

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (72,607)	\$ -	\$ (72,607)
(130,997)	-	(130,997)
(92,948)	-	(92,948)
350,575	-	350,575
(36,448)	-	(36,448)
(347,530)	-	(347,530)
(16,870)	-	(16,870)
(127,863)	-	(127,863)
(1,891,535)	-	(1,891,535)
(9,096)	-	(9,096)
(66,374)	-	(66,374)
(1,688,073)	-	(1,688,073)
(98,522)	-	(98,522)
(136,493)	-	(136,493)
(391,564)	-	(391,564)
(111,875)	-	(111,875)
(62,000)	-	(62,000)
(3,000)	-	(3,000)
(4,933,220)	-	(4,933,220)
-	210,881	210,881
-	210,881	210,881
(4,933,220)	210,881	(4,722,339)
784,147		784,147
728,459		728,459
1,221,515		1,221,515
387,381		387,381
163,199		163,199
27,334	-	27,334
4,978	-	4,978
165,789	-	165,789
1,815	1,169	2,984
2,366,802	-	2,366,802
(58,674)	-	(58,674)
435,358	(435,358)	-
6,228,103	(434,189)	5,793,914
1,294,883	(223,308)	1,071,575
11,463,276	3,948,962	15,412,238
\$ 12,758,159	\$ 3,725,654	\$ 16,483,813

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF BRIDGE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 991,149	\$ 758,095	\$ -	\$ 1,749,244
Taxes Receivable	214,809	57,979	-	272,788
Receivables (Net)	208,671	-	314,725	523,396
Inventories	56,797	-	-	56,797
Prepaid Items	8,439	-	-	8,439
Total Assets	<u>\$ 1,479,865</u>	<u>\$ 816,074</u>	<u>\$ 314,725</u>	<u>\$ 2,610,664</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 154,161	\$ -	\$ -	\$ 154,161
Deferred Revenues	71,447	57,979	-	129,426
Other Current Liabilities	35,719	-	-	35,719
Total Liabilities	<u>261,327</u>	<u>57,979</u>	<u>-</u>	<u>319,306</u>
Fund Balances:				
Nonspendable Fund Balance:				
Inventories	56,797	-	-	56,797
Restricted Fund Balance:				
Restricted	-	758,095	314,725	1,072,820
Unassigned Fund Balance	1,161,741	-	-	1,161,741
Total Fund Balances	<u>1,218,538</u>	<u>758,095</u>	<u>314,725</u>	<u>2,291,358</u>
Total Liabilities and Fund Balances	<u>\$ 1,479,865</u>	<u>\$ 816,074</u>	<u>\$ 314,725</u>	<u>\$ 2,610,664</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2012

Total Fund Balances - Governmental Funds	\$	2,291,358
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Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$23,748,567 and the accumulated depreciation was \$12,761,148. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		7,524,375
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Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2012 capital outlays and debt principal payments is to increase net assets.		3,194,791
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The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,266,912)
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Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		1,014,547
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Net Assets of Governmental Activities	\$	12,758,159
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The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT C-3

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 773,461	\$ 721,744	\$ -	\$ 1,495,205
General Sales and Use Taxes	1,221,515	-	-	1,221,515
Franchise Tax	387,381	-	-	387,381
Other Taxes	163,199	-	-	163,199
Penalty and Interest on Taxes	13,154	14,180	-	27,334
Licenses and Permits	33,697	-	-	33,697
Charges for Services	266,024	-	-	266,024
Fines	396,228	-	-	396,228
Investment Earnings	1,198	617	-	1,815
Contributions & Donations from Private Sources	4,978	-	-	4,978
Other Revenue	38,975	-	-	38,975
Total Revenues	3,299,810	736,541	-	4,036,351
EXPENDITURES:				
Current:				
General Government:				
Personnel and Purchasing	72,607			72,607
City Manager	130,997			130,997
City Secretary	92,948			92,948
Municipal Court	101,097			101,097
City Attorney	36,448			36,448
Administration	305,923			305,923
Municipal Court Judges	16,870			16,870
Finance	127,863			127,863
Public Safety:				
Police	1,883,769			1,883,769
Fire	9,096			9,096
Animal Control	66,395			66,395
Streets and Drainage	788,321			788,321
Culture and Recreation:				
Parks and Recreation	80,931			80,931
Library	145,552	-		145,552
Community Development	391,180	-		391,180
Debt Service:				
Bond Principal	-	570,000	-	570,000
Bond Interest	-	95,075	-	95,075
Fiscal Agent's Fees	-	3,000	-	3,000
Total Expenditures	4,249,997	668,075	-	4,918,072
Excess (Deficiency) of Revenues Over (Under) Expenditures	(950,187)	68,466	-	(881,721)
OTHER FINANCING SOURCES (USES):				
Transfers In	435,358	-	-	435,358
Total Other Financing Sources (Uses)	435,358	-	-	435,358
EXTRAORDINARY ITEMS:				
Extraordinary Item - Resource	-	-	2,366,802	2,366,802
Extraordinary Item - (Use)	-	-	(2,552,688)	(2,552,688)
Net Change in Fund Balances	(514,829)	68,466	(185,886)	(632,249)
Fund Balance - October 1 (Beginning)	1,733,367	689,629	500,611	2,923,607
Fund Balance - September 30 (Ending)	\$ 1,218,538	\$ 758,095	\$ 314,725	\$ 2,291,358

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

Total Net Change in Fund Balances - Governmental Funds	\$ (632,249)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2012 capital outlays and debt principal payments is to increase net assets.	3,194,791
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(1,266,912)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.	(747)
Change in Net Assets of Governmental Activities	\$ 1,294,883

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT C-5

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 845,000	\$ 845,000	\$ 773,461	\$ (71,539)
General Sales and Use Taxes	1,400,000	1,400,000	1,221,515	(178,485)
Franchise Tax	400,000	400,000	387,381	(12,619)
Other Taxes	168,800	168,800	163,199	(5,601)
Penalty and Interest on Taxes	14,000	14,000	13,154	(846)
Licenses and Permits	59,250	59,250	33,697	(25,553)
Charges for Services	213,092	213,092	266,024	52,932
Fines	588,169	588,169	396,228	(191,941)
Investment Earnings	2,400	2,400	1,198	(1,202)
Contributions & Donations from Private Sources	-	-	4,978	4,978
Other Revenue	87,200	87,200	38,975	(48,225)
Council Auth. Use of Reserves	675,172	675,172	-	(675,172)
Total Revenues	4,453,083	4,453,083	3,299,810	(1,153,273)
EXPENDITURES:				
Current:				
General Government:				
Personnel and Purchasing	71,661	72,626	72,607	19
City Manager	128,702	131,032	130,997	35
City Secretary	94,540	95,540	92,948	2,592
Municipal Court	228,908	224,718	101,097	123,621
City Attorney	36,887	36,887	36,448	439
Administration	294,998	319,643	305,923	13,720
Municipal Court Judges	17,504	17,504	16,870	634
Finance	128,980	128,720	127,863	857
Public Safety:				
Police	1,952,981	1,953,881	1,883,769	70,112
Fire	9,700	9,700	9,096	604
Animal Control	70,826	67,911	66,395	1,516
Streets and Drainage	1,165,689	1,141,129	788,321	352,808
Culture and Recreation:				
Parks and Recreation	89,111	93,346	80,931	12,415
Library	144,467	148,612	145,552	3,060
Community Development	428,487	447,192	391,180	56,012
Contingency	25,000	-	-	-
Total Expenditures	4,888,441	4,888,441	4,249,997	638,444
Excess (Deficiency) of Revenues Over (Under) Expenditures	(435,358)	(435,358)	(950,187)	(514,829)
OTHER FINANCING SOURCES (USES):				
Transfers In	435,358	435,358	435,358	-
Total Other Financing Sources (Uses)	435,358	435,358	435,358	-
Net Change in Fund Balances	-	-	(514,829)	(514,829)
Fund Balance - October 1 (Beginning)	1,733,367	1,733,367	1,733,367	-
Fund Balance - September 30 (Ending)	\$ 1,733,367	\$ 1,733,367	\$ 1,218,538	\$ (514,829)

The notes to the Financial Statements are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF BRIDGE CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012

	Business Type Activities
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ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,524,935
Accounts Receivable-Net of Uncollectible Allowance	453,972
Due from Other Governments	59,001
Prepaid Items	2,051
Total Current Assets	<u>2,039,959</u>
Noncurrent Assets:	
Capital Assets:	
Land	53,420
Buildings	18,293
Machinery and Equipment	12,108,920
Accumulated Depreciation	<u>(9,973,808)</u>
Total Noncurrent Assets	<u>2,206,825</u>
Total Assets	<u>4,246,784</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	168,706
Compensated Absences Payable	31,335
Customer Advance Payments Received, Not Earned	280,422
Intergovernmental Payable	3,690
Other Current Liabilities	<u>36,977</u>
Total Liabilities	<u>521,130</u>
NET ASSETS	
Unrestricted Net Assets	<u>3,725,654</u>
Total Net Assets	<u>\$ 3,725,654</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT D-2

	Business Type Activities
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OPERATING REVENUES:	
Charges for Water Services	\$ 964,947
Charges for Sewerage Service	901,100
Charges for Sanitation Service	641,399
Prop.Fund Charges for Services - Other	142,454
Total Operating Revenues	<u>2,649,900</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	675,442
Personnel Services - Employee Benefits	303,928
Purchased Professional & Technical Services	131,336
Purchased Property Services	772,366
Other Operating Expenses	92,350
Supplies	135,475
Depreciation	328,122
Total Operating Expenses	<u>2,439,019</u>
Operating Income	<u>210,881</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	1,169
Total Non-operating Revenue (Expenses)	<u>1,169</u>
Income Before Transfers	212,050
Transfers Out	<u>(435,358)</u>
Change in Net Assets	(223,308)
Total Net Assets - October 1 (Beginning)	<u>3,948,962</u>
Total Net Assets - September 30 (Ending)	<u>\$ 3,725,654</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business Type Activities
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 2,643,538
Cash Payments to Employees for Services	(979,370)
Cash Payments for Suppliers	(135,475)
Cash Payments for Other Operating Expenses	(1,051,939)
Net Cash Provided by Operating Activities	<u>476,754</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(435,358)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(47,335)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>1,169</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(4,770)
Cash and Cash Equivalents at Beginning of the Year:	<u>1,529,705</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 1,524,935</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 210,881
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	328,122
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(6,362)
Decrease (increase) in Prepaid Expenses	(186)
Increase (decrease) in Accounts Payable	55,609
Increase (decrease) in Other Payables	(111,310)
Net Cash Provided by Operating Activities	<u>\$ 476,754</u>

The notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BRIDGE CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bridge City (the "City") was incorporated in 1970 under the provision of Act 279, P.A., 1909, as amended (Home Rule City Act). The City operates under a council-manager form of government and provides the following services as authorized by its charter: Public Safety - Police and Fire, Highways and Streets, Sanitation, Health and Social Services, Culture, Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

A. REPORTING ENTITY

The Mayor and Council are elected by the public and they have the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Council ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City of Bridge City nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" columns include amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Council pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

1. **The General Fund** – The General Fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

2. **The Debt Service Fund** - The Debt Service Fund accounts for the accumulation of resources to pay principal and interest on long-term debt.

The City reports the following major enterprise fund(s):

1. **The Utility Fund** - The Utility Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing utility services to the general public on a continuing basis are financed through user charges.

Additionally, the City reports the following fund type(s):

Governmental Funds:

1. **Capital Projects Funds** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.
2. **Special Revenue Funds** - The Special Revenue Funds account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance often is accounted for in a Special Revenue Fund.

E. OTHER ACCOUNTING POLICIES

1. **Cash and Investments** For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. **Inventories** Inventories in the proprietary fund consist primarily of supplies for water and sewer repairs, valued at cost, which approximates market. Cost is determined using the first-in first-out method. The cost of inventories is recorded as expenditures/expenses when consumed rather than when purchased.
3. **Long-term Debt** In the government-wide financial statements, and 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. **Compensated Absences** Accumulated unpaid vacation is accrued when incurred in the proprietary fund. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The amount expected to be repaid from current resources is not significant.

5. **Property, Plant and Equipment** Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns 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. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Infrastructure	20
Furniture & Fixtures	10
Machinery & Equipment	3-10

6. **Insurance Programs** The City provides all regular full-time and part-time employees with group health, dental, life and accidental death and dismemberment benefits. In addition, the City offers dependent health and dental coverage at the employee's expense.
7. **Fund Balance** Restricted fund balance includes the portion of net resources on which limitations are imposed by external parties, constitutional provisions, or enabling legislation. Committed fund balance includes the portion of net resources upon which the City Council has imposed limitation on use. Commitments may be changed or lifted only by the Council taking the same formal action that originally imposed the constraint. Unassigned fund balance is the residual classification for the general fund, available for any purpose.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the year	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land	\$ 370,793	\$	\$ 370,793	
Buildings	1,561,378	489,418	1,071,960	
Furniture & Fixtures	163,332	46,277	117,055	
Machinery & Equipment	3,028,469	1,085,410	1,943,059	
Infrastructure	18,624,594	11,140,047	7,484,547	
Change in Net Assets				<u>10,987,414</u>
Long-term Liabilities at the Beginning of the year			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			2,180,000	
Notes Payable			1,175,289	
Compensated Absences			107,750	
Change in Net Assets				<u>(3,463,039)</u>
Net Adjustment to Net Assets				<u>\$ 7,524,375</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Machinery & Equipment	\$ 128,228		
Buildings	13,876		
Infrastructure	2,494,013		
Total Capital Outlay	<u>2,636,117</u>	<u>2,636,117</u>	<u>2,636,117</u>
<u>Debt Principal Issuance & Payments</u>			
Bond Principal	570,000		
Other	(11,326)		
Total Change in Debt	<u>558,674</u>	<u>558,674</u>	<u>558,674</u>
Principal			
Total Adjustments to Net Assets		<u>\$ 3,194,791</u>	<u>\$ 3,194,791</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 27,372	\$ (27,372)	
Uncollected Taxes (assumed collectible) from Current Year Levy	44,248	44,248	44,248
Uncollected Taxes (assumed collectible) from Prior Year Levy	85,178		85,178
Difference in prior year estimated collectible and current year collections	525	525	
Accrued interest on long-term debt	78,800	(78,800)	(78,800)
Reclassify fines receivable assessed but not received this year		60,652	963,921
Total		<u>\$ (747)</u>	<u>\$ 1,014,547</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

As set forth in the City Charter, the City Council adopts an annual budget for the General Fund, Debt Service Fund, Capital Projects Fund, and the Enterprise Fund. Accordingly, all property tax revenues are budgeted to be received in the General Fund, although actual receipts are recorded in both the General Fund and the Debt Service Fund. The annual budgets for the General Fund, Debt Service Fund, and Capital Projects Fund are prepared in accordance with the basis of accounting utilized by that fund. The budget for the Enterprise Fund is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, nonoperating income and expense items are not considered. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter the total expenditures/expenses must be approved by the City Council. Prior to year-end, the City Council adopts an amended budget approving such additional expenditures/expenses. The amended budgets for the General Fund and Debt Service Fund are presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,840,509 and the bank balance was \$1,958,591. The City's cash deposits at September 30, 2012 and during the year ended September 30, 2012 were covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Bridge City State Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$3,273,047 and the par value was \$4,055,000.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$3,138,364 and occurred during the month of March.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$250,000.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 - Cash or Investments that are insured, registered or held by the City or by its agent in the City's name.
- Category 2 - Cash or Investments that are uninsured and unregistered held by the counter-party's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the City's name.

Based on these three levels of risk, all of the City's investments are classified as Category 1.

The City's investments at September 30, 2012, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Category</u>
TexPool Local Government Investment Pool	\$ 953,142	\$ 953,142	1
TexStar	\$ 479,709	\$ 479,709	1

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle B, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

There were no interfund balances due at September 30, 2012.

Interfund transfers for the year ended September 30, 2012, consisted of the following individual amounts:

Transfers to General Fund from:

Utility Fund	<u>\$ 435,358</u>
	\$ 435,358

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2012, were as follows:

	<u>Property Taxes</u>	<u>Other Taxes</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:				
General Fund	\$ 72,168	\$ 142,641	\$ 208,671	\$ 423,480
Debt Service Fund	57,979	0	0	57,979
Special Revenue Fund	<u>0</u>	<u>0</u>	<u>314,725</u>	<u>314,725</u>
Total - Governmental Activities	\$ 130,147	\$ 142,641	\$ 523,396	\$ 796,184
Business-type Activities:				
Utility Fund	\$ <u>0</u>	\$ <u>0</u>	\$ <u>453,972</u>	\$ <u>453,972</u>
Total Business-Type Activities	\$ 0	\$ 0	\$ 453,972	\$ 453,972

Payables at September 30, 2012, were as follows:

	<u>Accounts</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:			
General Fund	\$ 154,161	\$ 35,719	\$ 189,880
Total - Gov. Activities	\$ 154,161	\$ 35,719	\$ 189,880
Business-Type Activities:			
Utility Fund	\$ 168,706	\$ 36,977	\$ 205,683
Total Bus. Type Activities	\$ 168,706	\$ 36,977	\$ 205,683

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2012, was as follows:

	<u>Primary Government</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 370,793	\$	\$	\$ 370,793
Buildings and Improvements	1,561,378	13,876		1,575,254
Furniture and Fixtures	163,332			163,332
Machinery and Equipment	3,028,469	128,228		3,156,697
Infrastructure	18,624,594	2,494,013		21,118,607
Totals at Historic Cost	23,748,567	2,636,117		26,384,684
Less Accumulated Depreciation for:				
Buildings and Improvements	(489,418)	(62,217)		(551,635)
Furniture and Fixtures	(46,277)	(16,333)		(62,610)
Machinery and Equipment	(1,085,410)	(309,619)		(1,395,029)
Infrastructure	(11,140,047)	(878,743)		(12,018,790)
Total Accumulated Depreciation	(12,761,148)	(1,266,912)		(14,028,060)
Governmental Activities Capital Assets, Net	<u>\$ 10,987,419</u>	<u>\$ 1,369,205</u>	<u>\$</u>	<u>\$ 12,356,624</u>
Business-type Activities:				
Land	\$ 53,420			\$ 53,420
Buildings	18,293			18,293
Machinery & Equipment	12,061,585	47,335		12,108,920
Totals at Historic Cost	12,133,298	47,335		12,180,633
Less Accumulated Depreciation				
Buildings	(18,293)			(18,293)
Machinery & Equipment	(9,627,394)	(328,122)		(9,955,516)
Total Accumulated Depreciation	(9,645,687)	(328,122)		(9,973,808)
Business-type Activities Capital Assets, Net	<u>\$ 2,487,611</u>	<u>\$ (280,787)</u>	<u>\$</u>	<u>\$ 2,206,825</u>

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 41,607
Court	1,061
Police Department	72,751
Streets & Drainage	1,122,652
Animal Control	1,043
Parks & Recreation	17,591
Community Development	384
Library	<u>9,823</u>

Total Depreciation Expense \$ 1,266,912

G. GENERAL LONG-TERM DEBT

General long-term debts consist of general obligation refunding bonds, and tax and waterworks and sewer system certificates of obligation, and compensated absences. These obligations are being paid from the annual property tax receipts, and accordingly are classified in the general long-term debt account group. A summary of the City's long-term debt transactions for the year ended September 30, 2012 are included in the following table:

<u>Description</u>	<u>Payable Amounts Outstanding</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u>
General Obligation Refunding Bonds, Series 1998	\$ 1,440,000	\$ 0	\$ 330,000	\$ 1,110,000
Taxable G.O. Refunding Bonds, Series 1999	240,000	0	240,000	0
Tax & Revenue Certificates of Obligation, Series 1998	500,000	0	0	500,000
Community Disaster Loan – Hurricane Ike	1,175,289	0	0	1,175,289
Compensated Absences	<u>107,750</u>	<u>139,893</u>	<u>128,567</u>	<u>119,076</u>
Total	<u>\$ 3,463,039</u>	<u>\$ 139,893</u>	<u>\$ 698,567</u>	<u>\$ 2,904,365</u>

On April 28, 1994, the City issued \$2,410,000 in General Obligation Refunding Bonds in order to advance refund \$2,185,000 in existing general obligation bonds. The proceeds from the Refunding bonds were used for the payment of the costs of issuance of the securities and to purchase US government securities which were deposited in an irrevocable trust held by an escrow agent to provide for debt service payments on the general obligation bonds. As a result, the general obligation bonds are considered defeased, and accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2012, none of the bonds outstanding are considered defeased.

On October 1, 1998, the City issued \$3,900,000 in General Obligation Refunding Bonds, Series 1998, to defease and advance refund certain obligations of the City, the General Obligation Refunding Bonds, Series 1994, and the Tax and Waterworks and Sewer System Subordinate Lien Certificates of Obligation, Series 1994. The proceeds from the Refunding bonds were used for the payment of the costs of issuance of the securities and to purchase US government securities which were deposited in an irrevocable trust held by an escrow agent to provide for debt service payments on the general obligation bonds and certificates of obligation. As a result, the general obligation bonds and certificates of obligation are considered defeased, and accordingly, the trust account assets and the liability for the defeased bonds and certificates are not included in the City's financial statements. At September 30, 2012, \$765,000 of bonds and \$340,000 of certificates outstanding are considered defeased.

On October 1, 1998, the City issued \$2,520,000 in General Obligation Taxable Refunding Bonds, Series 1998T, to advance refund certain obligations of the City, the Waterworks and Sewer System Certificates of Obligation, Series 1987, and to pay issuance costs related to the bonds. The proceeds from the Refunding bonds were used for the payment of the costs of issuance of the securities and to purchase US government securities which were deposited in an irrevocable trust held by an escrow agent to provide for debt service payments on the general obligation bonds and certificates of obligation. As a result, the general obligation bonds and certificates of obligation are considered defeased, and accordingly, the trust account assets and the liability for the defeased bonds and certificates are not included in the City's financial statements. At September 30, 2012, none of the bonds are considered defeased.

On October 1, 1998, the city also issued \$500,000 in Tax and Waterworks and Sewer System Subordinate Lien Certificates of Obligation, Series 1998. The proceeds from the 1998 certificates are being used to pay for contractual obligations incurred for the construction of certain public works, including improvements to the City's waterworks and sewer system, improvements to the City's streets and roads, and the purchase of computer equipment, and to pay issuance costs related to the certificates.

Long-term debts are comprised of the following individual issues at September 30, 2012:

Description	Interest Rates	Date Issued	Series Matures	Outstanding
General Obligation Refunding Bonds, Series 1998	3.625-4.15%	1998	2014	\$ 1,110,000
Tax and Waterworks and Sewer System Certificates of Obligation, Series 1998 Waterworks & Sewer	4.375%	1998	2015	<u>500,000</u> \$ 1,610,000

Annual debt service requirements to maturity for the general obligation refunding bonds and tax and waterworks and sewer system certificates of obligation outstanding at September 30, 2012 are as follows:

Year	General Obligation Refunding Bonds	Tax and Waterworks and Sewer System Certificates of Obligation	Total
2013	\$ 666,065	\$ 21,875	\$ 687,940
2014	510,335	111,875	622,210
2015	<u>0</u>	<u>427,938</u>	<u>427,938</u>
	\$ 1,176,400	\$ 561,688	\$ 1,738,088

The general obligation refunding bonds and tax and waterworks and sewer system certificates of obligation include interest amounts of \$66,400 and \$61,688, respectively.

The Series 1998 Bonds maturing July 1, 2014, are subject to mandatory redemption prior to maturity on July 1 in each of the years and respective principal amounts set forth below, in each case at a redemption price equal to 100% of the principal amount plus accrued interest from the most recent interest payment date to the date of redemption.

Term Bonds Due July 1, 2014	
<u>Year</u>	<u>Amount</u>
2013	\$ 620,000
2014 (maturity)	490,000

The 1998 Certificates are subject to mandatory redemption prior to maturity on July 1 in each of the years and respective principal amounts set forth below, in each case at a redemption price equal to 100% of the principal amount plus accrued interest from the most recent interest payment date to the date of redemption.

Term Certificates Due July 1, 2015	
<u>Year</u>	<u>Amount</u>
2014	\$ 90,000
2015 (maturity)	410,000

In early 2009, the City requested and incurred a long term Promissory Note payable from the Community Disaster Loan Program managed by the Federal Emergency Management Agency (FEMA), United States Department of Homeland Security. The Community Disaster Loan Program provides operating funding to help local governments that have incurred a significant loss in revenue, due to a Presidential declared disaster, that has or will adversely affect the local government's ability to provide essential municipal services. FEMA approved a loan to the city in the amount of \$1,175,289. Interest on the loan is accrued annually based on an interest rate of 1.875%. In August 2009, the City took a draw on this Promissory Note in the amount of \$515,289. The balance of the Promissory Note was taken by the City in February 2010 in the amount of \$660,000. The Note's maturity date is April 2, 2014, at which time the principal amount on those portions of the loan, which does not qualify for loan cancellation as determined by FEMA, becomes due. Accrued interest at September 30, 2012, was \$62,000. The Promissory Note is payable from and secured by a pledge of the City's revenues for each fiscal year while any of the Promissory Note balance is outstanding.

H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon retirement of certain employees, the City pays up to 200 hours of accrued sick leave and all vacation leave in a lump cash payment to such employee. A summary of changes in the accumulated sick leave and vacation leave liability follows:

	<u>Sick Leave</u>	<u>Vacation Leave</u>
Balance September 30, 2012	\$ 569,636	\$ 136,322
Additions - New Entrants and Salary Increments	189,773	175,747
Deductions - Payments to Participants	<u>(93,787)</u>	<u>(161,657)</u>
Balance September 30, 2012	<u>\$ 665,622</u>	<u>\$ 150,412</u>

I. EMPLOYEE'S RETIREMENT PLAN

Plan Description The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

Plan provisions for the City were as follows:

	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
Employee deposit rate:	7%	7%
Matching ratio (city to employee):	2 to 1	2 to 1
Years required for vesting	10	10
Service requirement eligibility (expressed as age/years of service)	60/10, 0/20	60/10, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 475,272
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	<u>475,272</u>
Contributions Made	<u>(475,272)</u>
Increase (decrease) to net pension	-
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	<u>\$ -</u>

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.7 years; closed period	26.6 years; closed period	25.6 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost of Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UALL as a Percentage of Covered Payroll
12/31/2011	\$ 10,769,228	\$ 13,950,497	77.2%	\$ 3,181,269	\$ 2,700,515	117.8%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$6,540, \$6,777 and \$6,081, respectively, which equaled the required contributions each year.

J. HEALTH CARE COVERAGE

The City provides all regular full-time and part-time employees with group health, dental, life and accidental death and dismemberment benefits. In addition, the City offers dependent and dental coverage at the employee's expense.

The City's current healthcare policy with Blue Cross Blue Shield Insurance Company pays in-network at 80% and out-of-network at 60% with a lifetime maximum of \$5,000,000.

K. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 1,680,000	\$ 0	\$ (570,000)	\$ 1,110,000	\$ 620,000
Certificates of Obligation	500,000	0	0	500,000	0
Community Disaster Loan	<u>1,175,289</u>	<u>0</u>	<u>0</u>	<u>1,175,289</u>	<u>0</u>
Total Bonds and Notes Payable	3,355,289	0	(570,000)	2,785,289	620,000
Other Liabilities:					
Compensated Absences	<u>107,750</u>	<u>139,893</u>	<u>(128,567)</u>	<u>119,076</u>	<u>119,076</u>
Total Other Liabilities	<u>107,750</u>	<u>139,893</u>	<u>(128,567)</u>	<u>119,706</u>	<u>109,076</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 3,463,039</u>	<u>\$ 139,893</u>	<u>\$ (698,567)</u>	<u>\$ 2,904,365</u>	<u>\$ 739,076</u>
Business-type Activities:					
Compensated Absences	<u>\$ 28,572</u>	<u>\$ 35,853</u>	<u>\$ (33,090)</u>	<u>\$ 31,335</u>	<u>\$ 31,335</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 28,572</u>	<u>\$ 35,853</u>	<u>\$ (33,090)</u>	<u>\$ 31,335</u>	<u>\$ 31,335</u>

L. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$ 71,447	\$ 57,979	\$ 129,426
Total Deferred Revenue	\$ 71,447	\$ 57,979	\$ 129,426

M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Property Taxes	\$ 773,461	\$ 721,744	\$ 1,495,205
Other Taxes	1,772,095		1,772,095
Penalties, Interest and Other			
Tax-related Income	13,154	14,180	27,334
Licenses and Permits	33,697		
Fines	396,228		396,228
Charges for Services	266,024		266,024
Investment Earnings	1,198	617	1,815
Other	43,953		43,953
Total	\$ 3,299,810	\$ 736,541	\$ 4,036,351

N. LITIGATION

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential loss on all claims and lawsuits will not be significant to the City's financial statements.

O. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

There were no joint venture-shared service arrangements for The City of Bridge City for the fiscal year ended September 30, 2012.

P. HURRICANE IKE

Hurricane Ike, 2008

Just two weeks after Gustav, Hurricane Ike came ashore on September 13, 2008 at Galveston Island. The storm had been downgraded from a Category 4 hurricane to a strong Category 2. Ike's coastal landfall on the Upper Texas Coast left more devastation for its residents than many realize. Ike was the third costliest Atlantic hurricane of all time, behind Hurricane Andrew of 1992 and Hurricane Katrina of 2005. The hurricane also resulted in the largest evacuation of Texans in the state's history. It also became the largest search-and-rescue operation in U.S. history.

A declaration of disaster was issued on September 9, 2008 and continued until July 2, 2009 and a mandatory evacuation was issued at 6:00 a.m. on September 11, 2008. Hurricane Ike made landfall on September 13, 2008. The mandatory evacuation was lifted September 20, 2008. A curfew was put in place from 7 p.m. until 6 a.m. on September 20, 2008 and changed to 10 p.m. until 6 a.m. on October 3, 2008 and lasted until January 6, 2009. On October 26, 2008 the water was declared potable for the Bridge City residents. Evacuees who had left their homes for higher ground, watched in horror while national media broadcast from Bridge City. Literally swamped by the tidal surge, the city bore little resemblance to what its fleeing residents had left behind.

As of the writing of this audit report, FEMA has committed approximately \$5.8 million in reimbursements for labor, equipment, debris removal, repairs to streets, drainage and for emergency shelters, showers and office trailers. As of September 2012, \$4,557,580 had been received from FEMA. The City has also been awarded an additional \$16 million in various grants awarded through the Texas General Land Office for street repairs, drainage repairs, and generators for water and sewer facilities, and an inflow and infiltration study, all of which are a result of Hurricane Ike. As of September 30, 2012, \$5,212,725 had been received from these grants. In December of 2008, the City applied for a Community Disaster Loan, which may become a forgivable loan in 2014. The City was granted the loan in the amount of \$1,175,289 in May of 2009. The City suffered a loss of property tax revenue because of the reduction in property values related to storm damage. This loan helped cover the loss of revenues the City encountered.

Q. RELATED ORGANIZATIONS

There are no "related organizations" of the City as defined by *Governmental Accounting Standards Board Statement No. 14*.

R. SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through February 14, 2013, which is the date these financial statements were accepted by management.

REQUIRED SUPPLEMENTARY INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UALL as a Percentage of Covered Payroll
12/31/2009	\$ 6,006,202	\$ 9,805,592	61.3%	\$ 3,799,390	\$ 2,431,708	156.2%
12/31/2010	\$ 9,909,794	\$ 13,124,865	75.5%	\$ 3,215,071	\$ 2,619,584	122.7%
12/31/2011	\$ 10,769,228	\$ 13,950,497	77.2%	\$ 3,181,269	\$ 2,700,515	117.8%

FEDERAL SECTION

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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*

Mayor and City Council
City of Bridge City

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bridge City, as of and for the year ended September 30, 2012 which collectively comprise the City of Bridge City's basic financial statements and have issued our report thereon dated February 14, 2013. 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 Bridge City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Bridge City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Bridge City's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Keri Michutka
February 14, 2013

Keri Michutka
certified public accountant

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

Independent Auditor's Report

Mayor and Council
City of Bridge City

Compliance

We have audited the compliance of the City of Bridge City 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 September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Bridge City's administrators. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Bridge City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

The administration of the City of Bridge City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance. Our auditing procedures were not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a

control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program in such a way that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended for the information of management, Mayor and Council Members, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Kevin M. Smith".

February 14, 2013

CITY OF BRIDGE CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the City of Bridge City was an unqualified opinion.
- b. There were no control deficiencies or significant deficiencies in internal control disclosed by the audit of the financial statements and no material weakness.
- c. The audit disclosed no instances of noncompliance which are material to the financial statements of the City of Bridge City.
- d. There were no control deficiencies or significant deficiencies in internal control over major programs disclosed by the audit and no material weaknesses.
- e. The type of report the auditor issued on compliance for major programs was an unqualified opinion.
- f. The audit disclosed no audit findings, which the auditor is required to report under Section 510(a). These include:
 1. Control deficiencies or significant deficiencies in internal control over major programs.
 2. Material noncompliance with the provisions of laws, regulations, contracts, or grants agreements related to a major program.
 3. For a type of compliance requirement for a major program, known questioned costs when likely questioned costs are greater than \$10,000.
 4. Known question costs greater than \$10,000 for a Federal program which is not audited as a major program.
 5. The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards.
 6. Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.
 7. Instances where audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.
- g. The following were identified as major programs: TXCDBG – Hurricane Ike Grant
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000 and above for Type A programs and a floor of \$100,000 for Type B programs.
- i. The City did not qualify as a low-risk auditee.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

None noted.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I. f. Above

None noted.

CITY OF BRIDGE CITY
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

None noted.

CITY OF BRIDGE CITY
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012

No corrective action is necessary for the City during the year ended September 30, 2012.

CITY OF BRIDGE CITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Pass-Through:	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		
<u>Passed through Office of Rural Community Affairs</u>		
Texas Community Development Block Grant - Hurricane Ike	14.228	2,308,127
Texas Community Development Block Grant	14.228	<u>58,675</u>
TOTAL DEPARTMENT OF HOUSING & URBAN DEVELOPMENT		<u>2,366,802</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,366,802</u>

NOTES:

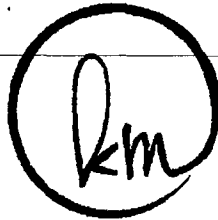
The Schedule of Expenditures of Federal Awards is prepared on the cash basis of accounting rather than the modified accrual basis used in the preparation of the general purpose financial statements for the year ended December 31, 2012. Thus amounts above may not agree to amounts in the financial statements.

CITY OF BRIDGE CITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2013

CITY OF BRIDGE CITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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keri michutka
CERTIFIED PUBLIC ACCOUNTANT

**Unmodified Opinions on Basic Financial Statements Accompanied by
Required Supplementary Information and Other Information**

Independent Auditor's Report

Mayor and City Council
City of Bridge City, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bridge City as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bridge City as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Texas Municipal Retirement System Schedule of Funding Progress on pages 3-12 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Bridge City's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2014 on our consideration of City of Bridge City's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Bridge City's internal control over financial reporting and compliance.



Bridge City, Texas
February 7, 2014

CITY OF BRIDGE CITY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bridge City (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with our transmittal at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ❑ The assets of the City exceeded its liabilities at the close of 2013 by \$17,511,026. Of this amount \$4,752,361 is considered unrestricted. The unrestricted net position of the City's governmental activities are \$3,306,376 and may be used to meet the government's ongoing obligations. The unrestricted net position of the City's business-type activities are \$1,445,985 and may be used to meet the ongoing obligations of the City's water, sewer, and solid waste business-type activities.
- ❑ The City's total net position increased by \$1,027,213 in the fiscal year 2013.
- ❑ As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$2,328,375, an increase of \$37,017. Approximately 16.47% or \$383,414 of this total amount is considered unreserved at September 30, 2013 and is available for spending.
- ❑ The general fund reported a fund balance of \$443,728 at the end of the current fiscal year. The unreserved fund balance for the general fund was \$383,414 or 9.36% of total general fund expenditures (excluding transfers out).
- ❑ The City's total long-term bonded debt increased by \$2,145,000 for a new certificate of obligation and decreased by \$620,000 for routine bond payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management discussion and analysis (MD&A) is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave and compensatory time).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) 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, and community enrichment. The business-type activities of the City include water, sewer and sanitation operations.

The *government wide financial statements* can be found on pages 13 to 15 of this report.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Establishment of some funds is required by state law and bond covenants. However, the City Council establishes other funds to help control and manage particular purposes or as evidence of meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City can be divided into two categories: governmental funds, and proprietary funds.

GOVERNMENTAL FUNDS

The majority of the City's basic services are reported in *governmental funds*, which focus on how money flows into and out of those funds and the available balances at year-end. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there has been an increase or decrease in financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains nineteen individual governmental funds. Information is presented separately in the *governmental fund balance sheet* and in the *governmental fund statement of revenues, expenditures, and changes in fund balances* for the General and Debt Service Funds which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 16 to 20 of this report.

PROPRIETARY FUNDS

The City charges customers for the services it provides. These services are generally reported in proprietary funds. *Proprietary funds* are reported in the same manner that all activities are reported in the *Statement of Net Position and the Statement of Cash Flows*. In fact, the City maintains five individual enterprise funds (a component of proprietary funds) to account for its water, sewer, and sanitation operations. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, improvements, billing and collection. The City's intent is that costs of providing these services to the general public on a continuing basis is financed through charges in a manner similar to a private enterprise. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, but provide more detail and additional information, such as cash flows. The basic *proprietary fund financial statements* can be found on pages 21 to 23 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The *notes to the financial statements* can be found on pages 24 to 40 of this report.

THE CITY AS A WHOLE – GOVERNMENT WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$17,511,026 at September 30, 2013. This analysis focuses on the net position (table 1) and changes in general revenues (table 2) of the City's governmental and business-type activities.

The largest portion of the City's net position (77%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TABLE 1
NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 3,708,818	\$ 3,574,585	\$ 1,902,750	\$ 2,039,959	\$ 5,611,568	\$ 5,614,544
Capital Assets	12,156,666	12,356,619	3,736,999	2,206,825	15,893,665	14,563,444
Total Assets	15,865,484	15,931,204	5,639,749	4,246,784	21,505,233	20,177,988
Long-Term Liabilities						
Outstanding	3,266,321	2,904,365	-	-	3,266,321	2,904,365
Other Liabilities	271,121	268,680	456,765	521,130	727,886	789,810
Total Liabilities	3,537,442	3,173,045	456,765	521,130	3,994,207	3,694,175
Net Position						
Invested in Capital Assets,						
Net of Related Debt	9,021,666	10,746,619	3,736,999	-	12,758,665	10,746,619
Unrestricted	3,306,376	2,011,540	1,445,985	3,725,654	4,752,361	5,737,194
Total Net Position	\$ 12,328,042	\$ 12,758,159	\$ 5,182,984	\$ 3,725,654	\$ 17,511,026	\$ 16,483,813

The total unrestricted net position of \$4,752,361 may be used to meet the government's ongoing obligations to citizens and creditors. It is important to note that the net position of the City's business-type activities may not be used to fund governmental activities and vice versa.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the City as whole as well as for its separate governmental activities, and business-type activities.

As reflected in the following table (table 2) the City's net position increased by \$1,027,213 during the current fiscal year. Net position for the governmental activities decreased \$430,117 and net position for the business-type activities increased \$1,457,330.

TABLE 2

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services	\$ 541,018	\$ 629,787	\$ 2,687,487	\$ 2,649,900	\$ 3,228,505	\$ 5,967,174
General Revenues:						
Property Taxes	1,583,692	1,512,606	-	-	1,583,692	1,512,606
Sales Taxes	1,262,087	1,221,515	-	-	1,262,087	1,221,515
Franchise Taxes	423,732	387,381	-	-	423,732	387,381
Other Taxes	173,860	163,199	-	-	173,860	163,199
Penalty & Interest	28,337	27,334	-	-	28,337	27,334
Grants and Contributions	32,662	4,978	-	-	32,662	4,978
Other	103,602	165,789	-	-	103,602	165,789
Investment Earnings	5,199	1,815	1,574	1,169	6,773	2,984
Total Revenues	<u>4,154,189</u>	<u>4,114,404</u>	<u>2,689,061</u>	<u>2,651,069</u>	<u>6,843,250</u>	<u>6,765,473</u>
Expenses:						
General Government	876,933	994,859	-	-	876,933	994,859
Public Safety	2,027,653	1,900,631	-	-	2,027,653	1,900,631
Public Works	2,058,106	1,859,057	-	-	2,058,106	1,859,057
Community Development	203,428	391,564	-	-	203,428	391,564
Parks & Recreation	69,007	98,522	-	-	69,007	98,522
Library	136,806	141,499	-	-	136,806	141,499
Interest on Long-Term Debt	105,975	173,875	-	-	105,975	173,875
Utilities	-	-	2,433,066	2,439,019	2,433,066	2,439,019
Other	2,000	3,000	-	-	2,000	3,000
Total Expenses	<u>5,479,908</u>	<u>5,563,007</u>	<u>2,433,066</u>	<u>2,439,019</u>	<u>7,912,974</u>	<u>8,002,026</u>
Increase (Decrease)						
in Net Position Before Transfers	(1,325,719)	(1,448,603)	255,995	212,050	(1,069,724)	(1,236,553)
Special Item - Resource	85,012	-	-	-	-	-
Extraordinary item - Resource	3,895,064	2,366,802	-	-	3,895,064	2,366,802
Special Item (Use)	(77,400)	-	-	-	-	-
Extraordinary item - Use	(1,805,739)	(58,674)	-	-	(1,805,739)	(58,674)
Transfers In (Out)	(1,201,335)	435,358	1,201,335	(435,358)	-	-
Increase (Decrease) in Net Position	(430,117)	1,294,883	1,457,330	(223,308)	1,027,213	1,071,575
Beginning Net Position	12,758,159	11,463,276	3,725,654	3,948,962	16,483,813	15,412,238
Ending Net Position	\$ 12,328,042	\$ 12,758,159	\$ 5,182,984	\$ 3,725,654	\$ 17,511,026	\$ 16,483,813

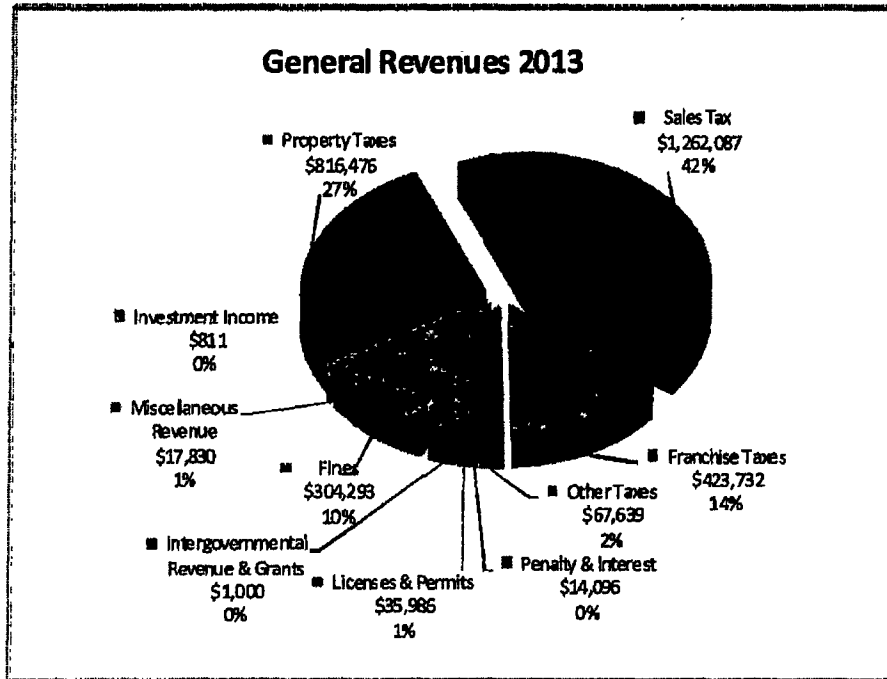
GOVERNMENTAL ACTIVITIES

Governmental activities decreased the City's net position by \$430,117. The most significant governmental expense for the City was in Public Works (Streets & Drainage) for the City, which incurred expenses of \$2,061,625. These expenses were offset by revenues collected from a variety of sources, with the largest being from property tax, which was \$1,587,211 for the fiscal year ended September 30, 2013. The most significant portion of expense for the Street and Drainage Department is the cost of personnel, which is \$578,249.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by \$1,457,330. This increase is primarily attributable to general operational efficiencies that allowed expenditures to exceed revenues. This increase includes a transfer in from Governmental Activities in the amount of \$1,768,815 for Construction in Progress.

GOVERNMENTAL ACTIVITIES – REVENUE BY SOURCE



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,328,375 an increase of \$37,017 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$383,414 while the total fund balance was \$443,728. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9.36% of total general fund expenditures, while total fund balance represents 10.80% of total general fund expenditures.

The fund balance of the City's general fund decreased by \$340,080 during the current fiscal year. It was budgeted to incur a decrease of \$142,030 and the remainder of change in fund balance is attributable to decreased fines revenue.

The debt service fund has a total fund balance of \$805,316, an increase of \$47,221, all of which is reserved for the payment of debt service. The Debt Service Fund is funded with property tax revenue at the level necessary to meet debt service requirements.

The other funds have a fund balance of \$1,079,331, all of which is reserved. The fund balance increased by \$329,876 from the prior fiscal year.

PROPRIETARY FUNDS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but on more detail.

Unrestricted net position of the Utility Fund (water, sewer, wastewater, and sanitation) at the end of the fiscal year amounted to \$1,445,985. Net position in the water, sewer and sanitation fund decreased by \$1,457,330. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2012 – 2013, the City Council did not amend the original budget for the general fund. However, there were line item adjustments made throughout the year but the over all total of the budget remained unchanged.

During the year actual expenditures exceeded revenues by \$340,080 therefore, the general fund reserves decreased by \$340,080 (includes transfers).

A comparison of final budgetary resources and appropriations can be found on page 20.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS - The City's investment on capital assets for its governmental and business-type activities as of September 30, 2013, amounted to \$15,893,669 (net of accumulated depreciation). This investment in capital assets includes land, buildings, water and sewer systems, streets and drainage systems, vehicles, machinery, equipment, furniture and fixtures. Capital assets held by the City at the end of the current year are summarized as follows: (Table 4)

Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 370,793	\$ 370,793	\$ 53,420	\$ 53,420	\$ 424,213	\$ 424,213
Buildings, Plants, and Lines	990,720	1,023,619	-	-	990,720	1,023,619
Infrastructure	8,113,144	9,099,817	-	-	8,113,144	9,099,817
Vehicles, Machinery, & Equip.	1,618,087	1,761,668	1,914,763	2,153,405	3,532,850	3,915,073
Furniture and Fixtures	84,389	100,727	-	-	84,389	100,727
Construction in Progress	979,538	-	1,768,815	-	2,748,353	-
	<u>\$ 12,156,671</u>	<u>\$ 12,356,624</u>	<u>\$ 3,736,998</u>	<u>\$ 2,206,825</u>	<u>\$ 15,893,669</u>	<u>\$ 14,563,449</u>

During the current year, major capital additions for governmental activities were as follows:

□ Acquisitions of Construction in Progress	\$979,538
□ Acquisitions of Machinery and Equipment	\$175,369

In addition, the following major acquisitions were made for the business-type activities:

□ Investment in Machinery and Equipment	\$86,690
□ Investment in Construction in Progress	\$1,768,815

Additional information about the City's capital assets is presented in Note F of the financial statements.

LONG-TERM DEBT – At the end of the current fiscal, the City had total bonds outstanding of \$3,135,000. Of this amount \$490,000 is tax supported debt. The remaining \$2,645,000 is secured by tax and certain surplus revenues, after deduction of expenses of operation and maintenance of the City's water and sewer system. At September 30, 2012 the City has a Community Disaster Loan payable in the amount of \$1,175,289. On December 20, 2013, FEMA notified the City that the entire loan and accrued interest in the amount of \$1,263,008 was forgiven.

The debt position of the City is summarized below and is more fully analyzed in Note G on page 31 of the financial statements.

Table 5

Long-Term Debt Obligations Outstanding
General Obligation Bonds and Certificates of Obligation

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
General Obligation						
Refunding Bonds:						
Series 1998						
Refunding Bonds	\$ 490,000	\$ 1,110,000	\$ -	\$ -	\$ 490,000	\$ 1,110,000
Tax and Waterworks						
and Sewer System						
Certificates of Obligation:						
Series 1998 Tax and						
Waterworks	500,000	500,000	-	-	500,000	500,000
Water & Sewer System						
Improvements						
Certificates of Obligation:						
Series 2012	2,145,000	-	-	-	2,145,000	-
	<u>\$ 3,135,000</u>	<u>\$ 1,610,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,135,000</u>	<u>\$ 1,610,000</u>

The City's total debt decreased by \$620,000 during the current fiscal year, which represents the debt principal payments.

There is no direct debt limitation in the City Charter or under State Law. The City operates under a Home Rule Charter that limits the maximum tax rate for all City purposes to \$2.50 per \$100 of assessed valuation. The

Attorney General of the State of Texas permits allocation of \$1.50 of the \$2.50 maximum rate for general obligation debt service. The 2012 – 2013 tax rate per \$100 of assessed valuation is \$0.22339 for debt allocation and \$0.25361 for the operating & maintenance allocation, this sets the total tax rate at \$0.48700, which is below the City's maximum allowable tax rate.

The City also has long-term liabilities related to compensated absences. The liability for governmental activities increased by \$12,245 during the current fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic factors for fiscal year 2012 – 2013:

- ❑ During the one year period from October 2012 to September 2013 the City collected \$1,262,087 in Sales Tax, this was a 3.32% increase from the previous fiscal year of 2011 – 2012. The average for the last five years in sales tax collections is \$1,220,145. The sales tax revenue accounts for approximately 43% of the General Fund Revenues.
 - ❑ The ad valorem taxable values for the 2012 - 2013 budget increased by more than 5% over the prior year. The adopted tax rate of .48700 per \$100 of assessed property evaluation is a 7.08% increase over the calculated effective rate.
 - ❑ The City of Bridge City has only one industrial (in lieu of taxes) contract. A portion of Firestone Polymers is in the City's extra-territorial jurisdiction. Firestone pays based on the assessed valuation of that property.
 - ❑ The budget for 2012 – 2013 contains a 3% cost of living increase for all employees.
 - ❑ The City of Bridge City signed a \$9,689,353 Hurricane Ike Disaster Recovery Grant (DRS010001) contract in September 2009 to purchase and install five natural gas generators at four water well sites and the Waterwood Water Plant; purchase and install ten natural gas generators at the City wastewater plant, the Waterwood wastewater plant and eight lift stations throughout the City; and repair approximately eleven miles of City streets. These projects are still in progress as of September 30, 2013.
 - ❑ A Texas Community Development Block Grant contract (#710091) in the amount of \$250,000 was signed by the Texas Department of Rural Affairs and the City in September 2010. The grant is being used to repair the lift station located on Blueberry Street and was completed during the 2012 – 2013 fiscal year.
 - ❑ In September 2011, the City of Bridge City was awarded a \$4,174,572 Hurricane Ike Disaster Recovery Grant (DRS210001). This grant will be used to rehabilitate the existing sewer system with point repairs; pipe bursting, repairing or replacing manholes; purchase and install generators; repair lift stations. The grant will additionally be used to resurface a number of existing streets. These projects are in progress as of September 30, 2013.
-
- ❑ The City of Bridge City and the General Land Office signed another contract in 2012 in the amount of \$3,000,954 for Hurricane Ike Recovery (DRS220001) The funding will be to resurface a number of streets in Census Tracts 223 and 224. These projects are in progress as of September 30, 2013.
 - ❑ The City of Bridge City has received to date, more than \$5.1 million dollars in reimbursement funding from the Federal Emergency Management Agency (FEMA). The City is currently working with FEMA for further reimbursement funding by reviewing current projects and auditing completed projects authorized by FEMA.
 - ❑ In February 2012 Moody's Investors Service affirmed an A2 underlying rating and removed the negative outlook on the City of Bridge City's General Obligation Bonds.
 - ❑ In late 2012, the City of Bridge City was able to issue Tax and Waterworks & Sanitary Sewer System Subordinate Lien Revenue Certificates of Obligation, Series 2012. The proceeds from the sale of the

Certificates will be used for all materials and labor to purchase and replace water meters and purchase and install the AMI (Advanced Metering Infrastructure) system

Economic factors for fiscal year 2013 – 2014:

- ❑ The City of Bridge City's adopted 2013 – 2014 ad valorem tax rate of .48345 will produce a 5.78% levy increase over the 2012 – 2013 tax rate of .48700.
- ❑ Three months into the 2013 – 2014 fiscal year, the Sales Tax collections have increased by 4.66%.
- ❑ In the 2013 – 2014 fiscal year, the City of Bridge City plans to issue Certificates of Obligation. The proceeds from the sale of the Certificates will be used for the Engineering Services for the appeal of the FEMA Digital Flood Insurance Rate Maps (DFIRM) for Orange County. This project is very important to the welfare of Bridge City in the future. The FEMA produced DFIRMs do not accurately depict the flood hazard threat at any point in Orange County. The Engineering firm will have the task of providing an improved hydraulic analysis that is more reliable, defensible, and is able to be defined on a site specific basis for developing DFIRMS and defining BFEs for Orange County with a very large portion lying in Bridge City. The remaining proceeds will be used for water and sewer infrastructure projects.

Hurricane Ike, 2008

Just two weeks after the city had evacuated for Hurricane Gustav, Hurricane Ike, the second most destructive hurricane of the 2008 Atlantic hurricane season, came ashore on September 13, 2008 at Galveston Island. The storm had been downgraded from a Category 4 hurricane to a strong Category 2. Ike's coastal landfall on the upper Texas coast left more devastation for its residents than many realize. Ike was an unusually large storm with a tropical storm wind field estimated to have been up to 400 miles across! Although Ike's powerful size may have not been reflected in the strength of its winds, the enormous size of Ike's wind field and time over the Gulf of Mexico produced a surge more characteristic of a Category 4 wind storm. In fact, Ike's integrated kinetic energy was among the highest of any Atlantic storm in the last 40 years, including Katrina.

Therefore, the resulting storm surge left a far more destructive effect on the coastal areas along the upper Texas coast than one would imagine from only experiencing the storm's wind. In addition, we could add even more height to the surge when the astronomical tide was in "sync" with the already terribly destructive storm surge. Storm tides of 10-15 feet were common in these areas.

Ike was the third costliest Atlantic hurricane of all time, behind Hurricane Katrina of 2005 and now Hurricane Sandy of 2012 that ranks second. The hurricane also resulted in the largest evacuation of Texans in the state's history. It also became the largest search-and-rescue operation in U.S. history.

Bridge City and the surrounding area would be on Ike's bad side, the right front quadrant that historically brings the heaviest rains and the highest storm surge. In Ike's case, torrential rains were accompanied by a tidal surge not seen since the Great Hurricane of 1900.

A declaration of disaster was issued on September 9, 2008 and a mandatory evacuation was issued at 6:00 AM on September 11, 2008. Hurricane Ike made landfall on September 13, 2008. The mandatory evacuation was lifted September 20, 2008.

By 1:30 a.m. Saturday, Sept. 13, flood waters were creeping into Bridge City homes. Within another 30 minutes, residents who stayed behind were fleeing to their attics as the storm surge rose toward ceilings in some cases. Every business and every home with the exception of fifteen (15) had anywhere from 3 inches to 8 foot of water in them.

In the flood water's wake, green lawns were littered with soggy salt grass, and a thick layer of silt covered roads. Homes and businesses were drenched with the black tar gumbo river mud. As residents began to return home, the stench of the storm's debris permeated the air. How are we going to rebuild? Where are these people going to live?

In September 2009, the City of Bridge City was awarded the first Disaster Recovery Grant for Hurricane Ike.

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the City of Bridge City's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Bridge City, City Secretary, P. O. Box 846, Bridge City, TX 77611.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE STATEMENTS

CITY OF BRIDGE CITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 2,337,159	\$ 1,478,740	\$ 3,815,899
Receivables (net of allowance for uncollectibles)	1,306,567	424,010	1,730,577
Inventories	60,314	-	60,314
Prepaid Items	4,778	-	4,778
Capital Assets:			
Land	370,793	53,420	424,213
Infrastructure, net	8,113,144	-	8,113,144
Buildings, net	990,720	18,293	1,009,013
Machinery and Equipment, net	1,618,082	-	1,618,082
Furniture and Fixtures, net	84,389	1,896,471	1,980,860
Construction in Progress	979,538	1,768,815	2,748,353
Total Assets	<u>15,865,484</u>	<u>5,639,749</u>	<u>21,505,233</u>
LIABILITIES			
Accounts Payable	188,475	414,728	603,203
Intergovernmental Payable	-	3,762	3,762
Accrued Interest Payable	22,367	-	22,367
Other Current Liabilities	60,279	38,275	98,554
Noncurrent Liabilities			
Due Within One Year	711,321	-	711,321
Due in More Than One Year	2,555,000	-	2,555,000
Total Liabilities	<u>3,537,442</u>	<u>456,765</u>	<u>3,994,207</u>
NET POSITION			
Net Investment in Capital Assets	9,021,666	3,736,999	12,758,665
Unrestricted Net Position	3,306,376	1,445,985	4,752,361
Total Net Position	<u>\$ 12,328,042</u>	<u>\$ 5,182,984</u>	<u>\$ 17,511,026</u>

The notes to the Financial Statements are an integral part of this statement.

**CITY OF BRIDGE CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

		Program Revenues	
		Charges for Services	Operating Grants and Contributions
	Expenses		
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Personnel and Purchasing	\$ 70,195	\$ -	\$ -
City Manager	131,691	-	-
City Secretary	98,379	-	-
Municipal Court	140,596	364,468	-
City Attorney	37,070	-	-
Administration	251,665	-	-
Municipal Court Judges	18,140	-	-
Finance	129,197	-	-
Police	1,952,420	-	-
Fire	8,376	-	-
Animal Control	66,857	1,251	-
Streets and Drainage	2,058,106	169,964	-
Parks and Recreation	69,007	-	-
Library	136,806	5,335	-
Community Development	203,428	-	-
Bond Interest	105,975	-	-
Fiscal Agent's Fees	2,000	-	-
Total Governmental Activities:	5,479,908	541,018	-
BUSINESS-TYPE ACTIVITIES:			
	2,433,066	2,687,487	-
Total Business-Type Activities:	2,433,066	2,687,487	-
TOTAL PRIMARY GOVERNMENT:	\$ 7,912,974	\$ 3,228,505	\$ -

General Revenues:

Taxes:

Property Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Other Taxes

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Special Item - Resource

Extraordinary Item - Resource

Special Item (Use)

Extraordinary Item - (Use)

Transfers In (Out)

Total General Revenues, Special Items, and Transfers

Change in Net Position

Net Position - Beginning

Net Position--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (70,195)	\$ -	\$ (70,195)
(131,691)	-	(131,691)
(98,379)	-	(98,379)
223,872	-	223,872
(37,070)	-	(37,070)
(251,665)	-	(251,665)
(18,140)	-	(18,140)
(129,197)	-	(129,197)
(1,952,420)	-	(1,952,420)
(8,376)	-	(8,376)
(65,606)	-	(65,606)
(1,888,142)	-	(1,888,142)
(69,007)	-	(69,007)
(131,471)	-	(131,471)
(203,428)	-	(203,428)
(105,975)	-	(105,975)
(2,000)	-	(2,000)
(4,938,890)	-	(4,938,890)
-	254,421	254,421
-	254,421	254,421
(4,938,890)	254,421	(4,684,469)
822,564	-	822,564
761,128	-	761,128
1,262,087	-	1,262,087
423,732	-	423,732
173,860	-	173,860
28,337	-	28,337
32,662	-	32,662
103,602	-	103,602
5,199	1,574	6,773
85,012	-	85,012
3,895,064	364,727	4,259,791
(77,400)	-	(77,400)
(1,805,739)	(364,727)	(2,170,466)
(1,201,335)	1,201,335	-
4,508,773	1,202,909	5,711,682
(430,117)	1,457,330	1,027,213
12,758,159	3,725,654	16,483,813
\$ 12,328,042	\$ 5,182,984	\$ 17,511,026

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF BRIDGE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 469,744	\$ 805,316	\$ 1,062,099	\$ 2,337,159
Taxes Receivable (Net)	195,273	78,840	10,619	284,732
Receivables (Net)	6,110	-	27,228	33,338
Inventories	60,314	-	-	60,314
Prepaid Items	4,778	-	-	4,778
Total Assets	<u>\$ 736,219</u>	<u>\$ 884,156</u>	<u>\$ 1,099,946</u>	<u>\$ 2,720,321</u>
LIABILITIES				
Accounts Payable	\$ 181,276	\$ -	\$ 131	\$ 181,407
Wages and Salaries Payable	7,068	-	-	7,068
Other Current Liabilities	39,795	-	20,484	60,279
Total Liabilities	<u>228,139</u>	<u>-</u>	<u>20,615</u>	<u>248,754</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	64,352	78,840	-	143,192
Total Inflows of Resources	<u>64,352</u>	<u>78,840</u>	<u>-</u>	<u>143,192</u>
FUND BALANCES				
Inventories	60,314	-	-	60,314
Restricted	-	-	1,079,331	1,079,331
Retirement of Long-Term Debt	-	805,316	-	805,316
Unassigned Fund Balance	383,414	-	-	383,414
Total Fund Balances	<u>443,728</u>	<u>805,316</u>	<u>1,079,331</u>	<u>2,328,375</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 736,219</u>	<u>\$ 884,156</u>	<u>\$ 1,099,946</u>	<u>\$ 2,720,321</u>

The notes to the financial statements are an integral part of this statement.

CITY OF BRIDGE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2013

Total Fund Balances - Governmental Funds	\$ 2,328,375
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$26,384,684 and the accumulated depreciation was \$14,028,060. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	9,452,254
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase net position.	823,392
The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,385,301)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	1,109,322
Net Position of Governmental Activities	\$ 12,328,042

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT C-3

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 816,476	\$ 753,450	\$ -	\$ 1,569,926
General Sales and Use Taxes	1,262,087	-	-	1,262,087
Franchise Tax	423,732	-	-	423,732
Other Taxes	67,639	-	106,221	173,860
Penalty and Interest on Taxes	14,096	14,241	-	28,337
Licenses and Permits	35,986	-	-	35,986
Intergovernmental Revenue and Grants	1,000	-	-	1,000
Charges for Services	74,965	-	177,485	252,450
Fines	304,293	-	188	304,481
Investment Earnings	811	1,938	2,450	5,199
Contributions & Donations from Private Sources	-	-	31,662	31,662
Other Revenue	16,830	-	10,297	27,127
Total Revenues	3,017,915	769,629	328,303	4,115,847
EXPENDITURES:				
Current:				
General Government:				
Personnel and Purchasing	70,195	-	-	70,195
City Manager	131,691	-	-	131,691
City Secretary	98,379	-	-	98,379
Municipal Court	121,954	-	17,935	139,889
City Attorney	37,070	-	-	37,070
Administration	242,129	-	-	242,129
Municipal Court Judges	18,140	-	-	18,140
Finance	129,197	-	-	129,197
Public Safety:				
Police	1,978,128	-	16,807	1,994,935
Fire	8,376	-	-	8,376
Animal Control	66,532	-	-	66,532
Streets and Drainage	803,069	-	11,666	814,735
Culture and Recreation:				
Parks and Recreation	63,561	-	-	63,561
Library	131,883	-	30,441	162,324
Community Development	203,044	-	-	203,044
Debt Service:				
Bond Principal	-	620,000	-	620,000
Bond Interest	-	100,408	-	100,408
Fiscal Agent's Fees	-	2,000	-	2,000
Total Expenditures	4,103,348	722,408	76,849	4,902,605
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,085,433)	47,221	251,454	(786,758)
OTHER FINANCING SOURCES (USES):				
Capital-related Debt Issued (Regular Bonds)	-	-	2,230,012	2,230,012
Cost of Bond Issuance	-	-	(77,400)	(77,400)
Transfers In	755,353	-	10,000	765,353
Transfers Out (Use)	(10,000)	-	(1,956,688)	(1,966,688)
Total Other Financing Sources (Uses)	745,353	-	205,924	951,277
EXTRAORDINARY ITEMS:				
Extraordinary Item - Resource	-	-	2,657,775	2,657,775
Extraordinary Item - (Use)	-	-	(2,785,277)	(2,785,277)
Net Change in Fund Balances	(340,080)	47,221	329,876	37,017
Fund Balance - October 1 (Beginning)	783,808	758,095	749,455	2,291,358
Fund Balance - September 30 (Ending)	\$ 443,728	\$ 805,316	\$ 1,079,331	\$ 2,328,375

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Total Net Change in Fund Balances - Governmental Funds	\$ 37,017
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays and debt principal payments is to increase the change in net position.	823,392
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(1,385,301)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.	94,775
Change in Net Position of Governmental Activities	<u><u>\$ (430,117)</u></u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT C-5

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 907,000	\$ 907,000	\$ 816,476	\$ (90,524)
General Sales and Use Taxes	1,225,000	1,225,000	1,262,087	37,087
Franchise Tax	475,000	475,000	423,732	(51,268)
Other Taxes	63,000	63,000	67,639	4,639
Penalty and Interest on Taxes	14,400	14,400	14,096	(304)
Licenses and Permits	45,500	45,500	35,986	(9,514)
Intergovernmental Revenue and Grants	-	-	1,000	1,000
Charges for Services	110,900	110,900	74,965	(35,935)
Fines	585,000	585,000	304,293	(280,707)
Investment Earnings	900	900	811	(89)
Other Revenue	18,000	18,000	16,830	(1,170)
Council Auth. Use of Reserves	142,030	142,030	-	(142,030)
Total Revenues	3,586,730	3,586,730	3,017,915	(568,815)
EXPENDITURES:				
Current:				
General Government:				
Personnel and Purchasing	71,993	71,993	70,195	1,798
City Manager	131,283	131,798	131,691	107
City Secretary	99,289	100,569	98,379	2,190
Municipal Court	147,829	147,644	121,954	25,690
City Attorney	37,946	37,946	37,070	876
Administration	280,459	289,374	242,129	47,245
Municipal Court Judges	17,958	18,143	18,140	3
Finance	131,329	131,329	129,197	2,132
Public Safety:				
Police	1,942,937	1,942,937	1,978,128	(35,191)
Fire	9,700	9,700	8,376	1,324
Animal Control	68,882	68,882	66,532	2,350
Streets and Drainage	783,251	784,861	803,069	(18,208)
Culture and Recreation:				
Parks and Recreation	78,008	78,508	63,561	14,947
Library	133,290	133,420	131,883	1,537
Community Development	197,561	209,611	203,044	6,567
Contingency	25,000	-	-	-
Total Expenditures	4,156,715	4,156,715	4,103,348	53,367
Excess (Deficiency) of Revenues Over (Under) Expenditures	(569,985)	(569,985)	(1,085,433)	(515,448)
OTHER FINANCING SOURCES (USES):				
Transfers In	569,985	569,985	755,353	185,368
Transfers Out (Use)	-	-	(10,000)	(10,000)
Total Other Financing Sources (Uses)	569,985	569,985	745,353	175,368
Net Change in Fund Balances	-	-	(340,080)	(340,080)
Fund Balance - October 1 (Beginning)	783,808	783,808	783,808	-
Fund Balance - September 30 (Ending)	\$ 783,808	\$ 783,808	\$ 443,728	\$ (340,080)

The notes to the Financial Statements are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF BRIDGE CITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,478,740
Accounts Receivable-Net of Uncollectible Allowance	424,010
Total Current Assets	<u>1,902,750</u>
Noncurrent Assets:	
Capital Assets:	
Land	53,420
Buildings	18,293
Machinery and Equipment	12,195,610
Accumulated Depreciation	(10,299,139)
Construction in Progress	1,768,815
Total Noncurrent Assets	<u>3,736,999~</u>
Total Assets	<u>5,639,749</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	88,316
Wages and Salaries Payable	2,275
Compensated Absences Payable	36,815
Customer Advance Payments Received, Not Earned	287,322
Intergovernmental Payable	3,762
Other Current Liabilities	38,275
Total Liabilities	<u>456,765</u>
NET POSITION	
Net Investment in Capital Assets	3,736,999
Unrestricted Net Position	1,445,985~
Total Net Position	<u>\$ 5,182,984</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT D-2

	Business Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Water Services	\$ 991,699
Charges for Sewerage Service	924,692
Charges for Sanitation Service	667,626
Prop.Fund Charges for Services - Other	103,470
Total Operating Revenues	<u>2,687,487</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	687,644
Personnel Services - Employee Benefits	280,980
Purchased Professional & Technical Services	149,332
Purchased Property Services	720,277
Other Operating Expenses	142,965
Supplies	126,537
Depreciation	325,331
Total Operating Expenses	<u>2,433,066</u>
Operating Income	<u>254,421</u>
NON-OPERATING REVENUES (EXPENSES):	
Transfers In	1,768,815
Investment Earnings	1,574
Total Non-operating Revenue (Expenses)	<u>1,770,389</u>
Income Before Transfers	2,024,810
Transfers Out	(567,480)
Extraordinary Item - Resource	364,727
Extraordinary Item - (Use)	(364,727)
Change in Net Position	1,457,330
Total Net Position October 1 (Beginning)	<u>3,725,654</u>
Total Net Position September 30 (Ending)	<u>\$ 5,182,984</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF BRIDGE CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Business Type Activities</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 2,776,450
Cash Payments to Employees for Services	(963,144)
Cash Payments for Suppliers	(126,537)
Cash Payments for Other Operating Expenses	(1,080,368)
Net Cash Provided by Operating Activities	<u>606,401</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfers	<u>1,201,335</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(1,855,505)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>1,574</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(46,195)
Cash and Cash Equivalents at Beginning of the Year:	<u>1,524,935</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 1,478,740</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 254,421
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	325,331
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	88,963
Decrease (increase) in Prepaid Expenses	2,051
Increase (decrease) in Accounts Payable	(80,390)
Increase (decrease) in Other Payables	16,025
Net Cash Provided by Operating Activities	<u>\$ 606,401</u>

The notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF BRIDGE CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bridge City (the "City") was incorporated in 1970 under the provision of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a council-manager form of government and provides the following services as authorized by its charter: Public Safety - Police and Fire, Highways and Streets, Sanitation, Health and Social Services, Culture, Recreation, Public Improvements, Planning and Zoning, and General Administrative Services.

A. REPORTING ENTITY

The Mayor and Council are elected by the public and they have the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Council ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Bridge City nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" columns include amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Council pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. FUND ACCOUNTING

The City reports the following major governmental funds:

1. **The General Fund** – The General Fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

2. **The Debt Service Fund** - The Debt Service Fund accounts for the accumulation of resources to pay principal and interest on long-term debt.

The City reports the following major enterprise fund(s):

1. **The Utility Fund** - The Utility Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing utility services to the general public on a continuing basis are financed through user charges.

Additionally, the City reports the following fund type(s):

Governmental Funds:

1. **Capital Projects Funds** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.
2. **Special Revenue Funds** - The Special Revenue Funds account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance often is accounted for in a Special Revenue Fund.

E. OTHER ACCOUNTING POLICIES

1. **Cash and Investments** For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. **Inventories** Inventories in the proprietary fund consist primarily of supplies for water and sewer repairs, valued at cost, which approximates market. Cost is determined using the first-in first-out method. The cost of inventories is recorded as expenditures/expenses when consumed rather than when purchased.
3. **Long-term Debt** In the government-wide financial statements, and 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 position. 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. **Compensated Absences** Accumulated unpaid vacation is accrued when incurred in the proprietary fund. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The amount expected to be repaid from current resources is not significant.

5. ***Property, Plant and Equipment*** Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns 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. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Infrastructure	20
Furniture & Fixtures	10
Machinery & Equipment	3-10

6. ***Insurance Programs*** The City provides all regular full-time and part-time employees with group health, dental, life and accidental death and dismemberment benefits. In addition, the City offers dependent health and dental coverage at the employee's expense.
7. ***Fund Balance*** Restricted fund balance includes the portion of net resources on which limitations are imposed by external parties, constitutional provisions, or enabling legislation. Committed fund balance includes the portion of net resources upon which the City Council has imposed limitation on use. Commitments may be changed or lifted only by the Council taking the same formal action that originally imposed the constraint. Unassigned fund balance is the residual classification for the general fund, available for any purpose.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the year	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$ 370,793	\$	\$ 370,793	
Buildings	1,575,254	551,635	1,023,619	
Furniture & Fixtures	163,332	62,610	100,722	
Machinery & Equipment	3,156,697	1,395,029	1,761,668	
Infrastructure	<u>21,118,607</u>	<u>12,018,790</u>	<u>9,099,817</u>	
Change in Net Position				<u>12,356,619</u>

Long-term Liabilities at the Beginning of the year	<u>Payable at the Beginning of the Year</u>	
Bonds Payable	1,610,000	
Notes Payable	1,175,289	
Compensated Absences	<u>119,076</u>	
Change in Net Position		<u>(2,904,365)</u>
Net Adjustment to Net Position		<u>\$ 9,452,254</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current Year Capital Outlay</u>			
Machinery & Equipment	\$ 175,369		
Buildings	30,441		
Construction in Progress	<u>979,538</u>		
Total Capital Outlay	<u>1,185,348</u>	<u>1,185,348</u>	<u>1,185,348</u>
<u>Debt Principal Issuance & Payments</u>			
Bond Principal	(1,525,000)		
Note Principal	1,175,289		
Other	<u>(12,245)</u>		
Total Change in Debt Principal	<u>(361,956)</u>	<u>(361,956)</u>	<u>(361,956)</u>
Total Adjustments to Net Position		<u>\$ 823,392</u>	<u>\$ 823,392</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 26,657	\$(26,657)	-
Uncollected Taxes (assumed collectible) from Current Year Levy	44,885	44,885	44,885
Uncollected Taxes (assumed collectible) from Prior Year Levy	98,307		98,307
Difference in prior year estimated collectible and current year collections	(4,462)	(4,462)	
Accrued interest on long-term debt	22,367	(22,367)	(22,367)
Prior year accrued interest on long-term debt	78,800	78,800	
Reclassify fines receivable assessed but not received this year		24,576	988,497
Total		<u>\$ 94,775</u>	<u>\$ 1,109,322</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

As set forth in the City Charter, the City Council adopts an annual budget for the General Fund, Debt Service Fund, Capital Projects Fund, and the Enterprise Fund. Accordingly, all property tax revenues are budgeted to be received in the General Fund, although actual receipts are recorded in both the General Fund and the Debt Service Fund. The annual budgets for the General Fund, Debt Service Fund, and Capital Projects Fund are prepared in accordance with the basis of accounting utilized by that fund. The budget for the Enterprise Fund is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, nonoperating income and expense items are not considered. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter the total expenditures/expenses must be approved by the City Council. Prior to year-end, the City Council adopts an amended budget approving such additional expenditures/expenses. The amended budgets for the General Fund and Debt Service Fund are presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2013, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,381,661 and the bank balance was \$2,474,718. The City's cash deposits at September 30, 2013 and during the year ended September 30, 2013 were not entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Bridge City State Bank.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$4,323,104 and the par value was \$4,520,000.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$4,897,293 and occurred during the month of February.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$250,000.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Cash or Investments that are insured, registered or held by the City or by its agent in the City's name.

Category 2 - Cash or Investments that are uninsured and unregistered held by the counter-party's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the City's name.

Based on these three levels of risk, all of the City's investments are classified as Category 1.

The City's investments at September 30, 2013, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Category</u>
TexPool Local Government Investment Pool	\$ 954,046	\$ 954,046	1
TexStar	\$ 480,192	\$ 480,192	1

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

There were no interfund balances due at September 30, 2013.

Interfund transfers for the year ended September 30, 2013, consisted of the following individual amounts:

Transfers to General Fund from:

Utility Fund	\$ 567,480
Thwarting Fund	900
Hurricane Ike Disaster Fund	<u>186,973</u>
	\$ 755,353

Transfer to Utility Fund from:

Capital Projects Fund	<u>\$ 1,768,815</u>
	\$ 1,768,815

Transfer to Park Construction Fund from:

General Fund	<u>\$ 10,000</u>
	\$ 10,000

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2013, were as follows:

	<u>Property Taxes</u>	<u>Other Taxes</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:				
General Fund	\$ 64,353	\$ 130,920	\$ 6,110	\$ 201,383
Debt Service Fund	78,840	0	0	78,840
Other Funds	<u>0</u>	<u>10,619</u>	<u>27,228</u>	<u>37,847</u>
Total - Governmental Activities	\$ 143,193	\$ 141,539	\$ 33,338	\$ 318,070
Business-type Activities:				
Utility Fund	\$ 0	\$ 0	\$ 424,010	\$ 424,010
Total Business-Type Activities	\$ 0	\$ 0	\$ 424,010	\$ 424,010

Payables at September 30, 2013, were as follows:

	<u>Accounts</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:			
General Fund	\$ 181,276	\$ 46,863	\$ 228,139
Other Funds	<u>131</u>	<u>20,484</u>	<u>20,615</u>
Total - Gov. Activities	\$ 181,407	\$ 67,347	\$ 248,754
Business-Type Activities:			
Utility Fund	<u>\$ 88,316</u>	<u>\$ 44,312</u>	<u>\$ 132,628</u>
Total Bus. Type Activities	\$ 88,316	\$ 44,312	\$ 132,628

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2013, was as follows:

	<u>Primary Government</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 370,793	\$	\$	\$ 370,793
Buildings and Improvements	1,575,254	30,441		1,605,695
Furniture and Fixtures	163,332			163,332
Machinery and Equipment	3,156,697	175,369	(29,015)	3,303,051
Infrastructure	21,118,607			21,118,607
Construction in Progress		<u>979,538</u>		<u>979,538</u>
Totals at Historic Cost	<u>26,384,684</u>	<u>1,185,348</u>	<u>(29,015)</u>	<u>27,541,017</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(551,635)	(63,340)		(614,975)
Furniture and Fixtures	(62,610)	(16,333)		(78,943)
Machinery and Equipment	(1,395,029)	(318,955)	29,015	(1,684,969)
Infrastructure	<u>(12,018,790)</u>	<u>(986,673)</u>		<u>(13,005,463)</u>
Total Accumulated Depreciation	<u>(14,028,060)</u>	<u>(1,385,301)</u>	<u>29,015</u>	<u>(15,384,346)</u>
Governmental Activities Capital Assets, Net	<u>\$ 12,356,624</u>	<u>\$ (199,953)</u>	<u>\$</u>	<u>\$ 12,156,671</u>
Business-type Activities:				
Land	\$ 53,420			\$ 53,420
Buildings	18,293			18,293
Machinery & Equipment	12,108,920	86,690		12,195,610
Construction in Progress		<u>1,768,815</u>		<u>1,768,815</u>
Totals at Historic Cost	<u>12,180,633</u>	<u>1,855,505</u>		<u>14,036,138</u>
Less Accumulated Depreciation				
Buildings	(18,293)			(18,293)
Machinery & Equipment	<u>(9,955,516)</u>	<u>(325,331)</u>		<u>(10,280,847)</u>
Total Accumulated Depreciation	<u>(9,973,808)</u>	<u>(325,331)</u>		<u>(10,299,138)</u>
Business-type Activities Capital Assets, Net	<u>\$ 2,206,825</u>	<u>\$ 1,530,174</u>	<u>\$</u>	<u>\$ 3,736,999</u>

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 9,536
Court	707
Police Department	69,976
Streets & Drainage	1,294,004
Animal Control	325
Parks & Recreation	5,446
Community Development	384
Library	<u>4,923</u>
Total Depreciation Expense	\$ <u>1,385,301</u>

G. GENERAL LONG-TERM DEBT

General long-term debts consist of general obligation refunding bonds, and tax and waterworks and sewer system certificates of obligation, and compensated absences. These obligations are being paid from the annual property tax receipts, and accordingly are classified in the general long-term debt account group. A summary of the City's long-term debt transactions for the year ended September 30, 2013 are included in the following table:

<u>Description</u>	<u>Payable</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u>
	<u>Amounts</u>			
	<u>Outstanding</u>			
General Obligation Refunding Bonds, Series 1998	\$ 1,110,000	\$ 0	\$ 620,000	\$ 490,000
Tax & Revenue Certificates of Obligation, Series 1998	500,000	0	0	500,000
Certificates of Obligation Series 2012	0	2,145,000	0	2,145,000
Community Disaster Loan – Hurricane Ike	1,175,289	0	1,175,289	0
Compensated Absences	<u>119,076</u>	<u>141,170</u>	<u>128,925</u>	<u>131,321</u>
Total	<u>\$ 2,904,365</u>	<u>\$ 2,286,170</u>	<u>\$ 1,924,214</u>	<u>\$ 3,266,321</u>

On October 1, 1998, the City issued \$3,900,000 in General Obligation Refunding Bonds, Series 1998, to defease and advance refund certain obligations of the City, the General Obligation Refunding Bonds, Series 1994, and the Tax and Waterworks and Sewer System Subordinate Lien Certificates of Obligation, Series 1994. The proceeds from the Refunding bonds were used for the payment of the costs of issuance of the securities and to purchase US government securities which were deposited in an irrevocable trust held by an escrow agent to provide for debt service payments on the general obligation bonds and certificates of obligation. As a result, the general obligation bonds and certificates of obligation are considered defeased, and accordingly, the trust account assets and the liability for the defeased bonds and certificates are not included in the City's financial statements. At September 30, 2013, \$320,000 of bonds and \$175,000 of certificates outstanding are considered defeased.

On October 1, 1998, the city also issued \$500,000 in Tax and Waterworks and Sewer System Subordinate Lien Certificates of Obligation, Series 1998. The proceeds from the 1998 certificates are being used to pay for contractual obligations incurred for the construction of certain public works, including improvements to the City's waterworks and sewer system, improvements to the City's streets and roads, and the purchase of computer equipment, and to pay issuance costs related to the certificates.

On December 1, 2012, the city issued \$2,145,000 in Tax and Waterworks Certificates of Obligation, Series 2012. The proceeds from the 2012 certificates are being used to pay for contractual obligations incurred for the purchase and installation of a new water meter system and to pay issuance costs related to the certificates.

Long-term debts are comprised of the following individual issues at September 30, 2013:

<u>Description</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Series Matures</u>	<u>Outstanding</u>
General Obligation Refunding Bonds, Series 1998	3.625-4.15%	1998	2014	\$ 490,000
Tax and Waterworks and Sewer System Certificates of Obligation, Series 1998 Waterworks & Sewer	4.375%	1998	2015	500,000
Tax and Waterworks Certificates of Obligation, Series 2012	2.0-3.0%	2012	2027	<u>2,145,000</u>
				<u>\$ 3,135,000</u>

Annual debt service requirements to maturity for the general obligation refunding bonds and tax and waterworks and sewer system certificates of obligation outstanding at September 30, 2013 are as follows:

<u>Year Ending September 30,</u>	<u>General Obligation Refunding Bonds Series 1998</u>	<u>Tax and Waterworks and Sewer System Certificates of Obligation Series 1998</u>	<u>Tax and Waterworks Certificates of Obligation Series 2012</u>	<u>Annual Debt Service</u>
2014	\$ 510,335	\$ 111,875	\$ 52,180	\$ 674,390
2015		427,938	52,180	480,118
2016			207,180	207,180
2017			207,530	207,530
2018			207,730	207,730
Thereafter			1,848,090	1,848,090
Total	<u>\$ 510,335</u>	<u>\$ 539,813</u>	<u>\$ 2,574,890</u>	<u>\$ 3,625,038</u>

The general obligation refunding bonds and tax and waterworks and sewer system certificates of obligation series 1998 and 2012 include interest amounts of \$20,335, \$39,813, and \$429,890, respectively.

The Series 1998 Bonds maturing July 1, 2014, are subject to mandatory redemption prior to maturity on July 1 in each of the years and respective principal amounts set forth below, in each case at a redemption price equal to 100% of the principal amount plus accrued interest from the most recent interest payment date to the date of redemption.

Term Bonds Due July 1, 2014

<u>Year</u>	<u>Amount</u>
2014 (maturity)	\$ 490,000

The 1998 Certificates are subject to mandatory redemption prior to maturity on July 1 in each of the years and respective principal amounts set forth below, in each case at a redemption price equal to 100% of the principal amount plus accrued interest from the most recent interest payment date to the date of redemption.

Term Certificates Due July 1, 2015	
<u>Year</u>	<u>Amount</u>
2014	\$ 90,000
2015 (maturity)	410,000

In early 2009, the City requested and incurred a long term Promissory Note payable from the Community Disaster Loan Program managed by the Federal Emergency Management Agency (FEMA), United States Department of Homeland Security. The Community Disaster Loan Program provides operating funding to help local governments that have incurred a significant loss in revenue, due to a Presidential declared disaster, that has or will adversely affect the local government's ability to provide essential municipal services. FEMA approved a loan to the city in the amount of \$1,175,289. Interest on the loan is accrued annually based on an interest rate of 1.875%. In August 2009, the City took a draw on this Promissory Note in the amount of \$515,289. The balance of the Promissory Note was taken by the City in February 2010 in the amount of \$660,000. The City was notified on December 20, 2013 by FEMA that the entire loan amount of \$1,175,289 and the accrued interest of \$87,719 were forgiven.

H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon retirement of certain employees, the City pays up to 200 hours of accrued sick leave and all vacation leave in a lump cash payment to such employee. A summary of changes in the accumulated sick leave and vacation leave liability follows:

	<u>Sick Leave</u>	<u>Vacation Leave</u>
Balance September 30, 2012	\$ 665,622	\$ 150,412
Additions - New Entrants and Salary Increments	165,462	182,342
Deductions - Payments to Participants	<u>(95,377)</u>	<u>(164,617)</u>
Balance September 30, 2013	<u>\$ 735,707</u>	<u>\$ 168,137</u>

I. EMPLOYEE'S RETIREMENT PLAN

Plan Description The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

Plan provisions for the City were as follows:

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate:	7%	7%
Matching ratio (city to employee):	2 to 1	2 to 1
Years required for vesting	10	10
Service requirement eligibility (expressed as age/years of service)	60/10, 0/20	60/10, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 451,997
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	451,997
Contributions Made	(451,997)
Increase (decrease) to net pension	-
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	\$ -

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.6 years; closed period	25.6 years; closed period	24.7 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost of Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UALL as a Percentage of Covered Payroll
12/31/2012	\$ 11,700,489	\$ 14,960,383	78.2%	\$ 3,259,894	\$ 2,891,729	112.7%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$6,534, \$6,540 and \$6,777, respectively, which equaled the required contributions each year.

J. HEALTH CARE COVERAGE

The City provides all regular full-time and part-time employees with group health, dental, life and accidental death and dismemberment benefits. In addition, the City offers dependent and dental coverage at the employee's expense.

The City's current healthcare policy is with Aetna Insurance Company. After the \$3,000 deductible is met, the policy pays in-network at 100% and out-of-network at 70% with a lifetime maximum of \$5,000,000.

K. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds and Notes Payable					
General Obligation Bonds	\$ 1,110,000	\$ -	\$ (620,000)	\$ 490,000	\$ 490,000
Certificates of Obligation	500,000	2,145,000	-	2,645,000	90,000
Community Disaster Loan	1,175,289	-	(1,175,289)	-	-
Total Bonds and Notes Payable	2,785,289	2,145,000	(1,795,289)	3,135,000	580,000
Other Liabilities					
Compensated Absences	119,076	141,170	(128,925)	131,321	131,321
Total Other Liabilities	119,076	141,170	(128,925)	131,321	131,321
Total Governmental Activities	<u>\$ 2,904,365</u>	<u>\$ 2,286,170</u>	<u>\$ (1,924,214)</u>	<u>\$ 3,266,321</u>	<u>\$ 711,321</u>
Long-term Liabilities					
Business-type Activities					
Compensated Absences	\$ 31,335	\$ 41,172	\$ (35,692)	\$ 36,815	\$ 36,815
Total Business-type Activities	<u>\$ 31,335</u>	<u>\$ 41,172</u>	<u>\$ (35,692)</u>	<u>\$ 36,815</u>	<u>\$ 36,815</u>
Long-term Liabilities					

L. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$ 64,352	\$ 78,840	\$ 143,192
Total Deferred Revenue	\$ 64,352	\$ 78,840	\$ 143,192

M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 816,476	\$ 753,450		\$ 1,569,926
Other Taxes	1,753,458		\$ 106,221	1,859,679
Penalties and Interest on Taxes	14,096	14,241		28,337
Licenses and Permits	35,986			35,986
Fines	304,293		188	304,481
Charges for Services	74,965		177,485	252,450
Investment Earnings	811	1,938	2,450	5,199
Contributions and Donations			31,662	31,662
Other	17,830		10,297	28,127
Total	\$ 3,017,915	\$ 769,629	\$ 328,303	\$ 4,115,847

N. LITIGATION

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential loss on all claims and lawsuits will not be significant to the City's financial statements.

O. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

There were no joint venture-shared service arrangements for The City of Bridge City for the fiscal year ended September 30, 2013.

P. HURRICANE IKE

Hurricane Ike, 2008

As of the writing of this audit report, FEMA has committed approximately \$5.8 million in reimbursements for labor, equipment, debris removal, repairs to streets, drainage and for emergency shelters, showers and office trailers. As of September 2013, \$4,701,717 had been received from FEMA. The City has also been awarded an additional \$16 million in various grants awarded through the Texas General Land Office for street repairs, drainage repairs, and generators for water and sewer facilities, and an inflow and infiltration study, all of which are a result of Hurricane Ike. As of September 30, 2013, \$7,870,500 had been received from these grants.

Q. RELATED ORGANIZATIONS

There are no "related organizations" of the City as defined by *Governmental Accounting Standards Board Statement No. 14*.

R. SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through February 7, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UALL as a Percentage of Covered Payroll
12/31/2010	\$ 9,909,794	\$ 13,124,865	75.5%	\$ 3,215,071	\$ 2,619,584	122.7%
12/31/2011	\$ 10,769,228	\$ 13,950,497	77.2%	\$ 3,181,269	\$ 2,700,515	117.8%
12/31/2012	\$ 11,700,489	\$ 14,960,383	78.2%	\$ 3,259,894	\$ 2,891,729	112.7%

COMBINING AND INDIVIDUAL FUND STATEMENTS

CITY OF BRIDGE CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Hotel/ Motel Fund	Municipal Court Security	Street Maintenance Fund	Child Safety Fund
ASSETS				
Cash and Cash Equivalents	\$ 176,370	\$ 42,555	\$ 290,350	\$ 17,803
Taxes Receivable (Net)	10,619	-	-	-
Receivables (Net)	-	-	27,228	-
Total Assets	<u>\$ 186,989</u>	<u>\$ 42,555</u>	<u>\$ 317,578</u>	<u>\$ 17,803</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Other Current Liabilities	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted	186,989	42,555	317,578	17,803
Total Fund Balances	<u>186,989</u>	<u>42,555</u>	<u>317,578</u>	<u>17,803</u>
Total Liabilities and Fund Balances	<u>\$ 186,989</u>	<u>\$ 42,555</u>	<u>\$ 317,578</u>	<u>\$ 17,803</u>

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT H-1 (Cont'd)

Gambling Forfeiture	Municipal Court Technology	Police Special	Park Construction	Thwarting Fund	Police State Seizures	Library Expansion	Hurricane Ike Disaster Fund
\$ 27,683	\$ 20,464	\$ 55,544	\$ 12,067	\$ 32	\$ 670	\$ 33,394	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 27,683</u>	<u>\$ 20,464</u>	<u>\$ 55,544</u>	<u>\$ 12,067</u>	<u>\$ 32</u>	<u>\$ 670</u>	<u>\$ 33,394</u>	<u>\$ -</u>
\$ -	\$ 131	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20,484	-	-	-	-	-	-	-
<u>20,484</u>	<u>131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
7,199	20,333	55,544	12,067	32	670	33,394	-
<u>7,199</u>	<u>20,333</u>	<u>55,544</u>	<u>12,067</u>	<u>32</u>	<u>670</u>	<u>33,394</u>	<u>-</u>
<u>\$ 27,683</u>	<u>\$ 20,464</u>	<u>\$ 55,544</u>	<u>\$ 12,067</u>	<u>\$ 32</u>	<u>\$ 670</u>	<u>\$ 33,394</u>	<u>\$ -</u>

CITY OF BRIDGE CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Hurricane Ike Recovery DRS100001	Hurricane Ike Recovery DRS220001	Hurricane Ike Recovery DRS210001	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and Cash Equivalents	\$ -	\$ -	\$ 258	\$ 677,190
Taxes Receivable (Net)	-	-	-	10,619
Receivables (Net)	-	-	-	27,228
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 258</u>	<u>\$ 715,037</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ 131
Other Current Liabilities	-	-	-	20,484
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,615</u>
FUND BALANCES				
Restricted	-	-	258	694,422
Total Fund Balances	<u>-</u>	<u>-</u>	<u>258</u>	<u>694,422</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 258</u>	<u>\$ 715,037</u>

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT H-1

Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 384,909	\$ 1,062,099
-	10,619
-	27,228
<u>\$ 384,909</u>	<u>\$ 1,099,946</u>
\$ -	\$ 131
-	20,484
-	20,615
<u>384,909</u>	<u>1,079,331</u>
<u>384,909</u>	<u>1,079,331</u>
<u>\$ 384,909</u>	<u>\$ 1,099,946</u>

CITY OF BRIDGE CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Hotel/ Motel Fund	Municipal Court Security	Street Maintenance Fund	Child Safety Fund
REVENUES:				
Taxes:				
Other Taxes	\$ 106,221	\$ -	\$ -	\$ -
Charges for Services	-	5,447	164,529	-
Fines	-	-	-	-
Investment Earnings	335	90	562	38
Contributions & Donations from Private Sources	-	-	-	-
Other Revenue	-	-	-	1,389
Total Revenues	<u>106,556</u>	<u>5,537</u>	<u>165,091</u>	<u>1,427</u>
EXPENDITURES:				
Current:				
General Government:				
Municipal Court		2,540		
Public Safety:				
Police		-	-	
Streets and Drainage	-	-	11,666	-
Culture and Recreation:				
Library	-	-	-	-
Total Expenditures	<u>-</u>	<u>2,540</u>	<u>11,666</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>106,556</u>	<u>2,997</u>	<u>153,425</u>	<u>1,427</u>
OTHER FINANCING SOURCES (USES):				
Capital-related Debt Issued (Regular Bonds)	-	-	-	-
Cost of Bond Issuance	-	-	-	-
Transfers In	-	-	-	-
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXTRAORDINARY ITEMS:				
Extraordinary Item - Resource	-	-	-	-
Extraordinary Item - (Use)	-	-	-	-
Net Change in Fund Balance	<u>106,556</u>	<u>2,997</u>	<u>153,425</u>	<u>1,427</u>
Fund Balance - October 1 (Beginning)	<u>80,433</u>	<u>39,558</u>	<u>164,153</u>	<u>16,376</u>
Fund Balance - September 30 (Ending)	<u>\$ 186,989</u>	<u>\$ 42,555</u>	<u>\$ 317,578</u>	<u>\$ 17,803</u>

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT H-2 (Cont'd)

Gambling Forfeiture	Municipal Court Technology	Police Special	Park Construction	Thwarting Fund	Police State Seizures	Library Expansion	Hurricane Ike Disaster Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	7,509	-	-	-	-	-
-	-	-	-	188	-	-	-
48	44	129	21	1	1	61	-
-	-	-	262	-	-	31,400	-
545	8,363	-	-	-	-	-	-
593	8,407	7,638	283	189	1	31,461	-
-	15,315	-	-	80	-	-	-
425	-	16,382	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	30,441	-
425	15,315	16,382	-	80	-	30,441	-
168	(6,908)	(8,744)	283	109	1	1,020	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	10,000	-	-	-	-
-	-	-	-	(900)	-	-	(186,973)
-	-	-	10,000	(900)	-	-	(186,973)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(127,752)
168	(6,908)	(8,744)	10,283	(791)	1	1,020	(314,725)
7,031	27,241	64,288	1,784	823	669	32,374	314,725
\$ 7,199	\$ 20,333	\$ 55,544	\$ 12,067	\$ 32	\$ 670	\$ 33,394	\$ -

CITY OF BRIDGE CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Hurricane Ike Recovery DRS100001	Hurricane Ike Recovery DRS220001	Hurricane Ike Recovery DRS210001	Total Nonmajor Special Revenue Funds
REVENUES:				
Taxes:				
Other Taxes	\$ -	\$ -	\$ -	\$ 106,221
Charges for Services	-	-	-	177,485
Fines	-	-	-	188
Investment Earnings	-	-	8	1,338
Contributions & Donations from Private Sources	-	-	-	31,662
Other Revenue	-	-	-	10,297
Total Revenues	-	-	8	327,191
EXPENDITURES:				
Current:				
General Government:				
Municipal Court				17,935
Public Safety:				
Police				16,807
Streets and Drainage	-	-	-	11,666
Culture and Recreation:				
Library	-	-	-	30,441
Total Expenditures	-	-	-	76,849
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	8	250,342
OTHER FINANCING SOURCES (USES):				
Capital-related Debt Issued (Regular Bonds)	-	-	-	-
Cost of Bond Issuance	-	-	-	-
Transfers In	-	-	-	10,000
Transfers Out (Use)	-	-	-	(187,873)
Total Other Financing Sources (Uses)	-	-	-	(177,873)
EXTRAORDINARY ITEMS:				
Extraordinary Item - Resource	1,677,987	-	979,788	2,657,775
Extraordinary Item - (Use)	(1,677,987)	-	(979,538)	(2,785,277)
Net Change in Fund Balance	-	-	258	(55,033)
Fund Balance - October 1 (Beginning)	-	-	-	749,455
Fund Balance - September 30 (Ending)	\$ -	\$ -	\$ 258	\$ 694,422

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT H-2

Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 106,221
-	177,485
-	188
1,112	2,450
-	31,662
-	10,297
<u>1,112</u>	<u>328,303</u>
	17,935
	16,807
-	11,666
-	30,441
-	76,849
<u>1,112</u>	<u>251,454</u>
2,230,012	2,230,012
(77,400)	(77,400)
-	10,000
<u>(1,768,815)</u>	<u>(1,956,688)</u>
<u>383,797</u>	<u>205,924</u>
-	2,657,775
-	(2,785,277)
<u>384,909</u>	<u>329,876</u>
-	749,455
<u>\$ 384,909</u>	<u>\$ 1,079,331</u>

FEDERAL SECTION



keri michutka
CERTIFIED PUBLIC ACCOUNTANT

**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***

Mayor and City Council
City of Bridge City, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bridge City, as of and for the year ended September 30, 2013 which collectively comprise the City of Bridge City's basic financial statements and have issued our report thereon dated February 7, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose



Bridge City, Texas
February 7, 2014