

OFFICIAL STATEMENT DATED JUNE 19, 2018

NEW ISSUE - Book-Entry-Only

Ratings: Moody's: "Baa1"
(See "MUNICIPAL RATING" herein)

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the City (defined below) after the date of initial delivery of the Certificates (defined below) with certain covenants described in the Ordinance (defined below) and subject to the matter described herein under "TAX MATTERS", interest on the Certificates under existing statutes, regulations, published rulings and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under section 103 of the Code (defined herein) and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as described herein, corporations (see "TAX MATTERS" herein).

The City has Designated the Certificates as "Qualified Tax-Exempt Obligations."

See "PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS."

\$1,965,000

CITY OF BRIDGE CITY, TEXAS

(A political subdivision of the State of Texas located in Orange County, Texas)

TAX AND WATERWORKS & SANITARY SEWER SYSTEM SUBORDINATE

LIEN REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: July 1, 2018

Due: July 15, as shown on page ii

Interest to Accrue from Date of Delivery

The City of Bridge City, Texas (the "City") is issuing its \$1,965,000 Tax and Waterworks & Sanitary Sewer System Subordinate Lien Revenue Certificates of Obligation, Series 2018 (the "Certificates"). The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, including particularly the Certificate of Obligation Act of 1971, Chapter 271, Subchapter C, as amended, Texas Local Government Code, the City's Home Rule Charter (the "Charter"), and an ordinance adopted by the City Council of the City (the "City Council") on June 19, 2018 (the "Ordinance").

The Certificates are general obligations of the City and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Certificates, as such interest and principal become due, have been levied and ordered to be levied against all taxable property in the City, and have been pledged for such payment within the limits prescribed by law. The Certificates are additionally secured by and payable from a subordinate lien on and pledge of the surplus revenues, after deduction of expenses of operation and maintenance of the City's water and sewer system (the "System"). (See "THE CERTIFICATES – Security and Sources of Payment" and "TAX INFORMATION-Tax Rate Limitations" herein.) The City previously authorized the issuance of Previously Issued Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by surplus revenues of the System in the manner provided in the ordinances authorizing the issuance of such Obligations. In the Ordinance, the City reserves and retains the right to issue Additional Obligations (as identified in the Ordinance), while the Certificates are outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise.

Interest on the Certificates will accrue from the their date of initial delivery to the Underwriter (defined below) and will be payable on January 15, 2019, and on each July 15 and January 15 thereafter until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Certificates for so long as the Certificates are maintained in DTC's Book-Entry-Only System. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates (the "Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as Paying Agent/Registrar, to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS,
CUSIP NUMBERS AND REDEMPTION PROVISIONS RELATING TO THE CERTIFICATES

The Certificates are offered for delivery, when issued, to the initial purchasers thereof named below (the "Underwriter") subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Germer PLLC, Beaumont, Texas, Bond Counsel for the City (see "LEGAL MATTERS", "TAX MATTERS", and "APPENDIX D-Form of Opinion of Bond Counsel"). Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Antonio, Texas. It is anticipated that the definitive Certificates will be tendered for delivery through the services of DTC on or about July 24, 2018.

SAMCO CAPITAL MARKETS, INC.

MATURITY SCHEDULE

\$1,965,000

City of Bridge City, Texas

**Tax and Waterworks & Sanitary Sewer System Subordinate Lien
Revenue Certificates of Obligation, Series 2018**

CUSIP Prefix: 108039⁽¹⁾

\$1,360,000 SERIAL CERTIFICATES

Stated Maturity (July 15)	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix⁽¹⁾
2019	30,000	5.000	2.000	EL8
2020	50,000	5.000	2.300	EM6
2021	65,000	5.000	2.600	EN4
2022	80,000	5.000	2.800	EP9
2023	105,000	5.000	3.000	EQ7
***	***	***	***	***
2028	365,000	5.000	3.150 ⁽²⁾	EV6
2029	380,000	5.000	3.200 ⁽²⁾	EW4
2030	285,000	5.000	3.250 ⁽²⁾	EX2

\$605,000 TERM CERTIFICATES

\$270,000 3.000% Term Certificate Due July 15, 2025 and priced to yield 3.300% - CUSIP Suffix ES3⁽¹⁾

\$335,000 5.000% Term Certificate Due July 15, 2027 and priced to yield 3.100%⁽²⁾ - CUSIP Suffix EU8⁽¹⁾

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the City, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on July 15, 2024, the first optional call date for the Certificates, at a redemption price of par plus accrued interest to the redemption date.

Redemption. The Certificates stated to mature on and after July 15, 2025, are subject to redemption, at the option of the City, in whole or in part, on July 15, 2024 or any date thereafter, at the price of par plus accrued interest to the date fixed for redemption. The Certificates maturing on July 15, 2025 and July 15, 2027 (the "Term Certificates") are also subject to mandatory sinking fund redemption prior to stated maturity. (See "THE CERTIFICATES – Redemption" herein.)

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CITY OFFICIALS, STAFF AND CONSULTANTS

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>	<u>Occupation</u>
David Rutledge	Mayor	2020	Mechanical Engineer
Eric Andrus	Mayor Pro-Tem	2020	Printer
Tammi Fisette	Councilmember	2019	Human Resource Manager
Carl Harbert	Councilmember	2019	Retired Plant Manager
Kirk Roccaforte	Councilmember	2020	Self-Employed Mechanic
Terri Gauthier	Councilmember	2019	Retail Business Owner
Lucy Fields	Councilmember	2020	Retired Educator

Administration

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Jerry D. Jones	City Manager	17 years
Karen Morgan	Director of Finance	24 years
Sherry Tisdale	City Secretary	31 years
Paul M. Fukuda	City Attorney	13 years

Consultants

Bond Counsel Germer PLLC
 Beaumont, Texas

Certified Public Accountants Keri Michutka
 Bridge City, Texas

Financial AdvisorFTN Financial Municipal Advisors
 Houston, Texas

For Additional Information Contact:

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 Director of Finance
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 Bridge City, Texas 77611
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 kmorgan@bridgecitytx.com

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 Houston, Texas 77024
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USE OF INFORMATION IN OFFICIAL STATEMENT

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesman or other person has been authorized to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the Financial Advisor, or the Underwriter.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The agreements of the City and others related to the Certificates are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Certificates is to be construed as constituting an agreement with the purchasers of the Certificates. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

None of the City, the Financial Advisor, or the Underwriter make any representation or warranty with respect to the accuracy, completeness, or adequacy of the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its Book-Entry-Only System as such information was provided by DTC.

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OFFICIAL STATEMENT SUMMARY

This Official Statement Summary is subject in all respects to the more complete information contained therein. The offering of the Certificates to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Summary Statement from the Official Statement or otherwise to use same without the entire Official Statement.

The Issuer	The City of Bridge City, Texas (the “City”) was incorporated in 1970 under the provision of Act 279, P.A., 1909, as amended (the “Home Rule City Act”). The City operates under a “Council-Manager” form of government and is ruled by a home rule charter. The City Council is the legislative and governing body of the City and consists of a Mayor and six Council members. The City Council appoints the City Attorney, Municipal Court Judge and Associate Municipal Court Judge and City Secretary.
The Certificates	\$1,965,000 City of Bridge City, Texas, Tax and Waterworks & Sanitary Sewer System Subordinate Lien Revenue Certificates of Obligation, Series 2018 (the “Certificates”) are being issued in the principal amounts, maturities, and at the rates per annum as set forth on page ii hereof.
Interest	Interest on the Certificates accrues from the date of initial delivery (the “Delivery Date”) and is payable January 15, 2019 and each July 15 and January 15 thereafter until maturity or prior redemption.
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Certificates is The Bank of New York Mellon Trust Company, N.A., Houston, Texas.
Optional/Mandatory Redemption	The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after July 15, 2025, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on July 15, 2024, or any day thereafter at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Certificates (defined herein) are subject to mandatory redemption as described herein. <i>See</i> “THE CERTIFICATES - Redemption.”
Sources of Payment	Principal of and interest on the Certificates are payable from the receipts of a continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and from a subordinate pledge of certain surplus revenues, after dedication of expenses of operation and maintenance of the City’s water and sewer system (the “System”). <i>See</i> “THE CERTIFICATES - Sources of Payment”.
Use of Proceeds	Proceeds from the sale of the Certificates will be used for the design, construction, development, redevelopment, improvement or rehabilitation and equipping (i) water and wastewater system improvements for the City, including but not limited to, improvements for the wastewater treatment plant and collection facilities and repairs and improvements to the automatic water meter reading system, (ii) professional services for engineering, architectural, surveying, geotechnical, auditing, financial advisory, legal counsel, and (iii) cost of issuance of the Certificates. <i>See</i> “THE CERTIFICATES – Use of Proceeds.”

Book-Entry-Only System	The Certificates shall only be issued to Cede & Co., the nominee of DTC pursuant to a book-entry-only system. No physical delivery of the Certificates will be made to the beneficial owners of the Certificates. Principal of and interest on the Certificates will be paid to Cede & Co., which will distribute such payment to the participating members of DTC for remittance to the Beneficial Owners of the Certificates. <i>See</i> “Book-Entry-Only System.”
Payment Record	The City has never defaulted with respect to payment of debt service on any outstanding debt.
Municipal Bond Rating	Moody’s Investors Service, Inc. (“Moody’s”) has assigned an underlying rating of “Baa1” on the Certificates. <i>See</i> “MUNICIPAL RATING”.
Tax Exemption	In the opinion of Bond Counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and the Certificates are not private activity bonds. <i>See</i> “TAX MATTERS” for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.
Qualified Tax-Exempt Obligations	The Certificates have been designated as “qualified tax-exempt obligations” for financial institutions. <i>See</i> “PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS” herein.
Delivery	It is expected that the Certificates will be available for delivery through the facilities of DTC on or about July 24, 2018.
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State and the rendering of an opinion as to legality by Germer PLLC, Beaumont, Texas, Bond Counsel.

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\$1,965,000
CITY OF BRIDGE CITY, TEXAS
(A POLITICAL SUBDIVISION OF THE STATE OF TEXAS LOCATED IN ORANGE COUNTY, TEXAS)
TAX AND WATERWORKS & SANITARY SEWER SYSTEM
SUBORDINATE LIEN REVENUE CERTIFICATES OF OBLIGATION
SERIES 2018

INTRODUCTION

This Official Statement is provided to furnish information in connection with the offering of the City of Bridge City, Texas (the “City” or “Issuer”) Tax and Waterworks & Sanitary Sewer System Subordinate Lien Revenue Certificates of Obligation, Series 2018 (the “Certificates”) in the aggregate principal amount of \$1,965,000.

Capitalized terms used in this Official Statement have the same meanings assigned to such term in the Ordinance (defined herein), except as otherwise indicated herein. This Official Statement contains a description of the Certificates and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City by contacting City Secretary, Sherry Tisdale, at 260 Rachel Street, Bridge City, Texas 77611, Telephone (409) 735-6801, and during the offering period, from the City’s Financial Advisor, Seth McKinney, FTN Financial Municipal Advisors, 920 Memorial City Way, 11th Floor, Houston, Texas 77024, Telephone (713) 435-4300, upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the City’s undertaking to provide certain information on a continuing basis.

Effects of Hurricane Harvey

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast before stalling over the Houston-Galveston region (the “Region”) and producing significant flooding. Many residences and commercial and industrial properties (including City-owned facilities) in the Region sustained damage, some of which was severe. Approximately 800 residences within the City were damaged due to Harvey-related flooding. The City assisted with traffic control, water rescues, debris removal, and setting up points of distribution for supplies and necessities that were donated from outside sources to help the citizens of the City and the surrounding area. Additionally, certain City-owned facilities were damaged. These facilities, though, were returned to full operation as soon as the flood waters receded and such damage did not have a substantial negative effect on their continuing operation. Certain other City-owned recreational facilities, including the library and the citizens hall and community center, were closed for renovations for a period of time due to the flooding but have since re-opened and are fully-operational.

On August 25, 2017, the President of the United States issued a major disaster declaration that included Orange County, Texas (where the City is located). The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the United States Public Assistance program. The City continues to assess, repair, and mitigate the damages caused by Hurricane Harvey. There are extraordinary costs associated and recorded in the City’s general fund from Hurricane Harvey, including significant overtime pay for City personnel, and the City is working with the Texas Municipal League (“TML”), Texas Department of Emergency Management (“TDEM”), and the Federal Emergency Management Agency (“FEMA”) to recoup any and all eligible costs. Additionally, the City also intends to file insurance claims to cover eligible losses at sites that sustained damage. The City does not anticipate a significant decrease in the property values within the City as a result of Hurricane Harvey. See also “APPENDIX B – Economic and Demographic Information – Economy” for additional discussion regarding the impact prior hurricanes have had on the City and the City’s economy.

THE CERTIFICATES

Authority for Issuance

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, including particularly the Certificate of Obligation Act of 1971, Chapter 271, Subchapter C, as amended, Texas Local Government Code, the City's Home Rule Charter (the "Charter"), and an ordinance adopted by the City Council of the City (the "City Council") on June 19, 2018 (the "Ordinance").

General Description

The Certificates are dated July 1, 2018 and are issued in principal denominations of \$5,000 or any integral multiple thereof. The Certificates bear interest from such date at the stated interest rates indicated on the page ii hereof. Interest on the Certificates will be calculated on the basis of a 360-day year of twelve 30-day months, and will be payable on January 15, 2019 and each July 15 and January 15 thereafter, until the earlier of stated maturity or prior redemption.

The City intends to utilize the Book-Entry-Only System of The Depository Trust Company New York, New York ("DTC"), but reserves the right on its behalf or behalf of DTC to discontinue such system. Principal of the Certificates will be payable upon presentation by the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Houston, Texas (the "Paying Agent/Registrar"), through its offices located in Dallas, Texas (the "Designated Trust Office"), to Cede & Co., as nominee of DTC. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment of the owners of beneficial interest in the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.) So long as the Certificates are in Book-Entry-Only form, and DTC is the securities depository therefor, Cede & Co., as nominee of DTC, will be the Registered Owner (defined herein) of the Certificates and references herein to the holders of Certificates or Registered Owners shall mean Cede & Co. and not the Beneficial Owners of the Certificates.

Interest on the Certificates will be payable by check, dated as of the interest payment date and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar (the "Registered Owner" or the "Owner") as of the Record Date (defined herein), or, by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, a Registered Owner. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

Use of Proceeds

Proceeds from the sale of the Certificates will be used for design, construction, development, redevelopment, improvement or rehabilitation and equipping (i) water and wastewater system improvements for the City, including but not limited to, improvements for the wastewater treatment plant and collection facilities and repairs and improvements to the automatic water meter reading system, (ii) professional services for engineering, architectural, surveying, geotechnical, auditing, financial advisory, legal counsel, and (iii) cost of issuance of the Certificates. (See "THE CERTIFICATES-Sources and Uses" herein).

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Sources and Uses

The following table sets forth the estimated sources and uses of funds associated with the proceeds from the sale of the Certificates.

<u>Sources of Funds:</u>	
Principal Amount of the Certificates	\$1,965,000.00
Net Reoffering Premium	<u>153,883.90</u>
Total Sources and Uses of Funds	\$2,118,883.90
 <u>Use of Funds:</u>	
Deposit to the Project Funds	\$2,000,000.00
Underwriter’s Discount	40,022.58
Contingency	1,071.32
Issuance Costs	<u>77,790.00</u>
Total Uses of Funds	\$2,118,883.90

Security and Sources of Payment

The Certificates are general obligations of the City, payable from its collection of an ad valorem tax levied, within the legal limitations imposed by law, upon all taxable property located in the City. (See “TAX INFORMATION-Tax Rate Limitations” herein. The Certificates are additionally secured by and payable from a subordinate lien on and pledge of the surplus revenues, after dedication of expenses of operation and maintenance of the hereinafter defined System. (See “WATERWORKS AND SEWER SYSTEM” herein).

Redemption

Optional Redemption. The City reserves the right, at its option, to redeem Certificates having stated maturities on and after July 15, 2025, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on July 15, 2024, or any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption.

The respective years of maturity of Certificates called for redemption shall be selected by the City. If less than all the Certificates of a stated maturity are to be redeemed, the Certificates, or portions thereof, within such maturity to be redeemed shall be selected by lot or other customary method in multiples of \$5,000 within any stated maturity.

Mandatory Redemption. In addition to being subject to optional redemption, the Certificates maturing on July 15, 2025 and 2027 (the “Term Certificates”) shall be subject to mandatory sinking fund redemption on the date and at the redemption price of par and accrued interest to the date of redemption as follows:

<u>\$270,000 Term Bond</u> <u>Due July 15, 2025</u>		<u>\$335,000 Term Bond</u> <u>Due July 15, 2027</u>	
<u>Redemption</u> <u>Date (7/15)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Redemption</u> <u>Date (7/15)</u>	<u>Principal</u> <u>Amount (\$)</u>
2024	125,000	2026	160,000
2025	145,000*	2027	175,000*

*Payable at Stated Maturity

At least forty-five (45) days prior to each redemption date specified above the Term Certificates are to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the numbers of the Term Certificates to be redeemed on the next following July 15 from moneys set aside for that purpose in the Certificate Fund (identified and defined in the Ordinance). Any Term Certificate not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of the Term Certificates required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Term Certificates which, at least fifty (50) days prior to a mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions set forth below and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first-class, postage prepaid, to each Registered Owner of any Certificate to be redeemed, in whole or in part, at the address of the Registered Owner appearing on the registration books kept by the Paying Agent/Registrar (the "Security Register") at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE REGISTERED OWNERS OF OBLIGATIONS FAILED TO RECEIVE SUCH NOTICE.

All notices of redemption must (i) specify the date of redemption for the Certificates, (ii) identify the Certificates to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Certificates, or the portion of the principal amount thereof to be redeemed, will become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, will cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Certificates, or the principal amount thereof to be redeemed, must be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Registered Owner. If a Certificate is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Ordinance, such Certificate (or the principal amount thereof to be redeemed) so called for redemption must become due and payable, and on the redemption date designated in such notice, interest on said Certificate (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Certificate will not be deemed to be Outstanding.

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein), to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of Certificates held by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct Participants and Indirect Participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants or the persons for whom Direct Participants act as nominees, with respect to the payments on the Certificates or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Ownership

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Certificate is registered as the absolute owner of such Certificate for the purposes of making payment of the principal thereof and the interest thereon and for all other purposes, whether or not such Certificate is overdue. Neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary. All payments made to the registered owner of such Certificate in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar for such Certificate to the extent of the sums paid.

Transfers and Exchanges

In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred, exchanged and assigned on the Security Register, only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange of the Certificates will be without expense or service charge to the Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the Designated Trust Office of the Paying Agent/Registrar, or sent by United States mail, first-class postage prepaid, to the new Registered Owner or his assignee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the contracting party or assignee of the Owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one maturity or any integral multiple thereof and for a like aggregate principal amount of the Certificate or Certificates surrendered for exchange or transfer.

See “BOOK-ENTRY-ONLY SYSTEM-General” above for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates.

Remedies in the Event of Default

If the City defaults in the payment of principal of, interest on, or redemption price of the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the Beneficial Owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or Ordinance and the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus, controlled by equitable principles, rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Beneficial Owners of Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. The City has not waived the defense of sovereign immunity with respect hereto. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, Owners of Certificates may not be able to bring such a suit against the City for breach of the Certificates or the Ordinance. Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the “Proprietary-Governmental Dichotomy”). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State’s sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of the municipality.

In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“Wasson”), the Texas Supreme Court (the “Court”) addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’” and protecting such municipalities “via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources.” While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

Notwithstanding the foregoing, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the Beneficial Owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the pledge of surplus revenues), the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and principles of equity which permit the exercise of judicial discretion.

Paying Agent/Registrar

The initial paying agent/registrar is The Bank of New York Mellon Trust Company, N.A., Houston, Texas (the "Paying Agent/Registrar"). The Paying Agent/Registrar may be removed from its duties at any time, but no such removal is effective until a successor has accepted the duties of the Paying Agent/Registrar by written instrument.

Every Paying Agent/Registrar must at all times be a commercial bank or trust company organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000, subject to supervision or examination by federal or state authority, and registered as a transfer agent with the Securities and Exchange Commission. If such entity publishes reports of condition at least annually pursuant to law or to the requirements of such supervising or examining authority, then for the purposes of this Section the combined capital and surplus of such entity shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Upon any change in the Paying Agent/Registrar, the City agrees to promptly cause a written notice thereof to be sent to each Registered Owner affected by the change, which notice shall also give the address of the new Paying Agent/Registrar, which shall thereafter be the designated place of payment.

Legality

The Certificates are offered when, as and if issued, subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Germer PLLC, Beaumont, Texas, Bond Counsel for the City. (See "LEGAL MATTERS – Legal Opinions" herein). The legal opinion of Bond Counsel will accompany the Certificates to be deposited with DTC or will be printed on the Certificates, should the Book-Only-Entry System be discontinued. The form of legal opinion of Bond Counsel appears in Appendix D, attached hereto.

Record Date for Interest Payment

The record date ("Record Date") for determining to whom the interest on the Certificates is payable on any interest payment date Certificates means the close of business on the last day of the calendar next preceding such interest payment date.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date"), which shall be 15 days after the

Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Registered Owner of an affected Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Certificates

Neither the City nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 30 days before the day of the first mailing of a notice of redemption of Certificates and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Certificates so selected for redemption when such redemption is scheduled to occur within 30 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the Registered Owner of the uncalled balance of a Certificate.

Replacement Certificates

The City has agreed to replace mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal of and premium, if any, on such Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of stated maturity, prior redemption, or otherwise) is provided by irrevocably depositing with a paying agent in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities (hereinafter defined) certified, in the case of a net defeasance, by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear interest at such rates as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as hereinafter provided), be sufficient to make such payment; provided however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of the Certificates.

The Ordinance provides that “Defeasance Securities” means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (iv) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. There is no assurance that the ratings for United States Treasury securities acquired to defease any Certificates, or those for any other Defeasance Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible Defeasance Securities (such list consisting of those securities identified in clauses (i) through (iii) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates (“Defeasance Proceeds”), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinances do not contractually limit such permissible Defeasance Securities and expressly recognize the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates of a particular series, Registered Owners of each series of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other Defeasance Securities, notwithstanding the fact that such Defeasance Securities may not be of the same investment quality as those currently identified under State law as permissible Defeasance Securities.

Upon such deposit as described above, such Certificates will no longer be regarded to be outstanding or unpaid for purposes of applying any limitation or indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates of a particular series for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the City has reserved the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to the Owners of the Certificates immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to Direct Participants, (2) Direct Participants or others will distribute debt service payments paid to DTC or its nominee (as the Registered Owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), and the current procedures of DTC to be followed in dealing with Direct Participants are on file with DTC.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates, in the aggregate principal amount of each maturity of such issue, and will be deposited with DTC.

General

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings' rating of "AA+". The DTC Rules applicable to Direct and Indirect Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or

such other DTC nominee does not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the Book-Entry-Only System for the Certificates is discontinued.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest on the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical Certificates are required to be printed and delivered. The City may decide to discontinue use of the Book-Entry-Only System transfers through DTC (or a successor securities depository). In that event, physical Certificates will be printed and delivered.

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from DTC, but the City takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to Registered Owners should be read to include the

person for which the Direct or Indirect Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to Registered Owners under the Ordinance will be given only to DTC.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under “BOOK-ENTRY ONLY SYSTEM - Transfers and Exchanges” below.

TAX INFORMATION

General

One of the City’s primary sources of operational revenue and a principal source of funds for debt service payments on the Certificates is ad valorem taxation. The following is a summary of the authority for taxation, including methodology, limitations, remedies and procedures. For other Financial and Debt Information see APPENDIX A.

Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of an annual ad valorem tax levied, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation for all City purposes. The City operates under a Home-Rule Charter, which adopts the constitutional provisions. Administratively, the Attorney General of the State will only permit the allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance.

By the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City, the rate of taxation is set by the City Council of the City. A failure to adopt a tax rate by such required date will result in the tax rate for the City for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

The Texas Property Tax Code (the “Tax Code”) provides that the City may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City’s website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

“Effective tax rate” means the rate that will produce last year’s total tax levy (adjusted) from this year’s total taxable values (adjusted). “Adjusted” means lost values are not included in the calculation of last year’s taxes and new values are not included in this year’s taxable values.

“Rollback tax rate” means the rate that will produce last year’s maintenance and operation tax levy (adjusted) from this year’s value (adjusted) multiplied by 1.08 plus a rate that will produce this year’s debt service from this year’s values (unadjusted) divided by the anticipated tax collection rate.

The Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Property Subject to Taxation

Reference is made to the Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxation.

Under Section 1-b, Article VIII of the Texas Constitution, and State law, the governing body of a political subdivision, at its option, may grant:

- (1) An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; and
- (2) An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000.

In addition, cities may limit the total ad valorem tax (except for increases attributable to certain improvements) on the residence homestead of the disabled or persons 65 years of age or older and their spouses to the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year the City chose to establish the above-referenced limitation. On the receipt of a petition signed by five percent of the registered voters of the City, the City shall call an election to determine by majority vote whether to establish such a tax limitation. Once established, a city may not repeal or rescind the tax limitation. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by a city may not be increased while it remains the residence homestead of that person's surviving spouse if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse, and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. A proportionate share of the limitation applicable to a person's homestead is transferred to a new residence homestead of such person if the person moves to a different residence within the same city. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

A partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

State law and Section 2, Article VIII of the Texas Constitution, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000. A disabled veteran who receives from the United States

Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. The surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Following the approval by the voters at a November 7, 2017 statewide election (with an effective date of January 1, 2018), the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Finally, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or a part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The City grants a 20% general homestead exemption, a \$22,000 exemption for persons 65 years of age or older, and a \$22,000 exemption for disabled veterans. Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt. The City has not granted the general percentage of market value homestead exemption.

Article VIII, Section 1-l, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

Article VIII of the Texas Constitution provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1. An eligible owner of agricultural and timberland may apply to have such properties which meet certain requirements appraised on the basis of productivity value or market value, whichever is less.

Nonbusiness personal property, such as automobiles or light trucks, is exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation. The City does not tax nonbusiness personal property.

Article VIII, Section 1-j of the Texas Constitution provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. The exemption became effective for the 1990-91 fiscal year and thereafter unless action to tax such property has been taken prior to April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. The City has not taken action to tax freeport property. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the State and transported to another location inside or outside the State within 175 days of the date the property was acquired or imported into the State. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. Article VIII, Section 1-j was amended on November 5, 2013 to authorize the governing body of a political subdivision, (such as a

municipality, county, or school district) to extend the date by which aircraft parts held by a business in Texas that are exempt from property taxation, and went into effect on January 1, 2014.

In the 2011 Special Session, the Texas Legislature adopted S.B.1 which nullified all prior decisions to tax goods in transit. For calendar year 2012 and later, the City must act to tax goods-in-transit before January 1 of the first year in which the City proposes to tax goods-in-transit. The City currently does not tax goods-in-transit.

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones under Chapter 311, as amended, Tax Code. Texas Tax Code, pursuant to which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The City currently does not participate in any tax increment financing.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the city. In accordance with a program established pursuant to Chapter 380, a city may make loans or grants of public funds for economic development purposes; however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the city. The City currently has no outstanding Chapter 380 agreements.

State law authorizes subdivisions of the State to grant tax abatements to any person, organization or corporation in order to stimulate economic development within the State. The City may designate areas within the City as a reinvestment zone unless the project is located in an area that already qualifies under State statute as a reinvestment zone, such as a qualifying State Enterprise Zone census tracts. Thereafter, the City may enter into a tax abatement agreement with owners of property within such zones. Before entering into a tax abatement agreement, the City must adopt guidelines and criteria for establishing tax abatement agreements with companies located in the zone. Through a tax abatement agreement, the City may exempt from ad valorem taxation up to 100% of the assessed value of any real and/or personal property improvements for up to ten years. The property is exempt on the condition that the property owner makes specified improvements or repairs to the property and meets any other City requirements stipulated in the terms of the tax abatement agreement such as the creation of jobs and meeting certain minimum wage requirements. In 1988, the City established a Tax Abatement Policy (the "Policy") to encourage economic development. The Policy specified several criteria pertaining to job creation and property tax value enhancement that newly constructed real and personal property improvements had to meet in order to be considered tax abatement; projects were eligible for tax abatement percentage of the ad valorem tax for seven years following completion of construction of improvements, the City amended its Tax Abatement Policy in 2001. The City currently has no outstanding abatement agreements.

Pursuant to Section 42.044, as amended, Texas Local Government Code, the governing body of a municipality is authorized to designate any part of its extraterritorial jurisdiction as an industrial district and may treat the designated area in a manner considered by the governing body to be in the best interests of the municipality. The governing body of the municipality may make written contracts with owners of land within the designated industrial district to guarantee the continuation of the extraterritorial status of the district and its immunity from annexation by the municipality for a period not to exceed fifteen years and the contract may include other lawful terms and conditions that the parties agree to be reasonable, appropriate, and not unduly restrictive of business activities. The City has only one industrial contract. A portion of the Firestone Polymers LLC manufacturing plant is located within the City's extra-territorial jurisdiction. This industrial contract provides that Firestone Polymers LLC pays an annual "in-lieu-of-tax" based on the assessed valuation of the property.

Annexation

In 2014, the City annexed additional territory into its boundary and jurisdictional limits (the "Annexation") as described in Ordinance 2014-09 dated August 12, 2014 (the "Annexation Ordinance"). The Annexation will not cause the City to undertake significant financial obligation to provide City services to the annexed territory pursuant to the City's Service Plan.

2014 Certificate of Obligation Issue

In 2014, the City authorized the issuance of Bridge City, Texas, Tax and Waterworks & Sanitary Sewer System Subordinate Lien Revenue Certificates of Obligation, Series 2014 in part for professional services including those provided by engineers, map makers, attorneys for an appeal by the City of the Federal Emergency Management Agency's DFIRM maps or mapping and related professional services for the City, the result of which initial determination placed, in the City's view, an inappropriate amount of City territory within the floodplain. The appeal to FEMA concerning this initial determination was timely made by the City on December 20, 2013.

Since the appeal process was commenced, the City has realized success on multiple points of contention, with FEMA acknowledging requested variances and conceding on points of clarity raised by the City. Not all points raised by the City have been addressed by FEMA to date, but the City anticipates that this appeal process should conclude by the end of the 2019 calendar year.

An inability of the City to achieve a full reversal of the initial FEMA floodplain determination could result in approximately 40% of the City's geographic territory being included within the floodplain. This result would impact property values within the City (though property subject to this determination would be "grandfathered" under FEMA's previous mapping, subsequent sales of this impacted property would be subject to the revised floodplain boundaries, which could depress property values at such time of sale). For this reason, the City has challenged, and intends to continue its vigorous challenge of, the initial FEMA mapping results. Regardless of the results of these proceedings, the City does not anticipate a final determination to have an impact on the City's ability to continue its operation (including generation of revenues) and provision of municipal services and fulfill its outstanding contractual and debt obligations (including payment of debt service on the Certificates).

Taxation Procedures

Under Texas law, the Orange County Appraisal District (the "Appraisal District") is under an obligation to appraise all property in the City for taxation which has not been rendered for taxation by the owner and to present the appraisals along with any objections to renditions to a nine-member Appraisal Review Board, each of whom has resided within the Appraisal District for two years, and has been appointed by the Appraisal District's Board of Directors. The Appraisal Review Board has the ultimate responsibility of equalizing the value of all comparable taxable property within the Appraisal District; however, any owner who has rendered his property may appeal the decision of the Appraisal Review Board by filing suit in state district court in Orange County within 45 days from the date the tax roll is approved. In the event of such suit, the value of the property is determined by the court, or by a jury if requested by the owner, which value as so determined is binding on the City for the tax year in question and the succeeding year, except for subsequent improvements.

A city, or other taxing unit, may challenge the Appraisal District's assigned categories of property within its jurisdiction under certain limited circumstances. The City may also sue the Appraisal District to compel it to comply with the Tax Code. It is not expected that Appraisal District procedures will affect the ability of the City to adjust its tax rate so that it may levy and collect taxes sufficient to meet its obligations.

Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed, which lien is on a parity with any tax lien on such property in favor of the City. In addition to ad valorem taxes required to retire the aforementioned direct and estimated overlapping debt, certain taxing jurisdictions, including those mentioned above, are also authorized by Texas law to assess, levy and collect ad valorem taxes on property within the City for operation, maintenance, administrative and/or general revenue purposes.

Municipal Sales Tax Collections

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1 ½% Local Sales and Use Tax within the City; ½% sales tax proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. The remaining 1% sales tax proceeds is subject to a property tax relief.

Employee Retirement System and Health Benefits

For a discussion of the City's Pension Plan and its obligation thereunder, *See* "APPENDIX C – City of Bridge City Annual Financial Report for the Year Ended September 30, 2017 - Note IV. Detailed Notes On All Funds And Account Groups, I. Defined Benefit Pension Plan, and 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 Blue Cross Blue Shield Insurance Company. After the \$2,500 deductible is met, the policy pays in-network at 70% and out-of-network at 50% with an unlimited lifetime maximum.

Financial Policies

Basis of Accounting ... The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Governmental resources are allocated and accounted for in the individual funds based upon the purposes for which they are utilized and the means by which spending activities are controlled. All proprietary funds are accounted for using the accrual basis of accounting. *See* "APPENDIX C – City of Bridge City Annual Financial Report for the Year Ended September 30, 2017 – Note I. Summary of Significant Accounting Policies".

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.

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

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.

Capital Project 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.

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.

Deposits and Investments

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City. Both State law and the City's investment policies are subject to change.

Authorized Investments... Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance

Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3- 3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by SEC Rule 2a-7; and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies... Under State law, the City is required to invest its funds in accordance with written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment

Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the City must submit to the City Council an investment report detailing (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

Additional Provisions... Under State law the City is additionally required to (1) annually review its adopted policies and strategies, (2) require any investment officers’ with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council, (3) require the registered principal of firms seeking to sell securities to the City to (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements, (4) perform an annual audit of the management controls on investments and adherence to the City’s investment policy, (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers, (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investments of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

City policies require investments in accordance with applicable state law. All investments which are authorized by State statutes, with the exception of bankers’ acceptances, commercial paper, collateralized mortgage obligations, reverse repurchase agreements, no-load money market mutual funds, no-load mutual funds, and bonds issued, assumed or guaranteed by the State of Israel, are acceptable for investment purposes under the City’s Statement of Investment Policy. The City generally invests in obligations of the United States or its agencies and instrumentalities.

Under State law, the City may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance or resolution. The City has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

*Current Investments...*As of March 31, 2018* the City had the following invested in local government pools, or securities.

Government Pools & Securities	\$1,965,730
City Funds – Bank Balances	5,011,728
Total	\$6,977,458

*Unaudited.

As of such date, the market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the

City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

WATERWORKS AND SEWER SYSTEM

City's water and sewer system, together with all future extensions, improvements, and additions thereto and replacements thereof, is herein referred to as the "System". The System provides retail water and wastewater service to the City and its inhabitants.

The System's potable water supply is derived from ground water, which is adequate to service its projected needs through 2065. The water production and distribution system that is a part of the System is comprised of 65 miles of water lines, multiple pump stations, three above ground and one underground storage tanks, and four water wells. As of September 30, 2017, there were 277 commercial customer connections and 3,682 residential customer connections, from which the System generated \$1,356,934 in gross water sales.

The System's wastewater system is comprised of 65 miles of wastewater collection lines, 37 lift stations, and a 1.6 million gallons per day treatment facility. As of September 30, 2017, there were 267 commercial customer connections and 3,452 residential customer connections, from which the System generated \$1,853,283 in gross sewer and sanitation sales.

See "Schedule 15 – Historical Operations of the Water and Sewer Fund" included in Appendix A attached hereto for a depiction of the System's last five years of financial performance.

LEGAL MATTERS

Legal Opinions

The City will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the City. In its capacity as Bond Counsel, Germer PLLC of Beaumont, Texas has reviewed the information under the captions "THE CERTIFICATES" (except under the subheading "Sources and Uses of Funds" as to which no opinion is expressed), "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "GENERAL CONSIDERATIONS-Legal Investments and Eligibility to Secure Public Funds in Texas", and "GENERAL CONSIDERATIONS-Securities Laws" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provisions made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Antonio, Texas, whose fee is contingent on the delivery of the Certificates.

The various legal opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of

the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Litigation

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of fixed assets; error and omissions; injuries to employees; and natural disasters. The City has obtained commercial insurance coverage for these risks and provided various employee education and prevention programs. Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

TAX MATTERS

Tax Exemption

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"). Bond Counsel is of the further opinion that interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations, as hereinafter described. A complete copy of the proposed form of opinion of Bond Counsel relating to the Certificates is set forth in APPENDIX D hereto.

For taxable years that began before January 1, 2018, interest on the Certificates owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Certificates which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Certificates. Beneficial Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Certificates, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Certificates being included in gross income for

federal income tax purposes, possibly from the date of original issuance of the Certificates. The opinion of Bond Counsel relating to the Certificates assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Certificates may adversely affect the value of, or the tax status of interest on, the Certificates. Accordingly, the opinion of Bond Counsel relating to the Certificates is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Certificates is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Tax Changes

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Certificates to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel relating to the Certificates is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service (the "Service") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Service. The City has covenanted, however, to comply with the requirements of the Code.

Opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Certificates. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Certificates in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

City Obligations

In rendering its bond opinion on the Certificates (see "APPENDIX D – FORM OF BOND COUNSEL OPINION"), Bond Counsel has assumed continuing compliance by the City with certain covenants of the Ordinance and has relied on representations by the City with respect to matters solely within the knowledge of the City, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Certificate proceeds and any facilities financed or refinanced therewith, the source of repayment of the Certificates, the investment of Certificate proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Certificate proceeds and certain other amounts be paid periodically to the United States and that the City file an information report with the Service. If the City should fail to comply with the covenants in the Ordinance, or if its representations relating to the Certificates that are contained in the Ordinance should be determined to be inaccurate or incomplete, interest on the Certificates could become taxable from the date of delivery of the Certificates, regardless of the date on which the event causing such taxability occurs.

Limitation of Opinion

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of or acquisition or disposition of the Certificates.

Bond Counsel's opinion relating to the Certificates is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the

Certificates is commenced, under current procedures the Service is likely to treat the City as the “taxpayer,” and the owners of such Certificates may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Bond Counsel’s engagement with respect to the Certificates ends with the issuance of the Certificates, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Certificates in the event of an audit examination by the Service. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of Service positions with which the City legitimately disagrees, may not be practicable. Any action of the Service, including but not limited to selection of the Certificates for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Certificates, and may cause the City or the Beneficial Owners to incur significant expense.

Ancillary Tax Consequences

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations, such as the Certificates, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Certificates.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution’s investment in tax- exempt obligations acquired after August 7, 1986. Section 265(b) also provides an exception for financial institutions for tax-exempt obligations that are properly designated or deemed designated by an issuer as “qualified tax-exempt obligations.”

The Certificates have been designated as “qualified tax-exempt obligations” based, in part, on the City’s representation that the amount of such Certificates, when added to the amount of all other tax-exempt obligations (not including “private activity bonds” other than “qualified 501(c)(3) bonds” or any obligations issued to currently refund any obligation to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the City during 2018, is not expected to exceed \$10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than \$10,000,000 in “qualified tax- exempt obligations” during 2018.

Notwithstanding the designation, of the Certificates as “qualified tax-exempt obligations” under this exception, financial institutions acquiring the Certificates will be subject to a 20% disallowance of allocable interest expense.

CONTINUING DISCLOSURE OF INFORMATION

The City is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the “Rule”) pursuant to the exemption under subsection (d)(2), which applies to certain small issuers such as the City who are not an “obligated person” (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Bonds) in an aggregate principal

amount exceeding \$10,000,000. In the Ordinance, the City has made the following agreement for the benefit of the Registered Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB. The information provided to the MSRB will be available to the public free of charge via the EMMA system through an internet website accessible at www.emma.msrb.org.

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB upon request. In the alternative, the City may voluntarily file with the MSRB such information within six months after the end of each fiscal year ending in or after 2018, in which case the City shall be in compliance with the terms of this agreement notwithstanding whether or not a request for such information has been made.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (“Rule 15c2-12”). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time, and audited financial statements when and if such financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C, the Ordinance or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City’s current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file with the MSRB notice of the change.

Material Event Notices

The City will file with the MSRB notice of any of the following events with respect to the Certificates not more than 10 business days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the federal income tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of Registered Owners of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material. Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement, or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports”. The City will file each notice described in this paragraph with the MSRB.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Availability of Information

Effective July 1, 2009 (the “EMMA Effective Date”), the SEC implemented amendments to Rule 15c2-12 which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under Rule 15c2-12 after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the City issued prior to the EMMA Effective Date, the City remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the “SID”). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the “MAC”) had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA’s website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

The City has agreed to update information and to provide notices of specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered Owners may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either the Registered Owners of a majority in aggregate principal amount of the outstanding Certificates consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Registered Owners or Beneficial Owners of the Certificates. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates, respectively, in the primary offering of the Certificates.

Compliance with Prior Undertakings

During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

FINANCIAL ADVISOR

FTN Financial Municipal Advisors (the “Financial Advisor”) is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor’s fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. The Financial Advisor, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the City and, as applicable, to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITER

SAMCO Capital Markets, Inc. (the “Underwriter”), has agreed, subject to certain conditions, to purchase the Certificates from the City at the price indicated on the inside front cover hereof, less an underwriting discount of \$40,022.58.

The Underwriter’s obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates may be offered and sold to certain dealers and others at prices lower than such public offering price, and such public prices may be changed from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

MUNICIPAL RATING

Moody’s Investors Service, Inc. (“Moody’s”) has assigned an underlying rating of “Baa1” on the Certificates. An explanation of the rating may be obtained from Moody’s. The rating reflects only the view of the rating organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

GENERAL CONSIDERATIONS

Prices and Marketability

The delivery of the Certificates is conditioned upon the receipt by the City of a certificate executed and delivered by the Underwriter on or before the Date of Delivery of the Certificates, stating the prices at which a substantial amount of the Certificates of each maturity have been sold to the public. For this purpose, the term “public” shall not include any person who is a bond house, broker, dealer, or similar person acting in the capacity of Underwriter or wholesaler. The City has no control over trading of the Certificates after a bona fide offering of the Certificates is made by the Underwriter at the yields specified on the inside cover page of this Official Statement. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms respecting the offering and sale of the Certificates may be changed from time to time by the Underwriter after the Certificates are released for sale, and the Certificates may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Certificates into investment accounts.

Legal Investments and Eligibility to Secure Public Funds in Texas

Pursuant to the Texas Public Securities Act, Chapter 1201, Texas Government Code, as amended, the Certificates, whether rated or unrated, are legal and authorized investments for insurance companies, fiduciaries or trustees, and for municipalities and other political subdivisions or public agencies. Most political subdivisions in the State are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Certificates have a rating of not less than “A” or its equivalent to be legal investments of such entity’s funds. The “Public Funds Collateral Act,” Chapter 2257, Texas Government Code, provides that deposits of public funds, as defined in such chapter, must be secured by eligible security. “Eligible Security” is defined to include local government obligations (such as the Certificates) with a rating from a nationally recognized investment firm of “A” or its equivalent. *See* “MUNICIPAL RATING”.

The City makes no representation that the Certificates will be acceptable to public entities to secure their deposits, or acceptable to any such entities or institutions for investment purposes. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

Securities Laws

No registration statement relating to the Certificates has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been registered or qualified under the securities laws of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Certificates under the securities laws of any other jurisdiction in which the Certificates may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

Sources and Compilation of Information

The information contained in this Official Statement has been obtained primarily from the City and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the City. This is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the statutes, Ordinance and other related documents are included herein subject to all the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

Information from External Sources

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

Forward-Looking Statements

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City’s actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible

invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Certification of the Official Statement

The Official Statement has been approved as to form and content and the use thereof in the offering of the Certificates has been authorized, ratified and approved by the City Council on the date of sale, and the Underwriter will be furnished, upon request, at the time of payment for and the delivery of the Certificates, a certified copy of such approval, duly executed by the proper officials of the City.

The Ordinance approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto issued on behalf of the City, and authorized its further use in the reoffering of the Certificates by the Underwriter.

This Official Statement has been approved by the City Council of the City for distribution in accordance with the provisions of the United States Securities and Exchange Commission's Rule 15c2-12 codified at 17 C.F.R. Section 240.15c2-12.

By: /s/ David Rutledge
Mayor

ATTEST:

By: /s/ Sherry Tisdale
City Secretary

APPENDIX A

FINANCIAL INFORMATION AND DEBT INFORMATION

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APPENDIX A

FINANCIAL INFORMATION AND DEBT INFORMATION

The City has previously issued general obligation debt and certificates of obligation (the “Outstanding Obligations”). The following table lists the principal amounts of the Outstanding Obligations, including the issuance of the Certificates:

Schedule 1 - Outstanding Tax Debt

Outstanding General Obligation Debt (as of June 1, 2018)	Amount
Tax & WW & SS Subord Lien Revenue Certificates of Obligation, Series 2012	\$ 1,830,000
Tax & WW & SS Subord Lien Revenue Certificates of Obligation, Series 2014	335,000
Tax & WW & SS Subord Lien Revenue Certificates of Obligation, Series 2015	<u>3,485,000</u>
Total Outstanding Debt	\$ 5,650,000
 The Certificates	 <u>\$ 1,965,000</u>
 Total Direct Debt	 <u>\$ 7,615,000</u>

Authorized But Unissued General Obligation Debt

The City has no authorized but unissued debt, although under State law, the City is authorized to issue various types of indebtedness, including tax-supported debt such as certificates of obligation (such as the Certificates), tax notes with a maturity of not more than seven years, and public property finance contractual obligations, without seeking voter approval.

Anticipated Issuance of Additional Debt

The City does not anticipate issuing additional debt in the next twelve months.

Schedule 2 - Outstanding Revenue Obligations

The City does not currently have revenue debt outstanding except as noted in Schedule 3 below.

Schedule 3 - Other Obligations

None.

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Schedule 4 - Debt Service

The following table reflects the debt service on the City's outstanding ad valorem tax-supported obligations, including the Certificates:

Year (Sept 30)	Existing Debt Service	The Certificates		Total Debt Service	Total Debt Service
		Principal	Interest		
2018	707,423	-	-	-	707,423
2019	591,280	30,000	90,529	120,529	711,809
2020	590,680	50,000	91,350	141,350	732,030
2021	585,268	65,000	88,850	153,850	739,118
2022	585,193	80,000	85,600	165,600	750,793
2023	587,893	105,000	81,600	186,600	774,493
2024	585,193	125,000	76,350	201,350	786,543
2025	587,243	145,000	72,600	217,600	804,843
2026	583,893	160,000	68,250	228,250	812,143
2027	586,700	175,000	60,250	235,250	821,950
2028	383,800	365,000	51,500	416,500	800,300
2029	379,600	380,000	33,250	413,250	792,850
2030	-	285,000	14,250	299,250	299,250
Total	\$6,754,163	\$1,965,000	\$814,379	\$2,779,379	\$9,533,541

Year (Sept 30)	Annual Principal of Currently Outstanding Debt Due	Annual Principal of Certificate Due	Combined Annual Principal of Outstanding Debt	Aggregate Principal Outstanding By Year	Percentage Retired
2018	550,000	-	550,000	7,065,000	7.22%
2019	445,000	30,000	475,000	6,590,000	13.46%
2020	455,000	50,000	505,000	6,085,000	20.09%
2021	460,000	65,000	525,000	5,560,000	26.99%
2022	470,000	80,000	550,000	5,010,000	34.21%
2023	485,000	105,000	590,000	4,420,000	41.96%
2024	495,000	125,000	620,000	3,800,000	50.10%
2025	510,000	145,000	655,000	3,145,000	58.70%
2026	520,000	160,000	680,000	2,465,000	67.63%
2027	540,000	175,000	715,000	1,750,000	77.02%
2028	355,000	365,000	720,000	1,030,000	86.47%
2029	365,000	380,000	745,000	285,000	96.26%
2030	-	285,000	285,000	-	100.00%
Total	\$5,650,000	\$1,965,000	\$7,615,000		

Financial Ratios

The following table reflects the ratio of direct debt and direct and estimated overlapping debt to the 2017 Taxable Assessed Valuation provided by the Orange County Appraisal District (the “Appraisal District”) and also reflects the per capita estimate of such debt.

Schedule 5 - Debt Ratios

Debt Ratios	Debt Per Capita (\$) ⁽¹⁾	Percent 2017 Assessed Valuation
Direct Debt (\$7,615,000*)	932.64	1.88%
Estimated Overlapping Debt (\$7,451,362)	912.60	1.84%
Total Direct & Estimated Overlapping Debt (\$15,066,362*)	1,845.24	3.72%

* Includes the Certificates.

⁽¹⁾ Based on estimated City population of 8,165.

Schedule 6 - Tax Adequacy for Tax Debt Service

The calculations shown below assume, solely for the purpose of illustration, no increase in assessed valuation over the 2017 Taxable Assessed Valuation provided by the Appraisal District and use a tax rate adequate to the service of the City’s total debt service requirements following issuance of the Certificates.

Estimated Total Debt Service

Average annual debt service requirements on the City’s total outstanding indebtedness (including the Certificates)	\$	733,349*
\$ 0.19082 Tax rate on 2017 Taxable Assessed Valuation of \$404,549,951 at 95% collection produces	\$	733,349
Maximum annual debt service requirements (2027) on the City’s total outstanding indebtedness (including the Certificates)	\$	821,950*
\$ 0.21153 Tax rate on 2017 Taxable Assessed Valuation of \$404,549,951 at 95% collection produces	\$	821,950

* Includes the Certificates.

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Schedule 7 - Estimated Overlapping Debt

Expenditures of the various taxing bodies within the territory of the City may be paid out of ad valorem taxes levied by these taxing bodies on property within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. The following information on overlapping jurisdictions was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional obligations since the date stated in the table, and such entities may have programs requiring the issuance of substantial amounts of additional obligations the amount of which cannot be determined. The following table reflects the estimated share, in thousands, of overlapping debt of these various taxing bodies.

Estimated Overlapping Debt

(as of April 30, 2018)

<u>Jurisdictions</u>	<u>Total Debt</u>	<u>Estimated % Overlapping City</u>	<u>City's Overlapping</u>
Bridge City Independent School District	\$17,160,693	41.40%	\$7,104,527
Orange County	4,885,000	7.10%	346,835
Total Net Overlapping Debt	\$22,045,693		\$7,451,362
City of Bridge City	\$7,615,000*		\$7,615,000*
Total Direct and Overlapping Debt	\$29,660,693*		\$15,066,362

*Includes the Certificates.

Schedule 8 - Historical Analysis of Ad Valorem Taxation Historical Assessed Valuation

Historical Assessed Valuation

<u>Tax Year</u>	<u>Taxable Assessed Valuation</u>	<u>Freeze Adjusted Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Percent Collections</u>	<u>FYE</u>
2013	\$ 347,591,453	\$ 301,922,818	\$ 0.48345	\$ 1,614,030	96.79%	09/30/14
2014	354,868,736	306,786,220	0.47807	1,636,873	96.49%	09/30/15
2015	365,606,273	316,904,582	0.49920	1,754,078	96.41%	09/30/16
2016	377,267,252	326,940,334	0.52000	1,872,974	96.76%	09/30/17
2017	404,549,951	348,396,652	0.52000	1,994,403	95.43% ⁽¹⁾	09/30/18

Source: City of Bridge City.

⁽¹⁾ As of April 30, 2018.

Assessed Valuation by Category⁽¹⁾

<u>FYE</u>	<u>Market Value</u>	<u>Improvements</u>	<u>Other</u>	<u>Productivity</u>	<u>Less: Tax Exempt</u>	<u>Total</u>
2013	\$ 74,415,641	\$ 329,884,849	\$ 31,581,493	\$ (525,170)	\$ (87,765,360)	\$ 347,591,453
2014	74,344,304	340,743,113	30,822,493	(519,610)	(90,521,564)	354,868,736
2015	74,924,704	366,668,353	30,967,885	(517,445)	(106,437,224)	365,606,273
2016	75,442,476	380,035,404	30,248,729	(512,109)	(107,947,248)	377,267,252
2017	76,161,198	409,258,992	32,020,391	(512,628)	(112,378,002)	404,549,951

⁽¹⁾ Values in the table may differ slightly from values throughout the document.

The City has 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.

Schedule 9 - Tax Rate Distribution

Tax Rate Distribution	2017	2016	2015	2014	2013
General Fund	\$ 0.31609	\$ 0.29975	\$ 0.27280	\$ 0.26786	\$ 0.25910
Debt Service Fund	0.20391	0.22025	0.22640	0.21021	0.22435
Total	\$ 0.52000	\$ 0.52000	\$ 0.49920	\$ 0.47807	\$ 0.48345

Property within the City is assessed as of January 1 of each year (except for business inventory which may, at the option of the taxpayer, be assessed as of September, taxes become due October 1 of the same year, and become delinquent on July 1 of the following year. Discounts are not allowed. Taxpayers 65 years old or older are permitted by State law to pay taxes on homestead residences in four installments with the first due prior to July 1 of each year and the final installment due prior to January 1.

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Penalty	Interest	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July*	12%	6%	18%

After July, penalty remains at 12%, and accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to incur the penalty as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Estimated Overlapping Taxes

Property within the City is subject to taxation by several taxing authorities in addition to the City. Under Texas law, tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on January 1 of that year. The tax lien on property in favor of the City is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on outstanding debt of the City and such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Schedule 10 - Overlapping Tax Rate Information

<u>Overlapping Tax Rate</u>	<u>2017 Tax Rate</u>
Bridge City Independent School District	1.170
Orange County	0.542
City of Bridge City	0.520

Schedule 11 - Ten Largest Assessed Valuations

<u>Principal Taxpayers</u>	<u>Type</u>	<u>2017 Assessed Valuation</u>	<u>Percent of 2017 Valuation</u>
Entergy Texas Inc.	Utility	\$ 5,749,230	1.42
Neil & Tiffany Liepke Investments LLC	Investments	3,871,541	0.96
Citrus Cove Bridge City LP	Commercial	2,775,363	0.69
Wal-Mart Properties #283	Retail	2,515,284	0.62
Messer, S. Mark	Land & Improvements	2,498,411	0.62
M&E Food Mart Inc.	Grocery	2,279,071	0.56
Paulisan Enterprises, LLC	Land & Investments	2,201,411	0.54
Bridge City State Bank	Bank	2,177,687	0.54
Husmukhbai C. Patel Sona Lodging LLC	Land & Improvements	1,560,882	0.39
485 Texas Avenue, Bridge City, LLC	Commercial	1,459,201	0.36
		\$ 27,088,081	6.70%

Schedule 12 - Municipal Sales Tax History

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, as amended, which grants the City the power to impose and levy a one and one half (1 ½%) Local Sales and Use Tax; 1% of the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. The remaining 1/2% of 1% of the sales tax proceeds are subject to property tax relief.

<u>Sales Tax Revenues - 1% of total sales taxes</u>				
<u>FYE 9/30</u>	<u>Total Collected</u>	<u>Percent of Ad Valorem</u>	<u>Equivalent Ad Valorem Tax Rate</u>	<u>Per Capita</u>
2013	1,251,755	77.55	0.48345	159.36
2014	1,348,115	82.36	0.47807	171.15
2015	1,668,905	95.14	0.49920	211.90*
2016	1,517,849	81.04	0.52000	187.67
2017	1,503,497	75.39	0.52000	184.21

*The City received a one-time State audit payment of \$235,548.70 during the Fiscal Year ended September 30, 2015.

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Schedule 13 - Historical Operations of the Debt Service Fund

The following statement sets forth in condensed form the historical operations of the City's Debt Service Fund. Such information has been prepared based upon information obtained from the City's audited financial statements and other information provided by the City. Reference is made to such statements for further and complete information.

	Fiscal Year Ending September 30,				
	2017	2016	2015	2014	2013
Revenues					
Property Taxes	\$ 790,436	\$ 787,668	\$ 714,127	\$ 738,266	\$ 753,450
Penalty and Interest on Taxes	16,104	14,604	14,717	13,033	14,241
Investment Earnings	(9,428)	3,111	301	(2)	1,938
Total Revenues	815,968	805,383	729,145	751,297	769,629
Expenditures					
Debt Service					
Principal	550,000	535,000	555,000	580,000	620,000
Interest and Fiscal Charges	167,098	179,501	86,319	94,390	100,408
Fiscal Agent's Fee	2,000	2,000	1,250	2,500	2,000
Total Expenditures	719,098	716,501	642,569	676,890	772,408
(Deficiency) of Revenues (Under) Expenditures	96,870	88,882	86,576	74,407	47,221
Net Change in Fund Balance	96,870	88,882	86,576	74,407	47,221
Fund Balance - Beginning	1,055,181	966,299	879,723	805,316	758,095
Fund Balance-Ending	\$ 1,152,051	\$ 1,055,181	\$ 966,299	\$ 879,723	\$ 805,316

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Schedule 14 - Historical Operations of the General Fund

The following statement sets forth in condensed form the historical operations of the City's General Fund. Such information has been prepared based upon information obtained from the City's audited financial statements and other information provided by the City. Reference is made to such statements for further and complete information.

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Revenues					
Taxes					
Property Taxes	\$ 1,070,818	\$ 947,812	\$ 904,094	\$ 849,731	\$ 816,476
General Sales and Use Taxes	1,503,497	1,517,849	1,668,905	1,348,115	1,262,087
Franchise Tax	425,305	428,985	413,411	434,383	423,732
Other Tax	79,410	69,452	68,787	73,162	67,639
Penalty and Interest on Taxes	19,363	16,233	15,927	14,930	14,096
Licenses and permits	55,071	67,045	46,060	29,122	35,986
Intergovernmental Revenue and Grants	39,826	-	43,401	229,891	1,000
Charges for Services	108,985	106,127	111,557	86,366	74,965
Fines and Forfeitures	363,535	433,949	526,901	430,825	304,293
Investment Earnings	3,800	911	125	286	811
Contributions & Donations	9,000	-	200	-	-
Other	23,964	18,068	81,648	78,794	16,830
Total Revenues	3,702,574	3,606,430	3,881,016	3,575,605	3,017,915
Expenditures					
General government					
Personnel and Purchasing	78,750	77,473	76,168	75,255	70,195
City Manager	151,391	143,067	142,778	137,265	131,691
City Secretary	116,746	113,354	112,030	99,612	98,379
Municipal Court	152,981	148,012	149,662	137,268	121,954
City Attorney	45,494	41,249	42,679	39,488	37,070
Administration	278,439	282,727	239,792	284,089	242,129
Municipal Court Judges	21,797	18,905	19,937	17,640	18,140
Finance	146,053	142,975	139,688	135,708	129,197
Police	2,200,520	2,065,838	2,063,679	1,915,285	1,978,128
Fire	9,881	11,076	10,320	8,430	8,376
Animal Control	72,463	71,644	70,982	67,985	66,532
Streets and Drainage	846,038	742,323	740,380	770,713	803,069
Parks and Recreation	86,987	85,750	80,087	70,684	63,561
Library	154,140	151,659	139,901	136,291	131,883
Community Development	180,692	173,533	167,060	183,317	203,044
Total Expenditures	4,542,372	4,269,585	4,195,143	4,079,030	4,103,348
(Deficiency) of Revenues (Under) Expenditures	(839,798)	(663,155)	(314,127)	(503,425)	(1,085,433)
Other Financing Sources (Uses)					
Community Disaster Loan Proceeds					
Transfers in	718,516	888,916	651,188	370,161	755,353
Transfers out	-	(35,517)	-	(43)	(10,000)
Extraordinary Item (Net)	(128,770)	(739,408)	-	-	-
Total Other Financing Sources (Uses)	589,746	113,991	651,188	370,118	745,353
Net Change in Fund Balance	(250,052)	(549,164)	337,061	(133,307)	(340,080)
Fund Balance - Beginning	98,318	647,482	310,421	443,728	783,808 ^(a)
Fund Balance - Ending	\$ (151,734) ^(b)	\$ 98,318	\$ 647,482	\$ 310,421	\$ 443,728

^(a) Changed reporting: previous years (prior to 2013) included "Special Funds".

^(b) The City's General Fund balance for the fiscal year ended September 30, 2017 includes an approximate \$500,000 liability (expenditures) due to the Federal Emergency Management Agency ("FEMA") that the City is currently negotiating with FEMA. Expenditures for the fiscal year ended September 30, 2017 also include approximately \$250,000 of City personnel overtime resulting from Hurricane Harvey disaster efforts, which the City has made a claim to FEMA for reimbursement.

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Schedule 15 - Historical Operations of the Water and Sewer Fund

The following statement sets forth in condensed form the historical operations of the City's Utility Fund. Such information has been prepared based upon information obtained from the City's audited financial statements and other information provided by the City. Reference is made to such statements for further and complete information.

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Operating Revenues					
Charges for Water Services	\$ 1,116,963	\$ 1,158,160	\$ 1,085,356	\$ 1,067,614	\$ 991,699
Charges for Sewerage Service	992,805	1,014,928	1,007,604	992,052	924,692
Charges for Sanitation Service	860,478	840,361	800,081	682,554	667,626
Prop Fund Charges for Services - Other	239,971	228,656	215,046	158,284	103,470
Total Operating Revenues	3,210,217	3,242,105	3,108,087	2,900,504	2,687,487
Operating Expenses					
Personnel Services	993,265	961,238	978,078	957,138	968,624
Purchased Professional Services	139,808	132,489	144,667	248,987	149,332
Purchased Property Services	1,139,804	1,017,306	919,742	834,347	720,277
Other Operating Expenses	142,348	116,292	113,840	105,490	142,965
Supplies	99,373	130,762	72,093	50,362	126,537
Depreciation	521,491	467,267	480,264	318,631	325,331
Total Operating Expenses	3,036,089	2,825,354	2,708,684	2,514,955	2,433,066
Operating Income (Loss)	174,128	416,751	399,403	385,549	254,421
Non-Operating Revenues (Expenses)					
Intergovernmental Revenue & Grants	13,000	-	-	-	-
Investment Earnings	14,604	6,149	836	(328)	1,574
Transfers In	216,614	1,093,107	1,256,797	384,420	1,768,815
Transfers Out	(733,345)	(892,741)	(651,188)	(370,161)	(567,480)
Extraordinary Item- Resource	-	84,899	180,723	51,777	364,727
Extraordinary Item- (Use)	(49,783)	(92,790)	(180,891)	(50,896)	(364,727)
Change in Net Assets	(364,782)	615,375	1,005,680	400,361	1,457,330
Net Assets – Beginning	7,204,400	6,589,025	5,583,345	5,182,984	3,725,654
Prior Period Adjustment	(533,229)	-	-	-	-
Net Assets - Ending	\$ 6,306,389	\$ 7,204,400	\$ 6,589,025	\$ 5,583,345	\$ 5,182,984

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APPENDIX B

ECONOMIC AND DEMOGRAPHIC INFORMATION

Location

The City, located in southern Orange County, Texas, is centrally located on State Highway 73/87 in the Standard Metropolitan Statistical Area (“SMSA”) of Orange, Port Arthur, and Beaumont (the “Texas Golden Triangle”), with major highway connections to Interstate 10, Highway 62, FM 105, FM 408, and FM 1006 and is intersected by FM 1442. Orange County is home to the State’s busiest Travel Information Center on Interstate 10 at the Texas-Louisiana border.

The City is considered a “bedroom community” where residents may work in another city/county but live, pay taxes and spend the majority of their income in the City. Area residents find job opportunities in the industrial, medical, educational and government fields. The Jefferson County correctional facilities contribute significantly to the local economy. The City operates under the Council/Manager form of government and provides police, utility, library and other basic services.

Economy

On September 24, 2005, the City was hit by Hurricane Rita, a Category 3 hurricane, and sustained a substantial amount of damage from the storm. The City received funding from FEMA and TML Intergovernmental Risk Pool, TCDP Block Grants for storm related repairs for street improvements, debris removal, demolition and clearance activities, repairs at the wastewater sewer plant and water storage tank repairs.

On September 13, 2008 Hurricane Ike made landfall and the City was flooded by the tidal surge. The City suffered a loss of property tax revenue because of the reduction in property values related to storm damage. FEMA committed approximately \$5.2 million in reimbursements for labor, equipment, debris removal, repairs to streets, drainage, and emergency shelters, showers and office trailers. As of September 2017, FEMA has allocated \$4,985,130 in estimated and actual reimbursements for these purposes. This is a decrease to the original amount of \$5.2 million. FEMA is in the process of auditing all Hurricane IKE projects and as of the writing of the City’s Comprehensive Annual Financial Report for the fiscal year ended September 30, 2017, FEMA has informed the City that they are de-obligating \$494,726, and this amount is due to FEMA. The de-obligated funds are a result of cost under-run due to lower actual costs than the amount for which the projects were originally written. The City has also been awarded three grants under the Disaster Recovery Texas Community Development Block Grant Program not to exceed \$16,864,879. The grant funds are contracted through the General Land Office and are proposed for street repairs, drainage repairs, 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, 2017, \$16,719,336 has been received from the General Land Office and all grants are closed.

See also “INTRODUCTION – Effects of Hurricane Harvey” for an additional discussion on Hurricane Harvey and its impact on the City.

Major Employers

- Bridge City Independent School District
- Wal-Mart Store
- Market Basket
- City of Bridge City

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APPENDIX C
CITY OF BRIDGE CITY
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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City of Bridge City



ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2017

CITY OF BRIDGE CITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2017

CITY OF BRIDGE CITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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keri michutka
CERTIFIED PUBLIC ACCOUNTANT

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 the City of Bridge City as of and for the year ended September 30, 2017 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 the City of Bridge City as of September 30, 2017 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 TMRS required schedules on pages 3 through 11 and 43 through 44 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

The combining fund financial statements 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 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 December 22, 2017, on our consideration of the 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 the City of Bridge City's internal control over financial reporting and compliance.



Bridge City, Texas
December 22, 2017

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, 2017. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of 2017 by \$15,453,680. Of this amount \$3,022,288 is considered unrestricted. The unrestricted net assets of the City's governmental activities are \$1,629,352 and may be used to meet the government's ongoing obligations. The unrestricted net assets of the City's business-type activities are \$1,392,936 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 assets decreased by \$790,723 in the fiscal year 2017.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$3,030,255 a decrease of \$263,117.
- As of the end of the fiscal year, the unassigned fund balance for the general fund was a deficit of \$211,203, which is primarily due to greater than anticipated expenditures and lower than normal revenues.
- The City's total long-term bonded debt decreased by \$550,000 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 assets. 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 assets changed during the most recent fiscal year. All changes in net assets 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 12 to 14 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 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 funds which are considered to be major funds. Data from the other 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 15 to 21 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*. All activities associated with providing such services are including in 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 22 to 24 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 25 to 42 of this report.

THE CITY AS A WHOLE – GOVERNMENT WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$15,453,680 at September 30, 2017. This analysis focuses on the net assets (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 assets 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 ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 4,823,087	\$ 5,236,703	\$ 2,562,799	\$ 2,517,250	\$ 7,385,886	\$ 7,753,953
Capital Assets	13,108,470	13,769,483	4,842,867	5,199,898	17,951,337	18,969,381
Total Assets	<u>17,931,557</u>	<u>19,006,186</u>	<u>7,405,666</u>	<u>7,717,148</u>	<u>25,337,223</u>	<u>26,723,334</u>
Deferred Outflow - Pension Plan	828,721	977,073	223,616	-	1,052,337	977,073
Long-Term Liabilities						
Outstanding	8,691,636	9,829,631	818,539	-	9,510,175	9,829,631
Other Liabilities	921,351	1,113,625	504,354	512,748	1,425,705	1,626,373
Total Liabilities	<u>9,612,987</u>	<u>10,943,256</u>	<u>1,322,893</u>	<u>512,748</u>	<u>10,935,880</u>	<u>11,456,004</u>
Deferred Inflow - Pension Plan	-	-	-	-	-	-
Net Position:						
Invested in Capital Assets, Net of Related Debt	7,517,939	7,643,678	4,913,453	5,268,415	12,431,392	12,912,093
Unrestricted	1,629,352	1,396,323	1,392,936	1,935,985	3,022,288	3,332,308
Total Net Position	<u>\$ 9,147,291</u>	<u>\$ 9,040,003</u>	<u>\$ 6,306,389</u>	<u>\$ 7,204,400</u>	<u>\$ 15,453,680</u>	<u>\$ 16,244,403</u>

The total unrestricted net assets of \$3,022,288 may be used to meet the government's ongoing obligations to citizens and creditors. It is important to note that the net assets of the City's business-type activities may not be used to fund governmental activities and vice versa.

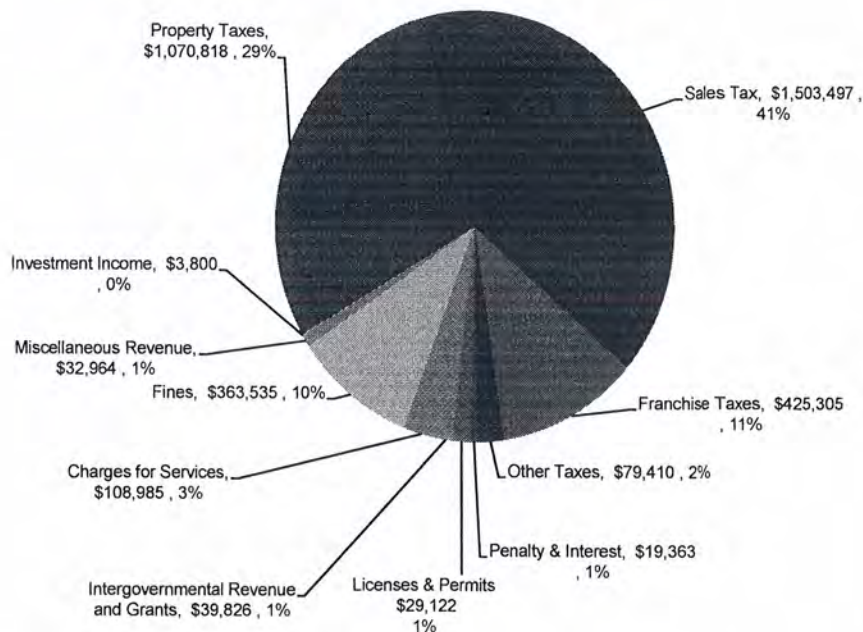
As reflected in the following table (Table 2) the City's net assets decreased by \$790,723 during the current fiscal year. Net assets for the governmental activities decreased \$425,941 and net assets for the business-type activities decreased \$364,782.

TABLE 2

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for Services	\$ 642,743	\$ 729,711	\$ 3,210,217	\$ 3,242,105	\$ 3,852,960	\$ 3,971,816
Operating Grants & Contrib	79,655	-	-	-	79,655	-
General Revenues:						
Property Taxes	1,869,203	1,745,265	-	-	1,869,203	1,745,265
Sales Taxes	1,503,497	1,517,849	-	-	1,503,497	1,517,849
Franchise Taxes	425,305	428,985	-	-	425,305	428,985
Other Taxes	189,661	180,272	-	-	189,661	180,272
Penalty & Interest	35,467	30,837	-	-	35,467	30,837
Grants and Contributions	-	90,243	13,000	-	13,000	90,243
Other	139,739	136,228	-	-	139,739	136,228
Investment Earnings	27,488	13,817	14,604	6,149	42,092	19,966
Total Revenues	<u>4,912,758</u>	<u>4,873,207</u>	<u>3,237,821</u>	<u>3,248,254</u>	<u>8,150,579</u>	<u>8,121,461</u>
Expenses:						
General Government	1,042,374	1,704,439	-	-	1,042,374	1,704,439
Public Safety	2,327,606	2,191,854	-	-	2,327,606	2,191,854
Public Works	1,704,266	1,808,800	-	-	1,704,266	1,808,800
Community Development	215,306	175,468	-	-	215,306	175,468
Parks & Recreation	97,886	93,616	-	-	97,886	93,616
Library	157,687	167,565	-	-	157,687	167,565
Interest on Long-Term Debt	164,706	175,456	-	-	164,706	175,456
Utilities	-	-	3,036,089	2,825,354	3,036,089	2,825,354
Other	2,000	2,000	-	-	2,000	2,000
Total Expenses	<u>5,711,831</u>	<u>6,319,198</u>	<u>3,036,089</u>	<u>2,825,354</u>	<u>8,747,920</u>	<u>9,144,552</u>
Increase (Decrease)						
in Net Position Before Transfers	(799,073)	(1,445,991)	201,732	422,900	(597,341)	(1,023,091)
Extraordinary item - Resource	167,543	696,631	-	84,899	167,543	781,530
Extraordinary item - Use	(311,142)	(1,475,381)	(49,783)	(92,790)	(360,925)	(1,568,171)
Transfers In (Out)	<u>516,731</u>	<u>(200,366)</u>	<u>(516,731)</u>	<u>200,366</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(425,941)	(2,425,107)	(364,782)	615,375	(790,723)	(1,809,732)
Net Position Beginning	9,040,003	11,465,110	7,204,400	6,589,025	16,244,403	18,054,135
Prior Period Adjustment	533,229	-	(533,229)	-	-	-
Net Position Ending	<u>\$ 9,147,291</u>	<u>\$ 9,040,003</u>	<u>\$ 6,306,389</u>	<u>\$ 7,204,400</u>	<u>\$ 15,453,680</u>	<u>\$ 16,244,403</u>

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 \$3,030,255 a decrease of \$263,117 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, unassigned fund balance of the general fund was a deficit of \$211,203 while the total fund balance was a deficit of \$151,734. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

The fund balance of the City's general fund decreased by \$250,052 during the current fiscal year. At September 30, 2017, FEMA is reporting a payable of \$494,726.

The debt service fund has a total fund balance of \$1,152,051, an increase of \$96,870, all of which is restricted 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 \$2,029,938, all of which is restricted. The fund balance decreased by \$109,935 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 assets of the Utility Fund (water, sewer, wastewater, and sanitation) at the end of the fiscal year amounted to \$1,392,936. Net position in the water, sewer and sanitation fund decreased by \$364,782.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2016 – 2017, 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 overall total of the budget remained unchanged.

During the year actual expenditures exceeded revenues by \$839,798, this excludes any transfers or extraordinary items.

A comparison of final budgetary resources and appropriations can be found on page 21.

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, 2017, amounted to \$17,951,337 (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 3)

Table 3

Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 370,793	\$ 370,793	\$ 53,420	\$ 53,420	\$ 424,213	\$ 424,213
Buildings, Parts, and Lines	1,881,415	1,876,481	-	-	1,881,415	1,876,481
Infrastructure	10,048,423	10,653,881	4,538,683	4,935,870	14,587,106	15,589,751
Vehicles, Machinery, & Equip.	788,782	832,938	250,764	210,608	1,039,546	1,043,546
Furniture and Fixtures	19,057	35,390	-	-	19,057	35,390
Construction in Progress	-	-	-	-	-	-
	<u>\$ 13,108,470</u>	<u>\$ 13,769,483</u>	<u>\$ 4,842,867</u>	<u>\$ 5,199,898</u>	<u>\$ 17,951,337</u>	<u>\$ 18,969,381</u>

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

- Purchase of Equipment \$209,466

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

- Purchase of Equipment \$100,848

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 \$5,650,000 which is secured by tax and certain surplus revenues, after deduction of expenses of operation and maintenance of the City’s water and sewer system.

The debt position of the City is summarized below and is more fully analyzed in Note G on page 34 of the financial statements.

Table 4

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

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Water & Sewer System Improvements Certificates of Obligation: Series 2012	\$ 1,830,000	\$ 1,990,000	\$ -	\$ -	\$ 1,830,000	\$ 1,990,000
Water & Sewer System Improvements Certificates of Obligation: Series 2014	335,000	725,000	-	-	335,000	725,000
General Obligation Certificates of Obligation: Series 2015	3,485,000	3,485,000	-	-	3,485,000	3,485,000
	<u>\$ 5,650,000</u>	<u>\$ 6,200,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,650,000</u>	<u>\$ 6,200,000</u>

The City’s total debt decreased by \$550,000 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 2016 – 2017 tax rate per \$100 of assessed valuation is \$0.22025 for debt allocation and \$0.29975 for the operating & maintenance allocation, this sets the total tax rate at \$0.52000, 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 \$3,830 during the current fiscal year.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

Economic factors for fiscal year 2016 – 2017:

- During the one year period from October 2016 to September 2017 the City collected \$1,503,497 in Sales Tax. This was a 0.97% decrease from the previous fiscal year of 2015 – 2016. The average for the last five years in sales tax collections is \$1,448,181. The sales tax revenue accounts for approximately 42% of the General Fund Revenues.

- ❑ The ad valorem taxable values for the 2016 - 2017 budget increased by more than 6% over the prior year. The adopted tax rate of .52000 per \$100 of assessed property evaluation is a 5.76% increase over the calculated effective rate and remains the same as the prior year adopted tax 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 budgets for 2016 - 2017 and 2017 - 2018 fiscal years contain 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 completed as of September 30, 2017.
- ❑ A Texas Community Development Block Grant contract (#7214050) in the amount of \$272,700 was signed by the Texas Department of Agriculture and the City in October 2014. The grant is being used to repair deteriorated sewer yard service lines that have resulted in excessive inflow and infiltration. The grant closed during the 2016 - 2017 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 completed as of September 30, 2017.
- ❑ The City of Bridge City has received to date, more than \$4.9 million dollars in funding from the Federal Emergency Management Agency (FEMA) for Hurricane Ike. The City is currently working with FEMA in reviewing current projects and auditing completed projects authorized by FEMA. As of September 30, 2017 FEMA has de-obligated \$494,726, which will need to be repaid to FEMA. The original projects were paid on estimated costs and actual costs depending on the projects. The current amount owed to FEMA is a result of cost under-run due to lower actual costs than the amount for which the projects were originally written.
- ❑ In June 2014, the City of Bridge City was able to issue Tax and Waterworks & Sanitary Sewer System Subordinate Lien Revenue Certificates of Obligation, Series 2014. The proceeds from the sale of the Certificates will be used to appeal the Department of Homeland Security's Federal Emergency Management Agency's Flood Insurance Rate Map and Flood Insurance Study Report for Orange County, Texas and Incorporated Areas. 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.
- ❑ In June 2015, the City of Bridge City issued Tax and Waterworks & Sanitary Sewer System Subordinate Lien Revenue Certificates of Obligation, Series 2015 in the amount of \$3,485,000. The proceeds have been used to pay for contractual obligations to be incurred for design, construction, development, redevelopment, improvement or rehabilitation and equipping (i) water and wastewater system improvements for the City, (ii) a City Municipal Court and Police Station, (iii) a City records storage building, (iv) a splash pad for Bridge City Park (collectively the "Projects") and (v) professional services for engineering, architectural, surveying, geotechnical, auditing, financial advisory, legal counsel and (vi) cost of issuance of the Certificates and, if applicable, municipal bond insurance. As of September 30, 2017 these projects are close to completion.

Economic factors for fiscal year 2017 – 2018:

- ❑ The City of Bridge City's adopted 2017 – 2018 ad valorem tax rate of .52000 will produce a 5.76% levy increase over the 2016 – 2017 tax rate of .52000 and will generate approximately \$138,000 more in revenue.
- ❑ Two months into the 2017 – 2018 fiscal year, the Sales Tax collections are 3.25% higher than last year.
- ❑ The City adopted a balanced operating budget for 2017 - 2018 which includes cost-cutting measures. The operating expenditures for 2017 - 2018 total \$7,162,202. This is a \$42,219 decrease from the adopted 2016 - 2017 operating expenditures including transfers.
- ❑ The City approved a rate increase for the water and sewer rates. Each customer will see a \$1.50 increase in their monthly bill which should generate an annual increase of \$68,350.
- ❑ The City has accumulated a General Fund deficit in the amount of \$151,734. The City is taking steps to improve or eliminate the deficit in the General Fund. The City experienced Hurricane Harvey in late August 2017. There are extraordinary costs associated and recorded in the General Fund from this major act of nature. The City is currently in the process of working with TML, TDEM and FEMA to get reimbursed for these extraordinary costs. The City anticipates selling the vacated Police Station during the 2017 - 2018 fiscal year. The proceeds from this sale will be directly allocated to the deficit fund balance.
- ❑ In December 2017, a Texas Community Development Block Grant contract (#7217039) in the amount of \$275,000 was signed by the Texas Department of Agriculture and the City with a match of \$55,000. The grant is being used to repair deteriorated sewer yard service lines that have resulted in excessive inflow and infiltration.

HURRICANE HARVEY

Between August 26 and August 30, 2017, Hurricane Harvey dumped more than 50 inches of rain on Bridge City with more than 2 feet falling in one day. The unprecedented rainfall caused catastrophic flooding. The City of Bridge City received water damage to most of its facilities. The City assisted with traffic control, water rescues, debris removal and setting up points of distribution (POD's) for supplies and necessities that were donated from outside sources to help the citizens of Bridge City and the surrounding area. The City continues to assess, repair and mitigate the damages caused by Hurricane Harvey. The City is working with the Texas Municipal League (TML), Texas Department of Emergency Management (TDEM) and the Federal Emergency Management Agency (FEMA) to recoup any and all eligible costs.

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

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CITY OF BRIDGE CITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 3,564,720	\$ 2,041,293	\$ 5,606,013
Accounts Receivable, net	1,185,710	449,800	1,635,510
Inventories	59,469	70,586	130,055
Prepaid Items	13,188	1,120	14,308
Capital Assets:			
Land	370,793	53,420	424,213
Infrastructure, net	10,048,423	4,538,683	14,587,106
Buildings, net	1,881,415	-	1,881,415
Machinery and Equipment, net	788,782	250,764	1,039,546
Furniture and Fixtures, net	19,057	-	19,057
Total Assets	<u>17,931,557</u>	<u>7,405,666</u>	<u>25,337,223</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred Outflow Related to Pension Plan	828,721	223,616	1,052,337
Total Deferred Outflows of Resources	<u>828,721</u>	<u>223,616</u>	<u>1,052,337</u>
LIABILITIES			
Accounts Payable	182,353	103,618	285,971
Wages and Salaries Payable	42,062	11,839	53,901
Intergovernmental Payable	532,601	4,888	537,489
Accrued Interest Payable	38,928	-	38,928
Unearned Revenues	-	332,990	332,990
Other Current Liabilities	125,407	51,019	176,426
Noncurrent Liabilities			
Due Within One Year	724,326	37,958	762,284
Due in More Than One Year	5,100,000	-	5,100,000
Net Pension Liability	2,867,310	780,581	3,647,891
Total Liabilities	<u>9,612,987</u>	<u>1,322,893</u>	<u>10,935,880</u>
NET POSITION			
Net Investment in Capital Assets	7,458,470	4,842,867	12,301,337
Restricted for Inventories	59,469	70,586	130,055
Unrestricted Net Position	1,629,352	1,392,936	3,022,288
Total Net Position	<u>\$ 9,147,291</u>	<u>\$ 6,306,389</u>	<u>\$ 15,453,680</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, 2017

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Personnel and Purchasing	\$ 80,688	\$ -	\$ -
City Manager	155,450	-	-
City Secretary	118,985	-	-
Municipal Court	183,030	446,094	-
City Attorney	45,494	-	-
Administration	287,255	-	-
Municipal Court Judges	21,797	-	-
Finance	149,675	-	-
Police	2,243,547	-	79,646
Fire	9,881	-	-
Animal Control	74,178	3,923	-
Streets and Drainage	1,704,266	188,654	-
Parks and Recreation	97,886	-	-
Library	157,687	4,072	9
Community Development	215,306	-	-
Interest on Debt	164,706	-	-
Other Debt Service	2,000	-	-
Total Governmental Activities:	5,711,831	642,743	79,655
BUSINESS-TYPE ACTIVITIES:			
Utility Fund	3,036,089	3,210,217	-
Total Business-Type Activities:	3,036,089	3,210,217	-
TOTAL PRIMARY GOVERNMENT:	\$ 8,747,920	\$ 3,852,960	\$ 79,655

General Revenues:

Taxes:

Property Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

General Sales and Use Taxes

Franchise Tax

Other Taxes

Penalty and Interest on Taxes

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Extraordinary Item - Resource

Extraordinary Item - (Use)

Transfers In (Out)

Total General Revenues, Special Items, and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

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
(80,688)	-	(80,688)
(155,450)	-	(155,450)
(118,985)	-	(118,985)
263,064	-	263,064
(45,494)	-	(45,494)
(287,255)	-	(287,255)
(21,797)	-	(21,797)
(149,675)	-	(149,675)
(2,163,901)	-	(2,163,901)
(9,881)	-	(9,881)
(70,255)	-	(70,255)
(1,515,612)	-	(1,515,612)
(97,886)	-	(97,886)
(153,606)	-	(153,606)
(215,306)	-	(215,306)
(164,706)	-	(164,706)
(2,000)	-	(2,000)
(4,989,433)	-	(4,989,433)
-	174,128	174,128
-	174,128	174,128
(4,989,433)	174,128	(4,815,305)
1,075,717	-	1,075,717
793,486	-	793,486
1,503,497	-	1,503,497
425,305	-	425,305
189,661	-	189,661
35,467	-	35,467
-	13,000	13,000
139,739	-	139,739
27,488	14,604	42,092
167,543	-	167,543
(311,142)	(49,783)	(360,925)
516,731	(516,731)	-
4,563,492	(538,910)	4,024,582
(425,941)	(364,782)	(790,723)
9,040,003	7,204,400	16,244,403
533,229	(533,229)	-
\$ 9,147,291	\$ 6,306,389	\$ 15,453,680

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CITY OF BIRMINGHAM
 GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

Account	2017	2016	2015
ASSETS Cash and Cash Equivalents Investments Receivables Prepaid Expenses Other Assets	1,042,381 1,042,381 1,042,381 1,042,381 1,042,381	1,042,381 1,042,381 1,042,381 1,042,381 1,042,381	1,042,381 1,042,381 1,042,381 1,042,381 1,042,381
LIABILITIES Accounts Payable Wages and Salaries Payable Intergovernmental Payable Other Current Liabilities Deferred Liabilities of Resources Fund Balances	1,042,381 1,042,381 1,042,381 1,042,381 1,042,381 1,042,381	1,042,381 1,042,381 1,042,381 1,042,381 1,042,381 1,042,381	1,042,381 1,042,381 1,042,381 1,042,381 1,042,381 1,042,381
Total	2,084,762	2,084,762	2,084,762

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF BRIDGE CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Capital Projects
ASSETS			
Cash and Cash Equivalents	\$ 371,039	\$ 1,152,051	\$ 1,042,881
Taxes Receivable (Net)	248,178	87,428	-
Receivables (Net)	66,573	-	-
Inventories	59,469	-	-
Prepaid Items	13,188	-	-
Total Assets	<u>\$ 758,447</u>	<u>\$ 1,239,479</u>	<u>\$ 1,042,881</u>
LIABILITIES			
Accounts Payable	\$ 181,630	\$ -	\$ -
Wages and Salaries Payable	42,062	-	-
Intergovernmental Payable	532,601	-	-
Other Current Liabilities	53,557	-	38,597
Total Liabilities	<u>809,850</u>	<u>-</u>	<u>38,597</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	100,331	87,428	-
Total Deferred Inflows of Resources	<u>100,331</u>	<u>87,428</u>	<u>-</u>
FUND BALANCES			
Inventories	59,469	-	-
Restricted Fund Balance	-	-	-
Capital Projects	-	-	1,004,284
Retirement of Long-Term Debt	-	1,152,051	-
Unassigned Fund Balance	(211,203)	-	-
Total Fund Balances	<u>(151,734)</u>	<u>1,152,051</u>	<u>1,004,284</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 758,447</u>	<u>\$ 1,239,479</u>	<u>\$ 1,042,881</u>

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

Other Funds	Total Governmental Funds
\$ 998,749	\$ 3,564,720
16,207	351,813
44,674	111,247
-	59,469
-	13,188
<u>\$ 1,059,630</u>	<u>\$ 4,100,437</u>
\$ 723	\$ 182,353
-	42,062
-	532,601
33,253	125,407
<u>33,976</u>	<u>882,423</u>
-	187,759
<u>-</u>	<u>187,759</u>
-	59,469
1,025,654	1,025,654
-	1,004,284
-	1,152,051
-	(211,203)
<u>1,025,654</u>	<u>3,030,255</u>
<u>\$ 1,059,630</u>	<u>\$ 4,100,437</u>

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CITY OF BRIDGE CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds	\$	3,030,255
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. 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.		7,398,987
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 2017 capital outlays and debt principal payments is to increase net position.		862,730
This is the third year of the implementation of GASB 68 for the TMRS Pension plan. This fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension liability of \$2,867,310 and a Deferred Resource Outflow of \$828,721. The net effect of these was to decrease the ending net position by \$2,038,589.		(2,038,589)
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(977,573)
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, 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.		871,481
Net Position of Governmental Activities	\$	9,147,291

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, 2017

	General Fund	Debt Service Fund	Capital Projects
REVENUES:			
Taxes:			
Property Taxes	\$ 1,070,818	\$ 790,436	\$ -
General Sales and Use Taxes	1,503,497	-	-
Franchise Tax	425,305	-	-
Other Taxes	79,410	-	-
Penalty and Interest on Taxes	19,363	16,104	-
Licenses and Permits	55,071	-	-
Intergovernmental Revenue and Grants	39,826	-	30,820
Charges for Services	108,985	-	-
Fines	363,535	-	-
Investment Earnings	3,800	9,428	7,943
Contributions & Donations from Private Sources	9,000	-	-
Other Revenue	23,964	-	-
Total Revenues	<u>3,702,574</u>	<u>815,968</u>	<u>38,763</u>
EXPENDITURES:			
Current:			
General Government:			
Personnel and Purchasing	78,750	-	-
City Manager	151,391	-	-
City Secretary	116,746	-	-
Municipal Court	152,981	-	35,319
City Attorney	45,494	-	-
Administration	278,439	-	-
Municipal Court Judges	21,797	-	-
Finance	146,053	-	-
Public Safety:			
Police	2,200,520	-	70,638
Fire	9,881	-	-
Animal Control	72,463	-	-
Streets and Drainage	846,038	-	-
Culture and Recreation:			
Parks and Recreation	86,987	-	22,190
Library	154,140	-	-
Community Development	180,692	-	-
Debt Service:			
Principal on Debt	-	550,000	-
Interest on Debt	-	167,098	-
Other Debt Service	-	2,000	-
Total Expenditures	<u>4,542,372</u>	<u>719,098</u>	<u>128,147</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(839,798)</u>	<u>96,870</u>	<u>(89,384)</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	718,516	-	-
Transfers Out	-	-	(216,367)
Total Other Financing Sources (Uses)	<u>718,516</u>	<u>-</u>	<u>(216,367)</u>
SPECIAL AND EXTRAORDINARY ITEMS:			
Extraordinary Item - Resource	124,923	-	-
Extraordinary Item - (Use)	(253,693)	-	-
Net Change in Fund Balances	<u>(250,052)</u>	<u>96,870</u>	<u>(305,751)</u>
Fund Balance - October 1 (Beginning)	<u>98,318</u>	<u>1,055,181</u>	<u>1,310,035</u>
Fund Balance - September 30 (Ending)	<u>\$ (151,734)</u>	<u>\$ 1,152,051</u>	<u>\$ 1,004,284</u>

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

Other Funds	Total Governmental Funds
\$ -	\$ 1,861,254
-	1,503,497
-	425,305
110,251	189,661
-	35,467
-	55,071
-	70,646
179,185	288,170
576	364,111
6,317	27,488
9	9,009
19,732	43,696
<u>316,070</u>	<u>4,873,375</u>
-	78,750
-	151,391
-	116,746
16,396	204,696
-	45,494
-	278,439
-	21,797
-	146,053
-	2,271,158
-	9,881
-	72,463
72,280	918,318
-	109,177
1,162	155,302
30,169	210,861
-	550,000
-	167,098
-	2,000
<u>120,007</u>	<u>5,509,624</u>
196,063	(636,249)
14,829	733,345
(247)	(216,614)
<u>14,582</u>	<u>516,731</u>
42,620	167,543
(57,449)	(311,142)
195,816	(263,117)
<u>829,838</u>	<u>3,293,372</u>
<u>\$ 1,025,654</u>	<u>\$ 3,030,255</u>

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, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	(263,117)
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 2017 capital outlays and debt principal payments is to increase the change in net position.		862,730
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/16 caused the change in the ending net position to increase in the amount of \$316,198. Contributions made before the measurement and during the previous fiscal year were also de-expended and recorded as a reduction in the net pension liability for the City. This caused an increase in the change in net position totaling \$89,128. The City's proportionate share of the TMRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$429,039. The net result is to decrease the change in net position by \$89,756.		(89,756)
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.		(977,573)
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, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		41,775
Change in Net Position of Governmental Activities	\$	(425,941)

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, 2017

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,077,000	\$ 1,077,000	\$ 1,070,818	\$ (6,182)
General Sales and Use Taxes	1,510,500	1,510,500	1,503,497	(7,003)
Franchise Tax	415,000	415,000	425,305	10,305
Other Taxes	69,500	69,500	79,410	9,910
Penalty and Interest on Taxes	16,300	16,300	19,363	3,063
Licenses and Permits	48,000	48,000	55,071	7,071
Intergovernmental Revenue and Grants	-	-	39,826	39,826
Charges for Services	113,100	113,100	108,985	(4,115)
Fines	500,000	500,000	363,535	(136,465)
Investment Earnings	700	700	3,800	3,100
Contributions & Donations from Private Sources	-	-	9,000	9,000
Other Revenue	17,300	17,300	23,964	6,664
Total Revenues	3,767,400	3,767,400	3,702,574	(64,826)
EXPENDITURES:				
Current:				
General Government:				
Personnel and Purchasing	80,815	80,815	78,750	2,065
City Manager	148,642	148,642	151,391	(2,749)
City Secretary	121,548	121,548	116,746	4,802
Municipal Court	148,472	156,697	152,981	3,716
City Attorney	45,107	45,107	45,494	(387)
Administration	278,730	294,732	278,439	16,293
Municipal Court Judges	20,590	20,590	21,797	(1,207)
Finance	149,295	149,295	146,053	3,242
Public Safety:				
Police	2,192,835	2,192,835	2,200,520	(7,685)
Fire	11,500	11,500	9,881	1,619
Animal Control	77,795	78,575	72,463	6,112
Streets and Drainage	903,553	907,553	846,038	61,515
Culture and Recreation:				
Parks and Recreation	85,685	85,685	86,987	(1,302)
Library	156,601	156,601	154,140	2,461
Community Development	176,526	176,526	180,692	(4,166)
Contingency	29,222	215	-	215
Total Expenditures	4,626,916	4,626,916	4,542,372	84,544
Excess (Deficiency) of Revenues Over (Under) Expenditures	(859,516)	(859,516)	(839,798)	19,718
OTHER FINANCING SOURCES (USES):				
Transfers In	718,516	718,516	718,516	-
Total Other Financing Sources (Uses)	718,516	718,516	718,516	-
SPECIAL AND EXTRAORDINARY ITEMS:				
Extraordinary Item - Resource	-	-	124,923	124,923
Extraordinary Item - (Use)	-	-	(253,693)	(253,693)
Net Change in Fund Balances	(141,000)	(141,000)	(250,052)	(109,052)
Fund Balance - October 1 (Beginning)	98,318	98,318	98,318	-
Fund Balance - September 30 (Ending)	\$ (42,682)	\$ (42,682)	\$ (151,734)	\$ (109,052)

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, 2017

	Business Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,041,293
Accounts Receivable (Net)	449,800
Inventories	70,586
Prepaid Items	1,120
Total Current Assets	2,562,799
Noncurrent Assets:	
Capital Assets:	
Land	53,420
Buildings	18,293
Machinery and Equipment	1,085,794
Infrastructure	15,772,151
Accumulated Depreciation	(12,086,791)
Total Noncurrent Assets	4,842,867
Total Assets	7,405,666
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	223,616
Total Deferred Outflows of Resources	223,616
LIABILITIES	
Current Liabilities:	
Accounts Payable	103,618
Wages and Salaries Payable	11,839
Compensated Absences Payable	37,958
Intergovernmental Payable	4,888
Unearned Revenues - Customer Advance Payments	332,990
Other Current Liabilities	51,019
Total Current Liabilities	542,312
NonCurrent Liabilities:	
Net Pension Liability	780,581
Total Noncurrent Liabilities	780,581
Total Liabilities	1,322,893
NET POSITION	
Net Investment in Capital Assets	4,842,867
Restricted for Inventories	70,586
Unrestricted Net Position	1,392,936
Total Net Position	\$ 6,306,389

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, 2017

EXHIBIT D-2

	Business Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Water Service	\$ 1,116,963
Charges for Sewerage Service	992,805
Charges for Sanitation Service	860,478
Charges for Service - Other	239,971
Total Operating Revenues	3,210,217
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	691,218
Personnel Services - Employee Benefits	302,047
Purchased Professional & Technical Services	139,808
Purchased Property Services	1,139,804
Other Operating Costs	142,348
Supplies	99,373
Depreciation	521,491
Total Operating Expenses	3,036,089
Operating Income	174,128
NON-OPERATING REVENUES (EXPENSES):	
Intergovernmental Revenue and Grants	13,000
Investment Earnings	14,604
Total Non-operating Revenue (Expenses)	27,604
Income Before Transfers, Gains or Losses	201,732
Non-Operating Transfers In	216,614
Transfers Out (Use)	(733,345)
Extraordinary Item - (Use)	(49,783)
Change in Net Position	(364,782)
Total Net Position -October 1 (Beginning)	7,204,400
Prior Period Adjustment	(533,229)
Total Net Position September 30 (Ending)	\$ 6,306,389

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, 2017

	Business Type Activities
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 3,263,297
Cash Payments to Employees for Services	(969,529)
Cash Payments for Suppliers	(92,426)
Cash Payments for Other Operating Expenses	(1,438,211)
Net Cash Provided by Operating Activities	763,131
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Transfer In/Out (Net)	(516,731)
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(164,460)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	14,604
Net Increase in Cash and Cash Equivalents	96,544
Cash and Cash Equivalents at Beginning of the Year:	1,944,749
Cash and Cash Equivalents at the End of the Year:	\$ 2,041,293
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 174,128
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	521,491
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	53,080
Decrease (increase) in Inventories	(2,069)
Decrease (increase) in Prepaid Expenses	(16)
Increase (decrease) in Accounts Payable	9,032
Increase (decrease) in Other Payables	(16,251)
Increase (decrease) in Net Pension Liability	37,444
Decrease (increase) in Deferred Pension Outflow	(13,708)
Net Cash Provided by Operating Activities	\$ 763,131

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, 2017

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, 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. The City pays accrued sick leave only when the employee retires. 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	2,689,219	812,738	1,876,481	
Furniture & Fixtures	163,332	127,942	35,390	
Machinery & Equipment	3,338,771	2,505,833	832,938	
Infrastructure	<u>26,538,708</u>	<u>15,884,827</u>	<u>10,653,881</u>	
Change in Net Position				<u>13,769,483</u>
Long-term Liabilities at the Beginning of the year			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			6,200,000	
Compensated Absences			<u>170,496</u>	
Change in Net Position				<u>(6,370,496)</u>
Net Adjustment to Net Position				<u>\$ 7,398,987</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>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current Year Capital Outlay</u>			
Buildings	\$ 107,094		
Machinery and Equipment	<u>209,466</u>		
Total Capital Outlay	<u>316,560</u>	<u>316,560</u>	<u>316,560</u>
<u>Debt Principal Issuance & Payments</u>			
Bond Principal	550,000		
Other	<u>(3,830)</u>		
Total Change in Debt Principal	<u>546,170</u>	<u>546,170</u>	<u>546,170</u>
Total Adjustments to Net Position		<u>\$ 862,730</u>	<u>\$ 862,730</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>Adjustments to Revenue and Deferred Revenue</u>	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
Taxes Collected from Prior Year Levies	\$ 48,100	\$ (48,100)	
Uncollected Taxes (assumed collectible) from Current Year Levy	60,084	60,084	60,084
Uncollected Taxes (assumed collectible) from Prior Year Levy	127,675		127,675
Difference in prior year estimated collectible and current year collections	4,035	(4,035)	
Accrued interest on long-term debt	38,928	(38,928)	(38,928)
Prior year accrued interest on long-term debt	41,320	41,320	
Reclassify fines receivable assessed but not received this year		31,434	722,650
Total		<u>\$ 41,775</u>	<u>\$ 871,481</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, 2017, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,606,013 and the bank balance was \$5,653,249. The City's cash deposits at September 30, 2017 and during the year ended September 30, 2017 were 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 \$4,993,360 and the par value was \$5,100,000.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$4,973,426 and occurred during the month of April.
- 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, 2017, are shown below:

Name	Carrying Amount	Market Value	Category
TexPool Local Government Investment Pool	\$ 964,272	\$ 964,272	1
TexStar	\$ 485,727	\$ 485,727	1
UBS Financial Services	\$ 503,991	\$ 503,991	

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 at September 30, 2017. Interfund transfers for the year ended September 30, 2017, consisted of the following individual amounts:

Fund	General Fund	Utility Fund	Capital Projects Fund	Nonmajor Governmental Funds	Totals
Transfer In - Utility Fund	\$ (718,516)				\$ (718,516)
Transfer Out - Utility Fund			216,367		216,367
Transfer In - Capital Projects		(216,367)			(216,367)
Transfer Out - General Fund		718,516			718,516
Transfer Out - Hurricane Ike		14,581			14,581
Transfer In - Utility Fund				(14,581)	(14,581)
Totals Transfers In/(Out)	\$ (718,516)	\$ 516,730	\$ 216,367	\$ (14,581)	\$ 0

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2017, were as follows:

	Property Taxes	Other Taxes	Other Receivables	Total Receivables
Governmental Activities:				
General Fund	\$ 100,331	\$ 147,847	\$ 66,573	\$ 314,751
Debt Service Fund	87,428			87,428
Nonmajor Governmental Funds		16,207	44,674	60,881
Total - Governmental Activities	\$ 187,759	\$ 164,054	\$ 111,247	\$ 463,060

	Property Taxes	Other Taxes	Other Receivables	Total Receivables
Business-type Activities:				
Utility Fund	\$ -	\$ -	\$ 449,800	\$ 449,800
Total - Business-Type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 449,800</u>	<u>\$ 449,800</u>

Payables at September 30, 2017, were as follows:

	Accounts Payable	Wages and Salaries Payable	Intergovernmental Payable	Other Payables	Total Payables
Governmental Activities:					
General Fund	\$ 181,630	\$ 42,062	\$ 532,601	\$ 53,557	\$ 809,850
Capital Projects Fund				38,597	38,597
Nonmajor Governmental Funds	723			33,253	33,976
Total - Governmental Activities	<u>\$ 182,353</u>	<u>\$ 42,062</u>	<u>\$ 532,601</u>	<u>\$ 125,407</u>	<u>\$ 882,423</u>
Business-type Activities:					
Utility Fund	\$ 103,618	\$ 11,839	\$ 4,888	\$ 88,977	\$ 209,322
Total - Business-Type Activities	<u>\$ 103,618</u>	<u>\$ 11,839</u>	<u>\$ 4,888</u>	<u>\$ 88,977</u>	<u>\$ 209,322</u>

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2017, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 370,793	\$ -	\$ -	\$ 370,793
Buildings and Improvements	2,689,219	107,094		2,796,313
Furniture and Fixtures	163,332			163,332
Machinery and Equipment	3,338,771	209,466	(28,161)	3,520,076
Infrastructure	26,538,708			26,538,708
Totals at Historic Cost	<u>33,100,823</u>	<u>316,560</u>	<u>(28,161)</u>	<u>33,389,222</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(812,738)	(102,160)		(914,898)
Furniture and Fixtures	(127,942)	(16,333)		(144,275)
Machinery and Equipment	(2,505,833)	(253,622)	28,161	(2,731,294)
Infrastructure	(15,884,827)	(605,458)		(16,490,285)
Total Accumulated Depreciation	<u>(19,331,340)</u>	<u>(977,573)</u>	<u>28,161</u>	<u>(20,280,752)</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,769,483</u>	<u>\$ (661,013)</u>	<u>\$ -</u>	<u>\$ 13,108,470</u>

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Business-type Activities:				
Land	\$ 53,420			\$ 53,420
Buildings	18,293			18,293
Machinery & Equipment	984,946	100,848		1,085,794
Infrastructure	15,708,539	63,612		15,772,151
Totals at Historic Cost	16,765,198	164,460	-	16,929,658
Less Accumulated Depreciation				
Buildings	(18,293)			(18,293)
Machinery & Equipment	(774,338)	(60,692)		(835,030)
Infrastructure	(10,772,669)	(460,799)		(11,233,468)
Total Accumulated Depreciation	(11,565,300)	(521,491)	-	(12,086,791)
Business-type Activities Capital Assets, Net	\$ 5,199,898	\$ (357,031)	\$ -	\$ 4,842,867

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 8,815
Court	10,886
Police Department	81,225
Streets & Drainage	865,034
Animal Control	150
Parks & Recreation	10,263
Library	1,199
Total Depreciation Expense	\$ 977,573

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, 2017 are included in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Certificates of Obligation Series 2012	\$ 1,990,000	\$ -	\$ 160,000	\$ 1,830,000
Certificates of Obligation Series 2014	725,000		390,000	335,000
Certificates of Obligation Series 2015	3,485,000			3,485,000
Compensated Absences	170,496	138,194	134,364	174,326
Total Debt Payable	\$ 6,370,496	\$ 138,194	\$ 684,364	\$ 5,824,326

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.

On July 1, 2014 the City issued \$1,250,000 in Tax and Waterworks Certificates of Obligation, Series 2014. The proceeds from the 2014 certificates are being used to appeal the Department of Homeland Security's Federal Emergency Management Agency's Flood Insurance Rate Map and Flood Insurance Study Report for Orange County, Texas and Incorporated Areas. The remaining proceeds will be used for water and sewer infrastructure projects and to pay issuance costs related to the certificates.

On July 2, 2015 the City issued \$3,485,000 in Tax and Waterworks Certificates of Obligation, Series 2015. The proceeds from the 2015 certificates are being used for contractual obligations and improvements to City buildings, public works, parks and utility systems.

Long-term debts are comprised of the following individual issues at September 30, 2017:

<u>Description</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Series Matures</u>	<u>Outstanding</u>
Tax and Waterworks Certificates of Obligation, Series 2012	2.0-3.0%	2012	2027	\$ 1,830,000
Tax and Waterworks Certificates of Obligation, Series 2014	0.75-1.55%	2014	2018	335,000
Tax and Waterworks Certificates of Obligation, Series 2015	2.00-4.00%	2015	2029	<u>3,485,000</u>
				<u>\$ 5,650,000</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, 2017 are as follows:

<u>Year Ending September 30,</u>	<u>Tax and Waterworks Certificates of Obligation Series 2012</u>	<u>Tax and Waterworks Certificates of Obligation Series 2014</u>	<u>Tax and Waterworks Certificates of Obligation Series 2015</u>	<u>Annual Debt Service</u>
2018	207,730	340,192	159,500	707,422
2019	207,780		383,500	591,280
2020	207,680		383,000	590,680
2021	202,868		382,400	585,268
2022	203,493		381,700	585,193
Thereafter	<u>1,026,270</u>		<u>2,668,050</u>	<u>3,694,320</u>
Total	<u>\$ 2,055,820</u>	<u>\$ 340,192</u>	<u>\$ 4,358,150</u>	<u>\$ 6,754,162</u>

The tax and waterworks and sewer system certificates of obligation series 2012, 2014 and 2015 include interest amounts of \$225,820, \$5,192, and \$873,150, respectively.

H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon retirement of certain employees, the City pays up to 350 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:

	Sick Leave	Vacation Leave
Balance September 30, 2016	\$ 894,788	\$ 203,759
Additions - New Entrants and Salary Increments	104,325	170,916
Deductions - Payments to Participants	<u>(60,451)</u>	<u>(166,001)</u>
Balance September 30, 2017	<u>\$ 938,662</u>	<u>\$ 208,674</u>

I. DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Bridge City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

Employees covered by benefit terms.

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	45
Inactive employees entitled to but not yet receiving benefits	24
Active employees	<u>54</u>
	123

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary

to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Bridge City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.89% and 15.09% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$512,513, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 17,829,909	\$ 14,370,774	\$ 3,459,135
Changes for the Year:			
Service Cost	517,357	-	517,357
Interest	1,200,367	-	1,200,367
Change of benefit terms	-	-	-
Difference between expected and actual experience	120,544	-	120,544
Changes of assumptions	-	-	-
Contributions - employer	-	469,150	(469,150)
Contributions - employee	-	220,554	(220,554)
Net investment income	-	971,368	(971,368)
Benefit payments, including refunds of employee contributor	(610,750)	(610,750)	-
Administrative expense	-	(10,969)	10,969
Other changes	-	(591)	591
Net changes	<u>1,227,518</u>	<u>1,038,762</u>	<u>188,756</u>
Balance at 12/31/2016	<u>\$ 19,057,427</u>	<u>\$ 15,409,536</u>	<u>\$ 3,647,891</u>

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 6,314,323	\$ 3,647,891	\$ 1,470,114

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017 the city recognized pension expense of \$626,005.

At September 30, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ (80,580)	\$ -
Changes in actuarial assumptions	72,630	-
Difference between projected and actual investment earnings	660,471	-
Contributions subsequent of the measurement date	<u>399,816</u>	<u>-</u>
Total	\$ 1,052,337	\$ -

\$399,816 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2017	\$ 133,686
2018	301,713
2019	217,391
2020	(269)
2021	-
Thereafter	-
	<u>\$ 652,521</u>

Supplemental Death Benefits Fund

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.

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 2017, 2016 and 2015 were \$10,067, \$8,505 and \$7,909, 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 Blue Cross Blue Shield Insurance Company. After the \$2,500 deductible is met, the policy pays in-network at 70% and out-of-network at 50% with an unlimited lifetime maximum.

K. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds and Notes Payable					
Certificates of Obligation	\$ 6,200,000	\$ -	\$ (550,000)	\$ 5,650,000	\$ 550,000
Total Bonds and Notes Payable	6,200,000	-	(550,000)	5,650,000	550,000
Other Liabilities					
Net Pension Liability	3,459,135	1,849,828	(1,661,072)	3,647,891	-
Compensated Absences	170,496	138,194	(134,364)	174,326	174,326
Total Other Liabilities	3,629,631	1,988,022	(1,795,436)	3,822,217	174,326
Total Governmental Activities	<u>\$ 9,829,631</u>	<u>\$ 1,988,022</u>	<u>\$ (2,345,436)</u>	<u>\$ 9,472,217</u>	<u>\$ 724,326</u>
Long-term Liabilities					
Business-type Activities					
Compensated Absences	<u>\$ 36,273</u>	<u>\$ 35,230</u>	<u>\$ (33,545)</u>	<u>\$ 37,958</u>	<u>\$ 37,958</u>
Total Business-type Activities	<u>\$ 36,273</u>	<u>\$ 35,230</u>	<u>\$ (33,545)</u>	<u>\$ 37,958</u>	<u>\$ 37,958</u>
Long-term Liabilities					

L. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	General Fund	Debt Service Fund	Total
Net Tax Revenue	\$ 100,331	\$ 87,428	\$ 187,759
Total Deferred Revenue	<u>\$ 100,331</u>	<u>\$ 87,428</u>	<u>\$ 187,759</u>

M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total
Property Taxes	\$ 1,070,818	\$ 790,436			\$ 1,861,254
Other Taxes	2,008,212			110,251	2,118,463
Penalties and Interest on Taxes	19,363	16,104			35,467
Licenses and Permits	55,071				55,071
Intergovernmental Grants	39,826		30,820		70,646
Fines	363,535			576	364,111
Charges for Services	108,985			179,185	288,170
Investment Earnings	3,800	9,428	7,943	6,317	27,488
Contributions and Donations	9,000			9	9,009
Other	23,964			19,732	43,696
Total	<u>\$ 3,702,574</u>	<u>\$ 815,968</u>	<u>\$ 38,763</u>	<u>\$ 316,070</u>	<u>\$ 4,873,375</u>

N. LITIGATION

The City is not currently party to any legal action; therefore, no provision for any potential loss or legal expenses has been recorded in the accompanying financial statements. The City participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit adjustments by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at September 30, 2017 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

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, 2017.

P. HURRICANE IKE – 2008

As of September 30, 2017 FEMA has allocated \$4,985,130 in estimated and actual reimbursements for labor, equipment, debris removal, repairs to streets, drainage and for emergency shelters, showers and office trailers. This is a decrease to the original amount of \$5.2 million. FEMA is in the process of auditing all Hurricane Ike projects and as of the writing of this audit report FEMA has informed the City that they are de-obligating \$494,726, and this amount is due to FEMA. The de-obligated funds are a result of cost under-run due to lower actual costs than the amount for which the projects were originally written.

The City has also been awarded three grants under the Disaster Recovery Texas Community Development Block Grant Program not to exceed \$16,864,879. The grant funds are contracted through the General Land Office and are proposed for street repairs, drainage repairs, 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, 2017, \$16,719,336 has been received from the General Land Office and all grants are closed.

Q. HURRICANE HARVEY – 2017

Between August 26 and August 30, 2017, Hurricane Harvey dumped more than 50 inches of rain on Bridge City with more than 2 feet falling in one day. The unprecedented rainfall caused catastrophic flooding. The City of Bridge City received water damage to most of its facilities. The City assisted with traffic control, water rescues, debris removal and setting up points of distribution (POD's) for supplies and necessities that were donated from outside sources to help the citizens of Bridge City and the surrounding area. The City continues to assess, repair and mitigate the damages caused by Hurricane Harvey. The City is working with the Texas Municipal League (TML), Texas Department of Emergency Management (TDEM) and the Federal Emergency Management Agency (FEMA) to recoup any and all eligible costs.

R. RELATED ORGANIZATIONS

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

S. SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through December 22, 2017.

T. PRIOR PERIOD ADJUSTMENT

In fiscal year 2015, the City implemented GASB Statement No. 68 - Accounting and Financial Reporting for Pensions. During the current year it was determined that the prior implementation of GASB 68 was incorrect. The deferred outflow related to pension and net pension liability should be allocated between the Governmental Activities and the Business-type Activities. The effect of this change is to increase the beginning net position of the Governmental Activities by \$533,229 and decrease the beginning net position of the Business-type Activities by \$533,229. The net effect is no change in net position.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BRIDGE CITY
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM

EXHIBIT G-6

SEPTEMBER 30, 2017

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
A. Total Pension Liability			
Service Cost	\$ 517,357	\$ 513,228	\$ 470,296
Interest (on the Total Pension Liability)	1,200,367	1,163,232	1,152,556
Changes of Benefit Terms	-0-	-0-	-0-
Difference between Expected and Actual Experience	120,544	25,453	(857,372)
Changes of Assumptions	-0-	155,166	-0-
Benefit Payments, including refunds of employee contributions	(610,750)	(776,315)	(492,558)
Net change in Total Pension Liability	\$ 1,227,518	\$ 1,080,764	\$ 272,922
Total Pension Liability - Beginning	17,829,909	16,749,145	16,476,223
Total Pension Liability - Ending	\$ 19,057,427	\$ 17,829,909	\$ 16,749,145
B. Total Fiduciary Net Position			
Contributions - Employer	\$ 469,150	\$ 507,043	\$ 482,088
Contributions - Employee	220,554	216,421	212,106
Net Investment Income	971,368	21,273	769,640
Benefit Payments, including refunds of employee contributions	(610,750)	(776,315)	(492,558)
Administrative Expense	(10,969)	(12,957)	(8,035)
Other	(591)	(640)	(661)
Net Change in Plan Fiduciary Net Position	\$ 1,038,762	\$ (45,174)	\$ 962,580
Plan Fiduciary Net Position - Beginning	14,370,774	14,415,948	13,453,368
Plan Fiduciary Net Position - Ending	\$ 15,409,536	\$ 14,370,774	\$ 14,415,948
C. Net Pension Liability	\$ 3,647,891	\$ 3,459,135	\$ 2,333,197
D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.86%	80.60%	86.07%
E. Covered Employee Payroll	\$ 3,150,776	\$ 3,091,735	\$ 3,030,092
F. Net Pension Liability as a Percentage of Covered Employee Payroll	115.78%	111.88%	77.00%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only three years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF BRIDGE CITY
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 512,513	\$ 470,128	\$ 509,129
Contributions in Relation to the Actuarially Determined Contributions	512,513	470,128	509,129
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered Employee Payroll	\$ 3,406,404	\$ 3,087,050	\$ 3,126,182
Contributions as a Percentage of Covered Employee Payroll	15.04%	15.23%	16.00%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

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COMBINING AND INDIVIDUAL FUND STATEMENTS

CITY OF BRIDGE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

	Hotel/ Motel	Municipal Court Security	Street Maintenance	Child Safety
ASSETS				
Cash and Cash Equivalents	\$ 497,314	\$ 29,437	\$ 370,290	\$ 27,262
Taxes Receivable (Net)	16,207	-	-	-
Receivables (Net)	-	-	33,470	-
Total Assets	<u>\$ 513,521</u>	<u>\$ 29,437</u>	<u>\$ 403,760</u>	<u>\$ 27,262</u>
LIABILITIES				
Accounts Payable	-	-	723	-
Other Current Liabilities	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>723</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance	513,521	29,437	403,037	27,262
Total Fund Balances	<u>513,521</u>	<u>29,437</u>	<u>403,037</u>	<u>27,262</u>
Total Liabilities and Fund Balances	<u>\$ 513,521</u>	<u>\$ 29,437</u>	<u>\$ 403,760</u>	<u>\$ 27,262</u>

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

Gambling Forfeiture	Municipal Court Technology	Police Special	Park Construction	Thwarting	Police State Seizures	Library Expansion	Hurricane Ike Recovery DRS100001
\$ 25,852	\$ 24,680	\$ 22,111	\$ 393	\$ 734	\$ 676	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	11,204	-
<u>\$ 25,852</u>	<u>\$ 24,680</u>	<u>\$ 22,111</u>	<u>\$ 393</u>	<u>\$ 734</u>	<u>\$ 676</u>	<u>\$ 11,204</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20,484	-	3,038	-	-	-	9,731	-
<u>20,484</u>	<u>-</u>	<u>3,038</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,731</u>	<u>-</u>
5,368	24,680	19,073	393	734	676	1,473	-
<u>5,368</u>	<u>24,680</u>	<u>19,073</u>	<u>393</u>	<u>734</u>	<u>676</u>	<u>1,473</u>	<u>-</u>
<u>\$ 25,852</u>	<u>\$ 24,680</u>	<u>\$ 22,111</u>	<u>\$ 393</u>	<u>\$ 734</u>	<u>\$ 676</u>	<u>\$ 11,204</u>	<u>\$ -</u>

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CITY OF BRIDGE CITY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

	Hurricane Ike Recovery DRS210001	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 998,749	\$ 998,749
Taxes Receivable (Net)	-	16,207	16,207
Receivables (Net)	-	44,674	44,674
Total Assets	<u>\$ -</u>	<u>\$ 1,059,630</u>	<u>\$ 1,059,630</u>
LIABILITIES			
Accounts Payable	\$ -	\$ 723	\$ 723
Other Current Liabilities	-	33,253	33,253
Total Liabilities	<u>-</u>	<u>33,976</u>	<u>33,976</u>
FUND BALANCES			
Restricted Fund Balance	-	1,025,654	1,025,654
Total Fund Balances	<u>-</u>	<u>1,025,654</u>	<u>1,025,654</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 1,059,630</u>	<u>\$ 1,059,630</u>

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

CITY OF BRIDGE CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Hotel/ Motel	Municipal Court Security	Street Maintenance	Child Safety
REVENUES:				
Taxes:				
Other Taxes	\$ 110,251	\$ -	\$ -	\$ -
Charges for Services	-	6,041	173,144	-
Fines	-	-	-	-
Investment Earnings	3,317	189	2,106	190
Contributions & Donations from Private Sources	-	-	-	-
Other Revenue	-	-	-	1,278
Total Revenues	<u>113,568</u>	<u>6,230</u>	<u>175,250</u>	<u>1,468</u>
EXPENDITURES:				
Current:				
General Government:				
Municipal Court	-	-	-	-
Streets and Drainage	-	-	72,280	-
Culture and Recreation:				
Library	-	-	-	-
Community Development	30,169	-	-	-
Total Expenditures	<u>30,169</u>	<u>-</u>	<u>72,280</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>83,399</u>	<u>6,230</u>	<u>102,970</u>	<u>1,468</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
SPECIAL AND EXTRAORDINARY ITEMS:				
Extraordinary Item - Resource	-	-	-	-
Extraordinary Item - (Use)	-	-	-	-
Net Change in Fund Balance	<u>83,399</u>	<u>6,230</u>	<u>102,970</u>	<u>1,468</u>
Fund Balance - October 1 (Beginning)	<u>430,122</u>	<u>23,207</u>	<u>300,067</u>	<u>25,794</u>
Fund Balance - September 30 (Ending)	<u>\$ 513,521</u>	<u>\$ 29,437</u>	<u>\$ 403,037</u>	<u>\$ 27,262</u>

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

Gambling Forfeiture	Municipal Court Technology	Police Special	Park Construction	Thwarting	Police State Seizures	Library Expansion	Hurricane Ike Recovery DRS100001
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	576	-	-	-
179	163	162	3	3	5	-	-
-	-	-	9	-	-	-	-
-	18,454	-	-	-	-	-	-
<u>179</u>	<u>18,617</u>	<u>162</u>	<u>12</u>	<u>579</u>	<u>5</u>	<u>-</u>	<u>-</u>
-	16,396	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,162	-
-	-	-	-	-	-	-	-
-	<u>16,396</u>	-	-	-	-	<u>1,162</u>	-
<u>179</u>	<u>2,221</u>	<u>162</u>	<u>12</u>	<u>579</u>	<u>5</u>	<u>(1,162)</u>	<u>-</u>
-	-	-	-	-	-	-	14,829
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	<u>14,829</u>
-	-	-	-	-	-	-	5,545
-	-	-	-	-	-	-	<u>(20,374)</u>
<u>179</u>	<u>2,221</u>	<u>162</u>	<u>12</u>	<u>579</u>	<u>5</u>	<u>(1,162)</u>	<u>-</u>
<u>5,189</u>	<u>22,458</u>	<u>18,911</u>	<u>381</u>	<u>156</u>	<u>671</u>	<u>2,635</u>	<u>-</u>
<u>\$ 5,368</u>	<u>\$ 24,679</u>	<u>\$ 19,073</u>	<u>\$ 393</u>	<u>\$ 735</u>	<u>\$ 676</u>	<u>\$ 1,473</u>	<u>\$ -</u>

CITY OF BRIDGE CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Hurricane Ike Recovery DRS210001	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:			
Taxes:			
Other Taxes	\$ -	\$ 110,251	\$ 110,251
Charges for Services	-	179,185	179,185
Fines	-	576	576
Investment Earnings	-	6,317	6,317
Contributions & Donations from Private Sources	-	9	9
Other Revenue	-	19,732	19,732
Total Revenues	-	316,070	316,070
EXPENDITURES:			
Current:			
General Government:			
Municipal Court	-	16,396	16,396
Streets and Drainage	-	72,280	72,280
Culture and Recreation:			
Library	-	1,162	1,162
Community Development	-	30,169	30,169
Total Expenditures	-	120,007	120,007
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	196,063	196,063
OTHER FINANCING SOURCES (USES):			
Transfers In	-	14,829	14,829
Transfers Out	(247)	(247)	(247)
Total Other Financing Sources (Uses)	(247)	14,582	14,582
SPECIAL AND EXTRAORDINARY ITEMS:			
Extraordinary Item - Resource	37,075	42,620	42,620
Extraordinary Item - (Use)	(37,075)	(57,449)	(57,449)
Net Change in Fund Balance	(247)	195,816	195,816
Fund Balance - October 1 (Beginning)	247	829,838	829,838
Fund Balance - September 30 (Ending)	\$ -	\$ 1,025,654	\$ 1,025,654

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

FEDERAL SECTION



keri michutka
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S 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 the 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, 2017 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Bridge City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of city's internal control.

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

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 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 from 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
December 22, 2017

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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_____, 2018

Re: Bridge City, Texas (the "City") \$1,965,000 Tax and Waterworks & Sanitary Sewer System Subordinate Lien Revenue Certificates of Obligation, Series 2018 (the "Certificates")

WE HAVE ACTED as bond counsel for the City in connection with an issue of certificates described as follows:

BRIDGE CITY, TEXAS TAX AND WATERWORKS & SANITARY SEWER SYSTEM SUBORDINATE LIEN REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018, dated July 1, 2018, in the total authorized aggregate amount of \$1,965,000 (the "Certificates"). The Certificates mature, bear interest and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City on June 19, 2018, authorizing issuance of the Certificates (the "Ordinance").

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, pursuant to which the City is acting, and with respect to the exclusion of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the City, customary certificates of officers, agents and other representatives of the City and other public officials, and other certified showings related to the authorization and issuance of the Certificates. We have also examined executed Certificate No. T-1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Certificates constitute valid and legally binding obligations of the City; and

(2) Taxable property in the City is subject to the levy of ad valorem taxes, legally unlimited as to rate or amount. No general obligation debt limitation is imposed upon the City under current state law; however, the City operates under the general laws of the State of Texas as authorized by XI, Section 4 of the Texas Constitution which limits the maximum tax rate to \$1.50 per \$100 assessed valuation for all City purposes.

THE RIGHTS OF THE PURCHASER of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION that:

(1) Interest on the Certificates is excludable from gross income of the Purchaser for federal income tax purposes under existing law.

(2) The Certificates are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except that interest will be included in the "adjusted net book income" or "adjusted current earnings" of a corporation (other than any S Corporation, regulated investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax and its Superfund "environmental tax" liability.

In providing such opinions, we have relied on representations of the City with respect to matters solely within the knowledge of the City which we have not independently verified and have assumed continuing compliance with the covenants in the Certificates pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or if the City fails to comply with the foregoing provisions of the Ordinance, interest on the Certificates could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

In the Ordinance, the City has designated the Certificates as "qualified tax-exempt obligations" under the Code and has made the representations, which we have not independently verified, necessary to qualify the Certificates as "qualified tax-exempt obligations". Based on such representations, it is our opinion that the Certificates are "qualified tax-exempt obligations" under existing law.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Certificates.

The Purchaser of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. In addition, certain foreign corporations doing business in the United States may be subject to the new "branch profits tax" on their effectively connected earnings and profits (including tax-exempt interest such as interest on the Certificates). For these reasons, the Purchaser of the Certificates should consult their own tax advisors as to the consequences of investing in the Certificates.

Yours very truly,

GERMER PLLC

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