72%
After Hours #265	-		-	1,637,900	7	0.25%
Port Fisher LLC	-		-	1,567,107	8	0.24%
Lafayette Square Project LLC	-		-	1,520,529	9	0.23%
Michigan Properties LLC	-		-	1,506,300	10	0.23%
Totals	\$ 40,941,833		7.00%	\$ 54,742,153		8.27%

Electric Customer	2012			2003		
	Usage kWh	Rank	Percentage of Total Usage	Usage kWh	Rank	Percentage of Total Usage
Bay Medical Center	16,499,373	1	5.0%	14,114,631	2	4.6%
Mersen USA	14,193,920	2	4.3%	-		-
City of Bay City	12,521,214	3	3.8%	18,339,370	1	6.0%
Bay County	6,665,311	4	2.0%	4,949,402	5	1.6%
S.C. Johnson & Sons	6,055,360	5	1.8%	4,644,090	7	1.5%
Bay Cast Inc	4,869,936	6	1.5%	4,741,314	6	1.6%
Doubletree Hotel	3,653,550	7	1.1%	-		-
Kerkau Manufacturing	3,387,160	8	1.0%	2,449,200	8	0.8%
Menards	3,319,112	9	1.0%	-		-
Valley Publishing	3,237,280	10	1.0%	-		-
Ultra Carbon	-		-	8,337,430	3	2.7%
Bay City Board of Education	-		-	6,348,244	4	2.1%
FP Horak	-		-	2,443,904	9	0.8%
McDonalds	-		-	2,106,538	10	0.7%
Totals	\$ 74,402,216		22.50%	\$ 68,474,123		22.40%



Bay

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City of Bay City

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
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%
2012	11,259	10,310	91.57%	908	11,218	99.64%

City of Bay City, Michigan

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year	Governmental Activities			
	General Obligation Bonds	Installment Purchase Contracts	Term Loans	Capital Leases
2003	\$ 22,713,211	\$ 437,819	\$ -	\$ 69,312
2004	22,031,664	400,842	-	73,412
2005	21,644,380	362,726	-	35,122
2006	17,774,130	323,144	-	45,364
2007	17,462,577	282,040	-	22,717
2008	17,126,779	239,354	2,170,000	21,260
2009	16,731,739	195,027	2,127,500	9,375
2010	16,284,012	148,995	2,085,000	4,825
2011	15,794,946	101,192	2,042,500	2,720
2012	16,870,889	51,551	2,000,000	1,760

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.



Business-type Activities					
Revenue Bonds	General Obligation Bonds	Term Loans	Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
\$ 11,184,741	\$ 1,355,000	\$ 38,438,296	\$ 74,198,379	24.73%	\$ 2,089
10,318,760	1,305,000	40,198,689	74,328,367	24.61%	2,116
9,392,779	7,250,000	39,070,000	77,755,007	25.60%	2,240
8,315,000	15,895,000	41,975,727	84,328,365	26.91%	2,458
7,115,000	14,690,000	41,290,000	80,862,334	24.99%	2,380
9,545,000	21,925,001	39,205,000	90,232,394	26.83%	2,661
8,020,000	20,140,001	37,070,000	84,293,642	25.18%	2,495
6,230,000	18,340,001	34,885,000	77,977,833	22.73%	2,232
4,360,000	18,983,600	32,645,000	73,929,958	(2)	2,130
2,420,000	17,047,701	30,350,000	68,741,901	(2)	1,980

City of Bay City, Michigan

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years

(amounts expressed in thousands)

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita (1)
2003	\$ 35,253	\$ 338	\$ 12,540	\$ 22,375	3.17%	\$ 629.87
2004	33,655	115	11,624	21,916	2.98%	623.83
2005	38,287	53	16,643	21,591	2.78%	622.08
2006	41,984	207	24,210	17,567	2.24%	512.00
2007	32,153	387	21,805	9,961	1.33%	293.16
2008	39,052	584	31,470	6,998	0.93%	206.39
2009	36,872	743	28,160	7,969	1.11%	235.90
2010	34,624	836	24,570	9,218	1.48%	263.88
2011	34,779	704	23,344	10,731	1.73%	309.09
2012	33,919	456	19,468	13,995	2.39%	403.12

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, 2012

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping Debt:			
Bay County	\$ 14,811,026	19.59%	\$ 2,901,480
Bay City School District	63,210,000	33.35%	21,080,535
Bangor Township Schools	13,278,333	0.35%	46,474
Bay-Arenac Intermediate School District	3,355,000	16.63%	<u>557,937</u>
Total Overlapping Debt			24,586,426
Direct Debt:			
City of Bay City	16,870,899	100.00%	<u>16,870,899</u>
Total Direct and Overlapping Debt			<u>\$ 41,457,325</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)

	2003	2004	2005	2006
Debt limit	\$ 70,582	\$ 73,468	\$ 77,667	\$ 78,322
Total net debt applicable to limit	<u>23,731</u>	<u>23,221</u>	<u>28,841</u>	<u>33,462</u>
Legal debt margin	<u>\$ 46,851</u>	<u>\$ 50,247</u>	<u>\$ 48,826</u>	<u>\$ 44,860</u>
Total net debt applicable to the limit as a percentage of debt limit	33.62%	31.61%	37.13%	42.72%



2007	2008	2009	2010	2011	2012
\$ 75,024	\$ 74,971	\$ 71,477	\$ 62,159	\$ 62,000	\$ 58,506
31,766	38,468	36,129	33,788	34,075	33,463
<u>\$ 43,258</u>	<u>\$ 36,503</u>	<u>\$ 35,348</u>	<u>\$ 28,371</u>	<u>\$ 27,925</u>	<u>\$ 25,043</u>

42.34% 51.31% 50.55% 54.36% 54.96% 57.20%

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed valuation, December 31, 2011	\$ 585,058
Debt limit (10% of assessed valuation)	\$ 58,506
Debt applicable to limit:	\$ 33,919
Less:	
Assets in Debt Service funds available for payment of principal	<u>456</u>
Total amount of debt applicable to debt limit	<u>33,463</u>
Legal debt margin	<u>\$ 25,043</u>

City of Bay City, Michigan

Pledged-Revenue Coverage

Last Ten Fiscal Years

Fiscal Year	Operating Revenue (1)	Operating Expenses (2)	Net Available Revenue	Debt Service		Total	Coverage
				Principal	Interest		
Water System Revenue Bonds							
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	-	-	-	-
2012	9,593,003	7,582,664	2,010,339	-	-	-	-
Electric System Revenue Bonds							
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
2012	32,332,485	30,011,220	2,321,265	1,940,000	125,962	2,065,962	1.12

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)
2003	35,523	\$ 3,000,488	\$ 27,387	5,893	8.80%
2004	35,132	3,020,243	27,594	5,878	8.40%
2005	34,708	3,037,255	27,823	5,817	7.50%
2006	34,311	3,133,643	28,825	5,553	7.40%
2007	33,977	3,236,161	29,928	5,462	7.30%
2008	33,905	3,438,771	31,047	5,221	8.30%
2009	33,780	3,342,027	30,970	4,922	13.40%
2010	34,932	3,430,917	31,852	4,906	12.70%
2011	34,717	3,613,534	33,737	4,654	10.80%
2012	34,717	(5)	(5)	4,805	9.40%

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.



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City of Bay City, Michigan

Principal Employers 2012 and 2003

Employer	2012			2003		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Bay Regional Medical Center (2)	1,750	1	11.13%	1,749	1	10.35%
Bay City Public Schools (1)	892	2	5.67%	1,270	2	7.51%
Bay County	500	3	3.18%	619	4	3.66%
SC Johnson	400	4	2.54%	480	5	2.84%
General Motors Powertrain	309	5	1.96%	1,167	3	6.90%
City of Bay City	297	6	1.89%	441	6	2.61%
F.P. Horak Co.	220	7	1.40%	162	10	0.96%
Labadie Auto Group	160	8	1.02%	-	-	-
Mersen USA	146	9	0.93%	-	-	-
Doubletree Hotel & Conference Center	135	10	0.86%	-	-	-
Bay City Times	-	-	-	207	7	1.22%
National Bank	-	-	-	170	9	1.01%
RCW Inc.	-	-	-	200	8	1.18%
Totals	4,809		30.58%	6,465		38.24%

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.

City of Bay City, Michigan

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

	2003	2004	2005	2006
Function				
General government	69	67	65	62
Public safety				
Police	96	88	71	66
Fire	61	61	58	58
Building inspections	N/A	N/A	N/A	N/A
Public works	68	67	65	64
Recreation and culture	17	17	17	17
Community and economic development	8	7	12	11
Electric	48	48	47	47
Water	43	44	44	43
Sewer	42	42	40	46
Total	452	441	419	414

Source: City of Bay City Finance Department



2007	2008	2009	2010	2011	2012
60	59	57	60	48	50
66	61	59	58	62	62
57	57	54	53	41	47
N/A	N/A	N/A	N/A	4	4
61	52	48	48	34	33
15	12	11	10	5	6
10	10	10	9	12	13
45	43	43	45	42	44
42.5	41	40	40	37	40
42.5	39	38	38	33	31
399	374	360	361	318	330

City of Bay City, Michigan

Operating Indicators by Function Last Ten Fiscal Years

Function	2003	2004	2005	2006
General Government				
Elections				
Number of registered voters	23,779	23,988	24,772	24,311
Public safety				
Police Department				
Number of citations issued	9,910	7,989	6,183	5,796
Number of complaints filed	7,869	7,166	6,845	5,946
Number of calls for service	37,194	34,395	32,445	29,470
Number of DUI offenses	376	288	278	185
Fire Department				
Number of emergency runs	3,995	3,989	4,663	3,677
Number of fire prevention programs	7	7	7	7
Public works				
Streets				
Tons of salt used	2,884	2,607	2,784	3,060
Recreation and culture				
Park acreage maintained	-	-	-	-
Special events	-	-	-	-
Shelter rentals	-	-	-	-
Street trees planted	364	392	391	482
Street trees trimmed	-	-	-	-
Street trees removal	-	-	-	-
Community and Economic Development				
Housing units rehabilitated	14	10	13	5
Emergency housing units rehabilitated	29	27	47	33
Electric Department				
Generating capacity	33,290	33,295	33,295	33,295
Sewer System				
Sanitary and storm sewer (miles)	277.08	277	277	277
Daily average treatment (million gallons)	8	8.6	9	9
Maximum daily capacity (million gallons)	18	18	18	18
Water system				
Miles of water mains	232	232	232	231.86
Daily average consumption (million gallons)	10.52	9.76	9.31	9.7
Maximum daily treatment (million gallons)	15.23	13.55	12.38	12.35
Airport				
Private hanger land leases	-	-	-	20
Public hanger lease	-	-	-	1
Cell tower leases	-	-	-	1
Aviation fuel sold (gallons)	-	-	-	-
Cemetery				
Interments	-	-	-	58
Grave sales	-	-	-	25
Foundations set	-	-	-	21
Right of 2nd Interment	-	-	-	-
Marina				
Seasonal Dock Leases	-	-	-	50
Transient Dock Rentals	-	-	-	1,540

Sources: Various city departments.



2007	2008	2009	2010	2011	2012
24,509	24,864	24,947	23,452	23,338	22,897
8,343	5,836	3,190	3,568	2,792	3,382
6,113	5,963	5,730	4,528	5,907	4,247
28,957	30,275	29,851	30,242	25,189	33,899
337	351	210	199	156	219
3,341	4,329	4,438	4,533	4,785	4,681
7	14	187	187	111	128
2,280	3,529	2,958	1,485	2,948	1,557
238	238	233	223	223	238
58	43	33	43	40	25
63	57	60	67	50	49
716	361	366	-	-	-
2,998	1,576	1,977	-	-	-
251	137	209	167	101	253
6	8	3	5	3	1
23	42	50	42	32	34
33,295	33,295	33,295	33,295	33,295	33,295
310	310	310	320	320	320
9	9	9	8	7	7
18	18	18	18	18	18
232	232	196.87	196.87	196.87	194.50
8.90	8.58	8.03	7.46	7.47	7.41
12.96	12.10	13.85	10.12	14.45	14.00
22	22	23	23	23	22
1	1	1	1	2	3
1	1	1	1	1	1
29,000	20,163	N/A	12,599	14,665	13,756
35	35	51	57	48	50
30	40	16	35	42	39
21	19	29	25	18	25
-	6	5	5	5	1
50	50	49	50	50	50
1,585	1,116	542	419	337	364

City of Bay City, Michigan

Capital Assets Statistics by Function Last Ten Fiscal Years

Function	2003	2004	2005	2006
Public safety				
Police				
Stations	1	1	1	1
Vehicles	42	40	34	31
Fire				
Stations	4	4	4	4
Vehicles	14	14	14	13
Public works				
Bascule span bridges	2	2	2	2
Streets (miles)	199	199	199	199
Recreation and culture				
Park areas	18	18	25	24

Sources: Various city departments.

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



2007	2008	2009	2010	2011	2012
------	------	------	------	------	------

1 25	1 25	1 25	1 25	1 25	1 25	1 22
4 13	4 13	4 13	3 12	3 14	3 14	3 14
2 199						
24	24	24	24	24	24	25



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SINGLE AUDIT ACT COMPLIANCE

CITY OF BAY CITY, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grant				
Grant Entitlements - 2001	14.218	Direct	B-01-MC-26-0003	\$ 2,331
Grant Entitlements - 2004	14.218	Direct	B-04-MC-26-0003	159,602
Grant Entitlements - 2005	14.218	Direct	B-05-MC-26-0003	71,970
Grant Entitlements - 2006	14.218	Direct	B-06-MC-26-0003	75,306
Grant Entitlements - 2007	14.218	Direct	B-07-MC-26-0003	112,541
Grant Entitlements - 2008	14.218	Direct	B-08-MC-26-0003	202,083
Grant Entitlements - 2009	14.218	Direct	B-09-MC-26-0003	64,410
Grant Entitlements - 2010	14.218	Direct	B-10-MC-26-0003	48,912
Grant Entitlements - 2011	14.218	Direct	B-11-MC-26-0003	1,074,519
Grant Entitlements - 2011	14.218	Direct	N/A	95,479
Total Community Development Block Grant				<u>1,907,153</u>
Home Program				
HOME Program - 2009	14.239	Direct	M09-MC260219	18,668
HOME Program - 2010	14.239	Direct	M10-MC260219	273,983
HOME Program - 2011	14.239	Direct	M11-MC260219	81,135
HOME Program - 2011	14.239	Direct	N/A	100
				<u>373,886</u>
American Recovery & Reinvestment Act Homelessness Prevention and Rapid Rehousing Program ARRA				
	14.257	Direct	S-09-MY-26-0003	<u>153,341</u>
Total U.S. Department of Housing and Urban Development				<u>2,434,380</u>
U.S. Department of Justice				
Local Law Enforcement Block Grant - Vests 2008				
	16.592	Direct	N/A	<u>1,982</u>
Office of Justice Program Awards Cops Hiring Recovery Program				
	16.710	Direct	2009-RK-WX-0433	<u>156,238</u>
JAG (formerly Local Law Enforcement Block Grant)				
Byrne Justice Assistance Grant	16.738	Direct	2011-DJ-BX-2240	22,500
	16.738	Direct	2011-DJ-BX-3086	9,332
				<u>31,832</u>
Highway Safety Cluster				
Safe Communities - Enforcement	20.600	MDS	PT-111-37	7,740
Safe Communities - Youth Alcohol	20.601	MDS	AL-11-32	2,094
Total Highway Safety Cluster				<u>9,834</u>
Total U.S. Department of Justice				<u>199,886</u>
U.S. Department of Transportation				
Federal Aviation Administration				
Federal Aviation Administration	20.106	MDT	B-26-0010-1209	2,755
Federal Aviation Administration	20.106	MDT	B-26-0010-1310	252,700
Federal Aviation Administration	20.106	MDT	B-26-0010-1411	28,500
				<u>283,955</u>
Highway Planning and Construction				
National Byways Grant	20.205	MDT	2007-0356	26,747
Highway Administration	20.205	MDT	STP-0909	38,173
Total Highway Planning and Construction				<u>64,920</u>
Total U.S. Department of Transportation				<u>348,875</u>

CITY OF BAY CITY, MICHIGAN

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Environmental Protection Agency EPA Brownfield Grant	66.818	Direct	BF00E91201	<u>171,428</u>
U.S. Department of Homeland Security Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	FEMA	EMW-2009-FH-00628	<u>558,245</u>
U.S. Department of Energy Energy Efficiency and Conservation Block Grant	81.128	MEO	MEO-11.57	<u>75,600</u>
Total Expenditures of Federal Awards				<u>\$ 3,788,414</u>

The accompanying notes are an integral part of this schedule.

CITY OF BAY CITY, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

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, 2012. 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. PASS-THROUGH AGENCIES

The City receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDS	Michigan Department of State
MDT	Michigan Department of Transportation
MEO	Michigan Energy Office
FEMA	Federal Emergency Management Agency

4. SUBRECIPIENTS

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

Program Title	CFDA Number	Amount
Community Development Block Grant Entitlements	14.218	\$ 123,575
HOME Program	14.239	361,906
Homeless Prevention and Rapid Rehousing Program	14.257	151,729



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 26, 2012

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, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 26, 2012. 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

Management of the City is responsible for establishing and maintaining effective 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 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 accompanying schedule of findings and questioned costs as item 2012-FS-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*.

We noted certain matters that we reported to management of City of Bay City, Michigan, in a separate letter dated December 26, 2012.

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 cursive script, reading "Lehmann Johnson".

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 26, 2012

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, 2012. 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, 2012.

Internal Control Over Compliance

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.

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.



CITY OF BAY CITY, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) 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 deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	CDBG - Entitlement Grant
14.239	Home Investment Partnerships Program
16.710	Public Safety Partnership and Community Policing Grants

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

Auditee qualified as low-risk auditee? yes X no

CITY OF BAY CITY, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-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. Several significant adjusting entries were required to fairly state the City's financial statements. These entries affected the City's inventory balances, accounts payable, accounts receivable, deposits and related revenue and expenditures as of June 30, 2011 and June 30, 2012.

Cause. The adjustments needed were for errors in properly adjusting year-end asset and liability balances.

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

Recommendation. We recommend that the City ensure that the accounting department be aware of year-end cutoff and properly record asset and liability balances in the correct year.

View of Responsible Officials. The general ledger has been corrected for the above listed adjustments.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

CITY OF BAY CITY, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2012

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

This item is repeated for the current year at 2012-FS-1.

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

This item was corrected by the City.

