

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Bay City, Michigan	County Bay
Audit Date June 30, 2005	Opinion Date December 15, 2005	Date Accountant Report Submitted to State: December 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

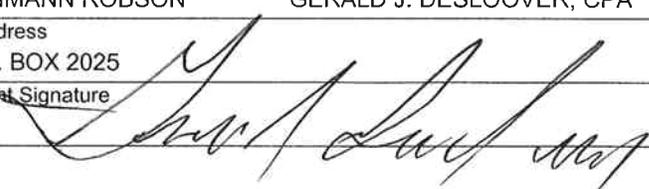
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

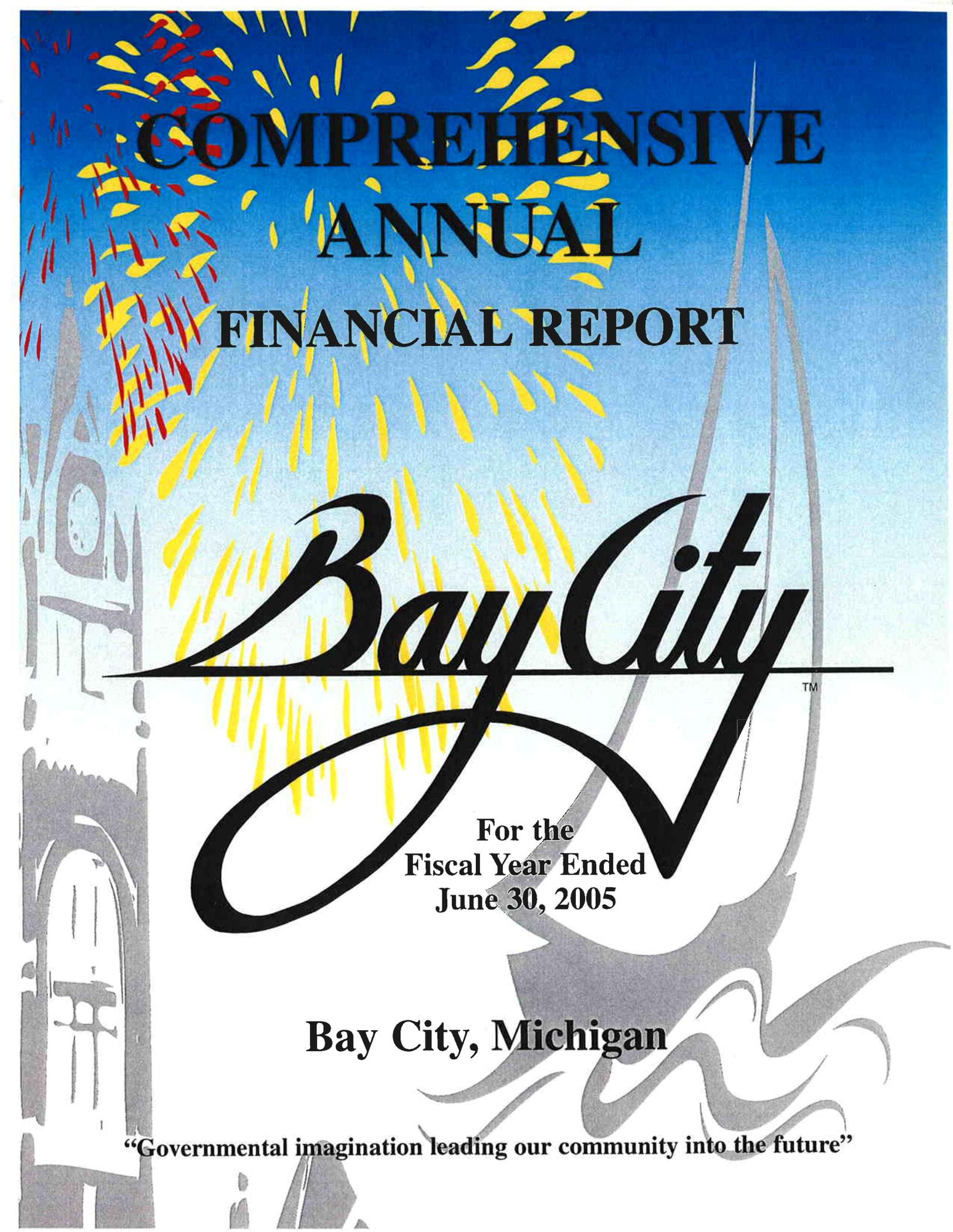
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|-------------------------------------|-----|-------------------------------------|----|---|
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		X	
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address P.O. BOX 2025		City SAGINAW	State MI
Accountant Signature 		Zip 48605	



**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

Bay City™

**For the
Fiscal Year Ended
June 30, 2005**

Bay City, Michigan

“Governmental imagination leading our community into the future”

CITY OF BAY CITY, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2005

LIST OF PRINCIPAL OFFICIALS

MAYOR

Robert J. Katt

CITY COMMISSIONERS

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

ADMINISTRATION

CITY MANAGER

Robert V. Belleman

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

Dana Muscott

**DEPUTY CITY MANAGER
OF COMMUNITY
DEVELOPMENT**

Steve Black

**DIRECTOR OF
FISCAL SERVICES**

Chris Ball

**DIRECTOR OF
HUMAN RESOURCES**

Dale Berglund

**WASTEWATER TREATMENT
SUPERINTENDENT**

William Kaiser

**ACTING ELECTRIC
DIRECTOR**

Phil Newton

**WATER TREATMENT
SUPERINTENDENT**

John DeKam

**FIRE
CHIEF**

Doug Doefler

**Prepared By:
Cathy Szostak,
Chief Accountant**

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December 15, 2005



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, 2005, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation including disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The financial section includes management's discussion and analysis, the basic financial statements and the independent auditors' report on the financial statements and schedules. The statistical section includes selected government wide and fund financial statements, as well as financial and demographic information presented on a multi-year basis.

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

REPORTING ENTITY

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

Fiscal Services Department
301 Washington Avenue • Bay City, Michigan 48708-5866
Phone: 989.894.8148 • Fax: 989.894.8219
www.baycitymi.org

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 15, 2005

ECONOMIC CONDITIONS AND OUTLOOK

Bay City is located at the mouth of the Saginaw Bay in the east central portion of Michigan's Lower Peninsula. The City's rich historical and ethnic heritage began with the lumber boom in the mid-1800s. Two of the City's sawmills were among the three largest sawmills in the world at the time. With the decline of the lumber industry, shipbuilding became the major economic force in the early 1900's. Shipbuilding gave way to the automobile industry as the 20th century progressed. General Motors continues to be one of the largest employers 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", and "River of Time", are just a few of the activities that draw several hundred thousand people to the community every year.

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

MAJOR INITIATIVES

The City of Bay City is committed to the improvement of its infrastructure. Over the last fiscal year, the City completed the reconstruction of the second phase of North Union Avenue, a major thoroughway in the City. This project included the replacement of water and sewer utility services along the route. In addition, the Electric Division extended and upgraded its primary distribution line running along North Union. In the upcoming year, the City will begin the reconstruction of several local street projects. In addition, the first phase of the North Henry reconstruction and streetscaping is slated to begin in the 2006 fiscal year.

In 2000, the City of Bay City formed Wenonah Park Properties, Incorporated, a non-profit corporation, to oversee the design, construction and operation of a first-class, full-service hotel and conference center. This project was financed with proceeds from tax-exempt revenue bonds, grants from the U.S. Department of Housing and Urban Development and various State of Michigan grants and loan proceeds. On June 3, 2004 the facility opened for business. It was built on a seven-acre riverfront parcel in downtown Bay City at a total project cost of approximately \$34 million.

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

Bay City's last major single family subdivision was developed well over 40 years ago. In mid 1998, the City purchased a 41-acre tract of vacant residentially zoned land in

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 15, 2005

the south portion of the City. It is the City's plan to seek a private developer to construct new single family housing on this property.

The City also continued its steady progress towards the redevelopment of the downtown riverfront, a multi-year project. Uptown at River's Edge is the name given to the major development project along the east bank of the Saginaw River in downtown Bay City. The site improvements on this parcel of land are nearly complete. The City hired a consulting firm with an expertise in urban waterfront developments to assist with the planning phase. In 2003, the City also solicited proposals from private developers for phase I of this project, however, a final plan is still in the works.

The downtown area also saw the beginning of two new condominium projects. The Shearer Building is substantially complete with a total of twelve units and the Jennison Boathouse is about 50% complete with a total of 36 units upon completion. Sales of the units have progressed well with commitments for approximately two-thirds of the units. In addition, a grant in the amount of \$707,000 was secured from the State to assist in the restoration of a historical depot located in the downtown area.

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.

FINANCIAL INFORMATION

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

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

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 15, 2005

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 compiled with applicable laws and regulations.

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

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

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

Cash Management: Cash temporarily idle during the year was invested through the use of a competitive bid procedure in time deposits, including municipal investment pools, ranging from overnight to medium short-term investments. Longer-term investment periods were utilized by the City to take advantage of higher interest rates. The City's Investment Policy is to minimize credit and market risk while maintaining a competitive yield in its portfolio. The reduction of risk is realized by diversifying the types of securities held. The competitive yield is realized by pooling the investments and varying maturities.

Risk Management: The City carries a variety of insurance coverage. This includes coverage for property (includes buildings, contents and fleet), general liability, public official's liability and employee's liability. The limits of general liability are \$250,000 per occurrence assumed by the City, and up to \$15,000,000 on the excess through external insurers. The City assumes the risk on amounts in excess of \$15,000,000. Property insurance deductibles are generally limited to \$1,000 per incident.

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

Honorable Mayor, City Commission,
And Citizens of Bay City, Michigan
December 15, 2005

As a matter of policy, the City of Bay City fully funds each years annual required contribution to the pension plan as determined by the actuary.

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

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

The City of Bay City also provides post-retirement health benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 426 retirees eligible to receive these benefits, which are financed on a pay as you go basis. However, the City has established a retiree healthcare fund to which it makes an annual contribution to assist with future healthcare costs. As this time, Generally Accepted Accounting Principals (GAAP) do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

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

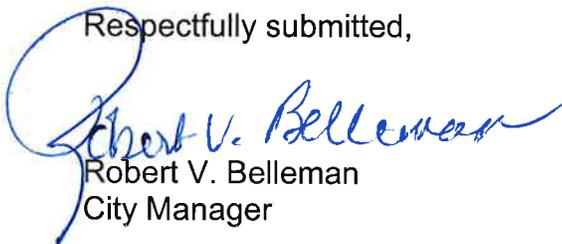
Other Information:

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

Acknowledgments: The completion of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire Fiscal Services Division. We would like to express our appreciation to all members of the departments who assisted and contributed to its preparation.

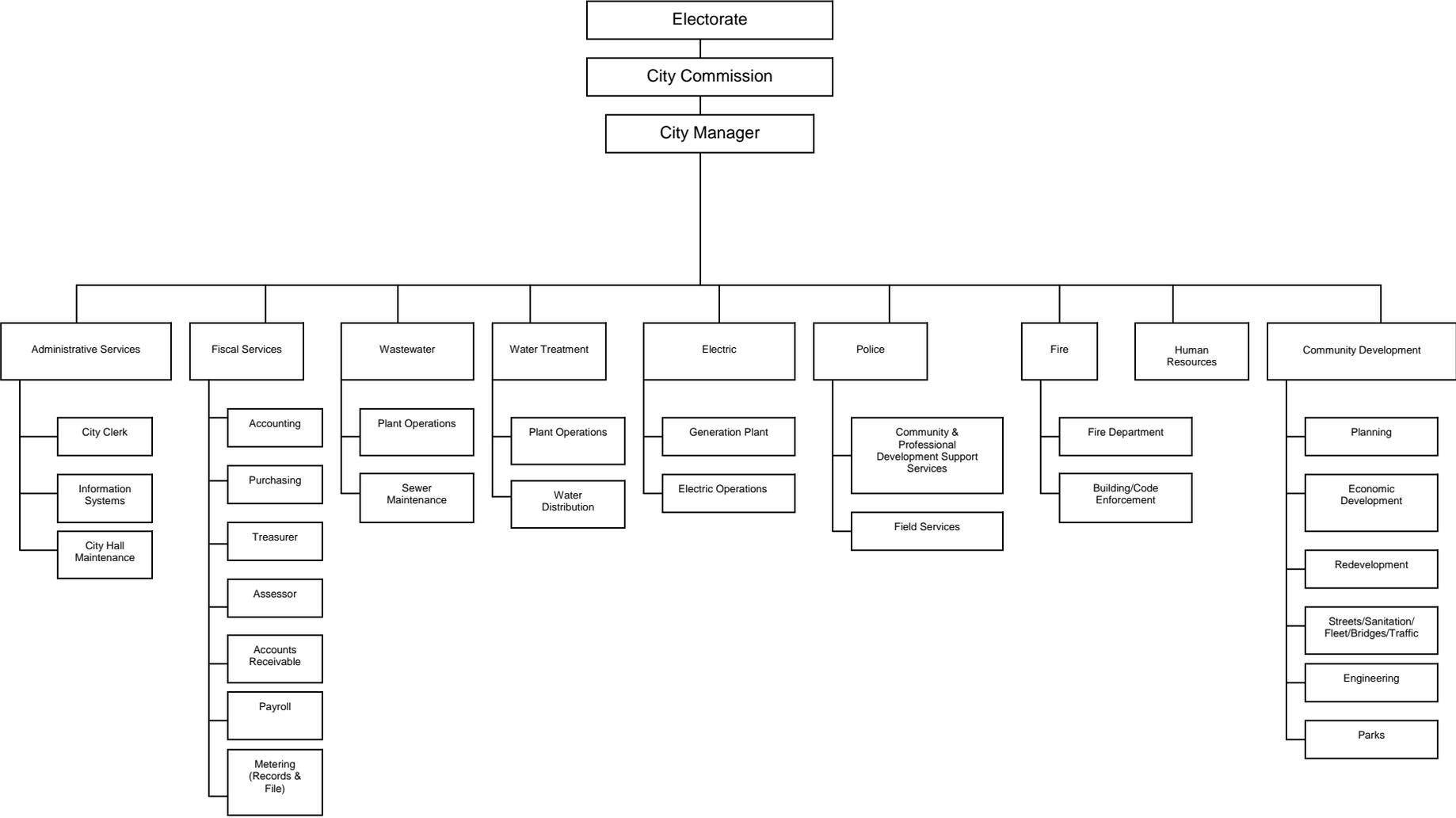
Finally, we would like to thank the Mayor, members of the City Commission, and the various City departments for their leadership and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,


Robert V. Belleman
City Manager


Cathleen Szostak
Chief Accountant

City of Bay City Organizational Chart



FINANCIAL SECTION

This section is composed of the following:

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Notes to Basic Financial Statements

Supplementary Financial Information



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

December 15, 2005

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Bay City, Michigan**, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City of Bay City Michigan's** management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Wenonah Park Properties, Inc. Component Unit, which represents 73.37% of the assets and 72.50% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Wenonah Park Properties, Inc. is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Bay City, Michigan**, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons of the General Fund and

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2005, on our consideration of the *City of Bay City, Michigan's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

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, 2005. This document should be read 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, 2005:

- The assets of the City of Bay City exceeded its liabilities at the close of the most recent fiscal year by \$199,222,004 (net assets). Of this amount, \$45,174,894 (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 \$1,962,807 from the previous year and the business-type activities net assets decreased by \$879,945 as well. The net assets of the component units also experienced a decrease of \$2,209,416.
- The City continues its commitment to improving its road infrastructure and this year spent \$867,059 on new road construction and resurfacing and an additional \$379,176 on new sidewalks.
- State-shared revenue, the City's second largest revenue source in the general fund, decreased for the fourth consecutive year. The State of Michigan reduced the City's allocation by \$206,780 from the amount received in the previous fiscal year. The City anticipated a reduction and responded with careful review and control of expenditures such as reducing capital expenditures and leaving vacant positions unfilled in the public safety and parks departments. As a result, there was only a slight decrease of \$59,979 in the fund balance of the general fund from the final amended budget amount.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$5,379,716 or about 26% of the total General Fund expenditures.

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

Using this Annual Report

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

The *Statement of Net Assets* and the *Statement of Activities* distinguish functions of the City that are primarily supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community and economic development, and recreation and culture. The business-type activities of the City include electric, water, and sewer services, as well as municipal airport, cemetery, and marina facilities.

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

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

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

The City as a Whole

For the fiscal year ended June 30, 2005, assets exceeded liabilities by \$199,222,004. By far the largest portion of the City's net assets (77 percent) reflects its investment in capital assets (i.e. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these 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

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

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, 2005 and 2004 (in thousands of dollars):

	Government Activities		Business-type Activities		Total	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and other assets	\$ 19,672	\$ 18,001	\$ 34,579	\$ 35,903	\$ 54,251	\$ 53,904
Capital assets	<u>83,814</u>	<u>82,369</u>	<u>151,209</u>	<u>152,175</u>	<u>235,023</u>	<u>234,544</u>
Total assets	103,486	100,370	185,788	188,078	289,274	288,448
Current and other liabilities	3,767	3,558	4,312	3,814	8,079	7,372
Long-term liabilities	<u>24,853</u>	<u>24,721</u>	<u>52,820</u>	<u>57,134</u>	<u>77,673</u>	<u>81,855</u>
Total liabilities	28,620	28,279	57,132	60,948	85,752	89,227
Net Assets:						
Invested in capital assets –						
Net of related debt	\$ 58,961	\$ 57,648	\$ 98,390	\$ 95,040	\$ 157,351	\$ 152,688
Restricted	2,271	1,358	32	-	2,303	1,358
Unrestricted	<u>13,634</u>	<u>13,085</u>	<u>30,234</u>	<u>32,090</u>	<u>43,868</u>	<u>45,175</u>
Total net assets	<u>\$ 74,866</u>	<u>\$ 72,091</u>	<u>\$ 128,656</u>	<u>\$ 127,130</u>	<u>\$ 203,522</u>	<u>\$ 199,221</u>

The City's combined net assets decreased by \$2,842,752 from \$202,064,756 in 2004 to \$199,222,004 in 2005. There was a prior period adjustment to last year's ending net assets, thus restating the current year's beginning net assets by \$1,456,783. As we look at the governmental activities separately from the Business-type activities, we can see that the current level of unrestricted net assets – the part of net assets that can be used to finance day-to-day operations – is \$13,085,030, or about 39% of the governmental activities expenditures.

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

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenue						
Program revenue						
Charges for services	\$ 6,996	\$ 3,987	\$ 37,620	\$ 40,483	\$ 44,616	\$ 44,470
Operating grants and contributions	5,900	6,296	26	165	5,926	6,461
Capital grants and contributions	-	618	-	-	-	618
General revenue						
Property taxes	13,142	12,934	-	-	13,142	12,934
State-shared revenue	5,458	5,395	-	-	5,458	5,395
Unrestricted investment earnings	274	381	438	841	712	1,222
Miscellaneous	<u>68</u>	<u>71</u>	<u>40</u>	<u>213</u>	<u>108</u>	<u>284</u>
Total Revenue	31,838	29,682	38,124	41,702	69,962	71,384
Program Expenses						
General Government	3,099	2,286	-	-	3,099	2,286
Public safety	13,014	13,429	-	-	13,014	13,429
Public works	11,081	10,909	455	421	11,536	11,330
Community and economic development	-	2,036	-	-	-	2,036
Recreation and culture	941	1,129	-	-	941	1,129
Interest on long-term debt	1,483	1,544	-	-	1,483	1,544
Electric	-	-	23,336	24,134	23,336	24,134
Water	-	-	7,811	6,870	7,811	6,870
Sewer	-	-	11,250	11,468	11,250	11,468
Total program expenses	29,618	31,333	42,852	42,893	72,470	74,226
Increase (decrease) in net assets before transfers	2,220	(1,651)	(4,728)	(1,191)	(2,508)	(2,842)
Transfers	<u>(119)</u>	<u>(311)</u>	<u>119</u>	<u>311</u>	<u>-</u>	<u>-</u>
Change in net assets	2,101	(1,962)	(4,609)	(880)	(2,508)	(2,842)
Net assets beginning of year	<u>75,817</u>	<u>74,054</u>	<u>130,243</u>	<u>128,010</u>	<u>206,060</u>	<u>202,064</u>
Net assets end of year	<u>\$ 77,918</u>	<u>\$ 72,092</u>	<u>\$ 125,634</u>	<u>\$ 127,130</u>	<u>\$ 203,552</u>	<u>\$ 199,222</u>

Governmental Activities

The City's total governmental net assets decreased by \$1,962,807 caused by decreases in state-shared revenue and property taxes. In addition, there were increased expenditures in the Community and Economic Development areas as well as Recreation and Culture. This was due to the completion of the North Union Street Reconstruction project and various capital/development projects within the Community Development Block Grant program. In addition, there were increased expenditures in the Riverfront Redevelopment Fund and site remediation occurred on the east side of the riverfront.

Business-Type Activities

The City's business-type activities consist of the Electric, Water, Sewer, Airport, Cemetery, and Marina Funds. These services are provided to all City residents. Electrical services also extend to numerous customers outside of the City limits. In addition to City residents, the City provides water to residents of the City of Essexville, Hampton Township, and Bay County. The City provides sewage treatment through a City-owned sewage treatment plant. These services are also extended to Hampton Township and portions of Portsmouth Township. The business-type activities saw an overall decrease in net assets of \$879,945 due primarily to the following:

- The Sewer Fund experienced a decrease in net assets of \$1,081,712. The primary reason for this decrease was an increase in debt service and depreciation expense as well as an increase in its cost of sales and service.
- The Electric Fund also experienced a decrease in net assets of \$573,494 due to an increase in the cost of sales and service.
- The Water Fund experienced an increase in net assets of \$627,035. The increase was primarily due to growth and better than expected performance in interest earnings.
- The Liberty Harbor Marina Fund experienced an increase of \$70,521 in its net assets due to increased operating revenues and a slight decrease in the cost of sales and service.
- The Oakridge Cemetery Fund reported an increase in net assets of \$2,259 and James Clements Airport Fund reported no change in its net assets. However, both funds continued to require subsidies from the general fund in the amounts of \$76,113 and \$64,477, respectively.

The City's Funds

An analysis of the City's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage monies for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major governmental funds for 2005 include the General Fund and the Rehabilitation Fund.

The General Fund is the chief operating fund of the City. The most significant source of revenue is property taxes, which generated \$9,871,090 in 2005. The most significant service accounted for in this fund is public safety, which incurred expenses of \$12,313,838 in 2005. Public safety expenditures equate to approximately 60% of the total expenditures and are more than the amount of property taxes generated. At the fiscal year ended June 30, 2005, the unreserved fund balance of the General Fund was \$5,379,716, while the total fund balance was \$5,382,241. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 26% of the total General Fund expenditures.

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

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, 2005, \$1,084,793 was spent to assist residents of the City with home improvements.

Some notable items in the other governmental activities are:

- The Major and Local Street Funds ended the year with unreserved fund balances of \$341,852 and \$390,368, respectively. This amounts to 10% of annual expenditures in the Major Streets Fund and 33% of annual expenditures in the Local Streets Fund.
- The Building Inspection Fund continued to require a General Fund subsidy of \$85,838, however, it was significantly less than the \$368,220 required in the last fiscal year, despite the fact that state law allows local units to charge the appropriate fees necessary to cover expenses.
- The Solid Waste Fund ended the fiscal year with an unreserved fund balance of \$309,908. This is the third year since the City went to a fee-based system versus a millage that no General Fund subsidy was required. The City Commission passed a resolution with the intent to reimburse the General Fund for all previous subsidies loaned to the Solid Waste Fund. An amount of \$66,490 was reimbursed to the General Fund in this fiscal year which completes the repayment of all previous subsidies.
- The Public Improvement Fund ended the year with an unreserved fund balance of \$524,527. In the next fiscal year, the City has budgeted a transfer of \$500,000 from the General Fund to the Public Improvement Fund in order to accumulate \$1,000,000 for the replacement of the roof on City Hall.

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:

- After receiving notice from the State, the City increased its estimated State shared revenues by \$540,301. As a result, the City was able to decrease its anticipated use of appropriated fund balance of \$275,605, and increase its Police Support budget by \$48,426 and its Fire Department Budget by \$67,982 in order to bring back two positions which were previously eliminated from the budget. In addition, \$148,288 was added to the budget to be moved to the Retiree Healthcare Trust Fund.
- The Fire Department received additional State and Federal grants in the amount of \$183,918 and thus increased revenue and subsequently increased their equipment expenditures by a similar amount.
- The Human Resources Department increased its expenditures by \$48,382 to cover additional expenditures related to labor negotiations and legal fees.
- The transfer to the Cemetery was increased by \$10,291 to cover improvements to the chapel at Oakridge Cemetery.

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

During the year, actual revenues were less than budgetary estimates, however, the actual expenses were also less than budgetary estimates. This resulted in an actual increase in fund balance of \$122,001 which exceeded the final amended budget by \$143,701.

Capital Assets and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounted to \$234,543,292 (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 \$5,714,785 to improve its sanitary sewer systems.
- The construction phase of the North Union project was completed with \$556,333 spent during the year.

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

- Electric and Water Funds both completed various capital projects totaling \$1,843,681 and \$319,104, respectively.

The component units reported an increase in their capital assets of \$1,043,099 due to various development projects including the downtown streetscaping in the Water Street DDA, Wilder/Tiernan Intersection and Andre Street construction projects in the Marquette District TIFA, and bridge repairs in the Marina Development TIFA. 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, 2005, the City had total outstanding debt of \$81,854,419, which included a current portion of \$5,381,301. Of this amount, \$67,353,869 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:

	2004	2005
General obligation bonds	\$ 23,336,664	\$ 28,894,380
Revenue bonds	10,318,760	9,392,779
Other notes/leases payable	40,672,943	39,467,848
Compensated absences	3,344,261	4,099,412
Total	\$ 77,672,628	\$ 81,854,419

The City's total debt increased by \$4,181,791 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 \$77,667,465, which is significantly in excess of the City's outstanding general obligation debt applicable to this limit.

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

Economic Factors and Next Year's Budgets and Rates

Because of the State of Michigan's economic conditions, state-shared revenues, the second largest source of revenue in the General Fund, continues to be an important factor in the preparation of the City's budget. Additional reductions have been forecast for the next fiscal year. Another issue will be the continued rise in healthcare costs. In this fiscal year, the increase was 7% over the previous fiscal year and additional increases are expected in the future. The City's property taxes are at the limit allowed by Charter of 19 mills, which has been reduced by the Headlee Amendment to 17.3721 mills for general operating in the 2005/2006 budget.

The City's Electric, Water, and Sewer Utilities instituted rate increases in the year ended June 30, 2005 while the Water and Sewer Utilities anticipate rate increases in the next fiscal year. 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 three 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. One such area of concern is the replacement of the roof

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

on City Hall. It is estimated that this will cost more than \$1 million. During this fiscal year, \$250,000 was reserved for this project in the Public Improvement Fund with an additional \$500,000 set aside in the budget for the 2005/2006 fiscal year to accumulate the necessary funding to complete this project in the future. The City remains committed to maintaining and improving its level of service to its citizens and intends to continue to invest in its capital assets. This is one of the many challenges that will need to be addressed in future budgets.

Contacting the City's Management

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

BASIC FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

City of Bay City, Michigan
Statement of Net Assets
June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 10,743,189	\$ 23,053,428	\$ 33,796,617	\$ 6,755,727
Accounts receivable	9,443,415	6,636,952	16,080,367	4,395,074
Internal balances	(2,673,857)	2,673,857	-	-
Prepaid items and other assets	352,817	236,871	589,688	1,058,717
Inventories	136,115	2,229,582	2,365,697	40,751
Restricted investments	-	1,072,671	1,072,671	4,348,668
Nondepreciable capital assets	19,154,681	497,404	19,652,085	2,309,518
Depreciable capital assets, net	63,213,990	151,677,217	214,891,207	30,050,061
Total assets	100,370,350	188,077,982	288,448,332	48,958,516
Liabilities				
Accounts payable and other accrued expenses	3,376,608	3,510,046	6,886,654	2,316,066
Interest payable	150,514	303,451	453,965	431,659
Unearned revenues	31,290	-	31,290	360
Noncurrent liabilities:				
Due within one year	2,865,414	4,214,846	7,080,260	159,578
Due in more than one year	21,855,000	52,919,159	74,774,159	25,517,693
Total liabilities	28,278,826	60,947,502	89,226,328	28,425,356
Net Assets				
Invested in capital assets, net of related debt	60,326,443	96,461,842	156,788,285	7,674,582
Restricted for:				
Debt service	53,055	-	53,055	-
Capital projects	1,347,262	-	1,347,262	4,348,668
Unrestricted	10,364,764	30,668,638	41,033,402	8,509,910
Total net assets	\$ 72,091,524	\$ 127,130,480	\$ 199,222,004	\$ 20,533,160

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, 2005

Functions / Programs	Expenses	Indirect	Program Revenues			Net (Expense) Revenue
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government						
Governmental activities:						
General government	\$ 5,518,823	\$ (3,233,032)	\$ 1,298,551	\$ 518,321	\$ -	\$ (468,919)
Public safety	13,429,356	-	768,361	201,557	-	(12,459,438)
Public works	10,843,296	65,681	1,923,505	3,173,159	618,342	(5,193,971)
Recreation and cultural	1,128,594	-	12,880	28,885	-	(1,086,829)
Economic development	1,859,851	177,142	(16,172)	2,373,875	-	320,710
Interest on debt	1,544,475	-	-	-	-	(1,544,475)
Total governmental activities	<u>34,324,395</u>	<u>(2,990,209)</u>	<u>3,987,125</u>	<u>6,295,797</u>	<u>618,342</u>	<u>(20,432,922)</u>
Business-type activities:						
Electric	23,003,582	1,129,596	22,990,642	129,928	-	(1,012,608)
Water	5,960,155	909,877	7,341,628	-	-	471,596
Sewer	10,560,034	908,463	9,930,879	7,151	-	(1,530,467)
Oak Ridge Cemetery	130,954	-	53,287	-	-	(77,667)
James Clements Airport	128,052	-	37,176	27,399	-	(63,477)
Liberty Harbor Marina	142,754	18,979	128,948	-	-	(32,785)
Total business-type activities	<u>39,925,531</u>	<u>2,966,915</u>	<u>40,482,560</u>	<u>164,478</u>	<u>-</u>	<u>(2,245,408)</u>
Total primary government	<u>\$ 74,249,926</u>	<u>\$ (23,294)</u>	<u>\$ 44,469,685</u>	<u>\$ 6,460,275</u>	<u>\$ 618,342</u>	<u>\$ (22,678,330)</u>
Component units						
Downtown Development Authority	\$ 157,061	\$ 14,888	\$ 164,203	\$ -	\$ -	\$ (7,746)
Midland Street TIFA	3,765	1,170	-	-	-	(4,935)
Kresge's DDA	-	-	-	-	-	-
Marquette District TIFA	423,972	2,727	-	-	-	(426,699)
Water Street DDA	271,714	2,569	-	-	-	(274,283)
Marina Development TIFA	156,713	1,940	-	-	-	(158,653)
Allen Healthcare DDA	6,666	-	-	-	-	(6,666)
Research Center Development TIFA	61,487	-	-	-	-	(61,487)
Knepp's DDA	27,688	-	-	-	-	(27,688)
Brownfield Redevelopment	796	-	-	-	-	(796)
Columbus Avenue Management Board	9,775	-	7,600	2,460	-	285
Midland Street Management Board	31,083	-	19,300	-	-	(11,783)
POWER EDC	26,314	-	-	-	-	(26,314)
Downtown Management Board	241,339	-	55,242	65,001	-	(121,096)
Wenonah Park Properties	7,276,219	-	4,491,928	56,026	-	(2,728,265)
Total component units	<u>\$ 8,694,592</u>	<u>\$ 23,294</u>	<u>\$ 4,738,273</u>	<u>\$ 123,487</u>	<u>\$ -</u>	<u>\$ (3,856,126)</u>

continued...

City of Bay City, Michigan
Statement of Activities (Concluded)
For the Year Ended June 30, 2005

Functions/Programs	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (20,432,922)	\$ (2,245,408)	\$ (22,678,330)	\$ (3,856,126)
General revenues:				
Property taxes	12,933,879	-	12,933,879	1,126,676
Grants and contributions not restricted to specific programs	5,395,294	-	5,395,294	-
Unrestricted investment earnings	381,233	841,188	1,222,421	396,559
Miscellaneous revenue	71,009	212,975	283,984	123,475
Transfers - internal activities	(311,300)	311,300	-	-
 Total general revenues and transfers	 18,470,115	 1,365,463	 19,835,578	 1,646,710
 Change in net assets	 (1,962,807)	 (879,945)	 (2,842,752)	 (2,209,416)
 Net assets, beginning of year, as restated	 74,054,331	 128,010,425	 202,064,756	 22,742,576
 Net assets, end of year	 \$ 72,091,524	 \$ 127,130,480	 \$ 199,222,004	 \$ 20,533,160

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

Fund Financial Statements

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

City of Bay City, Michigan
Balance Sheet
Governmental Funds
June 30, 2005

	General	Rehabilitation Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 5,264,670	\$ -	\$ 2,192,413	\$ 7,457,083
Receivables (net of allowance for uncollectibles):				
Accounts	157,368	2,400	428,080	587,848
Delinquent taxes	65,633	-	10,747	76,380
Special assessments	57,981	2,050	16,208	76,239
Accrued interest	71,623	-	27,377	99,000
Notes	-	7,109,145	-	7,109,145
Due from other funds	545,009	-	38,919	583,928
Due from other governments	303,553	7,087	1,104,251	1,414,891
Inventories	2,525	-	42,080	44,605
Prepaid expenditures	6,888	-	-	6,888
Total Assets	<u>\$ 6,475,250</u>	<u>\$ 7,120,682</u>	<u>\$ 3,860,075</u>	<u>\$ 17,456,007</u>
 Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 353,992	\$ 5,625	\$ 295,968	\$ 655,585
Accrued liabilities	416,731	-	93,910	510,641
Due to other funds	85,257	1,461	290,492	377,210
Due to other governmental units	84,916	-	16,774	101,690
Deposits	8,313	-	42,560	50,873
Deferred revenue	143,800	7,113,596	14,830	7,272,226
Total liabilities	<u>1,093,009</u>	<u>7,120,682</u>	<u>754,534</u>	<u>8,968,225</u>
 Fund balances				
Reserved for:				
Inventories	2,525	-	42,080	44,605
Unreserved, reported in:				
General Fund	5,379,716	-	-	5,379,716
Special Revenue Funds	-	-	1,663,144	1,663,144
Debt Service Funds	-	-	53,055	53,055
Capital Project Funds	-	-	1,347,262	1,347,262
Total fund balances	<u>5,382,241</u>	<u>-</u>	<u>3,105,541</u>	<u>8,487,782</u>
Total liabilities and fund balances	<u>\$ 6,475,250</u>	<u>\$ 7,120,682</u>	<u>\$ 3,860,075</u>	<u>\$ 17,456,007</u>

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

City of Bay City, Michigan
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2005

Fund balances - total governmental funds \$ 8,487,782

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

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

Add: capital assets	149,316,558
Subtract: accumulated depreciation	(72,594,599)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred receivables	7,240,938
Subtract: allowance for doubtful accounts	(99,522)

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

Add: net assets of governmental activities accounted for in internal service funds	4,017,348
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Add: unamortized issuance costs	47,450
Subtract: interest payable	(145,909)
Subtract: bonds payable	(21,644,380)
Subtract: capital leases	(15,437)
Subtract: compensated absences	(2,518,705)
	(21,716,971)

Net assets of governmental activities	\$ 72,091,524
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The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Rehabilitation Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 9,871,090	\$ -	\$ 2,656,676	\$ 12,527,766
Licenses and permits	19,414	-	493,339	512,753
Intergovernmental	6,744,216	494,733	5,897,812	13,136,761
Charges for services	3,574,903	-	1,891,545	5,466,448
Fines and forfeitures	133,707	-	19,887	153,594
Interest revenue	225,827	10,896	94,834	331,557
Miscellaneous revenues	187,109	218,350	137,601	543,060
Total revenues	<u>20,756,266</u>	<u>723,979</u>	<u>11,191,694</u>	<u>32,671,939</u>
Expenditures				
Current:				
General government	5,469,827	-	-	5,469,827
Public safety	12,313,838	-	891,372	13,205,210
Public works	1,486,324	-	3,925,474	5,411,798
Physical environment	-	-	1,746,270	1,746,270
Parks and recreation	1,029,791	-	-	1,029,791
Economic development	-	1,084,793	1,320,664	2,405,457
Capital outlay	435,045	-	2,114,441	2,549,486
Debt service:				
Principal retirement	-	-	1,690,000	1,690,000
Interest and fiscal charges	-	-	114,664	114,664
Total expenditures	<u>20,734,825</u>	<u>1,084,793</u>	<u>11,802,885</u>	<u>33,622,503</u>
Excess of revenues over (under) expenditures	<u>21,441</u>	<u>(360,814)</u>	<u>(611,191)</u>	<u>(950,564)</u>
Other financing sources (uses)				
Transfer in	398,603	588,271	730,411	1,717,285
Transfer out	(298,043)	(227,457)	(1,215,654)	(1,741,154)
Total other financing sources (uses)	<u>100,560</u>	<u>360,814</u>	<u>(485,243)</u>	<u>(23,869)</u>
Changes in fund balances	122,001	-	(1,096,434)	(974,433)
Fund balances - beginning of year, as restated	<u>5,260,240</u>	<u>-</u>	<u>4,201,975</u>	<u>9,462,215</u>
Fund balances - end of year	<u>\$ 5,382,241</u>	<u>\$ -</u>	<u>\$ 3,105,541</u>	<u>\$ 8,487,782</u>

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

City of Bay City, Michigan
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ (974,433)

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

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

Add: capital outlay	2,860,750
Subtract: net value of assets disposed	(14,387)
Subtract: depreciation expense	(3,615,703)

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

Add: current year change in long-term receivables	69,257
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on bonds	1,690,000
Add: principal payments on capital leases	19,195
Add: decrease in interest accrued on bonds	(106,739)
Subtract: deferred bond issuance costs	(5,931)
Subtract: interest accrued on zero coupon bond	(1,302,716)

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

Subtract: increase in the accrual of compensated absences	(37,286)
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: net operating loss from governmental activities accounted for in internal service funds	(279,237)
Add: nonoperating revenue recorded in internal service funds	21,854
Subtract: transfers out of internal service funds	(287,431)

Change in net assets of governmental activities	\$ (1,962,807)
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The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 10,077,958	\$ 10,077,958	\$ 9,871,090	\$ (206,868)
Licenses and permits	21,210	21,210	19,414	(1,796)
Intergovernmental	6,364,388	7,088,607	6,744,216	(344,391)
Charges for services	3,607,645	3,607,645	3,574,903	(32,742)
Fines and forfeitures	148,500	148,500	133,707	(14,793)
Interest revenue	250,000	250,000	225,827	(24,173)
Miscellaneous revenues	156,385	170,468	187,109	16,641
Total revenues	<u>20,626,086</u>	<u>21,364,388</u>	<u>20,756,266</u>	<u>(608,122)</u>
Expenditures				
Current:				
General government	5,425,385	5,582,929	5,469,827	113,102
Public safety	12,430,880	12,537,606	12,313,838	223,768
Public works	1,522,324	1,521,918	1,486,324	35,594
Parks and recreation	1,117,934	1,131,017	1,029,791	101,226
Capital outlay	238,097	435,256	435,045	211
Total expenditures	<u>20,734,620</u>	<u>21,208,726</u>	<u>20,734,825</u>	<u>473,901</u>
Excess of revenues over (under) expenditures	<u>(108,534)</u>	<u>155,662</u>	<u>21,441</u>	<u>(134,221)</u>
Other financing sources (uses)				
Transfer in	105,762	105,762	398,603	292,841
Transfer out	(272,833)	(283,124)	(298,043)	(14,919)
Total other financing sources (uses)	<u>(167,071)</u>	<u>(177,362)</u>	<u>100,560</u>	<u>277,922</u>
Changes in fund balances	(275,605)	(21,700)	122,001	143,701
Fund balances - beginning of year, as restated	<u>5,463,920</u>	<u>5,463,920</u>	<u>5,260,240</u>	<u>(203,680)</u>
Fund balances - end of year	<u>\$ 5,188,315</u>	<u>\$ 5,442,220</u>	<u>\$ 5,382,241</u>	<u>\$ (59,979)</u>

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

City of Bay City, Michigan
Rehabilitation Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental:				
Federal	\$ 286,780	\$ 286,780	\$ 494,733	\$ 207,953
Miscellaneous:				
Program income	-	-	218,350	218,350
Interest earnings	12,400	12,400	10,896	(1,504)
Total revenues	<u>299,180</u>	<u>299,180</u>	<u>723,979</u>	<u>424,799</u>
Expenditures				
Economic development	<u>286,780</u>	<u>286,780</u>	<u>1,084,793</u>	<u>(798,013)</u>
Excess of revenues over (under) expenditures	<u>12,400</u>	<u>12,400</u>	<u>(360,814)</u>	<u>(373,214)</u>
Other financing sources (uses)				
Transfer in	497,413	497,413	588,271	90,858
Transfer out	<u>(213,137)</u>	<u>(213,137)</u>	<u>(227,457)</u>	<u>(14,320)</u>
Total other financing sources (uses)	<u>284,276</u>	<u>284,276</u>	<u>360,814</u>	<u>76,538</u>
Changes in fund balances	296,676	296,676	-	(296,676)
Fund balances - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - end of year	<u>\$ 296,676</u>	<u>\$ 296,676</u>	<u>\$ -</u>	<u>\$ (296,676)</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, 2005

	Electric	Water	Sewer	Other Enterprise Funds	Total	Internal Service Funds
Current assets						
Cash and cash equivalents	\$ 14,037,472	\$ 5,763,963	\$ 3,018,788	\$ 233,205	\$ 23,053,428	\$ 3,286,106
Receivables (net of allowance for uncollectibles)						
Accounts	3,850,372	661,445	1,617,136	70,283	6,199,236	160,137
Special assessments	626	80	641	-	1,347	-
Accrued interest	181,880	74,679	39,113	2,611	298,283	19,297
Due from other funds	13,179	-	-	15,527	28,706	134,293
Due from other governments	137,558	-	528	-	138,086	-
Inventories	1,538,969	582,893	107,720	-	2,229,582	91,510
Prepaid expenses	-	-	-	11,153	11,153	30,259
Deposits	-	8,470	-	-	8,470	268,220
Total current assets	19,760,056	7,091,530	4,783,926	332,779	31,968,291	3,989,822
Long-term assets						
Restricted assets						
Debt service funds - investments	1,072,671	-	-	-	1,072,671	-
Other assets						
Unamortized debt expense	13,782	-	203,466	-	217,248	-
Capital assets						
Land and improvements	-	-	-	4,144,516	4,144,516	-
Air rights	-	-	-	95,421	95,421	-
Buildings	-	-	-	625,400	625,400	-
Machinery and equipment	-	-	-	43,305	43,305	12,143,227
Utility plant in service	62,830,158	52,315,821	157,026,410	-	272,172,389	-
Construction in progress	-	-	-	28,920	28,920	-
	62,830,158	52,315,821	157,026,410	4,937,562	277,109,951	12,143,227
Less: accumulated depreciation	31,539,324	32,984,741	58,788,093	1,623,172	124,935,330	6,496,515
Net capital assets	31,290,834	19,331,080	98,238,317	3,314,390	152,174,621	5,646,712
Total long-term assets	32,377,287	19,331,080	98,441,783	3,314,390	153,464,540	5,646,712
Total assets	\$ 52,137,343	\$ 26,422,610	\$ 103,225,709	\$ 3,647,169	\$ 185,432,831	\$ 9,636,534

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

	Electric	Water	Sewer	Other Enterprise Funds	Total	Internal Service Funds
Liabilities						
Current liabilities						
Accounts payable	\$ 2,001,458	\$ 160,349	\$ 832,745	\$ 27,169	\$ 3,021,721	\$ 617,029
Accrued liabilities	103,043	78,208	82,558	258	264,067	33,497
Due to other funds	31,914	20,787	26,181	957	79,839	289,878
Due to other governmental units	62,359	-	-	-	62,359	3,830
Interest payable	-	-	303,451	-	303,451	4,607
Claims payable	-	-	-	-	-	1,403,463
Deposits	130,099	31,800	-	-	161,899	-
Accrued compensated absences - current	297,439	314,607	132,800	-	744,846	74,130
Notes payable - current	-	-	-	-	-	47,202
Bonds payable - current	1,145,000	-	2,325,000	-	3,470,000	-
Total current liabilities	<u>3,771,312</u>	<u>605,751</u>	<u>3,702,735</u>	<u>28,384</u>	<u>8,108,182</u>	<u>2,473,636</u>
Long-term liabilities						
Accrued compensated absences	322,537	176,271	177,572	-	676,380	85,351
Notes payable	-	-	-	-	-	335,209
Bonds payable	8,247,779	-	43,995,000	-	52,242,779	-
Total long-term liabilities	<u>8,570,316</u>	<u>176,271</u>	<u>44,172,572</u>	<u>-</u>	<u>52,919,159</u>	<u>420,560</u>
Total liabilities	<u>12,341,628</u>	<u>782,022</u>	<u>47,875,307</u>	<u>28,384</u>	<u>61,027,341</u>	<u>2,894,196</u>
Net assets						
Invested in capital assets, net of related debt	21,898,055	19,331,080	51,918,317	3,314,390	96,461,842	5,264,301
Unrestricted	17,897,660	6,309,508	3,432,085	304,395	27,943,648	1,478,037
Total net assets	<u>\$ 39,795,715</u>	<u>\$ 25,640,588</u>	<u>\$ 55,350,402</u>	<u>\$ 3,618,785</u>	<u>\$ 124,405,490</u>	<u>\$ 6,742,338</u>

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

City of Bay City, Michigan
Reconciliation of the Enterprise Funds Statement of Net Assets
to the Business-type Activities in the Statement of Net Assets
For the Year Ended June 30, 2005

Net assets - total enterprise funds \$ 124,405,490

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

Add: net assets of business-type activities accounted for in internal
service funds 2,724,990

Net assets of business-type activities \$ 127,130,480

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

City of Bay City, Michigan
Proprietary Funds
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2005

	Electric	Water	Sewer	Other Enterprise Funds	Total	Internal Service Funds
Operating revenues						
State grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 142,437
Charges for services:						
Sales	22,598,095	7,314,819	9,908,159	54,908	39,875,981	14,452,910
Rents	-	-	-	132,332	132,332	-
Miscellaneous	471,280	37,667	45,638	132,937	687,522	679,003
Total operating revenues	<u>23,069,375</u>	<u>7,352,486</u>	<u>9,953,797</u>	<u>320,177</u>	<u>40,695,835</u>	<u>15,274,350</u>
Operating expenses						
Cost of sales and service	18,543,777	4,624,726	5,506,228	303,196	28,977,927	3,206,633
Administration	2,808,910	1,074,034	923,542	-	4,806,486	149,032
Claims and benefits	-	-	-	-	-	11,230,612
Depreciation	2,089,511	1,204,689	3,819,039	117,807	7,231,046	891,864
Total operating expenses	<u>23,442,198</u>	<u>6,903,449</u>	<u>10,248,809</u>	<u>421,003</u>	<u>41,015,459</u>	<u>15,478,141</u>
Operating income (loss)	<u>(372,823)</u>	<u>449,037</u>	<u>(295,012)</u>	<u>(100,826)</u>	<u>(319,624)</u>	<u>(203,791)</u>
Nonoperating revenues (expenses)						
Intergovernmental:						
Federal grants	-	-	-	19,278	19,278	-
State grants	129,928	-	7,151	7,821	144,900	-
Interest earnings	546,123	177,998	111,150	5,917	841,188	49,707
Interest expense	(525,148)	-	(1,184,209)	-	(1,709,357)	(14,428)
Net loss on disposal of capital assets	-	-	-	-	-	(13,425)
Amortization of bond discount/deferred costs	(192,284)	-	(50,792)	-	(243,076)	-
Total nonoperating revenues (expenses)	<u>(41,381)</u>	<u>177,998</u>	<u>(1,116,700)</u>	<u>33,016</u>	<u>(947,067)</u>	<u>21,854</u>
Income (loss) before transfers	<u>(414,204)</u>	<u>627,035</u>	<u>(1,411,712)</u>	<u>(67,810)</u>	<u>(1,266,691)</u>	<u>(181,937)</u>
Transfers						
Transfer in	170,710	-	330,000	140,590	641,300	-
Transfer out	(330,000)	-	-	-	(330,000)	(287,431)
Total transfers	<u>(159,290)</u>	<u>-</u>	<u>330,000</u>	<u>140,590</u>	<u>311,300</u>	<u>(287,431)</u>
Changes in net assets	<u>(573,494)</u>	<u>627,035</u>	<u>(1,081,712)</u>	<u>72,780</u>	<u>(955,391)</u>	<u>(469,368)</u>
Net assets - beginning of year, as restated	<u>40,369,209</u>	<u>25,013,553</u>	<u>56,432,114</u>	<u>3,546,005</u>	<u>125,360,881</u>	<u>7,211,706</u>
Net assets - end of year	<u>\$ 39,795,715</u>	<u>\$ 25,640,588</u>	<u>\$ 55,350,402</u>	<u>\$ 3,618,785</u>	<u>\$ 124,405,490</u>	<u>\$ 6,742,338</u>

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

City of Bay City, Michigan
Reconciliation of the Enterprise Funds Statement of Revenues, Expenses and
Changes in Net Assets to the Business-type Activities in the Statement of Activities
For the Year Ended June 30, 2005

Net change in net assets - total enterprise funds	\$ (955,391)
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with business-type activities.

Add: net operating gain from business-type activities accounted for in internal service funds	<u>75,446</u>
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Change in net assets of business-type activities	<u><u>\$ (879,945)</u></u>
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The accompanying notes are an integral part of these financial statements.

City of Bay City, Michigan
Proprietary Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2005

	Electric	Water	Sewer	Other Enterprise Funds	Total	Internal Service Funds
Cash flows from operating activities						
Cash received from customers and users	\$ 21,947,080	\$ 7,166,992	\$ 10,216,539	\$ 130,176	\$ 39,460,787	\$ -
Cash received from internal users	32,511	55,199	182,779	55,955	326,444	15,241,252
Interfund reimbursements	(957,367)	(217,002)	-	(36,989)	(1,211,358)	-
Cash payments to suppliers for goods and services	(17,222,168)	(2,914,064)	(3,732,462)	(286,095)	(24,154,789)	(12,641,377)
Cash payments to employees for services	(3,587,742)	(3,278,347)	(3,241,976)	(13,116)	(10,121,181)	(1,347,405)
Other operating revenues	471,280	37,667	45,638	132,937	687,522	-
Net cash provided (used) by operating activities	683,594	850,445	3,470,518	(17,132)	4,987,425	1,252,470
Cash flows from noncapital financing activities						
Intergovernmental - federal grant	-	-	-	19,278	19,278	-
Intergovernmental - state grant	129,928	-	7,151	7,821	144,900	-
Transfers in	170,710	-	330,000	140,590	641,300	-
Transfers (out)	(330,000)	-	-	-	(330,000)	(287,431)
Net cash flows provided (used) by noncapital financing activities	(29,362)	-	337,151	167,689	475,478	(287,431)
Cash flows from capital and related financing activities						
Purchase of capital assets	(1,843,681)	(319,104)	(5,957,865)	(75,839)	(8,196,489)	(842,074)
Proceeds from the sale of capital assets	-	-	-	-	-	104,022
Proceeds from issuing long-term debt	-	-	6,576,311	-	6,576,311	-
Principal paid on debt	(1,085,000)	-	(1,760,000)	-	(2,845,000)	(45,736)
Interest paid on debt	(801,284)	-	(1,234,430)	-	(2,035,714)	(14,428)
Net cash (used) by capital and related financing activities	(3,729,965)	(319,104)	(2,375,984)	(75,839)	(6,500,892)	(798,216)
Cash flows from investing activities						
Purchases of investments	(15,567)	-	-	-	(15,567)	-
Interest earnings	546,123	177,998	111,150	5,917	841,188	49,707
Net cash provided (used) by investment activities	530,556	177,998	111,150	5,917	825,621	49,707
Net increase (decrease) in cash and cash equivalents	(2,545,177)	709,339	1,542,835	80,635	(212,368)	216,530
Cash and cash equivalents, beginning of period	16,582,649	5,054,624	1,475,953	152,570	23,265,796	3,069,576
Cash and cash equivalents, end of period	\$ 14,037,472	\$ 5,763,963	\$ 3,018,788	\$ 233,205	\$ 23,053,428	\$ 3,286,106
Reconciliation of operating income to net cash provided by operating activities						
Operating income (loss)	\$ (372,823)	\$ 449,037	\$ (295,012)	\$ (100,826)	\$ (319,624)	\$ (203,791)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	2,089,511	1,204,689	3,819,039	117,807	7,231,046	891,864
(Increase) decrease in assets:						
Accounts receivable	(462,784)	(113,933)	(331,441)	(56,104)	(964,262)	158,532
Special assessments receivable	(626)	(80)	932	-	226	-
Accrued interest receivable	(50,047)	(33,814)	(27,184)	(960)	(112,005)	(6,194)
Due from other funds	32,511	55,199	156,598	55,315	299,623	16,724
Due from other governments	(137,558)	-	667,005	-	529,447	-
Inventories	54,230	(69,796)	18,679	-	3,113	3,598
Prepaid expenses	-	-	-	(11,153)	(11,153)	44,399
Deposits	-	4,400	442	-	4,842	39,825
Increase (decrease) in liabilities:						
Accounts payable	533,695	(313,301)	(525,048)	16,407	(288,247)	440,135
Accrued liabilities	(127,229)	(119,305)	(90,812)	(1,269)	(338,615)	(1,320,947)
Claims payable	-	-	-	-	-	1,403,463
Due to other funds	(957,367)	(217,002)	26,181	(36,349)	(1,184,537)	(202,160)
Due to other governmental units	6,491	-	-	-	6,491	(14,715)
Deposits	8,601	(10,901)	-	-	(2,300)	-
Accrued compensated absences	66,989	15,252	52,071	-	134,312	1,737
Deferred revenue	-	-	(932)	-	(932)	-
Total adjustments	1,056,417	401,408	3,765,530	83,694	5,307,049	1,456,261
Net cash provided (used) by operating activities	\$ 683,594	\$ 850,445	\$ 3,470,518	\$ (17,132)	\$ 4,987,425	\$ 1,252,470

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

City of Bay City, Michigan
Fiduciary Funds
Statement of Net Assets
June 30, 2005

	Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 1,636,746	\$ 2,963
Investments	47,849,544	-
Accounts receivable	430,020	-
Interest receivable	13,535	-
Total assets	<u>49,929,845</u>	<u>\$ 2,963</u>
Liabilities		
Accounts payable	60,595	\$ 923
Deposits payable	-	2,040
Total liabilities	60,595	<u>\$ 2,963</u>
Net assets		
Held in trust for employees' pension benefits	47,671,189	
Held in trust for employees' postemployment health care benefits	2,198,061	
Total net assets	<u>\$ 49,869,250</u>	

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

City of Bay City, Michigan
Statement of Changes in Plan Net Assets
Pension and Other Employee Benefit Trust Funds
For the Year Ended June 30, 2005

Additions

Contributions

Employer	\$ 1,184,817
Plan members	543,783

Total contributions 1,728,600

Investment income

Interest and dividends	893,044
Net appreciation in fair value of investments	2,774,772
Investment expense	<u>(255,544)</u>

Net investment income 3,412,272

Other revenue 16,349

Total additions 5,157,221

Deductions

Benefits and refunds paid to participants	3,866,279
Administrative expenses	108,633

Total deductions 3,974,912

Net increase in plan net assets 1,182,309

Net assets held in trust for pension benefits

Beginning of year 48,686,941

End of year \$ 49,869,250

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

City of Bay City, Michigan
All Component Units
Combining Statement of Net Assets
June 30, 2005

	Downtown Development Authority	Midland St. TIFA	Kresge's DDA	Marquette District TIFA	Water Street DDA	Marina Develop. TIFA	Allen Health- care DDA
Assets							
Cash and cash equivalents	\$ 12,876	\$ 365,161	\$ 47,725	\$ 1,399,120	\$ 1,877,146	\$ 463,028	\$ 16,693
Receivables:							
Accounts	2,158	-	-	-	-	-	-
Delinquent taxes	1,002	-	-	-	-	-	-
Accrued interest	167	4,731	-	18,128	24,322	6,410	216
Notes	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-
Restricted investments	-	-	-	-	-	-	-
Asset held for sale	-	-	-	-	-	-	-
Nondepreciable capital assets	-	-	-	30,136	139,382	-	-
Depreciable capital assets, net	156,161	-	-	903,786	960,531	199,072	-
Deferred financing costs	-	-	-	-	-	-	-
Total assets	<u>172,364</u>	<u>369,892</u>	<u>47,725</u>	<u>2,351,170</u>	<u>3,001,381</u>	<u>668,510</u>	<u>16,909</u>
Liabilities							
Accounts payable	\$ 3,268	\$ 1,665	\$ -	\$ 315,972	\$ 13,169	\$ 149,260	\$ 16,346
Accrued liabilities	-	-	-	1,382	-	-	-
Interest payable	-	-	-	-	16,471	-	-
Deposits	-	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-
Long-term debt:							
Revenue bonds payable	-	-	-	-	2,735,000	-	-
Notes payable	18,632	-	-	-	-	-	73,639
Total liabilities	<u>21,900</u>	<u>1,665</u>	<u>-</u>	<u>317,354</u>	<u>2,764,640</u>	<u>149,260</u>	<u>89,985</u>
Net assets							
Investment in capital assets, net	137,529	-	-	933,922	(1,635,087)	199,072	-
Restricted for Deposits held with bond trustee	-	-	-	-	-	-	-
Unrestricted (deficit)	12,935	368,227	47,725	1,099,894	1,871,828	320,178	(73,076)
Total net assets	<u>\$ 150,464</u>	<u>\$ 368,227</u>	<u>\$ 47,725</u>	<u>\$ 2,033,816</u>	<u>\$ 236,741</u>	<u>\$ 519,250</u>	<u>\$ (73,076)</u>

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

Research Center Develop. TIFA	Knepp's DDA	Brownfield Redevelopment Authority	Columbus Avenue Mgmt. Board	Midland St. Mgmt. Board	P.O.W.E.R. EDC	Downtown Mgmt. Board	Wenonah Park Properties	Totals
\$ 66,116	\$ 83,946	\$ 2,128	\$ 7,258	\$ 15,624	\$ 1,846,414	\$ 111,143	\$ 441,349	\$ 6,755,727
-	-	-	-	40	325,373	51,632	166,476	545,679
-	-	-	-	-	-	-	-	1,002
857	1,088	-	-	-	23,924	-	3,248	83,091
-	-	-	-	-	3,765,302	-	-	3,765,302
-	-	-	-	-	-	-	40,751	40,751
-	-	-	-	-	-	10,741	52,341	63,082
-	-	-	-	-	-	-	4,348,668	4,348,668
-	-	-	-	-	77,000	-	-	77,000
-	-	-	-	-	-	-	2,140,000	2,309,518
-	13,571	-	-	-	-	5,220	27,811,720	30,050,061
-	-	-	-	-	-	-	918,635	918,635
<u>66,973</u>	<u>98,605</u>	<u>2,128</u>	<u>7,258</u>	<u>15,664</u>	<u>6,038,013</u>	<u>178,736</u>	<u>35,923,188</u>	<u>48,958,516</u>
\$ 61,488	\$ -	\$ -	\$ 1,632	\$ 349	\$ 287	\$ 12,863	\$ 1,579,155	\$ 2,155,454
-	-	-	-	-	-	2,155	74,748	78,285
-	-	-	-	-	-	-	415,188	431,659
-	-	-	-	-	-	-	82,327	82,327
-	-	-	-	-	-	360	-	360
-	-	-	-	-	-	-	15,455,000	18,190,000
-	-	-	-	-	-	-	7,395,000	7,487,271
<u>61,488</u>	<u>-</u>	<u>-</u>	<u>1,632</u>	<u>349</u>	<u>287</u>	<u>15,378</u>	<u>25,001,418</u>	<u>28,425,356</u>
-	13,571	-	-	-	-	5,220	8,020,355	7,674,582
-	-	-	-	-	-	-	4,348,668	4,348,668
<u>5,485</u>	<u>85,034</u>	<u>2,128</u>	<u>5,626</u>	<u>15,315</u>	<u>6,037,726</u>	<u>158,138</u>	<u>(1,447,253)</u>	<u>8,509,910</u>
<u>\$ 5,485</u>	<u>\$ 98,605</u>	<u>\$ 2,128</u>	<u>\$ 5,626</u>	<u>\$ 15,315</u>	<u>\$ 6,037,726</u>	<u>\$ 163,358</u>	<u>\$ 10,921,770</u>	<u>\$ 20,533,160</u>

City of Bay City, Michigan
All Component Units
Combining Statement of Activities
For the Year Ended June 30, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Component units					
Downtown Development Authority	\$ 171,949	\$ 164,203	\$ -	\$ -	\$ (7,746)
Midland Street TIFA	4,935	-	-	-	(4,935)
Kresge's DDA	-	-	-	-	-
Marquette District TIFA	426,699	-	-	-	(426,699)
Water Street DDA	274,283	-	-	-	(274,283)
Marina Development TIFA	158,653	-	-	-	(158,653)
Allen Healthcare DDA	6,666	-	-	-	(6,666)
Research Center Development TIFA	61,487	-	-	-	(61,487)
Knepp's DDA	27,688	-	-	-	(27,688)
Brownfield Redevelopment	796	-	-	-	(796)
Columbus Avenue Management Board	9,775	7,600	2,460	-	285
Midland Street Management Board	31,083	19,300	-	-	(11,783)
POWER EDC	26,314	-	-	-	(26,314)
Downtown Management Board	241,339	55,242	65,001	-	(121,096)
Wenonah Park Properties	7,276,219	4,491,928	56,026	-	(2,728,265)
Total component units	<u>\$ 8,717,886</u>	<u>\$ 4,738,273</u>	<u>\$ 123,487</u>	<u>\$ -</u>	<u>\$ (3,856,126)</u>

continued...

City of Bay City, Michigan
All Component Units
Combining Statement of Activities (Concluded)
For the Year Ended June 30, 2005

Functions/Programs	Downtown Development Authority	Midland St. TIFA	Kresge's DDA	Marquette District TIFA	Water Street DDA	Marina Develop. TIFA	Allen Health- care DDA
Changes in net assets							
Net (expense) revenue	\$ (7,746)	\$ (4,935)	\$ -	\$ (426,699)	\$ (274,283)	\$ (158,653)	\$ (6,666)
General revenues:							
Property taxes	-	107,823	-	509,355	294,267	60,017	16,347
Unrestricted investment earnings	1,147	11,664	-	57,414	51,691	18,202	404
Miscellaneous revenue	88,139	-	-	-	-	-	-
Total general revenues	<u>89,286</u>	<u>119,487</u>	<u>-</u>	<u>566,769</u>	<u>345,958</u>	<u>78,219</u>	<u>16,751</u>
Change in net assets	81,540	114,552	-	140,070	71,675	(80,434)	10,085
Net assets, beginning of year, as restated	<u>68,924</u>	<u>253,675</u>	<u>47,725</u>	<u>1,893,746</u>	<u>165,066</u>	<u>599,684</u>	<u>(83,161)</u>
Net assets, end of year	<u>\$ 150,464</u>	<u>\$ 368,227</u>	<u>\$ 47,725</u>	<u>\$ 2,033,816</u>	<u>\$ 236,741</u>	<u>\$ 519,250</u>	<u>\$ (73,076)</u>

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

Research Center Develop. TIFA	Knepp's DDA	Brownfield Redevelopment Authority	Columbus Avenue Mgmt. Board	Midland St. Mgmt. Board	P.O.W.E.R. EDC	Downtown Mgmt. Board	Wenonah Park Properties	Totals
\$ (61,487)	\$ (27,688)	\$ (796)	\$ 285	\$ (11,783)	\$ (26,314)	\$ (121,096)	\$ (2,728,265)	\$ (3,856,126)
17,280	15,874	-	-	-	-	105,713	-	1,126,676
1,703	2,756	-	-	-	80,382	951	170,245	396,559
-	-	2,174	-	3,317	29,653	-	192	123,475
18,983	18,630	2,174	-	3,317	110,035	106,664	170,437	1,646,710
(42,504)	(9,058)	1,378	285	(8,466)	83,721	(14,432)	(2,557,828)	(2,209,416)
47,989	107,663	750	5,341	23,781	5,954,005	177,790	13,479,598	22,742,576
<u>\$ 5,485</u>	<u>\$ 98,605</u>	<u>\$ 2,128</u>	<u>\$ 5,626</u>	<u>\$ 15,315</u>	<u>\$ 6,037,726</u>	<u>\$ 163,358</u>	<u>\$ 10,921,770</u>	<u>\$ 20,533,160</u>

CITY OF BAY CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its discrete component units. For the most part, the effect of interfund activity has been eliminated from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as general revenue.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

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

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

The City reports the following major proprietary funds:

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

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

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Additionally, the City reports the following fund types:

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

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

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

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

Bank Deposits and Investments – The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

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

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

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

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

The estimated useful lives of infrastructure assets are as follows:

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

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

City employees earn vacation leave at rates ranging between 12 and 28 days per year depending on their union membership and length of service. All outstanding vacation is payable upon resignation, retirement, or death. Sick pay is accumulated by employees at rates ranging between 6.67 hours to one day per month of employment. Depending on the union contract, some employees earn one additional day if the employee does not use any sick leave days within a three-month period. Outstanding sick pay is payable only upon qualified retirement. The amount paid is one-half of the accumulated sick days ranging from 0 to a maximum of 200 days dependent upon the union contract under which the employee is covered. Employees with over 25 years of service (with the maximum 200 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 100 additional days.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

Note 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

Note 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY-CONTINUED

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

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Transfers Out	\$ 283,124	\$ 298,043	\$ (14,919)
Special Revenue Funds:			
Rehabilitation Fund	286,780	1,084,793	(798,013)
Transfers Out	213,137	227,457	(14,320)
Fire Awareness Fund:			
Capital Outlay	-	959	(959)
Community Development Block Grant			
Economic Development	645,262	989,556	(344,294)
Capital Outlay	417,974	462,612	(44,638)

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

Allen Healthcare DDA component unit in the amount of \$73,076. The development plan of this component unit states that the amount of tax increment revenues collected on an annual basis will be applied against its debt until it has been paid off. It is estimated that this will occur in fiscal year ending June 30, 2011.

Note 3 - DEPOSITS AND INVESTMENTS

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

Note 3 - DEPOSITS AND INVESTMENTS – CONTINUED

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

Statement of Net Assets:

	Govern- mental Activities	Business- Type Activities	Fiduciary Funds	Total Primary Government	Component Units	Total
Cash and cash equivalents	\$ 10,743,189	\$ 23,053,428	\$ 1,639,709	\$ 35,436,326	\$ 6,755,727	\$42,192,053
Investments	-	-	47,849,544	47,849,544	-	47,849,544
Restricted Assets	<u>-</u>	<u>1,072,671</u>	<u>-</u>	<u>1,072,671</u>	<u>4,348,668</u>	<u>5,421,339</u>
Total	<u>\$ 10,743,189</u>	<u>\$ 24,126,099</u>	<u>\$49,489,253</u>	<u>\$ 84,358,541</u>	<u>\$ 11,104,395</u>	<u>\$95,462,936</u>

Deposit and Investments:

Bank Deposits (checking, savings, and certificates of deposit)	\$ 18,625,930
Investments (securities, commercial paper, and money market accounts)	<u>76,837,006</u>
Total	<u>\$ 95,462,936</u>

Custodial Credit Risk – Deposits. For deposits, custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to the government. At June 30, 2005, the carrying value of deposits owned by the City was \$36,508,997 and component units was \$11,104,395. Approximately \$600,000 of the City’s bank balance and \$200,000 of the component unit bank balance was covered by federal depository insurance. The remaining balance of \$5,849,155 was exposed to custodial credit risk because it was unsecured and uncollateralized.

Custodial Credit Risk – Investments. Following is a summary of the City’s investments as of June 30, 2005:

Deposits	\$ 18,625,930
Mutual Funds	16,062,946
Government securities	10,089,266
Agency obligations	29,979,026
Corporate bonds	3,766,114
Common stock	<u>16,939,654</u>
Total	<u>\$ 95,462,936</u>

Note 3 - DEPOSITS AND INVESTMENTS – CONTINUED

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2005, none of the City's investments, excluding the money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counter party.

Interest Rate Risk. As of June 30, 2005, maturities of the City's debt securities were as follows:

	Fair Value	Investment Maturities (In Years)				Credit Rating Range	
		Less Than 1	1-5	6-10	More Than 10	Standard & Poors	Moody's Investor Services
Government obligations	\$ 3,179,167	\$ -	\$ 1,742,928	\$ 970,897	\$ 465,342	n/a	n/a
Agency obligations	31,503,048	1,984,940	28,879,890	15,319	622,899	AAA	Aaa to AAA
Corporate bonds	2,837,488	-	859,434	1,540,672	437,382	B- to AAA	B3 to Aaa
Variable rate corporate bonds	107,208	-	107,208	-	-	B+ and A-	B2 and A3
FHLMC pass throughs	13,524	-	-	-	13,524	n/a	n/a
FNMA pass throughs	4,804,987	-	-	-	4,804,987	n/a	n/a
GNMA pass throughs	537,236	-	-	-	537,236	n/a	n/a
Collateralized mortgage obligations	235,790	-	-	-	235,790	n/a	n/a
Asset backed securities	<u>615,958</u>	<u>-</u>	<u>299,238</u>	<u>6,318</u>	<u>310,402</u>	AAA	Aaa
	<u>\$43,834,406</u>	<u>\$1,984,940</u>	<u>\$31,888,698</u>	<u>\$2,533,206</u>	<u>\$7,427,562</u>		

** The City's investments in bonds include six (6) holdings with call options with a market value of \$157,090.

** The City's investment in agency obligations include twenty-three (23) holdings with a market value of \$29,979,026

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

The Police & Fire Retirement System's investment policy does 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.

Note 3 - DEPOSITS AND INVESTMENTS – CONTINUED

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

The Police & Fire Retirement System’s investment policy on credit risk for allowable debt securities follows. The credit rating for each investment type is identified in the above table for debt securities held at June 30, 2005. Regarding Core Plus Fixed Income, the System’s investment policy allows its investments managers to invest up to 12.5% of the portfolio in non-investment grade securities (BB to CC rated), with at least 80% of the non-investment grade portfolio consisting of BB or B rated securities. The policy also allows investment managers to invest up to 10% of the portfolio in non-U.S. dollar denominated fixed income securities. The minimum credit rating for international fixed income securities is single B at the time of purchase.

Concentration of Credit Risk. At June 30, 2005, the investment portfolio was concentrated as follows:

<u>Investment</u> <u>Type</u>	<u>Issuer</u>	<u>% of</u> <u>Portfolio</u>	<u>Amount</u>
U.S. agencies	Federal Home Loan Bank	67.6%	\$ 26,073,299
	Federal National Mortgage Association	10.4%	4,015,587

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

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

Note 4 – ACCOUNTS RECEIVABLE AND ALLOWANCES FOR UNCOLLECTIBLES

Receivables as of year end for the government’s individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for collectible accounts, are as follows:

	General Fund	Special Revenue Rehabilitation on Fund	Nonmajor Govern- Mental Funds	Electric Fund	Water Fund	Sewer Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Component Units	Total
Receivables:											
Accounts	\$ 168,608	\$ 2,400	\$ 439,440	\$ 3,892,387	\$682,396	\$ 1,650,599	\$ 17,639	\$ 160,137	\$ 123,008	\$ 274,251	\$ 7,410,865
Taxes	157,536	2,050	33,359	626	80	933	-	-	-	1,691	196,276
Interest Intergovernmental	71,623	-	27,377	181,880	74,679	39,113	2,611	19,297	172,259	83,091	671,930
	303,553	7,087	1,104,251	199,045	-	528	53,081	-	148,288	68,499	1,884,332
Notes Gross	-	<u>7,109,145</u>	-	-	-	-	-	-	-	<u>4,184,898</u>	<u>11,294,043</u>
Receivables	701,320	7,120,682	1,604,427	4,273,938	757,155	1,691,173	73,331	179,434	443,555	4,612,431	21,457,446
Less:											
Allowance for Uncollectibles	<u>(45,162)</u>	-	<u>(17,764)</u>	<u>(103,502)</u>	<u>(20,951)</u>	<u>(33,755)</u>	<u>(437)</u>	-	-	<u>(420,286)</u>	<u>(641,857)</u>
Net total receivables	<u>\$ 656,158</u>	<u>\$ 7,120,682</u>	<u>\$ 1,586,663</u>	<u>\$ 4,170,436</u>	<u>\$ 736,204</u>	<u>\$ 1,657,418</u>	<u>\$ 72,894</u>	<u>\$ 179,434</u>	<u>\$ 443,555</u>	<u>\$ 4,192,145</u>	<u>\$ 20,815,589</u>

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

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

	<u>Unavailable</u>	<u>Unearned</u>
Notes receivable from homeowners expected to be collected over several years	\$ 7,113,596	\$ -
Special assessments	127,340	-
Grant and categorical aid payment received prior to meeting all eligibility requirements	-	<u>31,290</u>
Total	<u>\$ 7,240,936</u>	<u>\$ 31,290</u>

Note 5 - CAPITAL ASSETS

Capital asset activity of the City's governmental activities for the year ended June 30, 2005 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 18,685,244	\$ 47,099	\$ (8,446)	\$ 18,723,897
Construction in progress	871,924	54,784	(871,924)	54,784
Other intangible assets	<u>376,000</u>	<u>-</u>	<u>-</u>	<u>376,000</u>
Subtotal	19,933,168	101,883	(880,370)	19,154,681
Capital assets being depreciated:				
Roads and sidewalks	119,055,699	1,266,792	871,923	121,194,384
Buildings and improvements	5,172,148	1,154,478	-	6,326,626
Vehicles	11,510,683	769,159	(848,096)	11,431,746
Office furnishings	136,481	-	(12,451)	124,030
Other tools and equipment	<u>2,915,080</u>	<u>410,512</u>	<u>(97,274)</u>	<u>3,228,318</u>
Subtotal	132,745,850	3,600,941	(85,898)	142,305,104
Accumulated depreciation:				
Roads and sidewalks	64,722,289	3,141,769	-	67,864,058
Buildings and improvements	3,053,685	165,676	-	3,219,361
Vehicles	5,839,287	840,048	(724,225)	5,955,110
Office furnishings	78,430	9,585	(12,451)	75,564
Other tools and equipment	<u>1,723,806</u>	<u>350,489</u>	<u>(97,274)</u>	<u>1,977,021</u>
Subtotal	<u>75,417,497</u>	<u>4,507,567</u>	<u>(833,950)</u>	<u>79,091,114</u>
Net capital assets being depreciated	<u>57,328,353</u>	<u>(906,626)</u>	<u>748,052</u>	<u>63,213,990</u>
Governmental activities capital assets, net	<u>\$ 77,261,521</u>	<u>\$ (804,743)</u>	<u>\$ (132,318)</u>	<u>\$ 82,368,671</u>

Note 5 - CAPITAL ASSETS - CONTINUED

Capital asset activity of the City's business-type activities for the year ended June 30, 2005 was as follows:

<u>Business-type Activities</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 373,063	\$ -	\$ -	\$ 373,063
Construction in progress	-	28,920	-	28,920
Other	<u>95,421</u>	<u>-</u>	<u>-</u>	<u>95,421</u>
Subtotal	468,484	28,920	-	497,404
Capital assets being depreciated:				
Utility plant and systems	264,851,231	8,120,653	(799,492)	272,172,392
Buildings and improvements	4,379,410	17,442	-	4,396,852
Equipment	<u>13,828</u>	<u>29,476</u>	<u>-</u>	<u>43,304</u>
Subtotal	269,244,469	8,167,571	(799,492)	276,612,548
Accumulated depreciation:				
Utility plant and systems	116,998,411	7,113,239	(799,492)	123,312,158
Buildings and improvements	1,498,919	116,492	-	1,615,411
Equipment	<u>6,446</u>	<u>1,316</u>	<u>-</u>	<u>7,762</u>
Subtotal	<u>118,503,776</u>	<u>7,231,047</u>	<u>(799,492)</u>	<u>124,935,331</u>
Net capital assets being depreciated	<u>150,740,693</u>	<u>936,524</u>	<u>-</u>	<u>151,677,217</u>
Business-type Activities capital assets, net	<u>\$ 151,209,177</u>	<u>\$ 965,444</u>	<u>\$ -</u>	<u>\$ 152,174,621</u>

Note 5 - CAPITAL ASSETS - CONTINUED

Capital asset activity of the City's component units for the year ended June 30, 2005 was as follows:

<u>Component Units</u>	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Disposal and Adjustments</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 2,140,000	\$ 30,136	\$ -	\$ 2,170,136
Construction in progress	-	<u>139,382</u>	-	<u>139,382</u>
Subtotal	2,140,000	169,518	-	2,309,518
Capital assets being depreciated:				
Buildings	21,641,061	910,493	-	22,551,554
Infrastructure	3,994,217	1,082,301	-	5,076,518
Furniture and equipment	4,559,926	-	-	4,559,926
Vehicles	<u>31,326</u>	-	-	<u>31,326</u>
Subtotal	30,226,530	1,992,794	-	32,219,324
Accumulated depreciation:				
Buildings	36,068	451,552	-	487,620
Infrastructure	966,733	153,498	-	1,120,231
Furniture and equipment	46,728	507,897	-	554,625
Vehicles	<u>522</u>	<u>6,265</u>	-	<u>6,787</u>
Subtotal	<u>1,050,051</u>	<u>1,119,212</u>	-	<u>2,169,263</u>
Net capital assets being depreciated	<u>29,176,479</u>	<u>873,599</u>	-	<u>30,050,061</u>
Component Units capital assets, net	<u>\$ 31,316,479</u>	<u>\$ 1,043,100</u>	<u>\$ -</u>	<u>\$ 32,359,579</u>

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

Governmental activities:

General government	\$ 24,731
Public safety	285,881
Public works	3,165,586
Recreation and culture	115,348
Community & Economic Development	24,157
Internal Service Fund depreciation is charged to the various function based on their usage of the asset	<u>891,864</u>
Total governmental activities	<u>\$ 4,507,567</u>

Business-type activities:

Electric	2,089,511
Water	1,204,689
Sewer	3,819,039
Other enterprise funds	<u>117,807</u>
Total business-type activities	<u>\$ 7,231,046</u>

Note 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

The composition of interfund balances is as follows:

	General Fund	Nonmajor Governmental Funds	Electric Funds	Nonmajor Enterprise Funds	Internal Service Funds	Total
General Fund	\$ -	\$ 22,571	\$ -	\$ 15,527	\$ 47,159	\$ 85,257
Rehabilitation Fund	1,461	-	-	-	-	1,461
Nonmajor Governmental Funds	255,905	-	-	-	34,587	290,492
Electric Fund	-	16,348	-	-	15,566	31,914
Water Fund	-	-	10,972	-	9,815	20,787
Sewer Fund	-	-	2,207	-	23,974	26,181
Nonmajor Enterprise Funds	-	-	-	-	957	957
Internal Service Funds	<u>287,643</u>	-	-	-	<u>2,235</u>	<u>289,878</u>
Total	<u>\$ 545,009</u>	<u>\$ 38,919</u>	<u>\$ 13,179</u>	<u>\$ 15,527</u>	<u>\$134,293</u>	<u>\$746,927</u>

Interfund Transfers:

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

The composition of interfund transfers is as follows:

	General Fund	Rehabilitation Funds	Nonmajor Governmental Funds	Electric Fund	Internal Service Funds	Total
<u>Transfers to:</u>						
General Fund	\$ -	\$ -	\$ 111,172	\$ -	\$ 287,431	\$ 398,603
Major Street Fund	-	-	588,271	-	-	588,271
Nonmajor Governmental Funds	157,453	227,457	345,501	-	-	730,411
Electric Fund	-	-	170,710	-	-	170,710
Sewer Fund	-	-	-	330,000	-	330,000
Nonmajor Enterprise Fund	<u>140,590</u>	-	-	-	-	<u>140,589</u>
Total	<u>\$ 298,043</u>	<u>\$ 227,457</u>	<u>\$ 1,215,654</u>	<u>\$ 330,000</u>	<u>\$ 287,431</u>	<u>\$2,358,585</u>

Note 7 – CAPITAL LEASES

The City of Bay City has entered into two separate lease agreements as lessee of a copier with Xerox, and a mail-stuffing machine with Pitney Bowes. The remaining balances are \$15,437 for the copier and \$19,685 for the mail-stuffing machine. Annual lease payments required under the capital leases are as follows:

Fiscal Year	General Fund	Information Systems
End		
2006	\$ 7,719	\$ 7,620
2007	7,718	7,620
2008	-	4,445
Total minimum payments due	<u>15,437</u>	<u>19,685</u>
Less interest	-	-
Present value of net minimum lease	<u>\$ 15,437</u>	<u>\$ 19,685</u>

Note 8 – LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. City contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

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

Governmental Activities	Balance <u>7/01/04</u>	Additions (Reductions)	Balance <u>6/30/05</u>	Due-Within <u>One-Year</u>
6.4% to 7.15% Street Improvement Capital Appreciation G.O. bonds dated 7/2/91, aggregate principal due at maturity beginning 6/1/99 through 6/1/21.	\$ 17,991,664	\$ 1,302,716 (1,265,000)	\$ 18,029,380	\$ 1,570,000
2.0% to 3.75% G.O. Sewage System Improvement Refunding Bonds, principal due in annual installments through 9/1/12, interest payable semi-annually March 1 and September 1.	4,040,000	(425,000)	3,615,000	390,000
Capital Lease due in installments through 2006.	22,951	(22,951)	-	-
Capital Lease due in installments through 2007.	23,156	(7,719)	15,437	7,719
Purchase Agreement due in installments, including interest, through 2013. Originated in Motor Equipment Revolving Internal Service Fund.	400,842	(38,116)	362,726	39,582
Capital Lease due in installments through 2008. Originated in Information Systems Internal Service Fund.	27,305	(7,620)	19,685	7,620
Employee compensated absences.	<u>2,346,774</u>	1,842,772 <u>(1,719,723)</u>	<u>2,499,823</u>	<u>763,487</u>
Total Governmental Activities	<u>\$ 24,852,692</u>	<u>\$ (287,690)</u>	<u>\$ 24,542,051</u>	<u>\$ 2,778,408</u>

Note 8 - LONG-TERM DEBT – CONTINUED

Business-Type Activities:

Sewer Fund

	<u>Balance</u> <u>7/01/04</u>	<u>Additions</u> <u>Reductions</u>	<u>Balance</u> <u>6/30/05</u>	<u>Due-Within</u> <u>One-Year</u>
4.9% to 5.6% G.O. Sewage Disposal System Improvement Bonds, Series 1999, principal due in annual installments of \$45,000 to \$120,000 through 4/1/20, interest due semi-annually April 1 and October 1.	\$ 1,305,000	\$ (55,000)	\$ 1,250,000	\$ 55,000
2.5% State Revolving Fund Loan issued March 29, 2001, principal due in annual installments beginning 4/01/04 through 4/01/23, interest due semi-annually April 1 through October 1.	40,198,689	576,311 (1,705,000)	39,070,000	1,745,000
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.	-	6,000,000	6,000,000	525,000

Electric Fund

5.0% to 5.5% Electric Utility System Revenue Refunding Bonds, 1997 Series, principal due in annual installments of \$925,000 to \$1,585,000 through 1/1/12, interest due semi-annually January 1 and July 1. Payment net of amortization of \$159,019.	10,318,760	(925,981)	9,392,779	1,145,000
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Other

Employee Compensated Absences	997,487	1,309,690 (885,951)	1,421,226	427,717
Total	<u>\$52,819,936</u>	<u>\$ 4,314,069</u>	<u>\$ 57,134,005</u>	<u>\$3,897,717</u>

Note 8 - LONG-TERM DEBT – CONTINUED

Business-Type Activities - continued:

The aggregate debt service requirements to pay principal and interest on the various bonds and loans outstanding with interest of \$13,440,757 and a discount of \$67,221 in the business-type activities, interest of \$26,175,728 including capital appreciation of \$14,892,087 in the governmental activities bonded debt, and interest of \$61,498 in governmental activities other debt are as follows:

Fiscal Year End	Governmental Activities				Business Type Activities	
	Bonded Debt		Other Debt		Principal	Interest
	Principal	Interest	Principal	Interest		
2006	\$ 952,672	\$ 1,111,711	\$ 54,921	\$ 13,444	\$ 3,470,000	\$ 1,690,414
2007	934,540	1,160,402	56,443	11,924	3,590,000	1,570,616
2008	925,279	1,199,541	46,696	10,343	3,720,000	1,444,303
2009	898,509	1,240,086	44,328	8,700	3,860,000	1,312,131
2010	908,618	1,277,090	46,032	6,996	3,995,000	1,172,802
2011 – 2015	4,132,710	7,721,644	148,993	10,091	17,100,000	3,899,466
2016 – 2020	1,809,913	10,266,554	-	-	12,270,000	1,959,150
2021 – 2023	301,300	2,198,700	-	-	7,775,000	391,875
Total	<u>\$10,863,541</u>	<u>\$ 26,175,728</u>	<u>\$ 397,413</u>	<u>\$ 61,498</u>	<u>\$55,780,000</u>	<u>\$ 13,440,757</u>

Component Units:

	Balance 7/01/04	Additions (Reductions)	Balance 6/30/05	Due Within One-Year
6.25% Downtown Development Authority bonds dated 1/15/98, principal due in annual installments of \$75,000 to \$129,000 through 5/1/12, interest payable semi-annually May 1 and November 1. Repayment from captured tax increment in the Water Street DDA.	\$ 900,000	\$ (900,000)	\$ -	\$ -
8.0% Allen HealthCare DDA note payable to developer, due in annual installments equal to the annual captured increment until the original note of \$150,331 plus interest is paid in full.	83,320	(9,681)	73,639	10,946
2.5% to 4.05% Downtown Development and Refunding Bonds, Series 2004, principal due in annual installments of \$20,000 to \$375,000 through 5/1/18, interest due semi-annually May 1 and November 1.	-	2,755,000 (20,000)	2,735,000	130,000

Note 8 - LONG-TERM DEBT – CONTINUED

Component Units: - continued

	<u>Balance 7/01/04</u>	<u>Additions (Reductions)</u>	<u>Balance 6/30/05</u>	<u>Due Within One-Year</u>
4.0% Wenonah Park Properties note payable to P.O.W.E.R. EDC Component Unit, interest payable monthly beginning 6 months after "Certificate of Occupancy" is issued for the Hotel/Conference Center, due February 20, 2016.	\$4,000,000	-	\$4,000,000	-
7.5% to 7.875% Wenonah Park Properties Revenue Bonds 2002 Series, principal due annually 2009 through 2033, interest due semi-annually.	15,455,000	-	15,455,000	-
Variable Rate Wenonah Park Properties HUD Section 108 Note payable, principal due annually, interest due quarterly.	2,500,000	-	2,500,000	-
4.0% Wenonah Park Properties note payable to Great Lakes Center Foundation. Maturity date February 2016.	640,000	-	640,000	-
0.0% Michigan Urban Land Assembly Promissory Note, principal payments beginning September 1, 2006 through September 1, 2011.	255,000	-	255,000	-
Downtown Development Authority note payable to Downtown Management Board Component Unit in annual installments due 6/30/06.	<u>37,316</u>	<u>(18,684)</u>	<u>18,632</u>	<u>18,632</u>
Total Long-Term Debt-Component Units	<u>\$23,870,636</u>	<u>\$ 1,806,635</u>	<u>\$25,677,271</u>	<u>\$ 159,578</u>

Note 8 - LONG-TERM DEBT – CONTINUED

The aggregate debt service requirement for the component units to pay principal and interest on the various outstanding loans with interest included of \$29,299,816 are as follows:

<u>Fiscal Year End</u>	<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 159,578	\$ 1,551,013
2007	189,827	1,546,888
2008	196,334	1,541,851
2009	262,976	1,536,545
2010	284,766	1,526,101
2011-2015	2,608,790	7,338,090
2016-2020	8,270,000	5,750,809
2021-2025	3,670,000	4,506,144
2026-2030	4,790,000	3,112,125
2031-2033	<u>5,245,000</u>	<u>890,250</u>
Total	<u>\$ 25,677,271</u>	<u>\$ 29,299,816</u>

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

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

As of June 30, 2005,
 the amount of debt
considered defeased

Special Revenue Funds:	
Section-108 H.U.D. Loan Payable	\$ 95,000
Total Defeased Debt	<u>\$ 95,000</u>

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

Note 9 - RISK MANAGEMENT

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

Note 9 - RISK MANAGEMENT – CONTINUED

Liability and Property Insurance

The self-insurance program for liability and property is accounted for in the Liability/Property Self-Insurance Fund (an internal service fund). Presently, the City insures the first \$1,000 on property and 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. 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, 2004 and 2005 are as follows:

Fiscal Year	Beginning of Period <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claims <u>Payments</u>	End of Period <u>Liability</u>
2004	\$ 208,697	\$ 992,703	\$ (873,162)	\$ 328,238
2005	328,238	1,334,736	(1,161,362)	501,612

Health and Dental Insurance

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

The changes in the claims liability for the years ended June 30, 2004 and 2005 are as follows:

Fiscal Year	Beginning of Period <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claim <u>Payments</u>	End of Period <u>Liability</u>
2004	\$ 455,233	\$ 6,521,426	\$ (6,503,135)	\$ 473,524
2005	473,524	6,921,548	(6,924,776)	470,296

Note 9 - RISK MANAGEMENT – CONTINUED

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, 2004 and 2005 are as follows:

<u>Fiscal Year</u>	<u>Beginning of Period Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Period Liability</u>
2004	\$ 721,862	\$ 198,953	\$ (404,791)	\$ 516,024
2005	516,024	239,464	(204,230)	551,258

Note 10 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Employees' Pension Plans

Defined Benefit Pension Plan

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

Note 10 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Funding Policy - The City is required to contribute at an actuarially determined rate; the current rate contributed on annual covered payroll ranges from 0.0% to 55.99% depending on employee group. Employees are required to contribute 0.0% to 3.0%. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost - For the year ended June 30, 2005, the City's annual pension cost of \$1,883,724 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increase of 4.5% to 8.66% 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, 2004, the date of the latest actuarial valuation, was 30 years.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 1,327,293	100.0%	-
6/30/04	1,545,879	100.0%	-
6/30/05	1,883,724	100.0%	-

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$ 37,298,143	\$ 57,785,584	\$ 20,487,441	65%	\$ 6,572,511	311%
12/31/03	37,294,242	59,898,148	22,603,906	62%	6,600,610	342%
12/31/04	37,318,395	61,535,480	24,217,085	61%	6,322,611	383%

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

Police Officers and Firefighters

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

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

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

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

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

Funding Policy - All plan members are required to contribute 8% of their annual salary to the System. The City is required to contribute the remaining amounts necessary to fund the System, based upon actuarial valuations as required by State statute. The current combined rate is 12.96% of covered payroll. Contributions are established and may be amended by the City Commission.

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

Annual Pension Cost and Net Pension Obligation - The City's annual pension cost and net pension obligation to the System for the current year were as follows:

Net pension asset, beginning of year		\$ 73,796
Annual pension cost:		
Contributions made	\$ 820,504	
Annual required contribution	(801,487)	
Interest on the net pension asset	<u>5,535</u>	
Total annual pension cost	(795,952)	
Change in net pension asset		<u>24,552</u>
Net pension asset, end of year		<u>\$ 98,348</u>

The annual required contribution for the current year was determined as part of the annual actuarial valuation of the plan as of June 30, 2003 using the individual attained age normal cost actuarial cost method. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 1.0% to 44.0% per year. Both (a) and (b) included an inflation component of 5%. The assumptions included cost-of-living adjustments ranging from 4.0% to 5.0% after 5, 10, and 15 years payable to certain eligible members. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at June 30, 2004, the date of the latest actuarial valuation, was increased to 30 years for all groups. The City Commission has the authority to amend and establish benefit provisions, as well as contribution rates.

Concentrations

As of June 30, 2005, there were no investments with a fair value that represents 5% or more of the System's net assets. However, amounts invested in two (2) separate mutual funds represent 7.63% and 23.27% of the System's net assets, respectively at June 30, 2005.

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

Trend Information

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
6/30/03	\$ 454,456	100%	\$ 57,352
6/30/04	453,009	100%	73,796
6/30/05	795,952	103%	98,348

Defined Contribution Pension Plan

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

The contribution requirements of the City are established and may be amended by the City Commission. Currently, there are two plans available to the employees. Plan A offers the employee the option of contributing 0.0% and requires a 5.0% contribution by the City. There is immediate vesting with Plan A. Plan B allows the employee to contribute 3.0% while the City contributes 8.5%. With Plan B, the employee is 50.0% vested after two years and 100.0% vested after four years. For the fiscal year ended June 30, 2005, the City's required and actual contributions amounted to \$563,978. Employees made contributions amounting to \$223,778.

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

As authorized by the City Commission, the City has elected to provide post-retirement healthcare benefits to certain retirees and their beneficiaries. Substantially all of the City's employees become eligible for post-retirement health care benefits if they reach normal retirement age and are eligible for retirement benefits from the City. Currently, 426 retirees are eligible to receive benefits. The City pays the full cost of coverage for these benefits. The cost of retiree health care benefits is recognized as an expense as claims are paid. Retirees are currently not required to contribute. The amount of those costs for the year ended June 30, 2005 was \$4,537,435.

Note 11 – PRIOR PERIOD ADJUSTMENTS

In fiscal year ended June 30, 2004, the City did not record FICA or pension contribution on the compensated absences balances it recorded. A prior period adjustment was recorded and as a result the beginning net assets were decreased \$476,931 in the Electric Fund, \$57,247 in the Sewer Fund, \$110,975 in the Water Fund, \$20,150 in the Motor Equipment Revolving Fund, \$13,481 in the Information Systems Fund, and \$258,757 in the governmental activities long-term debt.

In the Major Streets Fund, the receivable from the State was overstated in the fiscal year ended June 30, 2004. Thus, a prior period adjustment was recorded to reduce the beginning fund balance by \$22,762.

In 2000, the State of Michigan modified the multiplier for personal property taxes. The City, along with other municipalities in the State, disagreed with the modified multiplier for utilities and as such appealed to its Board of Review requesting authorization to reinstate the former multipliers. The Board of Review agreed with the City's request and reinstated the former multipliers. A group of municipalities filed suit against the State of Michigan that was unsuccessful. This suit went to appeal and the City continued to use the former multiplier. The appeal was unsuccessful and as a result, prior period adjustments to reduce fund balances were recorded in the General Fund for \$203,680, as well as \$38,525 in the Debt Service Fund. The beginning net assets of the Downtown Development Authority Component Unit were also reduced by \$952 as a result of this adjustment.

In the Wenonah Park Properties Component Unit the beginning net assets have been restated to include the hotel operations which were excluded at June 30, 2004. As a result, the beginning net assets increased by \$394,762.

Note 11 – PRIOR PERIOD ADJUSTMENTS – CONTINUED

In fiscal year ended June 30, 2004, a land improvement in the Marquette industrial Park was included with the assets of the primary government. Thus, a prior period adjustment has been recorded to remove the asset and its accumulated depreciation from net assets, resulting in a net decrease of \$507,955 to net assets.

In fiscal year ended June 30, 2004, a capital lease was recorded as having annual installments of \$11,475 through 2006. However, the lease actually expired in fiscal year ended June 30, 2005. Thus, a prior period adjustment has been recorded to increase net assets in the governmental activities by \$11,475.

Note 12 – COMMITMENTS AND CONTINGENT LIABILITIES

Environmental

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

The DPW garage site is also being studied by consultants with clean-up to begin in the near future. The cost of clean-up is eligible for state funding of up to a maximum of \$2,000,000 with the City's exposure being \$10,000.

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

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

Note 12 – COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

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 3 and Belle River projects. The estimated annual debt payments with interest included of \$4,588,813 are as follows:

Fiscal Year <u>Ending</u>	Cambell <u>Project</u>	Belle River <u>Project</u>
2006	\$ 427,955	\$ 1,125,048
2007	428,732	1,129,378
2008	429,081	1,129,399
2009	428,967	1,129,196
2010	-	1,129,286
2011-2019	-	10,538,342
	<u>\$ 1,714,735</u>	<u>\$ 16,180,649</u>

Construction Commitment

The City entered into a construction commitment for the North Lagoon Reclamation and Reconstruction Project at the Bay City Municipal Water Treatment Plant in the amount of \$6,440,000. In June of 2005, the City also issued \$6,000,000 in General Obligation Bonds through the State of Michigan Drinking Water Revolving Fund to complete the construction project. As of June 30, 2005, there were no funds drawn on this account.

Wenonah Park Properties (WPP) Component Unit entered into an agreement with the construction project's designer/builder which obligates the designer/builder to construct the hotel/conference center for a guaranteed maximum price, of \$24,431,175. In addition, Wenonah Park Properties, Inc. is in dispute with their general contractor over change orders with the construction of the hotel and conference center. The general contractor has requested an award of \$617,000, plus interest and attorney fees. The Organization intends to assert a claim against the general contractor for alleged deficiencies in the performance of the construction of the hotel and conference center. A liability of \$617,000 has been recognized in accounts payable.

Note 12 – COMMITMENTS AND CONTINGENT LIABILITIES - CONTINUED

Subsequent Event

On September 26, 2005, the City issued bonds in the amount of \$6,000,000 for the purpose of acquiring and constructing certain capital improvements relating to the City's sanitary sewer system.

Other

The Police & Fire Retirement System is a defendant in a lawsuit. It is the opinion of System management and its counsel that the outcome of the lawsuit now pending will not materially affect the operations or the financial position of the System.

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

REQUIRED SUPPLEMENTARY INFORMATION

City of Bay City, Michigan

Required Supplementary Information (Unaudited)

Police and Fire Pension Trust Fund

Schedule of Funding Progress

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

Schedule of Employer Contributions

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
1995	666,316	712,092	106.87%
1996	806,993	702,972	87.11%
1997	743,751	732,818	98.53%
1998	575,958	656,938	114.06%
1999	605,319	667,122	110.21%
2000	523,457	645,056	123.23%
2001	430,767	342,029	79.40%
2002	456,005	430,013	94.30%
2003	457,310	491,155	107.40%
2004	457,310	469,453	102.66%
2005	801,487	820,482	102.37%

**Combining and Individual Fund Statements
and Schedules**

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

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

Motor Vehicle Highway Funds

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

Fire Awareness Fund

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

Community Policing Fund

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

Parking Enforcement Fund

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

Solid Waste Management Fund

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

Community Development Block Grant Fund

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

Public Improvement Fund

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

Building Inspection Fund

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

Neighborhood Opportunity Fund

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

DEBT SERVICE FUND

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

CAPITAL PROJECTS FUNDS

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

Riverfront Redevelopment Fund

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

Economic Opportunities Fund

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

City of Bay City, Michigan
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2005

	Special Revenue Funds						
	Major Streets	Local Streets	Fire Awareness	Community Policing	Parking Enforcement	Solid Waste Management	Community Development Block Grant
Assets							
Cash and cash equivalents	\$ -	\$ 169,607	\$ 1,725	\$ 3,381	\$ 2,328	\$ 71,940	\$ -
Receivables (net of allowance for uncollectibles)							
Accounts	22,779	1,954	-	-	-	301,851	3,968
Delinquent taxes	-	-	-	-	-	-	-
Special assessments	-	-	-	-	-	5,829	-
Accrued interest	-	2,198	-	-	-	-	-
Due from other funds	9,409	-	-	-	-	-	16,348
Due from other governments	477,596	242,074	-	-	-	-	195,075
Inventories	42,080	-	-	-	-	-	-
Total Assets	\$ 551,864	\$ 415,833	\$ 1,725	\$ 3,381	\$ 2,328	\$ 379,620	\$ 215,391
Liabilities and fund balances							
Liabilities							
Accounts payable	\$ 53,427	\$ 9,417	\$ -	\$ 1,164	\$ 866	\$ 26,410	\$ 183,383
Accrued liabilities	40,462	11,741	1,725	2,217	1,359	18,796	6,287
Due to other funds	68,272	4,307	-	-	103	24,506	25,561
Due to other governmental units	5,771	-	-	-	-	-	-
Deposits payable	-	-	-	-	-	-	160
Deferred revenues	-	-	-	-	-	-	-
Total liabilities	167,932	25,465	1,725	3,381	2,328	69,712	215,391
Fund balances							
Reserved for:							
Inventories	42,080	-	-	-	-	-	-
Unreserved:							
Undesignated	341,852	390,368	-	-	-	309,908	-
Total fund balances	383,932	390,368	-	-	-	309,908	-
Total liabilities and fund balances	\$ 551,864	\$ 415,833	\$ 1,725	\$ 3,381	\$ 2,328	\$ 379,620	\$ 215,391

Public Improvement	Building Inspection	Neighborhood Opportunity	Total	Debt Service Fund		Capital Projects Funds			Total
				Bond Sinking Fund	Riverfront Redevelopment	Economic Opportunitites	Total		
\$ 517,818	\$ -	\$ 130,322	\$ 897,121	\$ 60,426	\$ -	\$ 1,234,866	\$ 1,234,866	\$ 2,192,413	
-	75,764	-	406,316	9,642	12,122	-	12,122	428,080	
-	-	-	-	10,747	-	-	-	10,747	
-	10,379	-	16,208	-	-	-	-	16,208	
6,709	-	1,688	10,595	782	-	16,000	16,000	27,377	
-	13,162	-	38,919	-	-	-	-	38,919	
-	-	-	914,745	-	189,506	-	189,506	1,104,251	
-	-	-	42,080	-	-	-	-	42,080	
<u>\$ 524,527</u>	<u>\$ 99,305</u>	<u>\$ 132,010</u>	<u>\$ 2,325,984</u>	<u>\$ 81,597</u>	<u>\$ 201,628</u>	<u>\$ 1,250,866</u>	<u>\$ 1,452,494</u>	<u>\$ 3,860,075</u>	
\$ -	\$ 6,067	\$ -	\$ 280,734	\$ 6,792	\$ 4,286	\$ 4,156	\$ 8,442	\$ 295,968	
-	11,323	-	93,910	-	-	-	-	93,910	
-	70,953	-	193,702	-	96,790	-	96,790	290,492	
-	-	-	5,771	11,003	-	-	-	16,774	
-	6,879	35,521	42,560	-	-	-	-	42,560	
-	4,083	-	4,083	10,747	-	-	-	14,830	
-	99,305	35,521	620,760	28,542	101,076	4,156	105,232	754,534	
-	-	-	42,080	-	-	-	-	42,080	
524,527	-	96,489	1,663,144	53,055	100,552	1,246,710	1,347,262	3,063,461	
524,527	-	96,489	1,705,224	53,055	100,552	1,246,710	1,347,262	3,105,541	
<u>\$ 524,527</u>	<u>\$ 99,305</u>	<u>\$ 132,010</u>	<u>\$ 2,325,984</u>	<u>\$ 81,597</u>	<u>\$ 201,628</u>	<u>\$ 1,250,866</u>	<u>\$ 1,452,494</u>	<u>\$ 3,860,075</u>	

City of Bay City, Michigan
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2005

	Special Revenue Funds						
	Major Streets	Local Streets	Fire Awareness	Community Policing	Parking Enforcement	Solid Waste Management	Community Development Block Grant
Revenues							
Taxes:							
Property Taxes	\$ 275,204	\$ 616,919	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental:							
Federal	455,358	-	-	-	-	-	2,343,606
State	2,223,662	807,060	-	-	-	-	30,269
Local	-	-	-	-	37,857	-	-
Charges for services:							
Sales	-	-	-	-	-	1,891,545	-
Fines and forfeitures	-	-	-	-	19,887	-	-
Miscellaneous:							
Interest earnings	5,217	4,864	-	-	-	110	-
Reimbursements	1,637	-	-	-	-	-	-
Sale of property	-	-	-	-	-	-	-
Other	37,236	780	-	-	-	20,148	-
Total revenues	2,998,314	1,429,623	-	-	57,744	1,911,803	2,373,875
Expenditures							
Current:							
Public safety	-	-	92,242	100,815	57,744	-	-
Public works:							
Highways, streets and bridges	2,809,978	1,115,496	-	-	-	-	-
Physical environment	-	-	-	-	-	1,746,270	-
Economic development	-	-	-	-	-	-	989,556
Capital outlay	777,169	89,890	959	-	-	-	462,612
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total expenditures	3,587,147	1,205,386	93,201	100,815	57,744	1,746,270	1,452,168
Excess of revenues over (under) expenditures	(588,833)	224,237	(93,201)	(100,815)	-	165,533	921,707
Other financing sources (uses)							
Transfer in	145,416	6,884	93,201	100,815	-	-	227,457
Transfer out	-	-	-	-	-	(66,490)	(1,149,164)
Total other financing sources (uses)	145,416	6,884	93,201	100,815	-	(66,490)	(921,707)
Changes in fund balances	(443,417)	231,121	-	-	-	99,043	-
Fund balances - beginning of year, as restated	827,349	159,247	-	-	-	210,865	-
Fund balances - end of year	\$ 383,932	\$ 390,368	\$ -	\$ -	\$ -	\$ 309,908	\$ -

					Debt Service	Capital			
	Public	Building	Neighborhood	Total	Fund	Projects Funds			Total
	Improvement	Inspection	Opportunity		Bond	Riverfront	Economic		
					Sinking Fund	Redevelopment	Opportunities		
\$	-	\$ -	\$ -	\$ 892,123	\$ 1,764,553	\$ -	\$ -	\$ -	\$ 2,656,676
	-	493,339	-	493,339	-	-	-	-	493,339
	-	-	-	2,798,964	-	-	-	-	2,798,964
	-	-	-	3,060,991	-	-	-	-	3,060,991
	-	-	-	37,857	-	-	-	-	37,857
	-	-	-	1,891,545	-	-	-	-	1,891,545
	-	-	-	19,887	-	-	-	-	19,887
	15,335	31	5,222	30,779	16,523	8,326	39,206	47,532	94,834
	-	23,205	-	24,842	-	-	-	-	24,842
	-	-	11,005	11,005	-	-	-	-	11,005
	-	38,158	605	96,927	-	2,047	2,780	4,827	101,754
	15,335	554,733	16,832	9,358,259	1,781,076	10,373	41,986	52,359	11,191,694
	-	640,571	-	891,372	-	-	-	-	891,372
	-	-	-	3,925,474	-	-	-	-	3,925,474
	-	-	-	1,746,270	-	-	-	-	1,746,270
	-	-	6,338	995,894	-	300,052	24,718	324,770	1,320,664
	-	-	247,932	1,578,562	-	523,617	12,262	535,879	2,114,441
	-	-	-	-	1,690,000	-	-	-	1,690,000
	-	-	-	-	114,664	-	-	-	114,664
	-	640,571	254,270	9,137,572	1,804,664	823,669	36,980	860,649	11,802,885
	15,335	(85,838)	(237,438)	220,687	(23,588)	(813,296)	5,006	(808,290)	(611,191)
	70,800	85,838	-	730,411	-	-	-	-	730,411
	-	-	-	(1,215,654)	-	-	-	-	(1,215,654)
	70,800	85,838	-	(485,243)	-	-	-	-	(485,243)
	86,135	-	(237,438)	(264,556)	(23,588)	(813,296)	5,006	(808,290)	(1,096,434)
	438,392	-	333,927	1,969,780	76,643	913,848	1,241,704	2,155,552	4,201,975
\$	524,527	\$ -	\$ 96,489	\$ 1,705,224	\$ 53,055	\$ 100,552	\$ 1,246,710	\$ 1,347,262	\$ 3,105,541

City of Bay City, Michigan
Major Streets Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
Property taxes	\$ 255,215	\$ 255,215	\$ 275,204	\$ 19,989
Intergovernmental:				
Federal	-	-	455,358	455,358
State	3,080,471	3,080,471	2,223,662	(856,809)
Miscellaneous:				
Interest earnings	10,000	10,000	5,217	(4,783)
Reimbursements	94,847	94,847	1,637	(93,210)
Other	15,000	15,000	37,236	22,236
Total revenues	<u>3,455,533</u>	<u>3,455,533</u>	<u>2,998,314</u>	<u>(457,219)</u>
Expenditures				
Public works				
Highways, streets, and bridges	3,001,233	3,001,233	2,809,978	191,255
Capital outlay	1,357,994	1,357,994	777,169	580,825
Total expenditures	<u>4,359,227</u>	<u>4,359,227</u>	<u>3,587,147</u>	<u>772,080</u>
Excess of revenues over (under) expenditures	(903,694)	(903,694)	(588,833)	314,861
Other financing sources (uses)				
Transfer in	280,139	280,139	145,416	(134,723)
Changes in fund balances	(623,555)	(623,555)	(443,417)	180,138
Fund balances - beginning of year, as restated	<u>850,111</u>	<u>850,111</u>	<u>827,349</u>	<u>(22,762)</u>
Fund balances - end of year	<u>\$ 226,556</u>	<u>\$ 226,556</u>	<u>\$ 383,932</u>	<u>\$ 157,376</u>

City of Bay City, Michigan
Local Streets Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
General property taxes	\$ 623,941	\$ 623,941	\$ 616,919	\$ (7,022)
Intergovernmental:				
State	737,225	737,225	807,060	69,835
Miscellaneous:				
Interest earnings	-	-	4,864	4,864
Other	850	850	780	(70)
Total revenues	<u>1,362,016</u>	<u>1,362,016</u>	<u>1,429,623</u>	<u>67,607</u>
Expenditures				
Public works				
Highways, streets, and bridges	1,170,516	1,170,516	1,115,496	55,020
Capital outlay	433,345	433,345	89,890	343,455
Total expenditures	<u>1,603,861</u>	<u>1,603,861</u>	<u>1,205,386</u>	<u>398,475</u>
Excess of revenues over (under) expenditures	<u>(241,845)</u>	<u>(241,845)</u>	<u>224,237</u>	<u>466,082</u>
Other financing sources (uses)				
Transfer in	241,845	241,845	6,884	(234,961)
Changes in fund balances	-	-	231,121	231,121
Fund balances - beginning of year	<u>159,247</u>	<u>159,247</u>	<u>159,247</u>	<u>-</u>
Fund balances - end of year	<u>\$ 159,247</u>	<u>\$ 159,247</u>	<u>\$ 390,368</u>	<u>\$ 231,121</u>

City of Bay City, Michigan
Fire Awareness Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures				
Public safety	\$ 98,969	\$ 98,969	\$ 92,242	\$ 6,727
Capital outlay	-	-	959	(959)
Total expenditures	98,969	98,969	93,201	5,768
Other financing sources (uses)				
Transfer in	100,000	100,000	93,201	(6,799)
Changes in fund balances	1,031	1,031	-	(1,031)
Fund balances - beginning of year	-	-	-	-
Fund balances - end of year	<u>\$ 1,031</u>	<u>\$ 1,031</u>	<u>\$ -</u>	<u>\$ (1,031)</u>

City of Bay City, Michigan
Community Policing Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures				
Public safety	\$ 107,452	\$ 107,452	\$ 100,815	\$ 6,637
Other financing sources (uses)				
Transfer in	<u>107,452</u>	<u>107,452</u>	<u>100,815</u>	<u>(6,637)</u>
Changes in fund balances	-	-	-	-
Fund balances - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

City of Bay City, Michigan
Parking Enforcement Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental:				
Local	\$ 38,723	\$ 38,723	\$ 37,857	\$ 866
Fines and forfeitures	23,000	23,000	19,887	3,113
Total revenues	<u>61,723</u>	<u>61,723</u>	<u>57,744</u>	<u>3,979</u>
Expenditures				
Public safety	61,723	61,723	57,744	3,979
Total expenditures	<u>61,723</u>	<u>61,723</u>	<u>57,744</u>	<u>3,979</u>
Changes in fund balances	-	-	-	-
Fund balances - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Bay City, Michigan
Solid Waste Management Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Charges for services:				
Sales	\$ 1,892,500	\$ 1,892,500	\$ 1,891,545	\$ (955)
Miscellaneous:				
Interest earnings	1,000	1,000	110	(890)
Other	15,500	15,500	20,148	4,648
Total revenues	1,909,000	1,909,000	1,911,803	2,803
Expenditures				
Physical environment	1,823,404	1,823,404	1,746,270	77,134
Excess of revenues over (under) expenditures	85,596	85,596	165,533	79,937
Other financing sources (uses)				
Transfer (out)	(66,490)	(66,490)	(66,490)	-
Changes in fund balances	19,106	19,106	99,043	79,937
Fund balances - beginning of year	210,865	210,865	210,865	-
Fund balances - end of year	\$ 229,971	\$ 229,971	\$ 309,908	\$ 79,937

City of Bay City, Michigan
Community Development Block Grant Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental:				
Federal	\$ 2,457,618	\$ 2,457,618	\$ 2,343,606	\$ (114,012)
State	-	-	30,269	30,269
Total revenues	<u>2,457,618</u>	<u>2,457,618</u>	<u>2,373,875</u>	<u>(83,743)</u>
Expenditures				
Economic development	645,262	645,262	989,556	(344,294)
Capital outlay	417,974	417,974	462,612	(44,638)
Total expenditures	<u>1,063,236</u>	<u>1,063,236</u>	<u>1,452,168</u>	<u>(388,932)</u>
Excess of revenues over (under) expenditures	<u>1,394,382</u>	<u>1,394,382</u>	<u>921,707</u>	<u>(472,675)</u>
Other financing sources (uses)				
Transfer in	213,137	213,137	227,457	14,320
Transfer out	(1,607,519)	(1,607,519)	(1,149,164)	458,355
Total other financing sources (uses)	<u>(1,394,382)</u>	<u>(1,394,382)</u>	<u>(921,707)</u>	<u>472,675</u>
Changes in fund balances	-	-	-	-
Fund balances - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Bay City, Michigan
Public Improvement Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Interest earnings	\$ -	\$ -	\$ 15,335	\$ 15,335
Other financing sources (uses)				
Transfer in	<u>70,800</u>	<u>70,800</u>	<u>70,800</u>	<u>-</u>
Changes in fund balances	70,800	70,800	86,135	15,335
Fund balances - beginning of year	<u>438,392</u>	<u>438,392</u>	<u>438,392</u>	<u>-</u>
Fund balances - end of year	<u><u>\$ 509,192</u></u>	<u><u>\$ 509,192</u></u>	<u><u>\$ 524,527</u></u>	<u><u>\$ 15,335</u></u>

City of Bay City, Michigan
Building Inspection Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Licenses and permits	\$ 540,228	\$ 540,228	\$ 493,339	\$ (46,889)
Miscellaneous:				
Interest earnings	-	-	31	31
Reimbursements	30,500	30,500	23,205	(7,295)
Other	26,765	26,765	38,158	11,393
Total revenues	597,493	597,493	554,733	(42,760)
Expenditures				
Public safety	694,395	694,395	640,571	53,824
Excess of revenues over (under) expenditures	(96,902)	(96,902)	(85,838)	11,064
Other financing sources (uses)				
Transfer in	96,902	96,902	85,838	(11,064)
Changes in fund balances	-	-	-	-
Fund balances - beginning of year	-	-	-	-
Fund balances - end of year	\$ -	\$ -	\$ -	\$ -

City of Bay City, Michigan
Neighborhood Opportunity Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Miscellaneous:				
Interest	\$ 4,000	\$ 4,000	\$ 5,222	\$ 1,222
Sale of property	-	-	11,005	11,005
Other	-	-	605	605
Total revenues	<u>4,000</u>	<u>4,000</u>	<u>16,832</u>	<u>12,832</u>
Expenditures				
Economic development	95,000	95,000	6,338	88,662
Capital outlay	545,427	545,427	247,932	297,495
Total expenditures	<u>640,427</u>	<u>640,427</u>	<u>254,270</u>	<u>386,157</u>
Excess of revenues over (under) expenditures	(636,427)	(636,427)	(237,438)	398,989
Other financing sources (uses)				
Transfer in	300,000	300,000	-	(300,000)
Changes in fund balances	(336,427)	(336,427)	(237,438)	98,989
Fund balances - beginning of year	<u>333,927</u>	<u>333,927</u>	<u>333,927</u>	<u>-</u>
Fund balances - end of year	<u>\$ (2,500)</u>	<u>\$ (2,500)</u>	<u>\$ 96,489</u>	<u>\$ 98,989</u>

City of Bay City, Michigan
Bond Sinking Fund
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes:				
General property taxes	\$ 1,757,957	\$ 1,757,957	\$ 1,764,553	\$ 6,596
Miscellaneous:				
Interest earnings	21,000	21,000	16,523	(4,477)
Total revenues	<u>1,778,957</u>	<u>1,778,957</u>	<u>1,781,076</u>	<u>2,119</u>
Expenditures				
Debt service:				
Principal	1,690,000	1,690,000	1,690,000	-
Interest and fiscal charges	116,514	116,514	114,664	1,850
Total expenditures	<u>1,806,514</u>	<u>1,806,514</u>	<u>1,804,664</u>	<u>1,850</u>
Changes in fund balances	(27,557)	(27,557)	(23,588)	3,969
Fund balances - beginning of year, as restated	<u>115,168</u>	<u>115,168</u>	<u>76,643</u>	<u>(38,525)</u>
Fund balances - end of year	<u>\$ 87,611</u>	<u>\$ 87,611</u>	<u>\$ 53,055</u>	<u>\$ (34,556)</u>

Nonmajor Enterprise Funds

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

Oak Ridge Cemetery Fund

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

James Clements Airport Fund

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

Liberty Harbor Marina

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

City of Bay City, Michigan
Nonmajor Enterprise Funds
Combining Statement of Net Assets
June 30, 2005

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 110,398	\$ 1,945	\$ 120,862	\$ 233,205
Receivables (net of allowance for uncollectibles)				
Accounts	5,539	11,311	53,433	70,283
Accrued interest	1,456	-	1,155	2,611
Due from other funds	224	15,303	-	15,527
Prepaid expenses	-	11,153	-	11,153
Total current assets	<u>117,617</u>	<u>39,712</u>	<u>175,450</u>	<u>332,779</u>
Capital assets				
Land and improvements	295,523	1,110,419	2,738,574	4,144,516
Air rights	-	95,421	-	95,421
Construction in progress	-	28,920	-	28,920
Buildings	34,068	397,507	193,825	625,400
Machinery and equipment	1,130	9,383	32,792	43,305
	330,721	1,641,650	2,965,191	4,937,562
Less: accumulated depreciation	<u>134,811</u>	<u>674,744</u>	<u>813,617</u>	<u>1,623,172</u>
Net capital assets	<u>195,910</u>	<u>966,906</u>	<u>2,151,574</u>	<u>3,314,390</u>
Total assets	<u>313,527</u>	<u>1,006,618</u>	<u>2,327,024</u>	<u>3,647,169</u>
Liabilities				
Current liabilities				
Accounts payable	18,110	5,003	4,056	27,169
Accrued liabilities	-	-	258	258
Due to other funds	211	330	416	957
Total current liabilities	<u>18,321</u>	<u>5,333</u>	<u>4,730</u>	<u>28,384</u>
Net assets				
Invested in capital assets	195,910	966,906	2,151,574	3,314,390
Unrestricted	<u>99,296</u>	<u>34,379</u>	<u>170,720</u>	<u>304,395</u>
Total net assets	<u>\$ 295,206</u>	<u>\$ 1,001,285</u>	<u>\$ 2,322,294</u>	<u>\$ 3,618,785</u>

City of Bay City, Michigan
Nonmajor Enterprise Funds
Combining Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2005

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Operating revenues				
Charges for services:				
Sales	\$ 53,287	\$ -	\$ 1,621	\$ 54,908
Rents	-	5,010	127,322	132,332
Miscellaneous	-	32,466	100,471	132,937
Total operating revenues	<u>53,287</u>	<u>37,476</u>	<u>229,414</u>	<u>320,177</u>
Operating expenses				
Cost of sales and service	121,968	76,401	104,827	303,196
Depreciation	8,719	52,651	56,437	117,807
Total operating expenses	<u>130,687</u>	<u>129,052</u>	<u>161,264</u>	<u>421,003</u>
Operating income (loss)	<u>(77,400)</u>	<u>(91,576)</u>	<u>68,150</u>	<u>(100,826)</u>
Nonoperating revenues (expenses)				
Intergovernmental:				
Federal grants	-	19,278	-	19,278
State grants	-	7,821	-	7,821
Interest earnings	3,546	-	2,371	5,917
Total nonoperating revenues (expenses)	<u>3,546</u>	<u>27,099</u>	<u>2,371</u>	<u>33,016</u>
Income (loss) before transfers	(73,854)	(64,477)	70,521	(67,810)
Transfers				
Transfer in	76,113	64,477	-	140,590
Changes in net assets	<u>2,259</u>	<u>-</u>	<u>70,521</u>	<u>72,780</u>
Net assets - beginning of year	<u>292,947</u>	<u>1,001,285</u>	<u>2,251,773</u>	<u>3,546,005</u>
Net assets - end of year	<u>\$ 295,206</u>	<u>\$ 1,001,285</u>	<u>\$ 2,322,294</u>	<u>\$ 3,618,785</u>

City of Bay City, Michigan
Nonmajor Enterprise Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2005

	Oak Ridge Cemetery	James Clements Airport	Liberty Harbor Marina	Total
Cash flows from operating activities				
Cash received from customers and users	\$ 51,353	\$ 3,694	\$ 75,129	\$ 130,176
Cash received from internal users	-	22,102	33,853	55,955
Interfund reimbursements	(3,882)	(33,107)	-	(36,989)
Cash payments to suppliers for goods and services	(107,401)	(85,866)	(92,828)	(286,095)
Cash payments to employees for services	-	-	(13,116)	(13,116)
Other operating revenue	-	32,466	100,471	132,937
Net cash provided (used) by operating activities	(59,930)	(60,711)	103,509	(17,132)
Cash flows from noncapital financing activities				
Intergovernmental - federal grant	-	19,278	-	19,278
Intergovernmental - state grant	-	7,821	-	7,821
Transfers in	76,113	64,477	-	140,590
Net cash flows from noncapital financing activities	76,113	91,576	-	167,689
Cash flows from capital and related financing activities				
Purchase of capital assets	-	(28,920)	(46,919)	(75,839)
Cash flows from investing activities				
Interest received	3,546	-	2,371	5,917
Net increase in cash and cash equivalents	19,729	1,945	58,961	80,635
Cash and cash equivalents, beginning of period	90,669	-	61,901	152,570
Cash and cash equivalents, end of period	\$ 110,398	\$ 1,945	\$ 120,862	\$ 233,205
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ (77,400)	\$ (91,576)	\$ 68,150	\$ (100,826)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	8,719	52,651	56,437	117,807
(Increase) decrease in assets:				
Accounts receivable	(1,355)	(1,316)	(53,433)	(56,104)
Accrued interest receivable	(579)	-	(381)	(960)
Due from other funds	(224)	22,102	33,437	55,315
Prepaid expenses	-	(11,153)	-	(11,153)
Increase (decrease) in liabilities:				
Accounts payable	15,006	2,127	(726)	16,407
Accrued liabilities	(439)	(439)	(391)	(1,269)
Due to other funds	(3,658)	(33,107)	416	(36,349)
Total adjustments	17,470	30,865	35,359	83,694
Net cash provided (used) by operating activities	\$ (59,930)	\$ (60,711)	\$ 103,509	\$ (17,132)

INTERNAL SERVICE FUNDS

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

Motor Equipment Revolving Fund

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

Information Systems Fund

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

Liability/Property Self-Insurance Fund

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

Site Remediation Fund

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

Benefits Program Fund

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

City of Bay City, Michigan
Internal Service Funds
Combining Statement of Net Assets
June 30, 2005

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 652,516	\$ 56,842	\$ 395,942	\$ 325,929	\$ 1,854,877	\$ 3,286,106
Receivables (net of allowance for uncollectibles)						
Accounts	2,134	-	15,566	142,437	-	160,137
Accrued interest	8,455	-	-	4,223	6,619	19,297
Due from other funds	19,191	26,254	88,378	-	470	134,293
Inventories	83,373	8,137	-	-	-	91,510
Prepaid expenses	-	-	-	-	30,259	30,259
Deposits	-	-	1,726	-	266,494	268,220
Total current assets	765,669	91,233	501,612	472,589	2,158,719	3,989,822
Capital assets						
Machinery and equipment	11,379,545	763,682	-	-	-	12,143,227
Less: accumulated depreciation	5,900,593	595,922	-	-	-	6,496,515
Net capital assets	5,478,952	167,760	-	-	-	5,646,712
Total assets	6,244,621	258,993	501,612	472,589	2,158,719	9,636,534
Liabilities						
Current liabilities						
Accounts payable	49,264	14,785	38,556	185,158	329,266	617,029
Accrued liabilities	19,299	12,125	-	-	2,073	33,497
Interest payable	4,607	-	-	-	-	4,607
Claims payable	-	-	463,056	-	940,407	1,403,463
Due to other funds	1,660	575	-	287,431	212	289,878
Due to other governments	-	-	-	-	3,830	3,830
Accrued compensated absences - current	47,363	26,767	-	-	-	74,130
Notes payable - current	39,582	7,620	-	-	-	47,202
Total current liabilities	161,775	61,872	501,612	472,589	1,275,788	2,473,636
Long-term liabilities						
Accrued compensated absences	48,370	36,981	-	-	-	85,351
Notes payable	323,144	12,065	-	-	-	335,209
Total long-term liabilities	371,514	49,046	-	-	-	420,560
Total liabilities	533,289	110,918	501,612	472,589	1,275,788	2,894,196
Net assets						
Invested in capital assets	5,116,226	148,075	-	-	-	5,264,301
Unrestricted	595,106	-	-	-	882,931	1,478,037
	\$ 5,711,332	\$ 148,075	\$ -	\$ -	\$ 882,931	\$ 6,742,338

City of Bay City, Michigan
Internal Service Funds
Combining Statement of Revenues, Expenses
and Changes in Net Assets
For the Year Ended June 30, 2005

	Motor Equipment Revolving	Information Systems	Liability/ Property Self- Insurance	Site Remediation	Benefits Program	Total
Operating revenues						
State grants	\$ -	\$ -	\$ -	\$ 142,437	\$ -	\$ 142,437
Charges for services	2,997,030	668,965	1,195,493	-	9,591,422	14,452,910
Miscellaneous:						
Employee contributions	-	-	-	-	584,922	584,922
Other	11,874	1,463	48,733	-	32,011	94,081
Total operating revenues	<u>3,008,904</u>	<u>670,428</u>	<u>1,244,226</u>	<u>142,437</u>	<u>10,208,355</u>	<u>15,274,350</u>
Operating expenses						
Cost of sales and service	1,951,341	620,991	-	634,301	-	3,206,633
Administration	-	-	18,601	-	130,431	149,032
Claims and benefits	-	-	1,334,736	-	9,895,876	11,230,612
Depreciation	808,569	83,295	-	-	-	891,864
Total operating expenses	<u>2,759,910</u>	<u>704,286</u>	<u>1,353,337</u>	<u>634,301</u>	<u>10,026,307</u>	<u>15,478,141</u>
Operating income (loss)	<u>248,994</u>	<u>(33,858)</u>	<u>(109,111)</u>	<u>(491,864)</u>	<u>182,048</u>	<u>(203,791)</u>
Nonoperating revenues (expenses)						
Interest earnings	14,205	-	-	18,920	16,582	49,707
Interest expense	(14,428)	-	-	-	-	(14,428)
Net loss on disposal of capital assets	(13,425)	-	-	-	-	(13,425)
Total nonoperating revenues (expenses)	<u>(13,648)</u>	<u>-</u>	<u>-</u>	<u>18,920</u>	<u>16,582</u>	<u>21,854</u>
Income (loss) before transfers	235,346	(33,858)	(109,111)	(472,944)	198,630	(181,937)
Transfers						
Transfer out	-	-	-	(287,431)	-	(287,431)
Changes in net assets	235,346	(33,858)	(109,111)	(760,375)	198,630	(469,368)
Net assets - beginning of year, as restated	<u>5,475,986</u>	<u>181,933</u>	<u>109,111</u>	<u>760,375</u>	<u>684,301</u>	<u>7,211,706</u>
Net assets - end of year	<u>\$ 5,711,332</u>	<u>\$ 148,075</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 882,931</u>	<u>\$ 6,742,338</u>

City of Bay City, Michigan
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2005

	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	\$ 3,073,703	\$ 692,200	\$ 1,152,696	\$ 289,306	\$ 10,033,347	\$ 15,241,252
Cash payments to suppliers for goods and services	(1,080,785)	(132,986)	(1,141,845)	(449,143)	(9,836,618)	(12,641,377)
Cash payments to employees for services	(852,007)	(495,398)	-	-	-	(1,347,405)
Net cash provided (used) by operating activities	<u>1,140,911</u>	<u>63,816</u>	<u>10,851</u>	<u>(159,837)</u>	<u>196,729</u>	<u>1,252,470</u>
Cash flows from noncapital financing activities						
Transfers out	-	-	-	(287,431)	-	(287,431)
Cash flows from capital and related financing activities						
Purchase of capital assets	(769,159)	(72,915)	-	-	-	(842,074)
Proceeds from sale of capital assets	104,022	-	-	-	-	104,022
Principal paid on debt	(38,116)	(7,620)	-	-	-	(45,736)
Interest paid on debt	(14,428)	-	-	-	-	(14,428)
Net cash (used) by capital and related financing activities	<u>(717,681)</u>	<u>(80,535)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(798,216)</u>
Cash flows from investing activities						
Interest received	14,205	-	-	18,920	16,582	49,707
Net increase (decrease) in cash and cash equivalents	437,435	(16,719)	10,851	(428,348)	213,311	216,530
Cash and cash equivalents, beginning of period	215,081	73,561	385,091	754,277	1,641,566	3,069,576
Cash and cash equivalents, end of period	<u>\$ 652,516</u>	<u>\$ 56,842</u>	<u>\$ 395,942</u>	<u>\$ 325,929</u>	<u>\$ 1,854,877</u>	<u>\$ 3,286,106</u>
Reconciliation of operating income to net cash provided by operating activities						
Operating income (loss)	\$ 248,994	\$ (33,858)	\$ (109,111)	\$ (491,864)	\$ 182,048	\$ (203,791)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	808,569	83,295	-	-	-	891,864
(Increase) decrease in assets:						
Accounts receivable	106	-	(6,242)	(142,437)	307,105	158,532
Accrued interest	(7,009)	-	-	1,875	(1,060)	(6,194)
Due from other funds	70,042	21,197	(85,288)	-	10,773	16,724
Inventory	1,221	2,377	-	-	-	3,598
Prepaid expenses	-	-	-	-	44,399	44,399
Deposits	-	-	38,119	-	1,706	39,825
Increase (decrease) in liabilities:						
Accounts payable	38,138	8,806	18,798	185,158	189,235	440,135
Accrued liabilities	(22,171)	(18,952)	(308,481)	-	(971,343)	(1,320,947)
Claims payable	-	-	463,056	-	940,407	1,403,463
Due to other funds	1,660	575	-	287,431	(491,826)	(202,160)
Due to other governments	-	-	-	-	(14,715)	(14,715)
Accrued compensated absences	1,361	376	-	-	-	1,737
Total adjustments	<u>891,917</u>	<u>97,674</u>	<u>119,962</u>	<u>332,027</u>	<u>14,681</u>	<u>1,456,261</u>
Net cash provided (used) by operating activities	<u>\$ 1,140,911</u>	<u>\$ 63,816</u>	<u>\$ 10,851</u>	<u>\$ (159,837)</u>	<u>\$ 196,729</u>	<u>\$ 1,252,470</u>

FIDUCIARY FUNDS

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

City of Bay City, Michigan
Fiduciary Funds
Combining Statement of Plan Net Assets
June 30, 2005

	Pension	Trust Funds			Agency
	Trust	General	Police & Fire	Police & Fire	Trust and
	Police & Fire Retirement	Employees Health Care Investment	Health Care Investment	Total	Agency
Assets					
Cash and cash equivalents	\$ 592,072	\$ 724,501	\$ 320,173	\$ 1,636,746	\$ 2,963
Investments					
Mutual funds	16,062,946	599,907	391,657	17,054,510	-
Government securities	10,089,266	-	-	10,089,266	-
Corporate bonds	3,766,114	-	-	3,766,114	-
Common stock	16,939,654	-	-	16,939,654	-
Accounts receivable	281,732	48,935	99,353	430,020	-
Interest receivable	-	9,387	4,148	13,535	-
Total assets	<u>47,731,784</u>	<u>1,382,730</u>	<u>815,331</u>	<u>49,929,845</u>	<u>\$ 2,963</u>
Liabilities					
Accounts payable	60,595	-	-	60,595	\$ 923
Deposits payable	-	-	-	-	2,040
Total liabilities	<u>60,595</u>	<u>-</u>	<u>-</u>	<u>60,595</u>	<u>\$ 2,963</u>
Net assets					
Held in trust for employees' pension benefits	47,671,189	-	-	47,671,189	
Held in trust for employees' postemployment health care benefits	-	1,382,730	815,331	2,198,061	
Total net assets	<u>\$ 47,671,189</u>	<u>\$ 1,382,730</u>	<u>\$ 815,331</u>	<u>\$ 49,869,250</u>	

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

City of Bay City, Michigan
Fiduciary Funds
Combining Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2005

	Pension	Trust Funds		Total
	Trust	General	Police &	
	Police	Employees	Fire	
	& Fire	Health Care	Health Care	
	Retirement	Investment	Investment	
Additions				
Contributions				
Employer	\$ 820,504	\$ 259,089	\$ 105,224	\$ 1,184,817
Plan members	543,783	-	-	543,783
Total contributions	<u>1,364,287</u>	<u>259,089</u>	<u>105,224</u>	<u>1,728,600</u>
Investment income				
Interest and dividends	783,304	68,243	41,497	893,044
Net appreciation in fair value of investments	2,774,772	-	-	2,774,772
Investment expense	(255,544)	-	-	(255,544)
Net investment income	<u>3,302,532</u>	<u>68,243</u>	<u>41,497</u>	<u>3,412,272</u>
Other revenue	<u>16,349</u>	<u>-</u>	<u>-</u>	<u>16,349</u>
Total additions	<u>4,683,168</u>	<u>327,332</u>	<u>146,721</u>	<u>5,157,221</u>
Deductions				
Benefits and refunds paid to participants	3,866,279	-	-	3,866,279
Administrative expenses	108,633	-	-	108,633
Total deductions	<u>3,974,912</u>	<u>-</u>	<u>-</u>	<u>3,974,912</u>
Net increase in plan net assets	708,256	327,332	146,721	1,182,309
Net assets held in trust for pension benefits				
Beginning of year	46,962,933	1,055,398	668,610	48,686,941
End of year	<u>\$ 47,671,189</u>	<u>\$ 1,382,730</u>	<u>\$ 815,331</u>	<u>\$ 49,869,250</u>

City of Bay City, Michigan
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2005

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
<u>TRUST & AGENCY FUND</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 672	\$ 5,431,673	\$ 5,429,382	\$ 2,963
<u>LIABILITIES</u>				
Accounts payable	\$ -	\$ 16,066	\$ 15,143	\$ 923
Due to other governmental units	-	5,409,477	5,409,477	-
Deposits	672	24,802	23,434	2,040
<u>TOTAL LIABILITIES</u>	\$ 672	\$ 5,450,345	\$ 5,448,054	\$ 2,963
 <u>CURRENT TAX COLLECTION FUND</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ -	\$ 31,699,061	\$ 31,699,061	\$ -
<u>LIABILITIES</u>				
Accounts payable	\$ -	\$ 16,875,980	\$ 16,875,980	\$ -
Due to other funds	-	11,993,800	11,993,800	-
Due to component units	-	175,759	175,759	-
Due to other governmental units	-	19,700,494	19,700,494	-
<u>TOTAL LIABILITIES</u>	\$ -	\$ 48,746,033	\$ 48,746,033	\$ -
 <u>TOTAL - ALL AGENCY FUNDS</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 672	\$ 37,130,734	\$ 37,128,443	\$ 2,963
<u>LIABILITIES</u>				
LIABILITIES				
Accounts payable	\$ -	\$ 16,892,046	\$ 16,891,123	\$ 923
Due to other funds	-	11,993,800	11,993,800	-
Due to component units	-	175,759	175,759	-
Due to other governmental units	-	25,109,971	25,109,971	-
Deposits	672	24,802	23,434	2,040
<u>TOTAL LIABILITIES</u>	\$ 672	\$ 54,196,378	\$ 54,194,087	\$ 2,963

Marquette District TIFA	Adjustments	Statement of Net Assets	Water Street DDA	Adjustments	Statement of Net Assets
\$ 1,399,120	\$ -	\$ 1,399,120	\$ 1,877,146	\$ -	\$ 1,877,146
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
18,128	-	18,128	24,322	-	24,322
-	-	-	-	-	-
-	-	-	-	-	-
-	933,922	933,922	-	1,099,913	1,099,913
<u>\$ 1,417,248</u>	<u>\$ 933,922</u>	<u>\$ 2,351,170</u>	<u>\$ 1,901,468</u>	<u>\$ 1,099,913</u>	<u>\$ 3,001,381</u>
\$ 315,972	\$ -	\$ 315,972	\$ 13,169	\$ -	\$ 13,169
1,382	-	1,382	-	16,471	16,471
-	-	-	-	-	-
-	-	-	-	2,735,000	2,735,000
-	-	-	-	-	-
<u>317,354</u>	<u>-</u>	<u>317,354</u>	<u>13,169</u>	<u>2,751,471</u>	<u>2,764,640</u>
<u>1,099,894</u>	<u>(1,099,894)</u>	<u>-</u>	<u>1,888,299</u>	<u>(1,888,299)</u>	<u>-</u>
<u>\$ 1,417,248</u>			<u>\$ 1,901,468</u>		
	933,922	933,922		(1,635,087)	(1,635,087)
	1,099,894	1,099,894		1,871,828	1,871,828
	<u>\$ 2,033,816</u>	<u>\$ 2,033,816</u>		<u>\$ 236,741</u>	<u>\$ 236,741</u>

COMPONENT UNITS

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

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

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

City of Bay City, Michigan
Downtown Development Authority, Midland Street TIFA,
Marquette District TIFA, and Water Street DDA
Statement of Net Assets and Governmental Fund Balance Sheet
June 30, 2005

	Downtown Development Authority	Adjustments	Statement of Net Assets	Midland Street TIFA	Adjustments	Statement of Net Assets
<u>ASSETS</u>						
Cash and cash equivalents	\$ 12,876	\$ -	\$ 12,876	\$ 365,161	\$ -	\$ 365,161
Investments	-	-	-	-	-	-
Receivables:						
Accounts	2,158	-	2,158	-	-	-
Delinquent taxes	1,002	-	1,002	-	-	-
Accrued interest	167	-	167	4,731	-	4,731
Notes	-	-	-	-	-	-
Lease	-	-	-	-	-	-
Capital assets, net	-	156,161	156,161	-	-	-
TOTAL ASSETS	\$ 16,203	\$ 156,161	\$ 172,364	\$ 369,892	\$ -	\$ 369,892
<u>LIABILITIES</u>						
Accounts payable	\$ 3,268	\$ -	\$ 3,268	\$ 1,665	\$ -	\$ 1,665
Accrued liabilities	-	-	-	-	-	-
Deferred revenue	1,002	(1,002)	-	-	-	-
Long-term debt:						
Revenue bonds payable	-	-	-	-	-	-
Notes payable	-	18,632	18,632	-	-	-
TOTAL LIABILITIES	4,270	17,630	21,900	1,665	-	1,665
<u>FUND BALANCES/NET ASSETS</u>						
Unreserved	11,933	(11,933)	-	368,227	(368,227)	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 16,203			\$ 369,892		
<u>NET ASSETS</u>						
Invested in capital assets, net of related debt		137,529	137,529		-	-
Unrestricted		12,935	12,935		368,227	368,227
TOTAL NET ASSETS		\$ 150,464	\$ 150,464		\$ 368,227	\$ 368,227

City of Bay City, Michigan
Marina Development TIFA, Allen Healthcare DDA, and Knepp's DDA
Statement of Net Assets and Governmental Fund Balance Sheet
June 30, 2005

	Marina Develop. TIFA	Adjustments	Statement of Net Assets	Allen Healthcare DDA	Adjustments	Statement of Net Assets
<u>ASSETS</u>						
Cash and cash equivalents	\$ 463,028	\$ -	\$ 463,028	\$ 16,693	\$ -	\$ 16,693
Investments	-	-	-	-	-	-
Receivables:						
Accounts	-	-	-	-	-	-
Delinquent taxes	-	-	-	-	-	-
Accrued interest	6,410	-	6,410	216	-	216
Notes	-	-	-	-	-	-
Lease	-	-	-	-	-	-
Capital assets, net	-	199,072	199,072	-	-	-
TOTAL ASSETS	<u>\$ 469,438</u>	<u>\$ 199,072</u>	<u>\$ 668,510</u>	<u>\$ 16,909</u>	<u>\$ -</u>	<u>\$ 16,909</u>
<u>LIABILITIES</u>						
Accounts payable	\$ 149,260	\$ -	\$ 149,260	\$ 16,346	\$ -	\$ 16,346
Accrued liabilities	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Long-term debt:						
Revenue bonds payable	-	-	-	-	-	-
Notes payable	-	-	-	-	73,639	73,639
TOTAL LIABILITIES	<u>149,260</u>	<u>-</u>	<u>149,260</u>	<u>16,346</u>	<u>73,639</u>	<u>89,985</u>
<u>FUND BALANCES/NET ASSETS</u>						
Unreserved	320,178	(320,178)	-	563	(563)	-
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 469,438</u>			<u>\$ 16,909</u>		
NET ASSETS						
Invested in capital assets		199,072	199,072		-	-
Unrestricted		320,178	320,178		(73,076)	(73,076)
TOTAL NET ASSETS		<u>\$ 519,250</u>	<u>\$ 519,250</u>		<u>\$ (73,076)</u>	<u>\$ (73,076)</u>

Knepp's DDA	Adjustments	Statement of Net Assets
\$ 83,946	\$ -	\$ 83,946
-	-	-
-	-	-
-	-	-
1,088	-	1,088
-	-	-
-	-	-
-	13,571	13,571
<u>\$ 85,034</u>	<u>\$ 13,571</u>	<u>\$ 98,605</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
-	-	-
<u>85,034</u>	<u>(85,034)</u>	<u>-</u>
<u>\$ 85,034</u>		
	-	-
	<u>98,605</u>	<u>98,605</u>
	<u>\$ 98,605</u>	<u>\$ 98,605</u>

City of Bay City, Michigan
Downtown Development Authority, Midland Street TIFA,
Marquette District TIFA, and Water Street DDA
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2005

	Downtown Development Authority	Adjustments	Statement of Activities	Midland St. TIFA	Adjustments	Statement of Activities
<u>REVENUES</u>						
Taxes:						
Tax increment	\$ -	\$ -	\$ -	\$ 107,823	\$ -	\$ 107,823
Special assessments	71,071	1,002	72,073	-	-	-
Charges for services:						
Rents	92,130	-	92,130	-	-	-
Miscellaneous:						
Interest earnings	1,147	-	1,147	11,664	-	11,664
Other	88,139	-	88,139	-	-	-
TOTAL REVENUES	252,487	1,002	253,489	119,487	-	119,487
<u>EXPENDITURES/EXPENSES</u>						
Current:						
Economic development	166,148	(18,684)	147,464	4,935	-	4,935
Depreciation	-	24,485	24,485	-	-	-
Capital outlay	87,966	(87,966)	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
TOTAL EXPENDITURES/EXPENSES	254,114	(82,165)	171,949	4,935	-	4,935
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,627)	83,167	81,540	114,552	-	114,552
OTHER FINANCING SOURCES (USES)						
Payments to bond escrow agent	-	-	-	-	-	-
Proceeds from refunding bonds	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES / NET ASSETS	(1,627)	83,167	81,540	114,552	-	114,552
FUND BALANCE / NET ASSETS, BEGINNING OF PERIOD, AS RESTATED	13,560	55,364	68,924	253,675	-	253,675
FUND BALANCE / NET ASSETS, END OF PERIOD	\$ 11,933	\$ 138,531	\$ 150,464	\$ 368,227	\$ -	\$ 368,227

Marquette District TIFA	Adjustments	Statement of Activities	Water Street DDA	Adjustments	Statement of Activities
\$ 509,355	\$ -	\$ 509,355	\$ 294,267	\$ -	\$ 294,267
-	-	-	-	-	-
-	-	-	-	-	-
57,414	-	57,414	51,691	-	51,691
-	-	-	-	-	-
<u>566,769</u>	<u>-</u>	<u>566,769</u>	<u>345,958</u>	<u>-</u>	<u>345,958</u>
389,832	-	389,832	93,540	-	93,540
	36,867	36,867		54,771	54,771
462,834	(462,834)	-	486,227	(486,227)	-
-	-	-	113,000	(113,000)	-
-	-	-	109,501	16,471	125,972
<u>852,666</u>	<u>(425,967)</u>	<u>426,699</u>	<u>802,268</u>	<u>(527,985)</u>	<u>274,283</u>
<u>(285,897)</u>	<u>425,967</u>	<u>140,070</u>	<u>(456,310)</u>	<u>527,985</u>	<u>71,675</u>
-	-	-	(807,000)	807,000	-
-	-	-	2,755,000	(2,755,000)	-
-	-	-	1,948,000	(1,948,000)	-
(285,897)	425,967	140,070	1,491,690	(1,420,015)	71,675
<u>1,385,791</u>	<u>507,955</u>	<u>1,893,746</u>	<u>396,609</u>	<u>(231,543)</u>	<u>165,066</u>
<u>\$ 1,099,894</u>	<u>\$ 933,922</u>	<u>\$ 2,033,816</u>	<u>\$ 1,888,299</u>	<u>\$ (1,651,558)</u>	<u>\$ 236,741</u>

City of Bay City, Michigan
Marina Development TIFA, Allen Healthcare DDA, and Knepp's DDA
Statement of Activities and Governmental Fund Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2005

	Marina Develop. TIFA	Adjustments	Statement of Activities	Allen Health- care DDA	Adjustments	Statement of Activities
REVENUES:						
Taxes:						
Tax increment	\$ 60,017	\$ -	\$ 60,017	\$ 16,347	\$ -	\$ 16,347
Miscellaneous:						
Interest earnings	18,202	-	18,202	404	-	404
TOTAL REVENUES	78,219	-	78,219	16,751	-	16,751
EXPENDITURES/EXPENSES:						
Current:						
Economic development	156,642	-	156,642	-	-	-
Depreciation	-	2,011	2,011	-	-	-
Capital outlay	201,083	(201,083)	-	-	-	-
Debt service:						
Principal	-	-	-	9,681	(9,681)	-
Interest	-	-	-	6,666	-	6,666
TOTAL EXPENDITURES/EXPENSES	357,725	(199,072)	158,653	16,347	(9,681)	6,666
EXCESS OF REVENUES OVER (UNDER)						
EXPENDITURES	(279,506)	199,072	(80,434)	404	9,681	10,085
OTHER FINANCING SOURCES (USES)						
Proceeds from debt	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES / NET ASSETS	(279,506)	199,072	(80,434)	404	9,681	10,085
FUND BALANCE / NET ASSETS, BEGINNING OF PERIOD, AS RESTATED						
	599,684	-	599,684	159	(83,320)	(83,161)
FUND BALANCE / NET ASSETS, END OF PERIOD						
	<u>\$ 320,178</u>	<u>\$ 199,072</u>	<u>\$ 519,250</u>	<u>\$ 563</u>	<u>\$ (73,639)</u>	<u>\$ (73,076)</u>

Knepp's DDA	Adjustments	Statement of Activities
\$ 15,874	\$ -	\$ 15,874
<u>2,756</u>	<u>-</u>	<u>2,756</u>
<u>18,630</u>	<u>-</u>	<u>18,630</u>
27,551	-	27,551
-	137	137
13,708	(13,708)	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>41,259</u>	<u>(13,571)</u>	<u>27,688</u>
(22,629)	13,571	(9,058)
<u>-</u>	<u>-</u>	<u>-</u>
(22,629)	13,571	(9,058)
<u>107,663</u>	<u>-</u>	<u>107,663</u>
<u>\$ 85,034</u>	<u>\$ 13,571</u>	<u>\$ 98,605</u>

STATISTICAL SECTION

Statistical tables differ from the financial statements because they usually cover more than one year and may present non-accounting data. These tables reflect social and economic data, financial trends, and the fiscal capacity of the City of Bay City.

CITY OF BAY CITY, MICHIGAN
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

Table 1

Fiscal Year Ended	General Government	Public Safety	Public Works	Physical Environment	Parks and Recreation	Economic Devlop.	Capital Outlay	Debt Service	Total
1996	\$3,752,234	\$9,096,167	\$3,981,337	\$1,392,426	\$696,857	\$1,506,136	\$2,368,234	\$2,647,971	\$25,441,362
1997	4,106,352	9,279,840	4,686,094	1,457,928	676,800	1,619,879	3,141,531	2,256,623	27,225,047
1998	4,158,143	10,022,678	4,462,991	1,746,753	783,085	3,878,870	6,482,348	2,427,438	33,962,306
1999	4,293,805	10,717,718	5,101,632	1,662,406	763,760	2,309,690	3,696,501	2,537,608	31,083,120
2000	4,785,567	11,972,289	5,655,582	1,989,763	860,739	1,689,644	3,416,766	2,716,155	33,086,505
2001	4,530,726	11,369,744	4,959,925	2,253,471	885,429	4,720,096	5,705,103	2,624,628	37,049,122
2002	4,834,329	12,190,223	5,117,054	2,170,239	1,007,030	1,169,378	10,755,166	2,681,629	39,925,048
2003	6,987,773	12,504,862	6,274,842	1,761,344	1,030,667	416,229	2,920,705	2,195,107	34,091,529
2004	4,958,908	12,529,777	5,256,643	1,637,428	953,965	2,029,965	2,354,315	2,268,273	31,989,274
2005	5,469,827	13,205,210	5,411,798	1,746,270	1,029,791	2,405,457	2,549,486	1,804,664	33,622,503

Includes General, Special Revenue, Debt Service, and Capital Projects Funds.

CITY OF BAY CITY, MICHIGAN
 GENERAL GOVERNMENTAL REVENUES BY SOURCE
 LAST TEN FISCAL YEARS

Table 2

Fiscal Year Ended	Taxes	Licenses and Permits	Inter- govern. Revenues	Charges for Services	Fines and Forfeits	Other Misc.	Total
1996	\$10,607,436	\$227,478	\$11,292,986	\$2,907,933	\$135,821	\$1,288,195	\$26,459,849
1997	11,226,370	213,851	10,927,680	3,204,805	118,832	1,225,731	26,917,269
1998	11,746,452	225,374	13,538,760	3,587,712	181,539	1,705,090	30,984,927
1999	12,016,125	228,980	12,848,457	4,129,125	130,320	1,445,293	30,798,300
2000	12,560,229	250,676	12,191,275	3,660,723	164,466	1,738,991	30,566,360
2001	11,570,347	317,019	19,313,673	5,197,617	168,906	1,794,084	38,361,646
2002	11,855,972	422,193	18,434,256	5,398,063	195,057	1,465,356	37,770,897
2003	13,262,771	452,150	11,630,443	5,294,673	160,587	1,827,906	32,628,530
2004	12,468,865	402,074	12,426,229	5,388,394	170,589	1,022,382	31,878,533
2005	12,527,766	512,753	13,136,761	5,466,448	153,594	874,617	32,671,939

Includes General, Special Revenue, Debt Service, and Capital Projects Funds.

CITY OF BAY CITY, MICHIGAN
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Table 3

Fiscal Year Ended	Total Tax Levy	Current Tax Collection	Percent Collected Current	Delinquent Tax Collection	Total Tax Collected	Percent Collected Total
1996	\$10,086,500	\$9,279,222	92.00%	\$791,324	\$10,070,546	99.84%
1997	10,732,700	9,958,266	92.78%	771,470	10,729,736	99.97%
1998	11,356,930	10,559,884	92.98%	786,620	11,346,504	99.91%
1999	11,985,998	11,186,970	93.33%	771,187	11,958,157	99.77%
2000	12,347,150	11,511,226	93.23%	799,328	12,310,554	99.70%
2001	11,514,609	10,715,344	93.06%	709,191	11,424,535	99.22%
2002	11,788,736	11,014,148	93.43%	687,494	11,701,642	99.26%
2003	12,447,814	11,652,359	93.61%	679,953	12,332,312	99.07%
2004	12,580,031	11,800,041	93.80%	671,664	12,471,705	99.14%
2005	12,619,444	11,812,160	93.60%	702,709	12,514,869	99.17%

CITY OF BAY CITY, MICHIGAN
EQUIVALENT ASSESSED AND ESTIMATED ACTUAL VALUE
OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

Table 4

(000's omitted)

Fiscal Year Ended	Real Property		Personal Property		Total	
	Assessed Value (1)	Estimated Actual Value	Assessed Value (1)	Estimated Actual Value	Assessed Value (1)	Estimated Actual Value
1996	\$368,644	\$737,288	\$99,961	\$199,922	\$468,605	\$937,210
1997	388,367	776,734	110,532	221,064	498,899	997,798
1998	422,500	845,000	114,552	229,104	537,052	1,074,104
1999	457,195	914,390	113,913	227,826	571,108	1,142,216
2000	497,032	994,064	109,400	218,800	606,432	1,212,864
2001	524,565	1,049,130	112,777	225,554	637,342	1,274,684
2002	551,646	1,103,292	117,997	235,994	669,643	1,339,286
2003	591,082	1,182,164	114,733	229,466	705,815	1,411,630
2004	620,711	1,241,422	113,971	227,942	734,682	1,469,364
2005	659,433	1,318,866	117,241	234,482	776,674	1,553,348

(1) Assessed value is 50% of estimated actual value.

Information obtained from Bay City Assessor's Office.

CITY OF BAY CITY, MICHIGAN
PROPERTY TAX RATES AND LEVIES - DIRECT AND
OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

Table 5

Fiscal Year Ended	City of Bay City	School District	County	College	Total
<u>Tax Rates</u> (PER \$1,000 OF ASSESSED VALUATION)					
1996	23.9600	30.4656	9.6597	2.0427	66.1280
1997	23.9600	30.4656	9.6597	2.0427	66.1280
1998	23.9600	30.4656	9.9499	2.0427	66.4182
1999	23.8700	30.4596	9.9476	2.0427	66.3199
2000	21.7500	30.3594	10.9478	2.0427	65.0999
2001	21.4000	30.1594	10.9480	2.5427	65.0501
2002	21.4000	30.1594	10.9486	2.5427	65.0507
2003	21.2027	29.0568	10.9486	2.5427	63.7508
2004	20.5505	30.0458	11.0326	2.0427	63.6716
2005	20.0505	30.0065	11.0338	2.0427	63.1335
<u>Tax Levies</u>					
1996	\$10,737,809	\$9,819,059	\$4,392,902	\$915,448	\$25,865,218
1997	11,378,594	10,491,851	4,585,181	970,077	27,425,703
1998	11,996,382	11,105,209	4,976,103	1,022,747	29,100,441
1999	12,356,097	11,422,641	5,148,398	1,057,386	29,984,522
2000	11,532,684	11,412,562	5,802,327	1,083,118	29,830,691
2001	11,833,203	11,723,580	6,053,943	1,129,518	30,740,244
2002	12,471,399	12,538,875	6,380,576	1,481,824	32,872,674
2003	12,550,656	11,871,210	6,495,667	1,505,117	32,422,650
2004	12,586,345	12,890,280	6,771,386	1,251,071	33,499,082
2005	12,749,650	13,323,457	7,016,138	1,298,905	34,388,150

Information obtained from Bay City Assessor's Office.

CITY OF BAY CITY, MICHIGAN
 SPECIAL ASSESSMENTS BILLINGS AND COLLECTIONS
 LAST TEN FISCAL YEARS

Table 6

Fiscal Year Ended	Current Assessments Due	Assessments Collected
1996	\$321,172	\$218,359
1997	302,433	215,299
1998	279,399	273,135
1999	298,168	296,680
2000	290,495	287,624
2001	286,420	285,731
2002	323,104	322,459
2003	319,564	318,140
2004	358,878	356,841
2005	366,422	363,644

CITY OF BAY CITY, MICHIGAN
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2005

Table 7

Assessed valuation, December 31, 2004 (1)		<u>\$776,674,650</u>
Debt limit - 10% of assessed valuation		\$77,667,465
<u>Amount of debt applicable to limit:</u>		
Total general obligation debt	\$28,894,380	
Less:		
Amount available in debt service funds	<u>53,055</u>	
Total amount of debt applicable to limit		<u>28,841,325</u>
LEGAL DEBT MARGIN		<u>\$48,826,140</u>

(1) Includes the SEV of property granted tax abatement under Act 198.

CITY OF BAY CITY, MICHIGAN
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND
NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

Table 8

Fiscal Year Ended	Population	/----- 000's omitted -----\ Less Debt Service Funds Less Self-Supporting & Revenue Bonds Net General Bonded Debt					Ratio of Net Gen. Bonded Debt to Assessed Value	Net Bonded Debt per Capita
		Assessed Value	Gross Bonded Debt					
1996	38,389	\$433,722	\$64,271	\$893	\$39,070	\$24,308	5.60%	\$633.20
1997	38,389	455,694	54,830	652	29,830	24,348	5.34%	634.24
1998	36,548	489,576	50,929	476	26,134	24,319	4.97%	665.40
1999	35,485	522,516	47,773	114	23,389	24,270	4.64%	683.95
2000	34,508	565,272	46,710	136	22,073	24,501	4.33%	710.01
2001	36,817	595,305	43,707	240	23,359	20,108	3.38%	546.17
2002	36,817	623,406	39,926	298	16,955	22,673	3.64%	615.83
2003	36,817	705,815	51,698	338	28,985	22,375	3.17%	607.74
2004	36,817	734,682	50,010	115	27,979	21,917	2.98%	595.29
2005	36,817	776,674	56,477	53	34,833	21,591	2.78%	586.45

CITY OF BAY CITY, MICHIGAN Table 9
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
 GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
 LAST TEN FISCAL YEARS

Fiscal Year Ended	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to Total General Governmental Expenditures
1996	\$2,316,713	\$950,146	\$3,266,859	\$26,579,184	12.29%
1997	1,956,853	827,306	2,784,159	28,373,246	9.81%
1998	2,232,259	745,896	2,978,155	36,497,432	8.16%
1999	2,489,079	652,520	3,141,599	32,470,526	9.68%
2000	2,685,712	576,609	3,262,321	34,235,701	9.53%
2001	2,714,085	508,509	3,222,594	39,037,380	8.26%
2002	2,060,000	341,698	2,401,698	39,925,048	6.02%
2003	1,920,000	247,911	2,167,911	34,091,529	6.36%
2004	2,110,000	144,528	2,254,528	31,989,274	7.05%
2005	1,690,000	113,264	1,803,264	33,622,503	5.36%

CITY OF BAY CITY, MICHIGAN
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 GENERAL OBLIGATION BONDS
 June 30, 2005

Table 10

Name of Government Unit		Net General Bonded Debt Outstanding	Percentage Applicable to City	Amount Applicable to City
<u>OVERLAPPING DEBT:</u>				
Bay County	(1)	\$30,719,668	21.57%	\$6,626,232
Bay City School District	(1)	13,385,000	36.48%	4,882,848
Bangor Township Schools	(1)	13,700,000	0.37%	50,690
Bay-Arenac Intermediate School District	(1)	635,000	18.57%	<u>117,920</u>
TOTAL OVERLAPPING DEBT				11,677,690
<u>DIRECT DEBT:</u>				
City of Bay City		21,644,380	100.00%	<u>21,644,380</u>
TOTAL DIRECT AND OVERLAPPING DEBT				<u><u>\$33,322,070</u></u>

(1) Obtained from the Municipal Advisory Council of Michigan.

CITY OF BAY CITY, MICHIGAN
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS

Table 11

Fiscal Year Ended	Operating Revenues (1)	Operating Expenses (2)	Net Revenue Available For Debt Service	Annual Debt Service Payments			Times Coverage Ratio
				Principal	Interest	Total	
<u>Water System Revenue Bonds</u>							
1996	\$6,204,182	\$3,751,602	\$2,452,580	\$1,315,000	\$467,483	\$1,782,483	1.38 x
1997	6,506,269	4,056,009	2,450,260	1,360,000	426,545	1,786,545	1.37 x
1998	6,625,026	4,234,759	2,390,267	1,410,000	371,325	1,781,325	1.34 x
1999	7,289,701	4,499,601	2,790,100	1,465,000	313,176	1,778,176	1.57 x
2000	7,257,582	5,018,802	2,238,780	1,525,000	248,479	1,773,479	1.26 x
2001	6,758,021	4,954,464	1,803,557	1,590,000	177,730	1,767,730	1.02 x
2002	7,374,747	5,426,593	1,948,154	1,665,000	103,251	1,768,251	1.10 x
2003	6,879,833	6,145,570	734,263	1,740,000	21,880	1,761,880	0.42 x
2004	7,157,161	5,638,468	1,518,693	-	-	-	0.00 x
2005	7,530,484	5,698,760	1,831,724	-	-	-	0.00 x
<u>Electric System Revenue Bonds</u>							
1996	\$22,546,664	\$15,416,745	\$7,129,919	\$1,240,000	\$1,426,041	\$2,666,041	2.67 x
1997	21,680,391	14,850,917	6,829,474	8,364,080 (3)	1,284,505	9,648,585	0.71 x
1998	21,861,463	15,473,524	6,387,939	605,000	844,273	1,449,273	4.41 x
1999	22,147,560	15,686,610	6,460,950	800,000	809,148	1,609,148	4.02 x
2000	23,418,490	16,734,311	6,684,179	835,000	768,273	1,603,273	4.17 x
2001	21,834,972	18,430,772	3,404,200	880,000	725,398	1,605,398	2.12 x
2002	23,866,773	18,890,250	4,976,523	925,000	680,273	1,605,273	3.10 x
2003	22,072,493	19,726,368	2,346,125	970,000	632,898	1,602,898	1.46 x
2004	22,302,847	19,262,347	3,040,500	1,025,000	580,460	1,605,460	1.89 x
2005	23,615,498	21,352,687	2,262,811	1,085,000	525,148	1,610,148	1.41 x

(1) Includes interest earnings.

(2) Net of depreciation expense.

(3) Principal payments higher than normal due to defeasance described in Note 6 of these financial statements.

CITY OF BAY CITY, MICHIGAN
 DEMOGRAPHIC STATISTICS
 LAST TEN FISCAL YEARS

Table 12

Fiscal Year Ended	Estimated Population (1)	Per Capita Income (2)	County Unemployment Rate (3)	School Enrollment (4)
1996	38,389	\$16,499	6.5%	10,243
1997	38,389	16,499	4.8%	10,598
1998	36,548	20,285	3.7%	10,287
1999	35,485	24,363	5.2%	10,232
2000	34,508	24,458	3.4%	10,199
2001	36,817	24,500	4.9%	9,904
2002	36,817	26,064	7.1%	9,843
2003	36,817	26,771	8.0%	9,839
2004	36,817	26,067	8.2%	9,790
2005	36,817	26,726	6.8%	9,507

(1) Obtained from U.S. Census Bureau.

(2) Obtained from U.S. Bureau of Economic Analysis

(3) Obtained from Michigan Department of Labor & Economic Growth

(4) Obtained from Bay City School Board.

CITY OF BAY CITY, MICHIGAN
PROPERTY VALUE AND CONSTRUCTION
LAST TEN FISCAL YEARS

Table 13

Fiscal Year Ended	Assessed Value	Construction (1)	
		# of Permits	Value
1996	\$433,722,400	1,322	\$10,145,147
1997	455,693,800	2,087	10,238,829
1998	489,306,370	2,122	14,585,935
1999	522,518,700	2,029	10,795,842
2000	565,544,000	1,852	19,634,639
2001	595,315,000	1,528	23,937,072
2002	625,574,000	1,146	12,408,577
2003	662,967,000	641	22,118,923
2004	734,682,550	622	10,953,297
2005	776,674,650	692	77,651,175

(1) Obtained from Bay City Code Enforcement Department.

CITY OF BAY CITY, MICHIGAN
 SCHEDULE OF TEN PRINCIPAL PROPERTY ASSESSMENTS
 June 30, 2005

TABLE 14

Taxpayer	Principal Product or Service	Assessed Valuation	Percentage of Total Assessed
1. General Motors Corporation	Automobile Manufacturer	\$ 71,536,850	62.28%
2. S.C. Johnson Home Storage	Storage Products	16,597,850	14.45%
3. Consumers Power Company	Utilities	8,371,004	7.29%
4. Wenonah Park Properties	Hotel/Conference Center	3,616,279	3.15%
5. Charter Communications	Cable Television and Internet	2,852,000	2.48%
6. Bit Mat Products	Asphalt Recycling	2,533,100	2.21%
7. Northern Concrete Pipe	Concrete Products	2,352,441	2.05%
8. Carbone of America	Carbon-Based Products	2,351,050	2.05%
9. After Hours	Clothing Rental	2,337,750	2.04%
10. FP Horak Company	Printing	<u>2,317,750</u>	<u>2.02%</u>
		<u>\$ 114,866,074</u>	<u>100.00%</u>

CITY OF BAY CITY, MICHIGAN
 MISCELLANEOUS STATISTICAL DATA
 June 30, 2005

TABLE 15
 Page 1 of 2

Date Founded		1832
Date Incorporated		1865
Form of Government	Commission/Manager	
Date Present Charter Adopted		1998
Area - Square Miles		10.5 square miles
Population:	<u>U. S. Census Date</u>	<u>Population</u>
	1940	47,956
	1950	52,523
	1960	53,604
	1970	49,449
	1980	41,545
	1990	38,936
	2000	36,817
Number of employees (excluding police & fire)		300
Police personnel		69
Fire personnel		<u>58</u>
Total employees		<u>427</u>
Police Protection:		
Number of:		
Police Stations		1
Vehicular patrol units	- Marked	20
	- Unmarked	12
Other vehicles		2
Fire Protection:		
Fire Stations		4
Recreation:		
Community Center		1
Swimming Pool		1
Park Areas		25
Park Acreage		228
Streets:		
State Trunklines		18.00 miles
Major Streets		55.20 miles
Local Streets		125.91 miles

CITY OF BAY CITY, MICHIGAN
MISCELLANEOUS STATISTICAL DATA
June 30, 2005

TABLE 15
Page 2 of 2

Sewer System:

Sanitary and storm sewers	277 miles
Treatment plant	1
Service connections	13,648
Daily average treatment	9 million gallons
Maximum daily capacity	18 million gallons

Water System:

Miles of water mains	232 miles
Treatment plant	1
Service connections	13,245
Daily average consumption	9.31 million gallons
Maximum daily treatment capacity	40 million gallons

Electric Department:

Total generating capacity	33,295 KW
Capacity owned through MPPA:	
1) Consumers Power Company	
James H. Campbell Unit #3	4,796 KW
2) Detroit Edison - Belle River Unit #1	8,295 KW
Number of electric customers	19,818

Education:

Elementary schools	12
Secondary schools	4
High schools	3
Alternative schools	1

Hospitals:

Hospitals	1
Number of patient beds	415

SINGLE AUDIT

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

**City of Bay City, Michigan
Schedule of Expenditures of Federal Award
For the Fiscal Year Ended June 30, 2005**

Federal/Pass-Through Grantor Program Title	Federal CFDA Number	Federal or (Pass-Through) Grant Number	Amended Grant Amount	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grant Entitlements	14.218	B-98-MC-26-0003	1,838,000	\$ 24,297
	14.218	B-99-MC-26-0003	1,849,000	1
	14.218	B-00-MC-26-0003	1,855,000	27,936
	14.218	B-01-MC-26-0003	1,926,000	83,580
	14.218	B-02-MC-26-0003	1,878,000	595,838
	14.218	B-03-MC-26-0003	1,758,000	465,419
	14.218	B-04-MC-26-0003	1,742,000	1,146,535
	14.218	n/a	n/a	218,350
				2,561,956
HOME Program	14.239	M98-MC260219	368,000	12,748
	14.239	M99-MC260219	398,000	105,665
	14.239	M00-MC260219	397,000	14,743
	14.239	M01-MC260219	442,000	11,001
	14.239	M02-MC260219	442,000	43,114
	14.239	M03-MC260219	286,780	163,853
	14.239	M04-MC260219	286,796	143,609
				494,733
Total U.S. Department of Housing and Urban Development				3,056,689
U.S. Department of Justice				
Local Law Enforcement Block Grant	16.592	02-LB-BX-2034	44,035	6,395
Local Law Enforcement Block Grant	16.592	03-LB-BX-1003	43,641	9,277
Fire Department Grant	16.007	Unknown	50,000	765
Total U.S. Department of Justice				16,437
U.S. Environmental Protection Agency				
Direct award Brownfield Assessment Pilot Assistance	66.818	BP-97563501-0	200,000	152,022
Passed through Michigan Department of Environmental Quality State Revolving Funds	66.468	5194-01	10,382,035	273,837
Total U.S. Environmental Protection Agency				425,859
U.S. Department of Homeland Security				
Passed through Michigan Department of State Police 2003 State Homeland Security Grant Program, Local RRT Mass Decontamination System Grant	97.004	Unknown	100,450	100,450
2003 State Homeland Security Grant Program, Part II Training Grant	97.004	Unknown	56,000	6,901
Assistance to Firefighter's Grant	97.044	EMW-2003-FG-18735	61,000	61,000
Total U.S. Department of Homeland Security				168,351
Total Federal Financial Assistance - Primary Government				\$ 3,667,336

Reconciliation to Federal Revenue Recognized in Financial Statements

Federal awards per schedule	\$	3,667,336
Add: Federal awards administered by the Michigan Department of Transportation		
Fuel farm at James Clemens Airport		19,278
North Union Street Reconstruction - MDOT Job Number 74146		455,358
Less: Federal portion of drawdowns from State Revolving Loan Fund for sewer improvements		(273,837)
Less: Program income of the Community Development Block Grants and HOME Program		(218,350)
Total Federal Revenue Recognized in Financial Statements	\$	3,649,785

Notes to Schedule of Expenditures of Federal Award**Note 1: Basis of Presentation**

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

Note 2: Subrecipients

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

<u>Federal/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block		
Grant Entitlements	14.218	\$ 67,930
HOME Program	14.239	489,432



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**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 15, 2005

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Bay City, Michigan*, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 15, 2005. We did not audit the financial statements of Wenonah Park Properties, Inc. Component Unit, which represents 73.37% of the assets and 72.50% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Wenonah Park Properties, Inc. is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *City of Bay City, Michigan* in a separate letter dated December 15, 2005.

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

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



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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

December 15, 2005

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

Compliance

We have audited the compliance of the *City of Bay City, Michigan* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The *City of Bay City, Michigan's* major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the *City of Bay City, Michigan's* management. Our responsibility is to express an opinion of *City of Bay City, Michigan's* compliance based on our audit.

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

In our opinion, the *City of Bay City, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2005-1.

Internal Control Over Compliance

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

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

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

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

CITY OF BAY CITY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

*Unqualified on
financial statements*

Internal controls over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial
statements noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes X none reported

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

Unqualified

Any audit findings disclosed that are required to
be reported in accordance with Circular A-133,
Section 510(a)?

 X yes _____ no

Identification of Major Programs:

CFDA Number

14.218

Name of Federal Program or Cluster

Community Development Block Grant -
Entitlements

14.239

HOME Investment Partnership Program

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

CITY OF BAY CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2005-1 Approval of Timecards and Allocation of Payroll Expenditures

Grantor: U.S. Department of Housing and Urban Development **CFDA #:** 14.218

Award Name: Community Development Block Grant Entitlements

Condition: Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities / are charged to both federally funded and non-federally funded cost centers, the distribution of their salaries or wages must be supported by personnel activity reports or a statistical sampling system that has been approved by the cognizant Federal agency. In addition, City internal control procedures require that employee timecards are signed by employees.

The City allocates payroll charges for certain Community Development Block Grant employees to federal programs based on budgeted allocation bases, instead of actual time worked on the federal program. While the payroll costs allocated to this program may indeed closely approximate the actual time spent by City employees on this grant, the methods used to allocate the payroll charges is not consistent with federal guidelines, and creates a risk that amounts allocated could vary from actual costs incurred.

No costs were questioned in the current year as a result of these findings.

Recommendation: We recommend that the City implement procedures to ensure that employees sign their timecards and that only actual time worked on federal programs is charged to the grant.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no audit findings in the prior year.