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PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 26, 2016

In the opinion of Orrick, Herrington & Sutcliffe LLP, 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. In the further opinion of Bond Counsel, interest on the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates. See "TAX MATTERS" herein.

The Certificates will be designated as "Qualified Tax-Exempt Obligations" for financial institutions. See "QUALIFIED TAX-EXEMPT OBLIGATIONS."

NEW ISSUE: BOOK-ENTRY-ONLY

RATINGS: Moody's....."___"
See "SALE AND DISTRIBUTION OF THE CERTIFICATES – Municipal Bond Ratings"

\$6,950,000*

CITY OF SEABROOK, TEXAS

(A political subdivision of the State of Texas located within Harris County)

CERTIFICATES OF OBLIGATION, SERIES 2016A

Dated: November 1, 2016

Due: September 1, as shown below

Principal of and interest on the \$6,950,000* City of Seabrook, Texas, Certificates of Obligation, Series 2016A (the "Certificates") are payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, the initial paying agent/registrant (the "Paying Agent/Registrar"). The Certificates are initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which will make distribution of the amounts so paid to the beneficial owners of the Certificates. See "THE CERTIFICATES - Book-Entry-Only System" herein.

Interest on the Certificates will accrue from November 1, 2016 and is payable on March 1 and September 1 of each year, commencing March 1, 2017, to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar on the fifteenth calendar day of the month preceding each interest payment date (the "Record Date"). See "THE CERTIFICATES - Description."

The Certificates, when issued, will constitute valid and binding obligations of the City of Seabrook, Texas (the "City") and will be payable from the proceeds of a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and will be further payable from a limited pledge of a subordinate lien on the net revenues of the City's waterworks and sanitary sewer system (the "System") in an amount not to exceed \$1,000. See "THE CERTIFICATES - Source of Payment."

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Government Code, as amended, and an ordinance (the "Ordinance") to be approved by the City Council on October 4, 2016. See "THE CERTIFICATES – Authorization of the Certificates."

Proceeds from the sale of the Certificates will be used (i) for improvements and repairs to the City's water and sewer system, including sewer line replacement and construction, improvement and upgrades to the City's wastewater treatment plants; and (ii) to pay the costs of issuance of the Certificates. See "THE CERTIFICATES - Use of Proceeds" and "- Sources and Uses of Funds."

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND PRICES (Due September 1)

Maturity September 1	Principal Amount*	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 811692 (b)	Maturity September 1	Principal Amount*	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 811692 (b)
2017	\$210,000	%	%		2030(c)	\$275,000	%	%	
2018	170,000				2031(c)	285,000			
2019	180,000				2032(c)	300,000			
2020	185,000				2033(c)	310,000			
2021	195,000				2034(c)	325,000			
2022	200,000				2035(c)	335,000			
2023	210,000				2036(c)	350,000			
2024	220,000				2037(c)	365,000			
2025	225,000				2038(c)	380,000			
2026	235,000				2039(c)	395,000			
2027(c)	245,000				2040(c)	410,000			
2028(c)	255,000				2041(c)	425,000			
2029(c)	265,000								

* Preliminary, subject to change.

(a) The initial yields will be established by and are the sole responsibility of the Underwriter, and may subsequently be changed.

(b) CUSIP numbers have been assigned to the Certificates by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the registered owners of the Certificates. Neither the City, the Financial Advisor, nor the Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(c) The Certificates maturing on September 1, 2027* and thereafter, are subject to redemption on September 1, 2026* or any date thereafter, at the option of the City, at par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See "THE CERTIFICATES - Redemption Provisions."

The Certificates are offered when, as and if issued and accepted by the underwriter listed below (the "Underwriter"), subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Bond Counsel for the City, as to the validity of the issuance of the Certificates under the Constitution and laws of the State of Texas. See "LEGAL MATTERS." Certain legal matters will be passed upon for the Underwriter listed below by Bracewell LLP, Houston, Texas. Delivery of the Certificates through DTC is expected to be on or about November 3, 2016.

COASTAL SECURITIES, INC.

* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), and in effect on the date of this Official Statement, this document constitutes an Official Statement of the City with respect to the Certificates that has been "deemed final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representation 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.

This Official Statement is not to be used in 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.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. 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 condition 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, and as part of its responsibilities to investors under 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.

NEITHER THE CITY, THE FINANCIAL ADVISOR, NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE ATTACHED APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD LOOKING STATEMENTS.

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 final official statement for purposes of, and as that term is defined in, the United States Securities and Exchange Commission Rule 15c2-12.

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CITY OF SEABROOK, TEXAS

(A political subdivision of the State of Texas located within Harris County)

\$6,950,000*

CERTIFICATES OF OBLIGATION, SERIES 2016A

INTRODUCTORY STATEMENT

Information contained in this Official Statement, including its Appendices, has been obtained from the City of Seabrook, Texas (the "City") in connection with the offering by the City of its \$6,950,000* Certificates of Obligation, Series 2016A (the "Certificates") identified on the cover page hereof.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

SALE AND DISTRIBUTION OF THE CERTIFICATES

Underwriting

Coastal Securities, Inc. (referred to herein as the "Underwriter") has agreed to purchase the Certificates from the City for \$_____ (being the principal amount of the Certificates, plus a premium on the Certificates of \$_____ and less an Underwriter's discount of \$_____), plus accrued interest from November 1, 2016 to the date of delivery.

Prices and Marketability

The delivery of the Certificates is conditioned upon the receipt by the City of certificates 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 bondhouse, broker 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 cover page. 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. IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH 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.

Securities Laws

No registration statement relating to the Certificates has been filed with the United States 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 acts of any jurisdiction. The City assumes no responsibility for registration or qualification of the Certificates under the securities laws of any 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 jurisdictions.

* Preliminary, subject to change.

Municipal Bond Ratings

In connection with the sale of the Certificates, the City has made application to Moody's Investors Service, Inc. ("Moody's") for a rating and a rating of "___" has been assigned to the Certificates. The City has furnished to Moody's certain information and materials relating to the Certificates and the City, including certain information and materials which have not been included in this Official Statement.

An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such 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 they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such rating company, circumstances so warrant.

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OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

The Issuer	The City of Seabrook, Texas (the "City") is a political subdivision and home rule city of the State of Texas located within Harris County, Texas.
The Certificates	\$6,950,000* Certificates of Obligation, Series 2016A (the "Certificates"), are dated November 1, 2016 and mature September 1, 2017 through September 1, 2041, inclusive. Interest on the Certificates accrues from November 1, 2016, and is payable initially on March 1, 2017, and on each September 1 and March 1 thereafter until the earlier of maturity or prior redemption. See "THE CERTIFICATES - Description."
Other Characteristics	The Certificates are issued in fully registered form in integral multiples of \$5,000. The Certificates maturing on and after September 1, 2027* are subject to redemption, at the option of the City, at a price of the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption, September 1, 2026* or any date thereafter. See "THE CERTIFICATES – Redemption Provisions."
Paying Agent/Registrar.....	The initial paying agent/registrar is The Bank of New York Mellon Trust Company, N.A, Dallas, Texas (the "Paying Agent/Registrar"). The City intends to use the book-entry-only system of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of the DTC to discontinue such system. (See "THE CERTIFICATES - Book-Entry-Only System.")
Source of Payment.....	The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and will be further payable from a limited pledge of a subordinate lien on the net revenues of the City’s waterworks and sanitary sewer system (the "System") in an amount not to exceed \$1,000. See "THE CERTIFICATES - Source of Payment of the Certificates."
Use of Proceeds	Proceeds from the sale of the Certificates will be used (i) for improvements and repairs to the City’s water and sewer system, including sewer line replacement and construction, improvement and upgrades to the City’s wastewater treatment plants; and (ii) to pay the costs of issuance of the Certificates. See "THE CERTIFICATES - Use of Proceeds" and "- Sources and Uses of Funds."
Tax Exemption	In the opinion of Orrick, Herrington & Sutcliffe LLP, 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. In the further opinion of Bond Counsel, interest on the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates. See "TAX MATTERS" herein.
Qualified Tax-Exempt Obligations.	The City will designate the Certificates as "qualified tax-exempt obligations". See "QUALIFIED TAX-EXEMPT OBLIGATIONS."
Ratings.....	Moody’s Investors Service, Inc. (Unenhanced)....." ___"

* Preliminary, subject to change.

- Selected Financial Information –
(Unaudited)

2016 Certified Net Taxable Assessed Valuation (100% of estimated market value)	\$	1,164,299,182 (a)
Direct Debt:		
Outstanding Tax Supported Debt (as of October 1, 2016)	\$	25,360,000 (b)
Plus: The Certificates		<u>6,950,000 (c)*</u>
Total Tax Supported Debt	\$	<u>32,310,000 *</u>
Estimated Overlapping Debt.....	\$	<u>79,483,146</u>
Direct and Estimated Overlapping Debt.....	\$	<u>111,793,146</u>
Debt Service Fund Balance (as of August 31, 2016).....	\$	<u>1,892,417 (d)</u>

	% of 2016 Assessed Valuation	Per Capita (13,854)
Debt Ratios:		
Direct Tax Supported Debt	2.78%	\$2,332
Direct Tax Supported and Estimated Overlapping Debt	9.60%	\$8,069

2016 Tax Rate (per \$100 of Assessed Valuation)		
Maintenance and Operation.....	\$	0.394574
Debt Service		<u>0.170603</u>
Total	\$	<u>0.565177</u>

Estimated Annual Debt Service Requirements: (e)		
Average (Fiscal Years 2017-2041).....	\$	1,552,381 *
Maximum (2021).....	\$	2,427,348 *

Tax Collections:		
Arithmetic Average, Tax Years (2010-2014) - Current Year Collections		98.66%
- Total Collections.....		99.37%

* Preliminary, subject to change.

- (a) Certified by the Harris County Appraisal District (the "Appraisal District") and net of exemptions. Such value is further subject to change as additions, corrections and deletions are made to the tax roll. See "TAX DATA."
- (b) Includes approximately \$3,645,000 in tax-supported debt that is considered self-supporting debt and is currently paid from revenues of the City's Waterworks and Sewer System (the "System") and Seabrook EDC (as defined herein) pursuant to a policy determination by City Council, which is subject to change.
- (c) The City intends to pay the debt service on the Certificates with System revenues, however, only the limited pledge of a subordinate lien on the net revenues of the System in an amount not to exceed \$1,000, as described herein, is actually pledged to the payment of the debt service on the Certificates. Should System revenues be insufficient in any year to pay principal and interest on the Certificates, the City would be required to levy a tax to pay principal and interest on such debt.
- (d) Unaudited.
- (e) Includes the Certificates and excludes approximately \$3,645,000 in tax-supported debt that is considered self-supporting debt. Preliminary, subject to change.

INTRODUCTION

This Official Statement and its Appendices provide certain information with respect to the issuance by the City of Seabrook, Texas (the "City") of its \$6,950,000* Certificates of Obligation, Series 2016A (the "Certificates").

The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See "THE CERTIFICATES - Source of Payment."

There follows in this Official Statement descriptions of the Obligations, the plan of financing, and certain 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 upon request. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the sale and issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

THE CERTIFICATES

Description

The Certificates are dated November 1, 2016 and bear interest from such date at the stated interest rates indicated under "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND PRICES" on the cover page hereof, which interest is payable initially on March 1, 2017, and each September 1 and March 1 thereafter until the earlier of maturity or prior redemption. Interest on the Certificates will be calculated on the basis of 360-day year of twelve 30-day months.

The Certificates are issued in fully registered form in principal denominations of \$5,000 each or any multiple thereof. Principal of the Certificates is payable at the principal payment office of The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). 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 on the Record Date or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. The record date (the "Record Date") for the interest payable on any interest payment date means the 15th day of the month next preceding such interest payment date. The Certificates initially will be registered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book- Entry-Only System described below.

In the event the Book-Entry-Only-System is discontinued, the Certificates may be transferred and exchanged on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Certificates are exchangeable for an equal principal amount of Certificates of the same maturity in any authorized denomination upon surrender of the Certificates to be exchanged at the principal payment office of the Paying Agent/Registrar. No service charge will be made for any transfer, but the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Redemption Provisions*

The Certificates maturing on September 1, 2027* and thereafter are subject to optional redemption prior to maturity, in whole or in part, on September 1, 2026*, or any date thereafter, at the option of the City at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date of redemption. If less than all of the Certificates are redeemed at any time, the maturities of Certificates to be redeemed shall be selected by the City. If less than all of a maturity of Certificates is to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot or other customary method that results in random selection, the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

* Preliminary, subject to change.

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 the registered owners of the Certificates to be redeemed, in whole or in part at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, AND SUBJECT TO ANY CONDITIONS OR RIGHTS RESERVED BY THE CITY, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The City reserves the right to give notice of its election or direction to redeem Certificates conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Certificates subject to conditional redemption and such redemption has been rescinded shall remain outstanding and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

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 The Depository Trust Company ("DTC"), New York, New York, 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, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City, the Financial Advisor and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC 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 Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC 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 such maturity, and will be deposited with DTC.

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 Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

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 do not effect 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.

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. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI 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 the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and 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 payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in 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 Participant and not of DTC, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest 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, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes not 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 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, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Ownership

The City, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Certificate is registered as the owner of such Certificate for the purposes of receiving payment of the principal thereof and the interest on the Certificate and for all other purposes whatsoever, whether or not such Certificate is due or overdue. Neither the City, the Paying Agent/Registrar, or any agent of either will be affected by any notice to the contrary.

Successor Paying Agent/Registrar

Provision is made in the Ordinance for replacing the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor paying agent/registrar (the "Successor Paying Agent/Registrar"), and the Successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any Successor Paying Agent/Registrar selected by the City shall be a commercial bank or trust company organized under the laws of the State, or any other entity duly qualified and legally authorized to serve as and perform the duties and service or paying agent/registrar for the Certificates.

Source of Payment

The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and will be further payable from a limited pledge of a subordinate lien on net revenues of the City's waterworks and sanitary sewer system (the "System") in an amount not to exceed \$1,000.

Authorization of the Certificates

The Certificates are being issued pursuant to the applicable provisions of the Constitution and laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the provisions of the Ordinance.

Use of Proceeds

Proceeds from the sale of the Certificates will be used (i) for improvements and repairs to the City's water and sewer system, including sewer line replacement and construction, improvement and upgrades to the City's wastewater treatment plants; and (ii) to pay the costs of issuance of the Certificates.

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Sources and Uses of Funds

The proceeds from the sale of the Certificates will be applied as follows:

SOURCES OF FUNDS:	
Principal Amount of the Certificates	\$
Net Premium on the Certificates	
Accrued Interest on Certificates	
Total Sources of Funds	\$ =====
USES OF FUNDS	
Deposit to Construction Fund	\$
Deposit Accrued Interest to Interest and Sinking Fund	
Expenses:	
Underwriter’s Discount	
Other Issuance Expenses (d)	
Total Uses of Funds	\$ =====

(d) Includes legal fees, financial advisory fees, fees of the paying agent/registrar, contingency and other costs of issuance.

Future Debt

After the sale of Certificates the City will have \$2,000 of authorized but unissued bonds. The City has no plans to issue the remaining authorization. The City may also issue additional certificates of obligation for City projects without an election. Depending on the rate of development within the City, changes in assessed valuation, and the amounts, interest rates, maturities and time of issuance of additional certificates of obligation or bonds, increases in the City’s annual ad valorem tax rate may be required to provide for the payment of the principal of and interest on the City’s outstanding bonds, the Certificates, and such future certificates of obligation or bonds.

Remedies in the Event of Default

The Ordinance does not provide any remedies to a Registered Owner if the City defaults on the payment of the principal of or interest on the Certificates. If a Registered Owner of a Certificate does not receive payment of principal of or interest on the Certificates when due, the Registered owner may seek a writ of mandamus from a court of competent jurisdiction. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance under the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so 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 Registered Owners of the 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. 3rd 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, Registered Owners may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. 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 registered 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.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only

of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of 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 with respect to the rights of the Registered Owners of the Certificates are subject to the applicable provisions of 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.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY

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

Legal Investments

Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both Texas law and the City's investment policies are subject to change. Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (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 are unconditionally guaranteed, insured, 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) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that 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 (6) 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, at least annually, 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; (b) 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; (c) 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 (d) the City appoints the depository institution selected under (a) above, a custodian 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, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are 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 of Texas; (9) bankers' acceptances with a

stated maturity of 270 days or less from the date of its issuance, 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, (10) commercial paper 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, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the "PFIA").

A political subdivision such as the City may enter into 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 (6) 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 (6) above, clauses (10) through (12) above, 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 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.

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 "AAA" 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; (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in the market index; (5) certain securities lending programs of the nature permitted by Section 2256.0115 of the PFIA; and (6) commercial paper, including investment pools which invest in commercial paper. Additionally, the City's investment policy prohibits the City from investing in certain securities lending programs that are otherwise permitted by PFIA.

Investment Policies

Under Texas law, the City is required to invest its funds under 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 includes 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 Texas 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 shall submit 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 for 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 related to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the Mayor and Council of the City.

The City's policies require investments in accordance with applicable state law. The City's Investment Policy excludes certain investments allowable under State law described above under "Legal Investments." Investments specifically prohibited by the City's Investment Policy include (1) obligations for which the payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (interest only bonds); (2) obligations for which the payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal only bond); (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (inverse floaters); (5) certain securities lending programs of the nature permitted by Section 2256.0115 of PFIA; and (6) commercial paper, including investment pools which invest in commercial paper.

Current Investments

The City's investment balance as of August 31, 2016 was as follows:

	Book Value	Market Value
TexPool	\$30,893,638	\$30,893,638
Cash	26,665	26,665
Total Portfolio	<u>\$30,920,303</u>	<u>\$30,920,303</u>

Additional Provisions

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) 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; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

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CITY TAX DEBT

Tax Supported Debt Statement

The following tables and calculations relate to the Certificates and to all other tax supported debt of the City. The City and various other political subdivisions of government which overlap all or a portion of the City are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of property within the City.

Bonded Indebtedness Payable from Ad Valorem Taxes

2016 Certified Net Taxable Assessed Valuation (100% of estimated market value)	\$ 1,164,299,182 (a)
Direct Debt:	
Outstanding Tax Supported Debt (as of October 1, 2016).....	\$ 25,360,000 (b)
Plus: The Certificates	<u>6,950,000 (c)*</u>
Total Direct Debt	<u>\$ 32,310,000</u>
Debt Service Fund Balance (as of August 31, 2016).....	<u>\$ 1,892,417 (d)</u>

* Preliminary, subject to change.

- (a) Certified by the Harris County Appraisal District (the "Appraisal District") and net of exemptions. Such value is further subject to change as additions, corrections and deletions are made to the tax roll. See "TAX DATA."
- (b) Includes approximately \$3,645,000 in tax-supported debt that is considered self-supporting debt payable from revenues of the System and the Seabrook EDC pursuant to a policy determination by City Council, which is subject to change.
- (c) The City intends to pay the debt service on the Certificates with System revenues, however, only the limited pledge of a subordinate lien on the net revenues of the System in an amount not to exceed \$1,000, as described herein, is actually pledged to the payment of the debt service on the Certificates. Should System revenues be insufficient in any year to pay principal and interest on the Certificates, the City would be required to levy a tax to pay principal and interest on such debt.
- (d) Unaudited.

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Pro-Forma Tax Supported Debt Service Schedule

The following sets forth the principal and interest on the City’s Outstanding Tax Supported Debt, plus the principal and estimated interest on the Certificates.

FY Ending 9/30	Current Total Debt Service	Less: Debt Supported by Water and Sewer	Plus: The Certificates (a)*		Total Debt Service Requirements*
			Principal*	Interest (b)	
2017	\$ 2,212,629	\$ 229,547	\$ 210,000	\$ 231,667	\$ 2,424,748
2018	2,334,152	351,273	170,000	269,600	2,422,479
2019	2,333,932	350,673	180,000	262,800	2,426,059
2020	2,336,103	354,967	185,000	255,600	2,421,736
2021	2,333,209	349,062	195,000	248,200	2,427,348
2022	2,328,794	348,156	200,000	240,400	2,421,038
2023	2,327,738	347,144	210,000	232,400	2,422,994
2024	2,333,725	351,039	220,000	224,000	2,426,686
2025	2,332,524	349,735	225,000	215,200	2,422,989
2026	2,183,088	198,324	235,000	206,200	2,425,964
2027	2,178,346	194,596	245,000	196,800	2,425,550
2028	1,045,256	195,869	255,000	187,000	1,291,388
2029	1,045,872	197,035	265,000	176,800	1,290,638
2030	1,049,019	198,094	275,000	166,200	1,292,125
2031	1,041,247	194,047	285,000	155,200	1,287,400
2032	847,825		300,000	143,800	1,291,625
2033	849,575		310,000	131,800	1,291,375
2034	850,575		325,000	119,400	1,294,975
2035			335,000	106,400	441,400
2036			350,000	93,000	443,000
2037			365,000	79,000	444,000
2038			380,000	64,400	444,400
2039			395,000	49,200	444,200
2040			410,000	33,400	443,400
2041			425,000	17,000	442,000
Totals	<u>\$31,963,607</u>	<u>\$4,209,558</u>	<u>\$6,950,000</u>	<u>\$4,105,467</u>	<u>\$38,809,516</u>

Estimated Average Annual Requirements (2017-2041).....	\$1,552,381*(c)
Estimated Maximum Annual Requirement (2021).....	\$2,427,348*(c)

* Preliminary, subject to change.

- (a) The City intends to pay the debt service on the Certificates with System revenues, however, only the limited pledge of a subordinate lien on the net revenues of the System in an amount not to exceed \$1,000, as described herein, is actually pledged to the payment of the debt service on the Certificates. Should System revenues be insufficient in any year to pay principal and interest on the Certificates, the City would be required to levy a tax to pay principal and interest on such debt.
- (b) Interest estimated at current market rates, for illustrative purposes only.
- (c) Includes the Certificates and excludes the self-supporting debt payable from the revenues of the System and the Seabrook EDC. Preliminary, subject to change.

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes. The City has not independently verified the accuracy or completeness of the information shown below except for amounts related to the City.

Taxing Jurisdiction	Debt as of September 1, 2016	Percent	<u>Overlapping</u> Amount
Clear Creek Independent School District	\$ 861,345,000	7.97%	\$ 68,649,197
Harris County	2,421,235,464	0.25	6,053,089
Harris County Department of Education	7,000,000	0.25	17,500
Harris County Flood Control District	83,075,000	0.25	207,688
Harris County MUD #373	2,870,000	100.00	2,870,000
Port of Houston	674,269,397	0.25	<u>1,685,673</u>
TOTAL ESTIMATED OVERLAPPING			\$ 79,483,146
The City			<u>32,310,000(a)</u>
Total Direct and Estimated Overlapping Debt			<u>\$111,793,146</u>

(a) Includes the Certificates and revenue-supported debt. Preliminary, subject to change.
Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

Debt Ratios

	Direct Debt (a)	Direct and Overlapping Debt (a)
Per 2016 Assessed Valuation (\$1,164,299,182)	2.78%	9.60%
Per Capita (13,854)	\$2,332	\$8,069

(a) Includes the Certificates. Preliminary, subject to change.

TAX DATA

General

One of the City's principal sources of operational revenue and its principal source of funds for debt service payments is the receipts from ad valorem taxation. See "SELECTED FINANCIAL DATA". The following is (a) a summary of certain provisions of the Texas Property Tax Code, including methodology, limitations, remedies and procedures; (b) historical analysis of collection and trends of tax receipts and provisions for delinquencies; (c) an analysis of the tax base, including relative property composition, principal taxpayers and adequacy of the tax base to service debt requirements; and (d) taxation that may add to the City's taxpayers' tax costs.

Property Tax Code and County-Wide Appraisal District

Title I of the Texas Tax Code (the "Property Tax Code") establishes for each county in Texas a single appraisal district with responsibility for recording and appraising property for all taxing units within the county, and a single appraisal review board, with responsibility for reviewing and equalizing the values established by the appraisal district. The Property Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 1, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the prior tax year or the value rendered by the property owner or whose property was not on the appraisal roll the preceding year or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the City;

however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition, taxing units such as the City are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records or the grant in whole or in part of an exemption. A taxing unit may not, however, challenge the valuation of individual properties.

Although the City has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Tax Code the City does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. The appraisal of property in the City is the responsibility of the Harris County Appraisal District (the "Appraisal District"). It is not known what frequency of reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. 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 Home Rule Charter of the City does not impose an additional limit on the City's authority to tax beyond the limits of State law. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance.

Property Subject to Taxation by the City

Except for certain exemptions provided by Texas law, all real and tangible personal property and certain categories of intangible personal property with a tax situs in the City is subject to taxation by the City; however, no effort is expected to be made by the Appraisal District to include on the tax roll tangible or intangible personal property not devoted to commercial or industrial use.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, 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; or (2) an exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is \$5,000. 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. The City currently grants a general homestead exemption of 20% and an additional exemption of \$25,000 on the residence homesteads of qualifying individuals 65 years of age or the disabled.

State law and Section 2, Article VIII, 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. Effective January, 1, 2010, the City must grant a complete exemption to the residential homesteads of veterans judged to be 100% disabled by the U.S. Department of Veterans Affairs.

A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled

to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. Furthermore, 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.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may provide that the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older will not be increased above the amount of taxes imposed in the year such residence qualified for such limitation. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or older or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead within the taxing unit and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. 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. Once established, the tax rate limitation may not be repealed or rescinded. The City has established a tax freeze for persons over 65 years of age and disabled.

Article VIII 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.

Tangible personal property not producing income, except for manufactured homes, is exempt from ad valorem taxation unless the governing body of the political subdivision elects to tax such property. In addition, an individual is entitled to an exemption from taxation of one passenger car or light truck used in the course of the individual's occupation or profession if it is also used for personal activities that do not produce income.

Article VIII, Section 1-j, 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. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. The City does not offer a Freeport exemption.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Property Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. 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. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemption or the goods-in transit exemption for items of personal property. The City has taken official action and determined not to grant a goods-in-transit exemption.

The City may create one or more tax increment financing zones, under 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. Other overlapping taxing units may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the zone in excess of the "frozen value" to pay or finance the costs of certain public improvements in the zone. Taxes levied by the City against the values of real property in the zone in excess of the "frozen value" are not available for general city use but are restricted to paying or financing "project costs" within the zone. Currently, the City has not created any tax increment financing zones.

The City has authority to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. Such abatement agreement may last for a period of up to 10 years. The City currently has one tax abatement agreement in effect with a maximum value of \$100,000 over ten years.

Notice and Hearing Procedures

The Property Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values over \$1,000, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

All taxing units, including the City, are required to adopt their tax rates before the later of September 30 or the 60th day after the taxing unit receives the appraisal roll. Failure to adopt a tax rate by the deadline will result in the taxing unit adopting the effective tax rate or last year's rate, whichever is lower, as its tax rate for the current year. The effective tax rate is the tax rate that generates the same tax revenues as the prior year for properties taxed in both years.

The City will be required to hold two public hearings and publish newspaper notices before adopting a tax rate that exceeds the lower of the rollback rate or the effective tax rate. The rollback rate divides the overall property tax rate into categories: maintenance and operation (M&O) taxes and debt service taxes. The debt component can be increased to the amount needed to pay debt (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 values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (adjusted) divided by the anticipated tax collection rate.

The Property 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 tax 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 Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of various defined tax rates.

Tax bills shall be mailed by October 1 or as soon thereafter as practicable. Taxes are due upon receipt of a tax bill and become delinquent on February 1 of the following year. If tax bills are mailed after January 10, the delinquency date is postponed to the first day of the next month that will provide at least twenty-one (21) days to pay. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payments, partial payments of taxes and the postponement of the delinquency date of taxes under certain circumstances. The City does not permit such payments, except for those property owners who are over the age of 65 as provided in the Property Tax Code.

Collections

Since 1989, the City has contracted with the Harris County Tax Assessor-Collector to collect ad valorem taxes on behalf of the City. The Harris County Tax Assessor-Collector currently charges a fee of 1% on current collections and 5% on delinquent collections.

Taxes levied by the City are a personal obligation of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the City, having the power to tax the property. The City's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. A tax lien may not be enforced on personal property transferred to a bona fide purchaser for value who does not have actual notice of the existence of the lien. In the event a taxpayer fails to make timely payment of taxes owing to the City on real property, a penalty of 6% of the unpaid taxes is incurred in February and 1% is added monthly until July 1 when the penalty becomes 12%. In addition, interest on delinquent taxes accrues at the rate of 1% per month until paid. The City may file suit for the collection of delinquent taxes and may foreclose such lien in

a foreclosure proceeding. The City may also impose an additional penalty to defray costs of collection by an attorney, not to exceed 20% of the total amount due. The property subject to the City's lien may be sold, in whole or in part, pursuant to a court order to collect the amounts due. The ability of the City to collect delinquent taxes by foreclosure may be adversely affected by many factors, including, but not limited to the condition of the property, the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of the taxpayer's debt.

Historical Analysis of Tax Collection

Taxes are due October 1 and become delinquent after January 31. No split payments or discounts are allowed. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it become delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentages of collections set forth below exclude penalties and interest.

- Collection Ratios -

Tax Year	Net Assessed Valuation	Tax Rate Per \$100 of Assessed Valuation	Adjusted Tax Levy	% of Collections		Fiscal Year Ending 9/30
				Current Year	Current and Prior Years	
2006	\$ 707,063,703	\$0.621009	\$4,63,564	97.45%	99.69%	2007
2007	746,326,744	0.620253	4,594,030	97.92	99.76	2008
2008	852,856,849	0.588373	4,985,811	98.17	99.78	2009
2009	830,110,355	0.613409	5,050,227	97.93	99.69	2010
2010	844,501,995	0.626807	5,214,919	98.41	99.63	2011
2011	836,828,339	0.649978	5,389,311	98.85	99.63	2012
2012	845,917,965	0.665232	5,627,317	98.47	99.33	2013
2013	895,700,929	0.651229	5,766,934	98.84	99.53	2014
2014	919,496,155	0.640030	5,984,940	98.72	98.72	2015
2015	1,029,306,515	0.612611	6,305,645	98.29 (a)	98.29 (a)	2016

(a) Collections as of August 31, 2016.

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Harris County Appraisal District, State Comptroller's Office, Property Tax Division, and information supplied by the City.

- Tax Rate Distribution -

	Tax Year 2016	Tax Year 2015	Tax Year 2014	Tax Year 2013	Tax Year 2012
Maintenance	\$0.394574	\$0.423456	\$0.459507	\$0.483154	\$0.483154
Debt Service	0.170603	0.189155	0.180523	0.168075	0.182078
Total	<u>\$0.565177</u>	<u>\$0.612611</u>	<u>\$0.640030</u>	<u>\$0.651229</u>	<u>\$0.665232</u>

Analysis of Tax Base

- Tax Base Distribution -

Type of Property	2016 Tax Roll (a)		2015 Tax Roll (a)	
	Amount	%	Amount	%
Residential	\$1,042,792,661	76.16%	\$ 937,509,429	76.35%
Commercial	155,530,825	11.36	139,032,707	11.32
Industrial	1,697,540	0.12	633,852	0.05
Utilities	14,885,770	1.09	14,660,580	1.19
Vacant	24,500,581	1.79	18,658,651	1.52
Lots/Tracts/Acreage	47,253,663	3.45	27,332,735	2.23
Minerals	36,880	0.00	367,380	0.03
Other Personal	82,516,550	6.03	89,745,298	7.31
Gross Assessed Value	\$1,369,214,470	100.00%	\$1,227,940,632	100.00%
Less: Exemption	(204,915,288)		(198,634,117)	
Net Assessed Value	\$1,164,299,182		\$1,029,306,515	

Source: Harris County Appraisal District.

(a) Values may differ from those shown in the District's financial statement and elsewhere in this Official Statement due to subsequent adjustments.

- Exemptions -

Type	2016	2015
Homestead	\$138,319,906	\$135,522,798
Surviving Spouse	999,942	975,000
Over 65	13,917,000	14,691,400
Disability	1,647,750	1,859,734
Disabled Veteran	3,551,079	3,693,790
Prorations	---	18,192
Under \$500	---	7,077
Vehicles	540,792	4,283,139
Other	45,938,819	45,119,068
Total Exemptions	\$204,915,288	\$206,170,198

- Principal Taxpayers -

Principal Taxpayer	Type of Property	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation
WMF Investments	Apartments, Retail, Commercial	\$ 22,045,536	(a)
FRBH Regatta Bay LLC	Apartments	21,286,728	\$ 17,444,293
Gulf Winds International	Warehouse	16,372,700	13,196,514
DMH 90	Apartments, Condo, Land	15,830,969	13,142,797
Sinbad Landing Corp.	Apartments	15,436,000	16,612,765
Vista Shores 2011 LP	Apartments	14,094,766	11,490,137
SEC Edgelake LLC	Apartments	13,281,475	10,905,214
Nasa Road Apartments LLC	Apartments	7,905,044	8,069,463
Lamrock 3/2001 LP	Marina, Retail	7,350,723	7,998,545
Omkar Group Seabrook LP	Hotel	6,168,347	6,363,159
CenterPoint Energy Inc.	Utility	(a)	6,331,860
Total Ten Principal Taxpayers		\$139,772,288	\$111,554,747
Percentage Ten Principal Taxpayers Comprise of Tax Roll		12.00%	10.84%

(a) Not a principal taxpayer in such tax year.

Source: City of Seabrook, Tax Department.

- Tax Adequacy -

Estimated Average Annual Debt Service Requirements (2017-2041).....	\$1,552,381 (a)
Tax Rate of \$0.141 per \$100 assessed valuation against the 2016 Certified Assessed Valuation at 95% collection produces.....	\$1,559,579
Estimated Maximum Annual Tax Debt Service Requirements (2021).....	\$2,427,348 (a)
Tax Rate of \$0.220 per \$100 assessed valuation against the 2016 Certified Assessed Valuation at 95% collection produces.....	\$2,433,385

(a) Includes the Certificates and excludes revenue-supported debt. Preliminary, subject to change.

Sales Tax

The City levies a 1% sales tax pursuant to the provisions of Chapter 321, Texas Tax Code, for general fund purposes. Sales tax revenues are not pledged to the payment of the Certificates. The sales tax information contained in the following table does not include revenues from the sales taxes levied and collected for the benefit of the Seabrook Economic Development Corporation ("Seabrook EDC") or the Seabrook Crime Control and Prevention District (the "District").

<u>Fiscal Year</u>	<u>Sales Tax Collected</u>	<u>Fiscal Year</u>	<u>Sales Tax Collected</u>
2006	\$1,226,232	2012	\$1,423,134
2007	1,401,549	2013	1,503,446
2008	1,584,432	2014	1,603,170
2009	1,520,847	2015	1,770,303
2010	1,420,966	2016(a)	1,677,588
2011	1,382,511		

(a) Unaudited. As of August 31, 2016.

The Seabrook EDC is a Type B economic development corporation created by the City in 1992 under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting and enhancing economic and related development activities on behalf of the City. The City levies one-half cent sales tax for the benefit of the Seabrook EDC.

The District was created under the authority granted by Chapter 363 of the Texas Local Government Code and Section 323.105 of the Texas Tax Code for the purpose of strengthening and enhancing crime control activities of the City. An election was held in 2005 to create the District and allow for the collection of a one-half cent sales tax to fund its operations. The District is governed by a Board of Directors comprised of the City Council members.

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SELECTED FINANCIAL DATA

Historical Operations of the City's General Fund

The following is a condensed statement of revenues and expenses of the City's General Fund for the past five fiscal years. The inclusion of the following table is not intended to imply that any revenues of the City, other than the revenues described in the respective ordinances authorizing the issuance of such debt, are pledged to pay principal and interest on the Certificates and the City's Outstanding Tax Supported Debt.

	Fiscal Year Ended September 30,				
	2016 (a)	2015	2014	2013	2012
Revenues:					
Property Taxes	\$4,411,050	\$4,318,936	\$4,314,597	\$4,088,820	\$4,073,793
Sales and Use Taxes	1,677,588	1,938,604	1,750,785	1,617,582	1,480,279
Franchise Fees & Local Tax:	750,841	742,750	725,104	699,844	675,129
Other Taxes	139,347	---	---	---	---
License and Permits	151,851	234,429	402,187	183,263	227,156
Fines and Forfeits	478,405	457,033	373,099	391,667	653,232
Charges for Services	76,563	89,230	79,162	63,847	69,881
Intergovernmental	405,714	238,472	201,478	202,982	165,018
Investment Revenue	24,254	2,968	1,596	4,157	4,516
Other Revenue	1,648,665	685,845	557,999	570,391	386,657
Total Revenues	<u>\$9,764,278</u>	<u>\$8,708,267</u>	<u>\$8,406,007</u>	<u>\$7,822,553</u>	<u>\$7,735,661</u>
Expenditures:					
General Government	\$2,784,459	\$3,673,468	\$3,487,868	\$3,531,007	\$3,432,253
Public Safety	4,462,875	3,922,783	4,063,017	3,841,530	3,766,899
Public Works	1,557,217	1,573,792	2,036,750	1,800,076	1,689,222
Total	<u>\$8,804,551</u>	<u>\$9,170,043</u>	<u>\$9,587,635</u>	<u>\$9,172,613</u>	<u>\$8,888,374</u>
(Deficiency) of Revenues (Under) Expenditures	\$ 959,727	(\$ 461,776)	(\$1,181,628)	(\$1,350,060)	(\$1,152,713)
Other Financing Sources (Uses)					
Operating Transfers In	1,793,629	1,690,642	1,571,744	1,668,673	2,128,547
Operating Transfers Out	(776,000)	(45,739)	---	---	---
Total Other Financing Sources (Uses)	<u>\$1,017,629</u>	<u>\$1,644,903</u>	<u>\$1,571,744</u>	<u>\$1,668,673</u>	<u>\$2,128,547</u>
Fund Balance, Beginning of Year	\$6,115,666	\$4,932,539	\$4,542,423	\$4,223,810	\$3,247,976
Fund Balance	<u>\$8,093,022</u>	<u>\$6,115,666</u>	<u>\$4,932,539</u>	<u>\$4,542,423</u>	<u>\$4,223,810</u>

Source: Comprehensive Annual Financial Report of the City of Seabrook.

(a) Unaudited. As of August 31, 2016.

Pension Fund

The City participates in the Texas Municipal Retirement System (TMRS), an agent multi-employer defined contribution plan, covers all eligible employees except firefighters. The City's contributions to the pension plans are actuarially determined and result in contribution rates that over time remain level as a percent of payroll.

For fiscal year 2015, the City contributed 14.02% of covered payroll a contribution of \$766,607 for eligible employees to TMRS with those employees contributing 7.00%. For fiscal year 2014, the City contributed 15.93% of covered payroll (a contribution of \$872,891) for eligible employees to TMRS with those employers contributing 7.00%. The City's unfunded pension obligation for this plan totaled \$2,442,197 at December 31, 2014, which will be amortized over twenty-five years. For additional information, see "APPENDIX B – Audited Financial Statements of the City", Note IV.C. p. 69-73.

Other Post-Employment Benefits

The City participates in a cost-sharing multiple-employer defined benefits group term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund ("SDBF"). 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. The City offers the supplemental death benefit to both active and retired employees. The City contributes to the SDBF at a contractually required rate determined by annual actuarial valuation. For the fiscal year ended September 30, 2015, the City's contribution was \$1,083. For additional information, see "APPENDIX B – Audited Financial Statements of the City", Note IV-D, p. 73-74.

Financial Statements

A copy of the City's audited Financial Statements for the fiscal year ended September 30, 2015, is attached hereto in APPENDIX B. Copies of such statements for preceding years are available, for a fee, upon request.

ADMINISTRATION OF THE CITY

Mayor and City Council

Policy-making functions are the responsibility of and are vested in the Mayor and City Council of the City, under provisions of the "Charter of the City of Seabrook" (the "Charter") approved by the electorate August 11, 1979, and amended in 1985, 1990, 1995, 2000 and 2005. The Council is composed of seven members, including the Mayor, whom are elected at-large. All members serve three-year terms. The Mayor is entitled to vote on all matters before the Council, but has no power to veto Council action. Members of the Council are described below:

<u>Council Members</u>	<u>Position</u>	<u>Term Expires (May)</u>	<u>Occupation</u>
Glenn Royal	Mayor	2017	Wealth Management Advisor
Robert Llorente	Council Member Position 1	2018	President and CEO of SBC Business Services, Inc.
Mike Giangrosso	Council Member Position 2	2017	General Manager – Hospitality
Gary Johnson	Council Member Position 3	2018	Civil Engineer
Melissa Botkin	Council Member Position 4	2017	Co-Owner of Botkin Seafood Co.
Glenna Adovasio	Council Member Position 5	2018	Realtor
O.J. Miller	Council Member Mayor Pro Tem Position 6	2017	Retired

Administration

Under provisions of the Charter, the Council enacts local legislation, adopts budgets, determines policies and appoints the City Manager, who is charged with the duties of executing the laws and administering the government of the City. As the chief executive officer and head of the administrative branch of the City government, the City Manager is given the power and duties to:

- (1) Appoint and remove all department heads and all other employees in the administrative service of the City and may authorize the head of a department to appoint and remove subordinates in his respective department;
- (2) Prepare the budget annually, submit it to Council, and be responsible for its administration;

- (3) Prepare and submit to Council a complete report on the finances and administrative activities of the City;
- (4) Keep Council advised of the financial condition and future needs of the City and make appropriate recommendations; and
- (5) Perform such other necessary duties as prescribed by the Charter or required by the Council.

Members of the Administrative Staff are described below:

Staff Member	Position	Years in Position	Years of Service
Gayle Cook	City Manager	2 Years	13 Years
Sean Landis	Deputy City Manager	2 Years	7 Years
Sean Wright	Director of Public Safety	2 Years	24 Years
Arturo Chairez	Director of Public Services	8 Years	39 Years
Robin Hicks	City Secretary	1 Year	1 Year
Pam Lab	Finance Director	23 Years	28 Years
Michael Gibbs	Assistant Finance Director	3 Years	8 Years

Consultants

The City has retained several consultants to perform professional services in connection with the independent auditing of its books and records, the sale of the Certificates and other City activities. Several of these consultants are identified below:

Bond Counsel	Orrick, Herrington & Sutcliffe LLP Houston, Texas
Auditor	Belt Harris Pechacek, LLLP Houston, Texas
Financial Advisor	BOK Financial Securities, Inc. Houston, Texas

LEGAL MATTERS

Legal Opinions

The delivery of the Certificates is subject to the approving opinions of the Attorney General of Texas to the effect that the Certificates are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the City, and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as APPENDIX C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon 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 Bracewell LLP, Houston, Texas, Counsel for the Underwriters. The legal fee of such firm is contingent upon the sale and delivery of the Certificates.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions "SALE AND DISTRIBUTION OF THE CERTIFICATES – Securities Laws", "THE CERTIFICATES" (except under the subcaptions "Book-Entry-Only System," "Sources and Uses of Funds" and "Remedies in the Event of Default"), "TAX DATA – Tax Rate Limitations," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings") and the subcaptions "Legal Matters" (except for the last two sentences of the first paragraph thereof), and "Legal Investments in Texas" under the caption "OTHER INFORMATION," and such firm is of the opinion that the information relating to the Certificates and the legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the Ordinance.

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.

No-Litigation Certificate

The City will furnish a certificate, dated as of the date of delivery of the Certificates, executed by appropriate City officials, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

No Material Adverse Change

The obligations of the Underwriter to take and pay for the Certificates, and of the City to deliver the Certificates, are subject to the condition that, up to the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition (financial or otherwise) of the City subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

Legal Investments in Texas

Pursuant to the Texas Public Securities Procedures Act, Chapter 1201, Texas Government Code, as amended, the Certificates, whether rated or unrated, are (a) legal investments for insurance companies, fiduciaries and trustees and (b) legal investments for the sinking funds of political subdivisions or public agencies of the State. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, 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 for such entity's funds. See "SALE AND DISTRIBUTION OF THE CERTIFICATES - Municipal Bond Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations.

The City has not made any investigations of any other laws, rules, regulations or investment criteria that might affect the suitability of the Certificates for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Certificates.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("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 (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 individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

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 District 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 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 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.

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. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Certificates to some extent for high-income individuals. The introduction or enactment of any such legislative 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 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 ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

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 District or the Beneficial Owners regarding the tax-exempt status of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the District 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 IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, 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 District or the Beneficial Owners to incur significant expense.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Issuer has designated the Certificates as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

CONTINUING DISCLOSURE OF INFORMATION

The City in the Ordinance has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB") in an electronic format as prescribed by the MSRB. Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The City will provide certain financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings "INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY – Current Investments," "TAX DATA," "CITY TAX DEBT" (except under the subheading "Estimated Overlapping Debt"), "SELECTED FINANCIAL DATA," and in APPENDIX "B". The City will update and provide this information within six months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. 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 commissioned or are not available by the required time, the City will provide unaudited financial statements and audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in "APPENDIX B" 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 March 31 in each year unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice in a timely manner not in excess of ten business days after the occurrence of the event of any of the following events with respect to the Certificates: (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 tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) bond 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; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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/Registrar or change in the name of the Paying Agent/Registrar, if material.

For these purposes, any event described in (12) in 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

The City has agreed to provide the foregoing information only to the MSRB. The information will be available to the public at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain 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, 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 the 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, although holders and beneficial owners of the Certificates may seek a writ of mandamus to compel the City to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the City's duties under federal or state securities laws.

The City may amend its continuing disclosure agreement 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 (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Certificates in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule taking into account any amendments of the Rule as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Ordinance that authorizes such amendment) of the outstanding Certificates consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the registered owners and 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 type of information and data provided.

Compliance With Prior Undertakings

On January 13, 2015, the City filed additional financial and statistical information regarding its water and sewer system that was identified in certain continuing disclosure agreements made in connection with prior issuances of debt secured by revenues of the City's water and sewer system. Such financial and statistical information is available at www.emma.msrb.org. Administrative procedures have been implemented to assure timely filing of such information in the future.

FINANCIAL ADVISOR

BOK Financial Securities, Inc. 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 is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

GENERAL CONSIDERATIONS

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. The summaries of the statutes, orders, ordinances and other related documents are included herein subject to all of 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.

The information contained in this Official Statement in the section entitled "APPENDIX B - Audited Financial Statements of the City" has been provided by Belt Harris Pechacek, LLLP, Houston, Texas and has been included herein in reliance upon their authority as an expert in the fields of auditing and accounting.

Neither this Official statement nor any statement that may have been made orally or in writing is to be constructed as or as part of a contract with the original purchasers or subsequent owners of the Certificates.

Audited Financial Statements

Belt Harris Pechacek, LLLP, the City’s independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Belt Harris Pechacek, LLLP relating to City’s financial statements for the fiscal year ended September 30, 2015 is included in this Official Statement in APPENDIX B; however, Belt Harris Pechacek, LLLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

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.

Updating of Official Statement

The City will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the City and, to the extent that information comes to its attention, in the other matters described in the Official Statement, until the delivery of the Certificates to the Underwriter.

This Official Statement was duly authorized and approved by the City Council of the City of Seabrook, Texas; as of the date specified on the first page hereof.

/s/ _____
Mayor
City of Seabrook, Texas

ATTEST:

/s/ _____
City Secretary
City of Seabrook, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF SEABROOK, TEXAS

The following information has been derived from various sources, including the U.S. Census data, Texas Workforce Commission, and City of Seabrook, Texas officials. While such sources are believed to be reliable, no representation is made as to the accuracy thereof.

ECONOMIC BACKGROUND

General

The City of Seabrook is located approximately 30 miles southeast of downtown Houston on Galveston Bay. The 2010 population was 11,952, a 26.6% increase since 2000. The City has experienced rapid growth because of its proximity to the Houston Ship Channel. Several industries have been attracted to the City by NASA.

- History and Location -

Harris County is the sixth largest manufacturing county in the United States with a population of over four million people and is 1,788 square miles in area.

- The Port of Houston Authority -

The Port of Houston, one of the world's largest ports, is a 25-mile long (40-kilometer) complex of diversified public and private facilities just a few hours' sailing time from the Gulf of Mexico. The Port of Houston's location makes it an ideal gateway between interior U.S. markets and foreign countries throughout the world. The port ranks first in the United States in foreign waterborne commerce and second in total tonnage.

The Port of Houston Authority owns and operates the public facilities along the Houston Ship Channel and is the channel's official sponsor. The Authority is an autonomous political subdivision of the State of Texas and is governed by a board of seven commissioners.

As one of the world's busiest ports, the Port of Houston is a large and vibrant component of the regional economy. A 2012 study by Martin Associates says ship channel-related businesses contribute 1,026,820 jobs throughout Texas, up from more than 785,000 jobs cited in a 2007 study. This activity helped generate more than \$178.5 billion in statewide economic impact, up from nearly \$118 billion. Additionally, more than \$4.5 billion in state and local tax revenues are generated by business activities related to the port, up from \$3.7 billion.

ECONOMIC AND GROWTH INDICATORS

U.S. Census of Population

	City of Houston		Harris County	
	Number	% Change	Number	% Change
1970	1,232,802	+31.40	1,741,912	+40.12
1980	1,573,630	+27.70	2,409,544	+38.33
1990	1,630,553	+3.62	2,818,199	+16.96
2000	1,953,631	+19.28	3,400,578	+20.66
2010	2,099,451	+7.46	4,092,459	+20.35

(a) Source: U.S. Census Bureau.

Employment Statistics

State of Texas

	2016 (a)	2015	2014	2013	2012
Labor Force	13,378,918	13,078,304	13,022,851	12,891,255	12,682,204
Employed	12,709,695	12,494,350	12,358,703	12,090,501	11,830,356
Unemployed	669,223	583,954	664,148	800,754	851,848
Rate	5.0%	4.5%	5.1%	6.2%	6.7%

Harris County, Texas

	2016 (a)	2015	2014	2013	2012
Labor Force	2,275,980	2,239,426	2,229,858	2,205,149	2,158,951
Employed	2,144,527	2,135,626	2,118,872	2,072,738	2,015,821
Unemployed	131,453	103,800	110,986	132,411	143,130
Rate	5.8%	4.6%	5.0%	6.0%	6.6%

(a) As of August 31, 2016.

Source: Texas Workforce Commission.

APPENDIX B
AUDITED FINANCIAL STATEMENTS OF THE CITY



City of Seabrook, Texas

**Comprehensive Annual
Financial Report**

October 1, 2014 through September 30, 2015

***COMPREHENSIVE
ANNUAL FINANCIAL REPORT***

of the

CITY OF SEABROOK, TEXAS

For the Year Ended
September 30, 2015

Prepared by
City Administration and the Finance and Accounting Office

Gayle Cook
City Manager

Sean Landis
Assistant City Manager

Pamela J. Lab
Director of Finance

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INTRODUCTORY SECTION

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March 25, 2016

To the Honorable Mayor,
Members of City Council, and Citizens
of the City of Seabrook, Texas:

The City of Seabrook, Texas (the “City”) is required to publish each year a complete set of financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the City for the fiscal year ended September 30, 2015.

This report consists of management’s representations concerning the finances of the City and deems the enclosed data to be accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of all City activities and funds. Therefore, management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements. The City also acknowledges all disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City’s financial statements have been audited by Belt Harris Pechacek, LLLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2015 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion that the financial statements for the year ended September 30, 2015 are fairly presented in conformity with U.S. GAAP. The independent auditors’ report is presented as the first component of the financial section of this report.

As required by U.S. GAAP, management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A, and should be read in conjunction with it. The City’s MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Seabrook, incorporated in 1961, is in southeastern Harris County and is located in the Clear Lake area, which is approximately 25 miles southeast of Houston. The City is surrounded by Galveston Bay to the east; Clear Lake to the south; and the cities of Pasadena, El Lago, and Taylor Lake Village to the north and west.

The City of Seabrook is a home-rule city and has adopted a Council-Manager form of government. The City Council is comprised of a mayor and six council members. The Mayor and Council Members are elected at large to serve three-year terms. The City Manager is appointed by the City Council and is responsible for implementation of City Council's policies and all day-to-day operations of the City.

A full range of municipal services is provided by the City including police and fire protection, emergency medical services, solid waste, water and wastewater utilities, public improvements, repair and maintenance of infrastructure, recreational and community activities, planning and zoning, and general administrative services.

As an independent political subdivision of the State of Texas, the City is considered a primary government. Pursuant to standards established by the Governmental Accounting Standards Board (GASB), the City reports all funds for which the City, as a primary government, is financially accountable. As such, this report includes financial activities of two component units as follows:

- The Seabrook Economic Development Corporation was created by the City in 1992 under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and related development activities on behalf of the City.
- The Seabrook Crime Control and Prevention District was created under the authority granted by Chapter 363 of the Texas Local Government Code and Section 323.105 of the Texas Tax Code for the purpose of strengthening and enhancing crime control activities of the City.

Local Economy

The Clear Lake area, of which Seabrook is a part, is home to NASA's Johnson Space Center and is known to be the third largest boating center in the United States. The regional economy is very diverse and not driven by just one or two industries. Everything from tourism, boating, and recreation industries to aerospace, petrochemical, and biomedical facilities can be found in the immediate Clear Lake area. The Port of Houston's Bayport Cruise Terminal, which lies just north of the City, brings tourists and related industries to the City, as a result of two major cruise lines that began operating at the terminal in the fall of 2013. Both cruise lines will continue operations in the terminal through 2016.

The City continues to remain in a strong financial position in the Clear Lake area with higher than anticipated sales tax revenues. Seabrook remains a unique location for businesses wanting a location that serves a wide range of patrons that is both local and visiting the area.

The City and the region benefit from State Highway 146 (SH 146) and NASA Parkway, two major corridors that run through the City limits. The City has, for many years, anticipated the start of the State Highway 146 Expansion project. In 2015, the project was announced by the Texas Department of Transportation (TX DOT) to be fully funded for construction and the right-of-way acquisition scheduled for kick off in January 2016. The area west of the SH 146 corridor still remains under the control of Union Pacific Railroad (UPRR) as a rail corridor; however, negotiations remain active and TX DOT is forecasting that a settlement will be reached in 2016. This anticipated agreement between TX DOT and

UPRR will complete the final right-of-way needed for the project. The City is expected to lose over 50 businesses with the expansion project but, since 2013, a number of projects have been completed and new projects are on the table that will replenish the losses anticipated.

Economic Condition and Outlook

While the SH 146 Expansion project will have a considerable impact on the local economy, the City continues to make great strides in establishing new streams of new revenue in diverse sectors.

Gulf Winds International opened in 2015, and is fully operational in the northern industrial district adding over \$13 million to the property values and housing over 180,000 square feet of warehouse storage to support 50 full-time jobs.

Along our NASA Parkway corridor, SH 146 corridor, and Waterfront Drive (The Point), the City has recently experienced a great addition with the opening of Tires by Design on NASA Parkway in 2015 along with the upcoming completion of the Tookie's Seafood Restaurant on SH 146 and L&A Seafood on Waterfront Drive (Waterfront District) that will in total add almost \$5 million to improved values.

The traffic circle development, Seabrook Town Center, near SH 146 and Rebsdorph that was approved for a zoning change in 2014, continues to move forward with site preparations for a grocery anchor and 10+ pad sites. The development company continues to finalize all land acquisition on parcels adjacent to the traffic circle. The first phase of this project is projected to begin in the Fall of 2016.

The City's mission statement is to be, "...responsive, innovative, and fiscally sound in delivering services that preserve, protect, and enhance quality of life." These elements could not be better exemplified than in the continued daily efforts of the Mayor, City Council, and City staff.

Long-Term Financial Planning

The City Council has adopted a series of financial standards and policies for operating and debt management. To establish guidelines for debt financing, the City Council approved Resolution 2015-01, Debt Management Policy, for expenditures including facilities, land, capital equipment and infrastructure improvements. The policy minimizes the impact of debt payments on current and future revenues.

Comprehensive Master Plan and Thoroughfare Plan

During 2015, the City hired the services of Freeses and Nichols to assist the City with the development and update of the City's Comprehensive Master Plan. The Comprehensive Plan will focus on addressing strategic issues and identifying long-term goals. This plan will be tailored to the City, identifying a roadmap that will have specific recommendations to achieve in order fulfill the goals outlined.

It had been many years since a third party went through a thorough process including extensive public comments. In May 2015, the firm had the first stakeholder's meeting and this was followed by a huge community workshop in July 2015, where over 300 people attended.

Cobb Fendley was contracted for the service of compiling the City's first comprehensive Thoroughfare Plan document that will be referenced and have appendixes in the Comprehensive Master Plan. City Staff has worked with a Traffic Engineer and will be presenting a full document to include street classifications and right-of-way requirements for all new and improved streets in the future. In addition, proposed thoroughfares will be indicated on the master map.

Both plans are anticipated to be finalized in the Summer of 2016.

Capital Improvement Plan

The City annually adopts a five-year Capital Improvement Plan with the approval of a one-year annual budget during the current fiscal year that includes the short-term improvement plan for water, wastewater, drainage and other municipal facilities. These projects are prepared by staff and the contracted City Engineer and presented to the City Council for review and acceptance. The projects require funding sources to be identified for the current annual budget process.

For the last several years, Public Works has been able to maintain its infrastructure base for streets and water and wastewater systems in a continual and consistent improvement program. Franchise fees which are collected from the City's solid waste contractor are transferred to the general fund to be used to repair and maintain City streets annually.

Water and Sewer Rate Study

The City contracted for a water and sewer rate study in mid-2014, and the final report was approved by City Council on February 3, 2015. Recommendations from the study allow the City to update its rate structure accordingly and comply with AWWA standards. The rate plan and current and future needs will be reviewed each year allowing the City to set rates that will fully support the utility operations and future capital and debt obligations, while at the same time minimizing the impact to the citizens.

As a result of the water and sewer rate study, the City created a Water Rate Stabilization Fund. The Stabilization Fund was established with a budgeted transfer in 2015-16 in the amount of \$35,000 and will increase annually in increments of \$35,000.

Impact Fee Study

In fiscal year 2015-16, the City plans to contract for an update to the Impact Fee Schedule for the City's Water and Wastewater Impact Fees after the completion of the Water and Sewer Rate Study was finalized.

SH 146 Expansion

In December 2011, the City adopted an ordinance establishing a Budget Stabilization Fund. Using surplus revenues from both the general and the enterprise funds from 2011, \$800,000 was set aside to offset any adverse impact caused from the construction on SH 146.

Retirement

In addition, the City has evaluated the Net Pension Liability of its pension benefits through Texas Municipal Retirement System (TMRS) in preparation for compliance with GASB No. 68. With the adjustment in TMRS benefits in 2013 for the retirees' cost of living adjustments from 70% to 30%, the City has continued to maintain a consistent contribution level that allows for long-term sustainability.

Bond Program 2014

In November 2014, the City held an election to issue General Obligation Bonds. There were four propositions on the ballot and all were approved by the voters. The propositions were as follows:

- Proposition 1 was for \$6,850,000 to build a new Public Works/Animal Adoption facility.
- Proposition 2 was for \$725,000 to purchase a fire truck.
- Proposition 3 was for \$525,000 to install a fiber optic network.
- Proposition 4 was for \$450,000 to construct splash pads in two City parks.

The bonds settled on February 17, 2015.

Certificates of Obligation

Subsequent to year end, the City issued Certificates of Obligation in the amount of \$2,500,000 to move and upgrade a ground water storage tank and water plant to make way for commercial development. The City has entered into an agreement with the Seabrook Economic Development Corporation to make the debt service payments on the Certificates of Obligation as they relate to economic development.

The City has maintained a strong bond rating as a result of its prudent fiscal policies.

Major Initiatives

Drainage Improvements

Hester's Gully Drainage Improvements

In February 2012, the City was notified by the Texas General Land Office (GLO) of the award of an additional \$1,588,499 in Supplemental Disaster Relief Funds. This money will be used for drainage improvements, principally in the Hester Gully drainage basin. Land acquisition for the project was started in 2014 and has been completed in early 2016, and engineering plans are anticipated mid-2016.

This project shall address channel constrictions at the bay outfall by securing a property in the floodplain of the channel that previously supported a private residence at Hester Gully and Todville Road. The project involves excavating the top one to two feet from the property adjacent to the gully up to the bulkhead and removing approximately one foot off the top of the bulkhead, allowing for water to convey to improve conveyance capacity. Narrow portions of the channel not already protected will be stabilized with riprap. Proposed improvements will protect the watershed from replacement of obstructions to flow and reduce flooding.

Hike and Bike Trails

In the spring 2016, the new trail that was part of a Texas Parks and Wildlife grant and approximately 1.3 miles in length was finished. The extension to the existing trail system in the City will bring the total mileage to over 12 miles throughout the City limits. The City highly values the quality this amenity provides to our citizens, as well as the tourism factor it adds to our area. Once the Port of Houston completes the berm and railroad project on the north side of the City, plans remain to pursue additional grant funding for the last segment that will connect Wildlife trail up to Old SH 146. Harris County has future plans to expand Red Bluff which will include a hike and bike path. This remaining piece will interconnect Seabrook's trails with the trail system along Red Bluff and up to Armand Bayou.

Wastewater Treatment Plant Headworks Improvements – CIP

This Headworks Improvement Project at the wastewater plant was completed in 2015. This project modified the current manual bar screen with an automatic mechanical bar screen to intercept debris 24/7 especially during heavy rains for better process control. The benefits of this project were seen immediately and will continue to improve the long-term life of the wastewater plant.

Certificate of Achievement

The City of Seabrook received the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the year ended September 30, 2014. This was the 35th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual

financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting standards and applicable legal requirements.

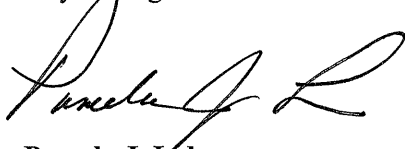
A Certificate of Achievement is valid for a period of one year only. We believe our current report conforms to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for an award.

Acknowledgments

The preparation of this report was accomplished with the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the departments who assisted and contributed to its preparation. We would also like to thank the Mayor, members of the City Council, and the City Manager for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.



Gayle Cook
City Manager

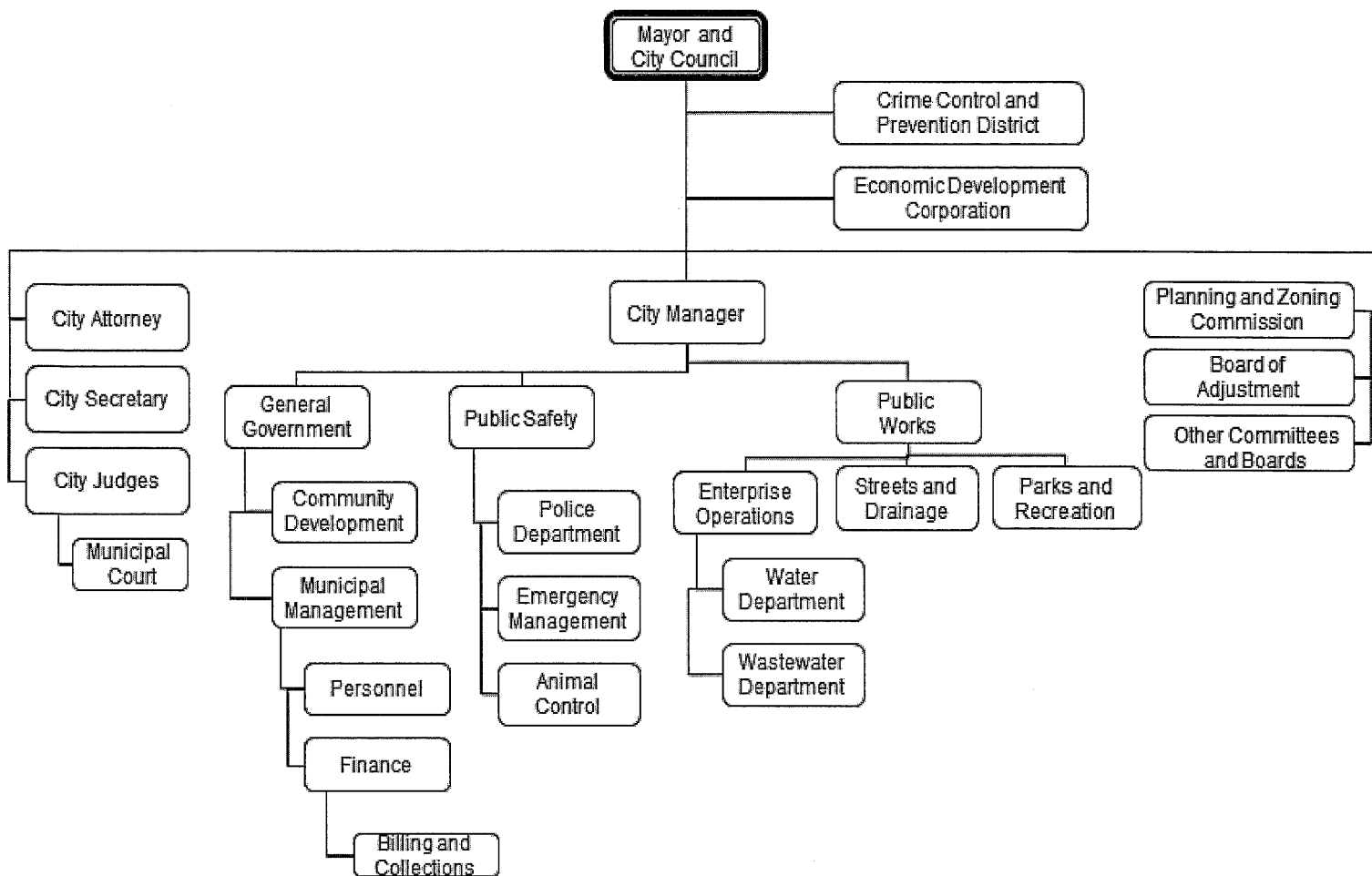


Pamela J. Lab
Director of Finance

CITY OF SEABROOK, TEXAS

ORGANIZATIONAL CHART

September 30, 2015



CITY OF SEABROOK, TEXAS

*CERTIFICATE OF ACHIEVEMENT FOR
EXCELLENCE IN FINANCIAL REPORTING*

September 30, 2015



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Seabrook
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2014

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive, flowing style.

Executive Director/CEO

CITY OF SEABROOK, TEXAS

PRINCIPAL OFFICIALS

September 30, 2015

<u>City Officials</u>	<u>Elective Position</u>	<u>Term Expires</u>
Glenn Royal	Mayor	05/2017
Robert Llorente	Council Member – Position One	05/2018
Mike Giangrosso	Council Member – Position Two	05/2017
Gary Johnson	Council Member – Position Three/Mayor ProTem	05/2018
Melissa Botkin	Council Member – Position Four	05/2017
Glenna Adovasio	Council Member – Position Five	05/2018
O. J. Miller	Council Member – Position Six	05/2017

<u>Key Staff</u>	<u>Position</u>
Gayle Cook	City Manager
Sean Landis	Assistant City Manager
Pamela Lab	Finance Director
Robin Hicks	City Secretary
Nona Holomon	Director of Public Safety
Arturo Chairez	Director of Public Services
Carolyn Webbon	Municipal Judge

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Seabrook, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Seabrook, Texas (the "City"), as of and for the year ended September 30, 2015, 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.

Auditors' 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. 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 auditors' 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 City'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 City'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.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2015, 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.

Emphasis of Matter

Change in Accounting Principle

In 2015, the City adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining statements and schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements and schedules are the responsibility of management and were derived from and relate 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 statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 25, 2016

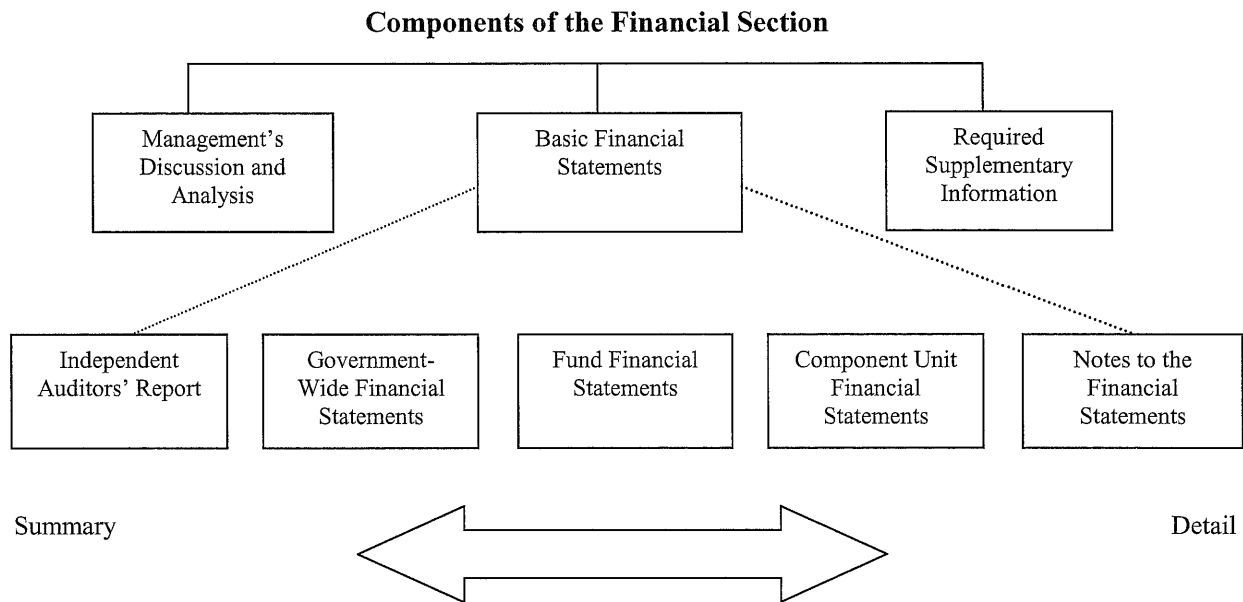
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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

CITY OF SEABROOK, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2015

The purpose of the Management’s Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Seabrook, Texas (the “City”) for the year ending September 30, 2015. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City’s activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City’s basic financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City’s basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City’s financial statements, report information on the City’s activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City’s assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City’s property tax base and the condition of the City’s infrastructure, need to be considered in order to assess the overall health of the City.

CITY OF SEABROOK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including public safety, public works, economic development, and general administrative services. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, sewer, and sanitation services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Crime Control and Prevention District, although also legally separate, functions for all practical purposes as a department of the City and, therefore, has been included as an integral part of the primary government.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City'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 ten individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund

CITY OF SEABROOK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

balances for the general fund, debt service fund, and the capital projects fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for its general fund, debt service fund, and select special revenue funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains one type of proprietary fund, which is an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer system, and sanitation services. The proprietary fund financial statements provide separate information for the utility enterprise fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund, schedule of changes in net pension liability and related ratios for the Texas Municipal Retirement System (TMRS), and schedule of contributions for TMRS. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$46,176,766 as of September 30, 2015. This compares with \$43,651,742 from the prior fiscal year. The largest portion of the City's net position, 72 percent, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. 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 assets themselves cannot be used to liquidate these liabilities.

CITY OF SEABROOK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 19,794,814	\$ 10,700,172	\$ 5,558,372	\$ 6,140,137	\$ 25,353,186	\$ 16,840,309
Capital assets, net	37,770,165	37,006,775	14,637,636	13,950,527	52,407,801	50,957,302
Total Assets	57,564,979	47,706,947	20,196,008	20,090,664	77,760,987	67,797,611
Deferred charge on refunding	225,096	247,605	41,687	45,855	266,783	293,460
Deferred outflows - pensions	696,174	482,938	124,776	86,557	820,950	569,495
Total Deferred Outflows of Resources	921,270	730,543	166,463	132,412	1,087,733	862,955
Long-term liabilities	26,027,246	18,330,824	4,555,804	4,812,044	30,583,050	23,142,868
Other liabilities	985,642	1,004,831	938,269	861,125	1,923,911	1,865,956
Total Liabilities	27,012,888	19,335,655	5,494,073	5,673,169	32,506,961	25,008,824
Deferred inflows - pensions	139,916	-	25,077	-	164,993	-
Total Deferred Inflows of Resources	139,916	-	25,077	-	164,993	-
Net Position:						
Net investment in capital assets	22,278,266	22,006,280	10,898,317	9,951,443	33,176,583	31,957,723
Restricted	4,861,342	4,552,760	2,495,389	2,432,638	7,356,731	6,985,398
Unrestricted	4,193,837	2,542,795	1,449,615	2,165,826	5,643,452	4,708,621
Total Net Position	\$ 31,333,445	\$ 29,101,835	\$ 14,843,321	\$ 14,549,907	\$ 46,176,766	\$ 43,651,742

A portion of the primary government's net position, \$7,356,731 or 16 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$5,643,452 or 12 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by \$2,525,024 as compared to the prior year. This increase is largely the result of an increase in capital assets. The increase in capital assets is attributed to ongoing construction in progress related to various City projects, as well as completion of the Waterfront Drive project during the fiscal year.

As of September 30, 2015, the City reported deferred outflows and inflows of resources related to its pension plan of \$820,950 and \$164,993, respectively. These line items are new to the presentation of the Statement of Net Position in the current year. In addition, the City reported a net pension liability of \$2,442,197, which is part of the \$30,583,050 reported in long-term liabilities. This change is attributed to the implementation of Government Accounting Standards Board (GASB) Statement No. 68, as discussed in the notes to the financial statements.

CITY OF SEABROOK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Statement of Activities:

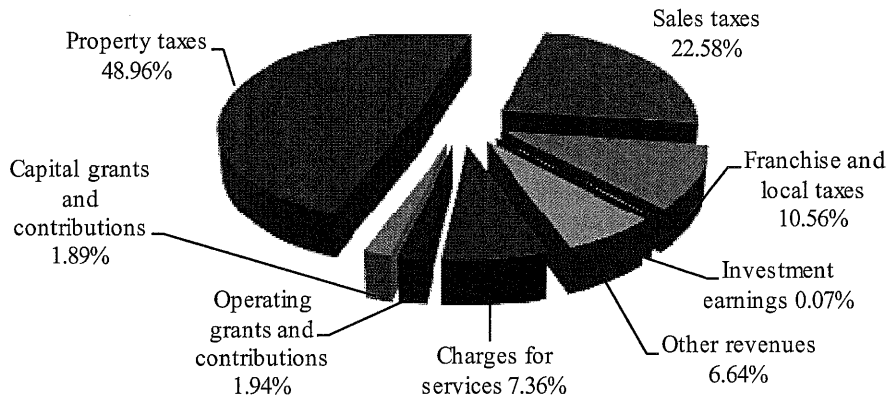
The following table provides a summary of the City's changes in net position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues:						
Charges for services	\$ 902,015	\$ 1,080,913	\$ 6,379,326	\$ 6,037,818	\$ 7,281,341	\$ 7,118,731
Operating grants and contributions	238,472	204,058	-	-	238,472	204,058
Capital grants and contributions	232,198	1,674,130	141,601	240,152	373,799	1,914,282
General revenues:						
Property taxes	6,004,934	5,795,618	-	-	6,004,934	5,795,618
Sales taxes	2,768,645	2,516,219	-	-	2,768,645	2,516,219
Franchise and other taxes	1,294,765	1,265,765	-	-	1,294,765	1,265,765
Investment earnings	8,544	3,073	2,442	1,675	10,986	4,748
Other revenues	814,897	696,853	290,465	260,470	1,105,362	957,323
Total Revenues	<u>12,264,470</u>	<u>13,236,629</u>	<u>6,813,834</u>	<u>6,540,115</u>	<u>19,078,304</u>	<u>19,776,744</u>
Expenses						
General government	3,848,282	1,165,000	-	-	3,848,282	1,165,000
Public safety	4,786,353	5,053,766	-	-	4,786,353	5,053,766
Public works	1,899,510	2,986,870	-	-	1,899,510	2,986,870
Economic development	348,324	412,718	-	-	348,324	412,718
Interest and fiscal agent fees	838,721	623,464	159,392	169,597	998,113	793,061
Utilities	-	-	4,672,698	4,638,521	4,672,698	4,638,521
Total Expenses	<u>11,721,190</u>	<u>10,241,818</u>	<u>4,832,090</u>	<u>4,808,118</u>	<u>16,553,280</u>	<u>15,049,936</u>
Excess of Revenues Over Expenses	543,280	2,994,811	1,981,744	1,731,997	2,525,024	4,726,808
Transfers	1,688,330	1,571,744	(1,688,330)	(1,571,744)	-	-
Change in Net Position	2,231,610	4,566,555	293,414	160,253	2,525,024	4,726,808
Beginning net position	29,101,835	24,535,280	14,549,907	14,389,654	43,651,742	38,924,934
Ending Net Position	<u>\$ 31,333,445</u>	<u>\$ 29,101,835</u>	<u>\$ 14,843,321</u>	<u>\$ 14,549,907</u>	<u>\$ 46,176,766</u>	<u>\$ 43,651,742</u>

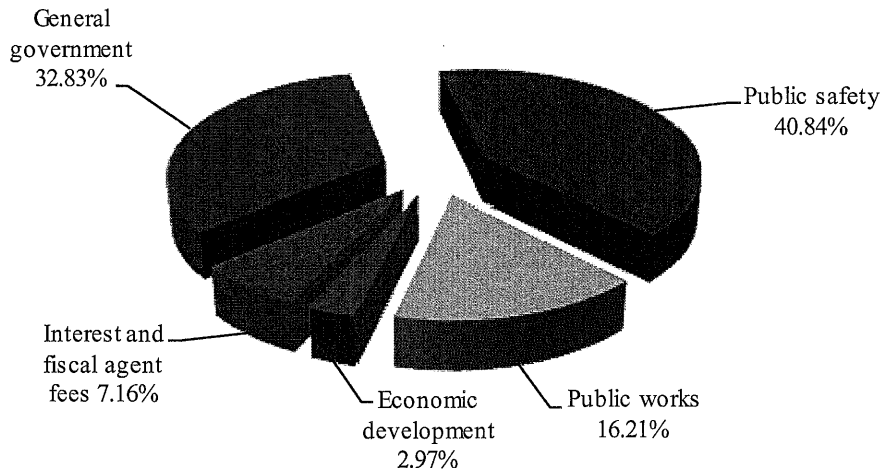
CITY OF SEABROOK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

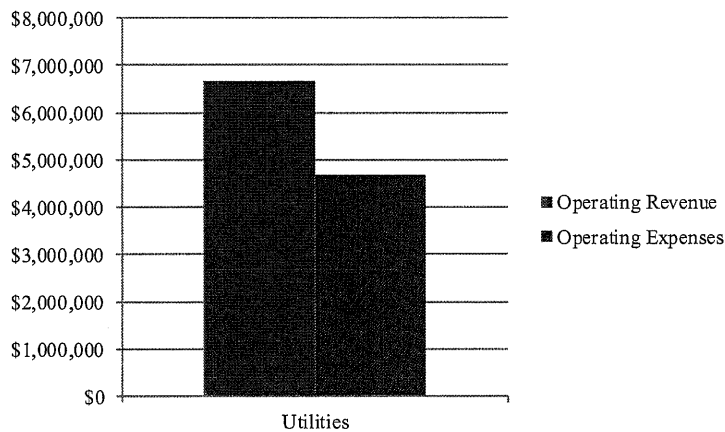
Governmental Revenues



Governmental Expenses



Business-Type Activities



CITY OF SEABROOK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

For the year ended September 30, 2015, revenues from governmental activities totaled \$12,264,470, which is a decrease of \$972,159 from the prior year. This is primarily due to a decrease in capital grants and contributions and charges for services. Capital grants and contributions decreased due to less revenue received from the CDBG grant fund, as a result of completion of street improvement projects during the current year.

For the year ended September 30, 2015, expenses from governmental activities totaled \$11,721,190, which is an increase of \$1,479,372 from the prior year. This change can be attributed to an increase in general government expenses, offset by a decrease in public safety and public works expenses. General government expenses increased due to various reasons. There was an increase in operating costs such as election expense and payroll during the current year as compared to prior year. In addition, there was a decrease in capital-related costs during the current year. Similarly, public works expenses decreased as a result of more capital-related costs during the current year. Public safety expenses decreased due to less payroll costs.

Operating revenues and expenses for business-type activities increased from the prior year. Charges for services increased by \$341,508, or six percent, because of an increase in water and sewer rates during fiscal year 2015. Capital grants and contributions decreased by \$98,551, or 41 percent, because of a decrease in water and sewer impact fees.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure 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, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$18,623,356. Of this, \$166,216 is nonspendable, \$12,484,357 is restricted for various purposes, \$801,976 is committed for a stabilization fund to cover potential future budget shortfalls, and \$21,000 is assigned for civil service accrued sick leave payouts. The remaining balance of \$5,149,807 is unassigned in the general fund.

There was a net increase in the combined fund balance of \$9,138,045 compared to the prior year, primarily due to the issuance of general obligation bonds.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$5,149,807, while total fund balance reached \$6,115,666. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 56 percent of total general fund expenditures, while total fund balance represents 67 percent of the same amount. The general fund demonstrated an overall increase of \$1,183,127, primarily due to a transfer from the utility fund.

The debt service fund has a total fund balance of \$1,799,611, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$61,326, which is comparable to the prior year.

CITY OF SEABROOK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

The fund balance of the capital projects fund was \$7,623,015, which is an increase of \$7,256,342 when compared to the prior year. This increase is attributed to the issuance of general obligation bonds for the purposes of various construction projects. The City did not spend all of the bond proceeds during the fiscal year.

Proprietary Funds – The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned increase in budgeted fund balance in the amount of \$496,514 in the general fund. However, the net change in fund balance increased by \$1,182,712, resulting in a positive variance of \$686,198 from budgeted as amended over actual. This was largely due to lower than anticipated expenditures across all functions.

Actual general fund revenues were more than original and amended budgeted revenues by \$231,236 during 2015. This variance was primarily due to positive variances of \$88,472 for intergovernmental revenue and \$72,333 for fines and forfeitures revenue.

Actual expenditures were less than budgeted amounts by \$454,962 for the fiscal year. The greatest positive variances were in the general government and public safety functions.

CAPITAL ASSETS

At the end of the current year, the City's governmental and business-type activities had invested \$37,770,165 and \$14,637,636, respectively, in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$763,390 and \$687,109, respectively.

Major capital asset events during the current year include the following:

- Completion of various infrastructure projects for \$5,720,178
- Purchase of fire engine for \$699,504
- Two splash pads for \$349,366
- Several vehicles for \$135,209

More detailed information about the City's capital assets is presented in note III.C of the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds and certificates of obligation outstanding of \$27,003,000. Of this amount, \$23,335,000 was general obligation debt, \$2,918,000 was revenue bond debt, and certificates of obligation accounted for \$750,000.

More detailed information about the City's long-term liabilities is presented in note III.D of the financial statements.

CITY OF SEABROOK, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2015

Current underlying ratings on debt issues are as follows:

<u>Debt Type</u>	<u>Moody's Investors Services</u>	<u>Standard and Poor's</u>
General obligation bonds	A1	AA
Revenue bonds	A1	AA-

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council provided staff with their vision for the future of the City and specific policy guidance with which to propose the fiscal year 2016 budget. The City's general fund revenue is principally made up of property taxes, sales taxes, and franchise fees. The revenues projections for the budget are based on historical data and estimates from the finance department and individual department heads, but they have been projected conservatively.

The Seabrook City Council approved a general fund budget of \$9.8 million for the 2016 fiscal year. The 2016 budget incorporated a tax rate decrease of \$0.027419 (4.28%) to \$0.612611 per \$100 of valuation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Pamela Lab, Finance Director, City Hall, 1700 First Street, Seabrook, TX, 77586; telephone (281) 291-5677; or for general City information, visit the City's website at <http://www.seabrooktx.gov>.

BASIC FINANCIAL STATEMENTS

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CITY OF SEABROOK, TEXAS

STATEMENT OF NET POSITION

September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and cash equivalents	\$ 18,242,825	\$ 1,762,404	\$ 20,005,229	\$ 2,902,413
Investments	-	-	-	-
Receivables, net of allowances	1,360,353	732,121	2,092,474	161,100
Internal balances	25,420	(25,420)	-	-
Due from primary government	-	-	-	9
Prepays and other assets	166,216	290	166,506	680
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	3,088,977	3,088,977	-
	19,794,814	5,558,372	25,353,186	3,064,202
Capital assets:				
Non-depreciable capital assets	14,249,053	1,680,340	15,929,393	-
Depreciable capital assets, net	23,521,112	12,957,296	36,478,408	-
	37,770,165	14,637,636	52,407,801	-
Total Assets	57,564,979	20,196,008	77,760,987	3,064,202
<u>Deferred Outflows of Resources</u>				
Deferred charge on refunding	225,096	41,687	266,783	-
Deferred outflows - pensions	696,174	124,776	820,950	-
Total Deferred Outflows of Resources	921,270	166,463	1,087,733	-
<u>Liabilities</u>				
Accounts payable and accrued liabilities	915,940	916,044	1,831,984	9,431
Due to component unit	9	-	9	-
Unearned revenue	8,690	-	8,690	-
Accrued bond interest	61,003	22,225	83,228	-
Noncurrent liabilities:				
Portion due within one year	1,526,217	343,496	1,869,713	-
Portion due in more than one year	24,501,029	4,212,308	28,713,337	-
Total Liabilities	27,012,888	5,494,073	32,506,961	9,431
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pensions	139,916	25,077	164,993	-
<u>Net Position</u>				
Net investment in capital assets	22,278,266	10,898,317	33,176,583	-
Restricted for:				
Debt service	1,799,611	-	1,799,611	-
Public safety	1,295,386	-	1,295,386	-
Parks	237,774	-	237,774	-
Tourism	1,452,006	-	1,452,006	-
Governmental programming	76,565	-	76,565	-
Capital projects	-	2,495,389	2,495,389	-
Economic development	-	-	-	3,054,771
Unrestricted	4,193,837	1,449,615	5,643,452	-
Total Net Position	\$ 31,333,445	\$ 14,843,321	\$ 46,176,766	\$ 3,054,771

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 3,848,282	\$ 141,056	\$ -	\$ -
Public safety	4,786,353	526,530	113,472	-
Public works	1,899,510	234,429	-	232,198
Economic development	348,324	-	125,000	-
Interest and fiscal agent fees	838,721	-	-	-
Total Governmental Activities	11,721,190	902,015	238,472	232,198
Business-Type Activities				
Utilities	4,672,698	6,379,326	-	141,601
Interest and fiscal agent fees	159,392	-	-	-
Total Business-Type Activities	4,832,090	6,379,326	-	141,601
Total Primary Government	\$ 16,553,280	\$ 7,281,341	\$ 238,472	\$ 373,799
Component Unit				
Seabrook Economic Development Corp	\$ 375,310	\$ -	\$ -	\$ -
Total Component Unit	\$ 375,310	\$ -	\$ -	\$ -

General Revenues:

- Property taxes
- Sales taxes
- Franchise fees and local taxes
- Other taxes
- Investment revenue
- Other revenues
- Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ (3,707,226)	\$ -	\$ (3,707,226)	\$ -
(4,146,351)	-	(4,146,351)	-
(1,432,883)	-	(1,432,883)	-
(223,324)	-	(223,324)	-
(838,721)	-	(838,721)	-
<u>(10,348,505)</u>	<u>-</u>	<u>(10,348,505)</u>	<u>-</u>
-	1,848,229	1,848,229	-
-	(159,392)	(159,392)	-
-	1,688,837	1,688,837	-
<u>(10,348,505)</u>	<u>1,688,837</u>	<u>(8,659,668)</u>	<u>-</u>
-	-	-	(375,310)
-	-	-	(375,310)
6,004,934	-	6,004,934	-
2,768,645	-	2,768,645	880,433
783,550	-	783,550	-
511,215	-	511,215	-
8,544	2,442	10,986	3,350
814,897	290,465	1,105,362	2,555
1,688,330	(1,688,330)	-	-
<u>12,580,115</u>	<u>(1,395,423)</u>	<u>11,184,692</u>	<u>886,338</u>
2,231,610	293,414	2,525,024	511,028
<u>29,101,835</u>	<u>14,549,907</u>	<u>43,651,742</u>	<u>2,543,743</u>
<u>\$ 31,333,445</u>	<u>\$ 14,843,321</u>	<u>\$ 46,176,766</u>	<u>\$ 3,054,771</u>

CITY OF SEABROOK, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2015

	General	Debt Service	Capital Projects	Nonmajor Governmental
<u>Assets</u>				
Cash and cash equivalents	\$ 5,799,786	\$ 1,793,927	\$ 7,857,331	\$ 2,791,781
Receivables, net	973,184	67,173	-	319,996
Due from other funds	64,653	5,684	-	45,675
Prepaid items	142,883	-	-	23,333
Total Assets	\$ 6,980,506	\$ 1,866,784	\$ 7,857,331	\$ 3,180,785
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 518,393	\$ -	\$ 234,316	\$ 43,298
Deposits payable	-	-	-	4,500
Due to other funds	51,359	-	-	39,233
Due to component unit	9	-	-	-
Due to others	115,433	-	-	-
Unearned revenue	-	-	-	8,690
Total Liabilities	685,194	-	234,316	95,721
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	179,646	67,173	-	-
<u>Fund Balances</u>				
Nonspendable:				
Prepays	142,883	-	-	23,333
Restricted for:				
Debt service	-	1,799,611	-	-
Public safety	-	-	-	1,295,386
Parks	-	-	-	237,774
Tourism	-	-	-	1,452,006
Governmental programming	-	-	-	76,565
Capital projects	-	-	7,623,015	-
Committed for:				
Stabilization fund	801,976	-	-	-
Assigned for:				
Civil service sick leave	21,000	-	-	-
Unassigned	5,149,807	-	-	-
Total Fund Balances	6,115,666	1,799,611	7,623,015	3,085,064
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,980,506	\$ 1,866,784	\$ 7,857,331	\$ 3,180,785

See Notes to Financial Statements.

**Total
Funds**

\$ 18,242,825
1,360,353
116,012
166,216
\$ 19,885,406

\$ 796,007
4,500
90,592
9
115,433
8,690
1,015,231

246,819

166,216

1,799,611
1,295,386
237,774
1,452,006
76,565
7,623,015

801,976

21,000
5,149,807

18,623,356

\$ 19,885,406

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CITY OF SEABROOK, TEXAS
RECONCILIATION OF THE GOVERNMENTAL
FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
September 30, 2015

Total fund balances - governmental funds \$ 18,623,356

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Capital assets, non-depreciable	14,249,053
Capital assets, net depreciable	23,521,112

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

246,819

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Accrued interest payable	(61,003)
Deferred charge on refunding	225,096
Deferred outflows - pensions	696,174
Deferred inflows - pensions	(139,916)
Non-current liabilities due in one year	(1,526,217)
Non-current liabilities due in more than one year	(24,501,029)

Net Position of Governmental Activities	\$ <u>31,333,445</u>
--	-----------------------------

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2015

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>
<u>Revenues</u>				
Property taxes	\$ 4,318,936	\$ 1,694,797	\$ -	\$ -
Sales taxes	1,938,604	-	-	830,041
Franchise fees and local taxes	742,750	-	-	40,800
Other taxes	-	-	-	511,215
Licenses and permits	234,429	-	-	-
Fines and forfeitures	457,033	-	-	69,497
Charges for services	89,230	-	-	51,826
Intergovernmental	238,472	-	-	232,198
Investment revenue	2,968	1,339	3,145	1,092
Other revenue	685,845	-	-	129,052
Total Revenues	8,708,267	1,696,136	3,145	1,865,721
<u>Expenditures</u>				
Current:				
General government	3,673,468	-	-	7,028
Public safety	3,922,783	-	-	627,709
Public works	1,573,792	-	-	232,198
Economic development	-	-	-	349,247
Capital outlay	-	-	1,303,741	58,028
Debt service:				
Principal	-	935,000	-	-
Interest and fiscal agent fees	-	699,810	-	-
Bond issuance costs	-	-	126,244	-
Total Expenditures	9,170,043	1,634,810	1,429,985	1,274,210
Excess (Deficiency) of Revenues Over (Under) Expenditures	(461,776)	61,326	(1,426,840)	591,511
<u>Other Financing Sources (Uses)</u>				
Bonds issued	-	-	8,380,000	-
Premium on bonds	-	-	305,494	-
Transfers in	1,690,642	-	-	45,739
Transfers (out)	(45,739)	-	(2,312)	-
Total Other Financing Sources	1,644,903	-	8,683,182	45,739
Net Change in Fund Balances	1,183,127	61,326	7,256,342	637,250
Beginning fund balances	4,932,539	1,738,285	366,673	2,447,814
Ending Fund Balances	\$ 6,115,666	\$ 1,799,611	\$ 7,623,015	\$ 3,085,064

See Notes to Financial Statements.

Total Funds	
\$	6,013,733
	2,768,645
	783,550
	511,215
	234,429
	526,530
	141,056
	470,670
	8,544
	814,897
	<u>12,273,269</u>
	3,680,496
	4,550,492
	1,805,990
	349,247
	1,361,769
	935,000
	699,810
	126,244
	<u>13,509,048</u>
	<u>(1,235,779)</u>
	8,380,000
	305,494
	1,736,381
	(48,051)
	<u>10,373,824</u>
	9,138,045
	9,485,311
\$	<u><u>18,623,356</u></u>

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CITY OF SEABROOK, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

Net changes in fund balances - total governmental funds \$ 9,138,045

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

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

Capital outlay	1,943,000
Disposal of capital assets	(3,150)
Depreciation expense	(1,176,460)

The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Net Position.

Principal payments	935,000
Amortization of premium	(280,237)
Debt issued	(8,380,000)
Amortization of deferred charges	(22,509)
Accrued interest	(15,415)

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds. (8,799)

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

Compensated absences	(9,533)
Net pension liability	38,348
Change in deferred outflows - pension	213,236
Change in deferred inflows - pension	(139,916)

Change in Net Position of Governmental Activities **\$ 2,231,610**

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS
STATEMENT OF NET POSITION (Page 1 of 2)
PROPRIETARY FUNDS
September 30, 2015

	Business-Type Activities
	Utility Enterprise
<u>Assets</u>	
Current assets	
Cash and cash equivalents	\$ 1,762,404
Accounts receivable (net of allowance for uncollectibles)	732,121
Restricted cash and cash equivalents	3,088,977
Prepaid expense	290
Total Current Assets	5,583,792
 Noncurrent assets	
Capital assets:	
Land	1,605,575
Buildings	3,119,466
Infrastructure	16,735,108
Equipment	2,772,511
Construction in progress	74,765
Less allowance for depreciation	(9,669,789)
Total Capital Assets (Net)	14,637,636
Total Noncurrent Assets	14,637,636
Total Assets	\$ 20,221,428
 <u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	41,687
Deferred outflows - pension	124,776
Total Deferred Outflows of Resources	166,463

CITY OF SEABROOK, TEXAS
STATEMENT OF NET POSITION (Page 2 of 2)
PROPRIETARY FUNDS

September 30, 2015

	Business-Type Activities
	Utility Enterprise
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued liabilities	\$ 433,799
Accrued interest payable	22,225
Due to other funds	25,420
Customer deposits	482,245
Bonds payable - current	275,000
Compensated absences	68,496
Total Current Liabilities	1,307,185
Noncurrent liabilities	
Bonds payable - noncurrent	3,798,000
Net pension liability	371,189
Compensated absences	43,119
Total Noncurrent Liabilities	4,212,308
Total Liabilities	5,519,493
<u>Deferred Inflows of Resources</u>	
Deferred inflows - pension	25,077
Total Deferred Inflows of Resources	25,077
<u>Net Position</u>	
Net investment in capital assets	10,898,317
Restricted for:	
Capital projects - impact fees	2,495,389
Unrestricted net position	1,449,615
Total Net Position	\$ 14,843,321

See Notes to Financial Statements.

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CITY OF SEABROOK, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2015

	Business-Type Activities
	Utility Enterprise
<u>Operating Revenues</u>	
Water service	\$ 2,223,010
Sewer service	2,394,613
Sanitation service	1,761,703
Other revenue	290,465
Total Operating Revenues	6,669,791
<u>Operating Expenses</u>	
Personnel services	1,114,675
Supplies and materials	57,928
Contractual services	2,823,002
Repairs and maintenance	159,671
Depreciation	517,422
Total Operating Expenses	4,672,698
Operating Income	1,997,093
<u>Nonoperating Revenues (Expenses)</u>	
Investment revenue	2,442
Interest expense	(159,392)
Total Nonoperating (Expenses)	(156,950)
Income Before Contributions and Transfers	1,840,143
Capital contribution - impact fees	138,601
Capital contribution - capital assets	3,000
Transfers in	2,312
Transfers (out)	(1,690,642)
Total Contributions and Transfers	(1,546,729)
Change in Net Position	293,414
Beginning net position	14,549,907
Ending Net Position	\$ 14,843,321

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2015

	<u>Business-Type Activities</u> <u>Utility</u> <u>Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers and users	\$ 6,639,262
Payments to suppliers	(2,938,251)
Payments to employees	(1,119,057)
	<hr/>
Net Cash Provided By Operating Activities	2,581,954
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers to other funds, net	(1,688,330)
	<hr/>
Net Cash (Used) by Noncapital Financing Activities	(1,688,330)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(1,204,531)
Interest and fiscal charges	(155,224)
Principal paid on capital debt	(265,000)
Capital contribution	141,601
	<hr/>
Net Cash (Used) by Capital and Related Financing Activities	(1,483,154)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	2,442
	<hr/>
Net Cash Provided by Investing Activities	2,442
Net (Decrease) in Cash and Cash Equivalents	(587,088)
Cash and cash equivalents, beginning of year	5,438,469
	<hr/>
Ending Cash and Cash Equivalents	\$ 4,851,381
Ending Cash and Cash Equivalents:	
Unrestricted cash and cash equivalents	\$ 1,762,404
Restricted cash and cash equivalents	3,088,977
	<hr/>
Ending Cash and Cash Equivalents	\$ 4,851,381

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2015

	<u>Business-Type Activities</u>
	<u>Utility</u>
	<u>Enterprise</u>
Reconciliation of Operating Income (Loss)	
to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 1,997,093
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Depreciation	517,422
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Current Assets:	
Accounts receivable	(30,529)
Prepays	(214)
Deferred outflows	(38,219)
Increase (Decrease) in Current Liabilities:	
Accounts payable and accrued liabilities	65,448
Accrued interest payable	(1,372)
Due to other funds	25,420
Compensated absences	15,633
Customer deposits	13,068
Net pension liability	(6,873)
Deferred inflows	25,077
	<hr/>
Net Cash Provided by Operating Activities	\$ 2,581,954
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See Notes to Financial Statements.

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CITY OF SEABROOK, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Seabrook, Texas (the “City”) was incorporated on October 14, 1961 and adopted the “Home Rule Charter” on August 11, 1979, pursuant to the laws of the State of Texas which provides for a Council-Manager form of government.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety to include police and fire services, municipal court, drainage, building and code inspection, planning, engineering, street repair and maintenance, park maintenance, recreational activities for citizens, and general administrative services.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities, organizations, or functions have been included as part of the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Seabrook Economic Development Corporation

Seabrook Economic Development Corporation (the “Corporation”) has been included in the reporting entity as a discretely presented component unit. The Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by, and serves at the discretion of, the City Council. The

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Corporation's Board of Directors is comprised of the Mayor, a City Council member, and five members who are not employees or City officials, all of whom are appointed by City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position of the Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type. Separate financial statements of the Corporation may be obtained from the finance department of the City.

Blended Component Unit

Crime Control and Prevention District

The Seabrook Crime Control and Prevention District (the "District") has been included in the reporting entity as a blended component unit. The District was created by the City under the authority granted by Chapter 36 of the Texas Local Government Code and Section 323.105 of the Texas Tax Code for the purpose of strengthening and enhancing crime control activities of the City. Management of the City has operational responsibility for the component unit. The District provides services exclusively to the City.

An election was held on May 7, 2005 approving the creation of the District and the collection of a one-half cent sales tax to fund its operations, effective on October 1, 2005.

The Board of Directors is substantively the same as City Council. Their respective positions on the Board will be held until their City Council seat is vacated, at which time the incoming elected member of Council will fill the position on the Board. The District was to remain in existence for a period of five years and may then be extended upon approval by the voters. On May 8, 2010, voters approved the renewal of the District for a period of 20 years. In the event of dissolution, net position of the District shall be conveyed to the City.

The District is reported as a special revenue fund and does not issue separate financial statements.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component unit. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

The City reports the following enterprise funds:

The *enterprise fund* is used to account for the operations that provide water and wastewater collection and the construction of related facilities. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The acquisition, maintenance, and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), and other City funds.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds)

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, balances in statewide investment pools (TexPool), and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

The City maintains pooled cash and investment accounts. Each fund whose monies are deposited in the pooled cash and investment accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and cash equivalents."

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Money market mutual funds that meet certain criteria
- Statewide investment pools
- Certificates of deposit that meet certain criteria
- Fully collateralized direct repurchase agreements

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased (i.e., the consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	50 years
Machinery and equipment	5 to 25 years
Water and sewer system	40 to 50 years
Infrastructure	10 to 50 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for reporting in this category on the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have been recognized as a result of the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. This amount is deferred and

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. Compensated Employee Absences

Employees earn vacation based on years of service with the City. Amounts accumulated may be paid to employees upon termination of employment or during employment. Employees must take vacation within 12 months after earning it. Vacation not taken within 12 months after earning may be accumulated from one year to the next, not to exceed 240 hours.

Sick leave and long-term disability are not accrued but recognized when paid, since no liability exists upon termination of employment, with the exception of Civil Service employees. Civil Service personnel are compensated for accrued sick leave for up to 90 days upon termination of employment.

The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

8. Long-Term Obligations

In 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 are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

9. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council has by resolution authorized the City Manager to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The City strives to maintain an unassigned fund balance equivalent to 25 percent of budgeted expenditures, based on current year expenditures. The purpose of the unassigned balance is to

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services to citizens. Should unassigned fund balance fall below the goal or have a deficiency, the City will seek to adjust budget resources in the subsequent fiscal years to restore the balance.

12. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

13. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects fund, which adopts a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter in the approved budget is the department level. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended. The hotel/motel fund, municipal court programs fund, park improvement fees fund, crime control and prevention district fund, public safety programs fund, cable PEG fees fund, and CDBG grant fund are all special revenue funds that have adopted budgets.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
TexPool	\$ 25,348,023	0.00
Total Fair Value	\$ 25,348,023	
Portfolio weighted average maturity		0.00

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. The City’s investment policy limits investments in public fund investment pools rated as to investment quality not less than “A” or “AAA-m,” or an equivalent rating by at least one nationally recognized rating service. Investments in SEC-registered and regulated money market mutual funds must have an investment quality not less than “AAA-,” or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2015, the City’s investment in TexPool was rated “AAAm” by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2015, fair market values of pledged securities and FDIC coverage exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool "AAAm." As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

B. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general fund, the debt service fund, the nonmajor governmental funds in the aggregate, the component unit, and the enterprise fund, including the applicable allowances for uncollectible accounts.

Governmental Funds

	General	Debt Service	Nonmajor	Component Unit
Property taxes	\$ 291,651	\$ 111,928	\$ -	\$ -
Sales taxes	321,301	-	150,293	161,100
Franchise taxes	74,526	-	8,553	-
Other taxes	71,927	-	121,641	-
Intergovernmental	284,266	-	29,522	-
Other receivables	41,520	-	9,987	-
Less allowance	(112,007)	(44,755)	-	-
	<u>\$ 973,184</u>	<u>\$ 67,173</u>	<u>\$ 319,996</u>	<u>\$ 161,100</u>

Proprietary Funds

	Utility Enterprise
Intergovernmental	\$ 18,946
Accounts receivable	749,899
Less allowance	(36,724)
Total	<u>\$ 732,121</u>

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable - general fund	\$ 179,646	\$ -
Delinquent property taxes receivable - debt service fund	67,173	-
Grants and revenues prior to meeting all eligibility requirements	-	8,690
Total Deferred Inflow of Resources for Governmental Funds	\$ 246,819	\$ 8,690

C. Capital Assets

A summary of changes in capital assets for governmental activities for the year end is as follows:

	Primary Government			
	Beginning Balance	Increases	(Decreases)/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 13,190,589	\$ -	\$ -	\$ 13,190,589
Construction in progress	5,573,304	1,058,464	(5,573,304)	1,058,464
Total capital assets not being depreciated	18,763,893	1,058,464	(5,573,304)	14,249,053
Other capital assets:				
Infrastructure	17,791,013	5,720,178	-	23,511,191
Buildings and improvements	10,978,264	386,528	-	11,364,792
Machinery and equipment	7,689,836	351,134	(139,938)	7,901,032
Total other capital assets	36,459,113	6,457,840	(139,938)	42,777,015
Less accumulated depreciation for:				
Infrastructure	(9,587,609)	(373,948)	-	(9,961,557)
Buildings and improvements	(4,120,998)	(310,932)	-	(4,431,930)
Machinery and equipment	(4,507,624)	(491,580)	136,788	(4,862,416)
Total accumulated depreciation	(18,216,231)	(1,176,460)	136,788	(19,255,903)
Other capital assets, net	18,242,882	5,281,380	(3,150)	23,521,112
Governmental Activities Capital Assets, Net	\$ 37,006,775	\$ 6,339,844	\$ (5,576,454)	37,770,165
			Plus unspent bond proceeds	7,623,015
			Plus deferred loss on refunding	225,096
			Less associated debt	(23,340,010)
			Net Investment in Capital Assets	\$ 22,278,266

Depreciation was charged to governmental functions as follows:

General government	\$ 310,255
Public safety	437,473
Public works	428,732
Total Governmental Activities Depreciation Expense	\$ 1,176,460

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Construction in progress and remaining commitments under related construction contracts for governmental fund projects at year end are as follows:

<u>Project Description</u>	<u>Authorized Contract</u>	<u>Contract Expenditures</u>	<u>Remaining Contract</u>
Fire Engine	\$ 699,504	\$ 699,504	\$ -
Monroe Splash Pad	499,870	177,364	322,506
Public Works Complex - Engineering	335,000	159,121	175,879
Hester's Gully	60,000	12,619	47,381
Fiber Optics project	409,769	9,856	399,913
	<u>\$ 2,004,143</u>	<u>\$ 1,058,464</u>	<u>\$ 945,679</u>

A summary of changes in capital assets for business-type activities for the year ended is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ Reclassifications</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 1,605,575	\$ -	\$ -	\$ 1,605,575
Construction in progress	162,229	74,765	(162,229)	74,765
Total capital assets not being depreciated	<u>1,767,804</u>	<u>74,765</u>	<u>(162,229)</u>	<u>1,680,340</u>
Other capital assets:				
Water and sewer system	15,590,526	1,144,582	-	16,735,108
Buildings and improvements	3,119,466	-	-	3,119,466
Machinery and equipment	2,625,098	147,413	-	2,772,511
Total other capital assets	<u>21,335,090</u>	<u>1,291,995</u>	<u>-</u>	<u>22,627,085</u>
Less accumulated depreciation for:				
Water and sewer system	(5,817,879)	(321,757)	-	(6,139,636)
Buildings and improvements	(1,730,006)	(70,545)	-	(1,800,551)
Machinery and equipment	(1,604,482)	(125,120)	-	(1,729,602)
Total accumulated depreciation	<u>(9,152,367)</u>	<u>(517,422)</u>	<u>-</u>	<u>(9,669,789)</u>
Other capital assets, net	12,182,723	774,573	-	12,957,296
Business-Type Activities Capital Assets, Net	<u>\$ 13,950,527</u>	<u>\$ 849,338</u>	<u>\$ (162,229)</u>	<u>14,637,636</u>
			Plus unspent bond proceeds	291,994
			Plus deferred charge on refunding	41,687
			Less associated debt	(4,073,000)
			Net Investment in Capital Assets	<u>\$ 10,898,317</u>

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 517,422
Total Business-Type Activities Depreciation Expense	<u>\$ 517,422</u>

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Construction in progress and remaining commitments under related construction contracts for proprietary fund projects at year end are as follows:

<u>Project Description</u>	<u>Authorized Contract</u>	<u>Contract Expenditures</u>	<u>Remaining Contract</u>
Thoroughfare project	\$ 70,000	\$ 4,550	\$ 65,450
East Meyer sewer project	-	67,903	-
Water plant relocation project	-	2,312	-
	<u>\$ 70,000</u>	<u>\$ 74,765</u>	<u>\$ 65,450</u>

D. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities for the year end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	<u>Beginning Balance**</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds	\$ 14,695,000	\$ 8,380,000	\$ (895,000)	\$ 22,180,000	* \$ 1,170,000
Certificates of obligation	790,000	-	(40,000)	750,000	* 45,000
Deferred amounts:					
For issuance discounts/premiums	129,773	305,494	(25,257)	410,010	*
	<u>15,614,773</u>	<u>8,685,494</u>	<u>(960,257)</u>	<u>23,340,010</u>	<u>1,215,000</u>
Other liabilities:					
Net pension liability	2,109,356	-	(38,348)	2,071,008	-
Compensated absences	606,695	313,135	(303,602)	616,228	311,217
	<u>606,695</u>	<u>313,135</u>	<u>(303,602)</u>	<u>616,228</u>	<u>311,217</u>
Total Governmental Activities	<u>\$ 18,330,824</u>	<u>\$ 8,998,629</u>	<u>\$ (1,302,207)</u>	<u>\$ 26,027,246</u>	<u>\$ 1,526,217</u>
				<u>\$ 24,501,029</u>	
				<u>\$ 23,340,010</u>	

**Beginning balances have been restated.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

	Beginning Balance**	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Bonds, notes, and other payables:					
General obligation bonds	\$ 1,165,000	\$ -	\$ (10,000)	\$ 1,155,000 *	\$ 10,000
Revenue bonds	3,173,000	-	(255,000)	2,918,000 *	265,000
	4,338,000	-	(265,000)	4,073,000	275,000
Other liabilities:					
Net pension liability	378,062	-	(6,873)	371,189	-
Compensated absences	95,982	72,757	(57,124)	111,615	68,496
Total Business-Type Activities	\$ 4,812,044	\$ 72,757	\$ (328,997)	\$ 4,555,804	\$ 343,496
Long-term debt due in more than one year				\$ 4,212,308	
*Debt associated with business-type activity capital assets				\$ 4,073,000	

**Beginning balances have been restated.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The City's long-term debt includes all outstanding bonded debt secured by the full faith and credit of the City. The bonds are certificates of obligation, general obligation, and contractual obligation bonds which are secured by the full faith and credit of the City and are paid from taxes levied on all taxable property located within the City.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The following is a summary of the terms of general obligation bonds, certificates of obligation, and revenue bonds outstanding as of September 30, 2015:

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Bonds		
Series 2003	4.40%	\$ 3,205,000
Series 2005	3.55-4.30%	760,000
Series 2008	4.00-6.00%	5,965,000
Series 2013 refunding	1.86%	3,870,000
Series 2015	2.00-3.25%	8,380,000
Total General Obligation Bonds		22,180,000
Certificates of Obligation		
Series 2010	3.642%	750,000
Total Certificates of Obligation		750,000
Total Governmental Activities Long-Term Debt		\$ 22,930,000
Business-Type Activities		
General Obligation Bonds		
Series 2013 refunding	1.86%	\$ 1,155,000
Total General Obligation Bonds		1,155,000
Revenue Bonds		
Series 2003 refunding	4.45%	1,275,000
Series 2005 refunding	2.50-4.30%	225,000
Series 2008	4.12%	1,418,000
Total Revenue Bonds		2,918,000
Total Business-Type Activities Long-Term Debt		\$ 4,073,000

Annual debt service requirements to retire outstanding bonds are as follows:

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 1,215,000	\$ 765,691	\$ 275,000	\$ 145,416
2017	1,265,000	718,082	286,000	134,209
2018	1,315,000	667,878	303,000	122,541
2019	1,360,000	623,259	305,000	112,730
2020	1,400,000	581,133	323,000	102,835
2021-2025	7,670,000	2,240,856	1,760,000	348,619
2026-2030	5,555,000	962,664	821,000	51,088
2031-2034	3,150,000	245,179		
Total	\$ 22,930,000	\$ 6,804,742	\$ 4,073,000	\$ 1,017,438

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

E. Interfund Transactions

The composition of interfund balances as of year end was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General fund	Nonmajor governmental	\$ 39,233
General fund	Utility enterprise fund	25,420
Debt service fund	General fund	5,684
Nonmajor governmental	General fund	45,675
	Total	<u><u>\$ 116,012</u></u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

Transfers between the primary government funds during the year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
Utility enterprise fund	General fund	\$ 1,690,642
General fund	Nonmajor governmental	45,739
Capital projects fund	Utility enterprise fund	2,312
	Total	<u><u>\$ 1,738,693</u></u>

Transfers to the general fund from the utility fund were subsidies for administrative expenditures. Other transfers between funds are utilized to move unrestricted fund revenues to finance various programs that must be accounted for in other funds in accordance with budgetary authorizations, including amounts provided as matching funds for grant programs and governmental expenditures.

F. Restricted Assets

The utility enterprise fund has restricted certain cash and investments for customer deposits and construction.

G. Restatement of Net Position

The City implemented Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the City has restated beginning net position to account for a net pension liability as of the initial measurement date, December 31, 2013. In addition, the City has restated beginning net position to record a deferred outflow for contributions made to the pension plan between the initial measurement date and the end of the prior fiscal year, September 30, 2014.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

The beginning net position was restated as follows:

	Governmental Activities	Business-Type Activities
Beginning net position-as reported	\$ 30,728,253	\$ 14,841,412
Restatement - net pension liability	(2,109,356)	(378,062)
Restatement - deferred outflows	482,938	86,557
Beginning net position - restated	\$ 29,101,835	\$ 14,549,907

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League’s (TML) Intergovernmental Risk Pools (the “Pool”). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

The City also provides workers’ compensation insurance through the TML Workers’ Compensation Fund (the “Fund”). Workers’ compensation premiums are subject to change when audited by the Fund. At September 30, 2015, the City believed the amounts paid on workers’ compensation would not change significantly from the amounts recorded.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in a lawsuit. The City Attorney estimates the potential claims against the City will be substantially covered by insurance and would not materially affect the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

C. Pension Plans

Texas Municipal Retirement System

Plan Description

The City participates as one of 860 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 TMRS 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 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 payment 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 percent of the member's deposits and interest.

Plan provisions for the City were as follows:

	<u>2015</u>	<u>2014</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating,	100% Repeating,
Annuity increase (to retirees)	30% of CPI Repeating	30% of CPI Repeating

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Employees Covered by Benefit Terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	50	
Inactive employees entitled to but not yet receiving benefits	27	
Active employees	86	
Total	163	

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, 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 were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rate for the City was 14.52 percent and 14.02 percent in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2015 were \$766,607 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment rate of return	7.0%, 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 Table, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

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 EAN actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is seven percent. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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. The target allocation and best estimates of arithmetic 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%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was seven percent. 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 TPL.

CITY OF SEABROOK, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2015

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 868,525	\$ -	\$ 868,525
Interest	2,004,153	-	2,004,153
Change of benefit terms	-	-	-
Difference between expected and actual experience	(201,421)	-	(201,421)
Changes of assumptions	-	-	-
Contributions - employer	-	807,068	(807,068)
Contributions - employee	-	413,007	(413,007)
Net investment income	-	1,513,501	(1,513,501)
Benefit payments, including refunds of employee contributions	(1,487,513)	(1,487,513)	-
Administrative expense	-	(15,799)	15,799
Other changes	-	(1,299)	1,299
Net Changes	1,183,744	1,228,965	(45,221)
Balance at December 31, 2013	28,940,249	26,452,831	2,487,418
Balance at December 31, 2014	\$ 30,123,993	\$ 27,681,796	\$ 2,442,197

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of seven percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's Net Pension Liability	\$ 6,488,979	\$ 2,442,197	\$ (923,201)

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/Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2015, the City recognized net pension expense of \$656,282.

CITY OF SEABROOK, TEXAS
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At September 30, 2015, 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	\$ -	\$ 164,993
Difference between projected and actual investment earnings	270,558	-
Contributions subsequent to the measurement date	550,392	-
Total	\$ 820,950	\$ 164,993

\$550,392 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 fiscal year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:	Pension Expense
2016	\$ 31,211
2017	31,211
2018	31,211
2019	31,213
2020	(19,281)
Thereafter	-
Total	\$ 105,565

D. Other Post Employment Benefits

TMRS Supplemental Death Benefits Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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 post employment benefit," or OPEB. For the year ended September 30, 2015, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all

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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 September 30, 2015, 2014, and 2013 were \$1,083, \$1,097, and \$1,057, respectively, which equaled the required contributions each year. The City's contribution rates for the past three years are shown below.

	2015	2014	2013
Annual Req. Contrib. (Rate)	0.02%	0.02%	0.02%
Actual Contribution Made	0.02%	0.02%	0.02%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

E. Subsequent Event

On March 4, 2016, the City issued \$2,500,000 in certificates of obligation, series 2016 to be used to move and upgrade a ground water storage tank and water plant to make way for commercial development.

APPENDIX C
FORM OF BOND COUNSEL OPINION



Orrick, Herrington & Sutcliffe LLP
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_____, 2016

We have acted as Bond Counsel in connection with the issuance by the City of Seabrook, Texas (the "Issuer") of its Certificates of Obligation, Series 2016A (the "Certificates"), dated November 1, 2016, in the aggregate principal amount of \$_____. The Certificates are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance (the "Ordinance") adopted by the City Council of the Issuer authorizing their issuance.

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 and with respect to the exclusion of interest on the Certificates from gross income under federal income tax law. In such capacity, we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Certificates, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the Issuer; certain certifications and representations and other material facts within the knowledge and control of the Issuer, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates. We have also examined executed Certificate No. R-1.

We have not been requested to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

Based on such examination, it is our opinion as follows:

- (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 in effect; the Certificates constitute valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Certificates may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Certificates have been authorized and delivered in accordance with law; and
- (2) The Certificates are payable, both as to principal and interest, from the receipts of all annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the Issuer, which taxes have been pledged irrevocably to pay the principal of and interest on the Certificates, and a pledge of subordinate Net Revenues (as defined in the Ordinance) not to exceed \$1,000.



The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance and the Tax Certificate (as hereinafter defined) executed by the Issuer in connection with the issuance of the Certificates, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Certificates to be included in gross income for federal income tax purposes.

Also based on our examination as described above, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Certificates, including any accrued "original issue discount" properly allocable to the holders of the Certificates, is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended ("Code"), and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. For purposes of the alternative minimum tax imposed on corporations under Section 56 of the Code, interest on the Certificates is included in computing adjusted current earnings. The "original issue discount" on any Certificates is the excess of its stated redemption price at maturity over the initial offering price to the public at which price a substantial amount of the Certificates of the same maturity was sold. The "public" does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. We express no opinion regarding other federal tax consequences arising with respect to the Certificates.

In providing the opinion set forth in the foregoing paragraph, we are assuming continuing compliance with the Covenants (as hereinafter defined) by the Issuer. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the Certificates in order for interest on the Certificates to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the Certificates and the use of the property financed by the Certificates, limitations on the source of the payment of and the security for the Certificates, and the obligation to rebate certain excess earnings on the gross proceeds of the Certificates to the United States Treasury. The Ordinance and the Issuer's tax certificate for the Certificates (the "Tax Certificate") contain covenants (the "Covenants") under which the Issuer has agreed to comply with such requirements. If the Issuer fails to comply with the Covenants interest on the Certificates could become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Certificates from becoming includable in gross income for federal income tax purposes. We have no responsibility to monitor compliance with the Covenants after the date of issue of the Certificates.

Certain requirements and procedures contained, incorporated or referred to in the Ordinance and Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents.



Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.