

**NOTICE OF SALE
AND
BIDDING INSTRUCTIONS**

ON

\$4,590,000*

**CITY OF BRYAN, TEXAS
(Brazos County)**

WATERWORKS AND SEWER SYSTEM REVENUE BONDS, NEW SERIES 2016A

Sealed Bids Due Tuesday, October 11, 2016, at 10:00 AM, CDT

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The City of Bryan, Texas (the “City”) is offering for sale its \$4,590,000* Waterworks and Sewer System Revenue Bonds, New Series 2016A (the “Bonds”).

ADDRESS OF BIDS . . . Sealed bids, plainly marked “Bid for Bonds”, should be addressed to the “Mayor, City of Bryan”, and delivered to the Financial Advisor, Specialized Public Finance Inc., 4925 Greenville Avenue, Suite 465, Dallas, Texas 75206, prior to 10:00 AM, CDT, on the date of the bid opening. All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Bidders must submit, prior to 10:00 AM, CDT on the date of the bid opening, SIGNED Official Bid Forms to Steven Adams at steven@spubfin.com or mail to Specialized Public Finance Inc., 4925 Greenville Avenue, Suite 465, Dallas, Texas 75206. Subscription to the i-Deal LLC's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Notice of Sale and Bidding Instructions, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder.

If any provisions of this Notice of Sale and Bidding Instructions shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale and Bidding Instructions shall control. Further information about PARITY, including any fee charged, may be obtained from Parity Customer Support, 40 West 23rd Street, 5th Floor, New York, New York 10010, (212) 404-8102.

For purposes of both the written sealed bid process and the electronic bidding process, the time as maintained by PARITY shall constitute the official time. For information purposes only, bidders are requested to state in their electronic bids the True Interest Cost rate to the City, as described under “Basis for Award” below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and the Official Bid Form.

BIDS BY TELEPHONE OR FACSIMILE . . . Bidders must submit SIGNED Official Bid Forms to Steven Adams, Specialized Public Finance Inc., 4925 Greenville Avenue, Suite 465, Dallas, Texas 75206, and submit their bid by telephone or facsimile (fax) on the date of the sale.

Telephone bids will be accepted at (214) 373-3911, between 9:30 AM, CDT and 10:00 AM, CDT on October 11, 2016.

Fax bids must be received between 9:30 AM, CDT and 10:00 AM, CDT on October 11, 2016 at (214) 373-3913, attention Steven Adams.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the above deadlines.

Neither the City nor Specialized Public Finance Inc. assume any responsibility or liability with respect to any irregularities associated with the submission of bids if telephone or fax options are exercised.

PLACE AND TIME OF BID OPENING . . . The bids for the Bonds will be publicly opened and read in the office of the Financial Advisor at 10:00 AM, CDT, Tuesday, October 11, 2016.

* Preliminary, subject to change (see “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts”).

AWARD OF THE BONDS . . . The City Council of the City (the “City Council”) will take action to award the Bonds (or reject all bids) at a meeting scheduled to convene at 6:00 PM, CDT, on October 11, 2016, and adopt an ordinance authorizing the sale of the Bonds and approving the Official Statement (the “Ordinance”).

THE BONDS

DESCRIPTION . . . The Bonds will be dated October 1, 2016 (the “Dated Date”). Interest will accrue from the date of the initial delivery (anticipated to be November 10, 2016) and will be payable on July 1, 2017, and each January 1 and July 1 thereafter until the earlier of maturity or prior redemption. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The Bonds will mature on July 1 in each year as follows:

MATURITY SCHEDULE*

<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>	<u>Amount</u>
2017	\$ 225,000	2027	\$ 220,000
2018	185,000	2028	230,000
2019	190,000	2029	235,000
2020	195,000	2030	240,000
2021	195,000	2031	250,000
2022	200,000	2032	255,000
2023	205,000	2033	265,000
2024	210,000	2034	275,000
2025	215,000	2035	285,000
2026	220,000	2036	295,000

* Preliminary, subject to change (see “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts”).

AUTHORITY FOR ISSUANCE AND SECURITY FOR PAYMENT . . . The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1502, Texas Government Code, as amended, and the Ordinance, and constitute special obligations of the City of Bryan, Texas (the “City”), payable, together with certain outstanding revenue bonds of the City and any parity obligations issued or incurred in the future, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City’s Waterworks and Sewer System (the “Waterworks and Sewer System”). The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see “THE BONDS - Authority for Issuance” and “- Security and Source of Payment” in the Preliminary Official Statement).

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after July 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on July 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The Bonds may be subject to mandatory redemption in the event the Purchaser (as defined below) elects to aggregate two or more maturities as Term Bonds (as defined below).

SERIAL BONDS AND/OR TERM BONDS . . . Bidders may provide that all of the Bonds be issued as serial Bonds or may provide that any two or more consecutive annual principal amounts be combined into one or more term Bonds (the “Term Bonds”). See “CONDITIONS OF THE SALE – Type of Bids and Interest Rates” below.

MANDATORY SINKING FUND REDEMPTION . . . If the successful bidder elects to alter the Maturity Schedule reflected above and convert the principal amounts of the serial Bonds into “Term Bonds”, such “Term Bonds” shall be subject to mandatory redemption on the first July 1 next following the last maturity for the serial Bonds, and annually thereafter on each July 1 until the stated maturity for the Term Bonds at the redemption price of par plus accrued interest to the date of redemption. The principal amounts of the Term Bonds to be redeemed on each mandatory redemption date shall be the principal amounts that would have been due and payable in the Maturity Schedule shown above had no designation of such maturities as Term Bonds occurred.

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot, or other customary random selection method, the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following July 1 from moneys set aside for that purpose in the Debt Service Fund (as defined in the Ordinance). Any Term Bond not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Term Bonds for a Stated Maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the City, by the principal amount of Term Bonds of like Stated Maturity which, at least forty-five (45) days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

The final Official Statement will incorporate the mandatory redemption provisions for the Bonds in the event the successful bidder elects to convert serial maturities into one or more Term Bonds.

BOOK-ENTRY-ONLY SYSTEM . . . The City intends to utilize the book-entry-only system of The Depository Trust Company (“DTC”). See “THE BONDS - Book-Entry-Only System” in the Preliminary Official Statement.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar shall be Wilmington Trust, N.A., Dallas, Texas. See “THE BONDS - Paying Agent/Registrar” in the Preliminary Official Statement.

Further details regarding the Bonds are set forth in the Preliminary Official Statement.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES. . . The Bonds will be sold in one block on an “All or None” basis, and at a price of not less than 100.50% and not greater than 105.00%. Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 3% in rate. The high bidder will be required to submit reoffering yields and dollar prices prior to award. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Bonds of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

ADVANCE MODIFICATION OF PRINCIPAL AMOUNTS . . . The Maturity Schedule for the Bonds set forth above represents an estimate of the principal amount of Bonds to be sold. The City hereby reserves the right to change the Maturity Schedule, based on market conditions prior to the sale. In the event that the City elects to change the Maturity Schedule prior to the sale it will provide notice to potential bidders through Parity. Such notice shall be considered an amendment to this Notice of Sale and Bidding Instructions.

POST BID MODIFICATION OF PRINCIPAL AMOUNTS . . . The City hereby further reserves the right to change the bid maturity schedule after the determination of the winning bidder to create level debt service, by increasing or decreasing the principal amounts in any maturity of the Bonds, subject to the limitation of no more than a 15% increase or decrease in any one maturity and the aggregate principal amount of the Bonds is limited to a 15% increase or decrease.

The successful bidder may not withdraw its bid or change the interest rates bid or the initial reoffering terms as a result of any changes made to the principal amounts within these limits. The dollar amount bid by the successful bidder will be adjusted to reflect any adjustments in the principal amount of the Bonds. The bid price for such an adjustment will reflect changes in the dollar amount of the underwriters’ discount and original issue discount/premium, if any, but will not change the selling compensation per \$1,000 of par amount of the Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the Initial Reoffering Terms. The interest rates specified by the successful bidder for the various maturities at the Initial Reoffering Terms will not change. The City anticipates that the final annual principal amounts and the final aggregate principal amount of the Bonds will be communicated to the successful bidder within three hours of the City’s receipt of the initial public offering prices and yields for the Bonds.

BASIS FOR AWARD . . . Subject to the City's right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Bonds will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the City (the “Purchaser”). The True Interest Cost rate is that rate which, when used to compute the total present value as of the date of initial delivery of all debt service payments on the Bonds on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Bonds. In the event of a bidder's error in interest cost rate calculations, the interest rates and premium, if any, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Purchaser will be required to provide the City with a breakdown of its “underwriting spread” among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTERESTED PARTY FORM 1295: New obligation of the City to receive information from Purchaser. Effective January 1, 2016, pursuant to Texas Government Code Section 2252.908 (the “Interested Party Disclosure Act”), the City may not award the Bonds to the winning bidder unless the bidder submits a Bond of Interested Parties Form 1295 (the “Disclosure Form”) to the City as prescribed by the Texas Ethics Commission (“TEC”). In the event that

the bidder's bid for the Bonds is the best bid received, the City, acting through its financial advisor, will promptly notify the bidder. That notification will serve as the conditional verbal acceptance of the bid, and will obligate the bidder to promptly file a completed Disclosure Form, as described below, in order to complete the award.

Process for completing the Disclosure Form. Reference should be made the Disclosure Form, the rules of the Texas Ethics Commission with respect to the Disclosure Form (the "Disclosure Rules") and the Interested Party Disclosure Act. Instructional information regarding such matters are set forth at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm. For purposes of completing the Disclosure Form the Purchaser will need the following information: (a) item 2 – name of governmental entity: **City of Bryan, Texas** and (b) item 3 – the identification number assigned to this contract by the City: **Series 2016A WWSS Bonds**, and a description of the services to be provided under the contract: **Purchase of Bonds**. The Interested Party Disclosure Act and the Disclosure Rules require a business entity contracting with the City to complete the form at the TEC Internet "portal" that may be accessed at the url set forth above, and then print, sign, notarize and deliver the Disclosure Form in electronic form to the City at jhedwood@bryantx.gov with a copy to jerrykyle@andrewskurth.com. Following the award of the Bonds, the City will acknowledge receipt of the completed Disclosure Form through the TEC website, as required by the law.

Preparations and for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the bidder MUST BE ACKNOWLEDGED BY AND SUBMITTED UNDER A NOTARY STAMP. No exceptions may be made to that requirement. The Interested Party Disclosure Act provides that such acknowledgment is made "under oath and under penalty of perjury." Consequently, a bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the City, and no award will be made by the City of the Bonds until a completed Disclosure Form is received. The City reserves the right to reject any bid that is not accompanied by a completed Disclosure Form, as described herein. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither have an obligation nor undertake responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the City that its bid is the conditional winning bid.

GOOD FAITH DEPOSIT . . . A Good Faith Deposit, payable to the "City of Bryan, Texas", in the amount of \$91,800, is required. Such Good Faith Deposit shall be a wire transfer, bank cashier's check or certified check (which is to be retained uncashed by the City pending the Purchaser's compliance with the terms of the bid and this Notice of Sale and Bidding Instructions). The bid security may be provided to the City via wire transfer (the City will provide wire instructions to the Purchaser), in the form of a certified or cashier's check made payable to the order of the City in the amount set forth above. The bid security will be retained by the City and: (a) will be applied, without allowance for interest, against the purchase price when the Bonds are delivered to and paid for by such Purchaser, (b) will be retained by the City as liquidated damages if the Purchaser defaults with respect to the bid or (c) will be returned to the Purchaser if the Bonds are not issued by the City for any reason which does not constitute a default by the Purchaser.

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

CUSIP NUMBERS . . . It is anticipated that CUSIP identification numbers will appear on the Bonds, but neither the failure to print or type such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. All expenses in relation to the printing or typing of CUSIP numbers on the Bonds shall be paid by the City; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the Purchaser.

DELIVERY OF BONDS . . . Delivery will be accomplished by the issuance of one Initial Bond (the "Initial Bond"), either in typed or printed form, in the aggregate principal amount of \$4,590,000*, payable in stated installments to the Purchaser, signed by the Mayor and Secretary of the City, approved by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts. Upon delivery of the Initial Bond, it shall be immediately cancelled and one definitive Bond for each maturity will be registered and delivered only to Cede & Co., and deposited with DTC in connection with DTC's Book-Entry-Only System. Delivery will be at the principal office of the Paying Agent/Registrar in Dallas, Texas. Payment for the Bonds must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that delivery of the Bonds can be made on or about November 10, 2016, and it is understood and agreed that the Purchaser will accept delivery and make payment for the Bonds by 10:00 AM, CDT, on November 10, 2016, or thereafter on the date the Initial Bond is tendered for delivery, up to and including November 24, 2016. If for any reason the City is unable to make delivery on or before November 24, 2016, the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the City's reasonable control.

* Preliminary, subject to change (see "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts").

CONDITIONS TO DELIVERY . . . The obligation of the Purchaser to take up and pay for the Bonds is subject to the Purchaser's receipt of (a) the legal opinion of Andrews Kurth Kenyon LLP, Austin, Texas, Bond Counsel for the City ("Bond Counsel"), (b) the City's no-litigation certificate, and (c) the City's certification as to the Official Statement, all as further described in the Preliminary Official Statement.

In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986 relating to the exemption of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City a certification as to their "issue price" substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions. In the event the successful bidder is unable to sell a substantial amount of the Bonds of any maturity to the public, such Bond may be modified in a manner approved by the City and Bond Counsel. **In no event will the City fail to deliver the Bonds as a result of the Purchaser's inability to sell a substantial amount of the Bonds at a particular price prior to delivery.** Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a Bond on or before the 6th business day prior to the date of delivery of the Bonds, if its bid is accepted by the City. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

LEGAL OPINIONS . . . The Bonds are offered when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of and payment for the Bonds is subject to the receipt by the Purchaser of an opinion of Bond Counsel, to the effect that the Bonds are valid and binding obligations of the City and that the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX EXEMPTION" in the Preliminary Official Statement.

CERTIFICATION OF OFFICIAL STATEMENT . . . At the time of payment for and initial delivery of the Bonds, the City will execute and deliver to the Purchaser a certificate in the form described in the Preliminary Official Statement under "OTHER INFORMATION – Certification of the Official Statement".

CHANGE IN TAX EXEMPT STATUS . . . At any time before the Bonds are tendered for delivery, the Purchaser may withdraw its bid if the interest received by private holders on bonds of the same type and character of the Bonds shall be declared to be includable in gross income under present federal income tax laws, either by ruling of the Internal Revenue Service or by a decision of any federal court, or shall be declared taxable or be required to be taken into account in computing any federal income taxes, by the terms of any federal income tax law enacted subsequent to the date of this Notice of Sale and Bidding Instructions.

GENERAL

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

BLUE SKY LAWS . . . By submission of its bid, the Purchaser represents that the sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Bonds in accordance with the securities law of the states in which the Bonds are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and sole expense, in registering the Bonds or obtaining an exemption from registration in any state where such action is necessary, provided, however, that the City shall not be obligated to qualify as a foreign corporation or to execute a general or special consent to service of process in any such jurisdiction.

NOT AN OFFER TO SELL . . . This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Bonds, but is merely notice of the sale of the Bonds. The offer to sell the Bonds is being made by means of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Preliminary Official Statement. Prospective purchasers are urged to carefully examine the Preliminary Official Statement to determine the investment quality of the Bonds.

CONCURRENT ISSUANCE OF ADDITIONAL REVENUE BONDS . . . The City is selling its Waterworks and Sewer System Revenue Bonds, New Series 2016B in the amount of approximately \$2,345,000 to the Texas Water Development Board concurrently with the sale of the Bonds.

RATING . . . An application for a rating on the Bonds has been made to S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P").

* Preliminary, subject to change (see "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts").

THE PRELIMINARY OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15c2-12 . . . The City will approve and authorize the accompanying Preliminary Official Statement and, for the limited purpose of complying with SEC Rule 15c2-12 (the “Rule”), will deem such Preliminary Official Statement to be final as of its date within the meaning of the Rule. To the best knowledge and belief of the City, the Preliminary Official Statement contains information, including financial information operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds. Representations made and to be made by the City concerning the absence of material misstatements and omissions in the Preliminary Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the Preliminary Official Statement.

The City will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven (7) business days from the sale date, copies of the final Official Statement in such quantity and in the formats as the Purchaser shall request in order for the Purchaser to comply with Section (b)(4) of the Rule and the rules of the Municipal Securities Rulemaking Board; provided, however, that the cost of any Official Statements in excess of 50 shall be prepared and distributed at the cost of the Purchaser. The Purchaser shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award. Except as noted above, the City assumes no responsibility or obligation for the distribution or delivery of any copies of the Preliminary Official Statement or the Official Statement in connection with the offering or reoffering of the Bonds.

CONTINUING DISCLOSURE AGREEMENT . . . The City will agree in the Ordinance to provide annual financial statements and other financial information and operating data, as well as timely notices of certain events in accordance with the Rule, as described in the Official Statement under “CONTINUING DISCLOSURE OF INFORMATION”. The Purchaser’s obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent, upon written request, of a certified copy of the Ordinance containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years the City has complied in all material respects with its prior continuing disclosure agreements entered into pursuant to the Rule, except as follows: On September 11, 2015, the City provided notice of a rating upgrade, relating to the City’s Waterworks and Sewer System Revenue Bonds, originally issued on October 30, 2013 by S&P.

ADDITIONAL COPIES OF NOTICE, BID FORM AND PRELIMINARY OFFICIAL STATEMENT . . . A limited number of additional copies of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Preliminary Official Statement, as available over and above the normal mailing, may be obtained at the offices of Specialized Public Finance Inc. 4925 Greenville Avenue, Suite 465, Dallas, Texas 75206, Financial Advisor to the City.

On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Bonds, confirm its approval of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Bonds by the Purchaser.

Jason Bienski

Mayor
City of Bryan, Texas

ATTEST:

Mary L. Stratta
City Secretary
City of Bryan, Texas

October 4, 2016

OFFICIAL BID FORM

City Council
 City of Bryan
 P. O. Box 1000
 Bryan, Texas 77805

October 11, 2016

City Council:

Reference is made to your Preliminary Official Statement and Notice of Sale and Bidding Instructions, dated October 4, 2016 of \$4,590,000* CITY OF BRYAN, TEXAS, WATERWORKS AND SEWER SYSTEM REVENUE BONDS, NEW SERIES 2016A, both of which constitute a part hereof.

For your legally issued Bonds, as described in said Notice of Sale and Bidding Instructions and Preliminary Official Statement, we will pay you a price of \$_____, representing the par value, plus a cash premium of \$_____ for Bonds maturing and bearing interest as follows:

<u>Maturity</u>	<u>Principal Amount *</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount *</u>	<u>Interest Rate</u>
7/1/2017	\$ 225,000	_____	7/1/2027	\$ 220,000	_____
7/1/2018	185,000	_____	7/1/2028	230,000	_____
7/1/2019	190,000	_____	7/1/2029	235,000	_____
7/1/2020	195,000	_____	7/1/2030	240,000	_____
7/1/2021	195,000	_____	7/1/2031	250,000	_____
7/1/2022	200,000	_____	7/1/2032	255,000	_____
7/1/2023	205,000	_____	7/1/2033	265,000	_____
7/1/2024	210,000	_____	7/1/2034	275,000	_____
7/1/2025	215,000	_____	7/1/2035	285,000	_____
7/1/2026	220,000	_____	7/1/2036	295,000	_____

Of the principal maturities set forth in the table above, term bonds have been created as indicated in the following table (which may include multiple term Bonds, one term bond or no term bond if none is indicated). For those years which have been combined into a term bond, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term bond maturity date shall mature in such year. The term bond(s) created are as follows:

<u>Term Bond Maturity Date (July 1)</u>	<u>Year of First Manadatory Redemption</u>	<u>Principal Amount of Term Bond</u>	<u>Interest Rate</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TRUE INTEREST COST _____%

The Initial Bond shall be registered in the name of _____, which will, upon payment for the Bonds, be cancelled by the Paying Agent/Registrar. The Bonds will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the Book-Entry-Only System.

* Preliminary, subject to change (see "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts").

A wire transfer, bank cashier's check or certified check of the _____ Bank, _____, in the amount of \$91,800, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms as set forth in the Official Statement and Notice of Sale and Bidding Instructions.

We agree to accept delivery of the Bonds utilizing the Book-Entry-Only System through DTC and make payment for the Bonds in immediately available funds in the Corporate Trust Division, Wilmington Trust, N.A., Dallas, Texas, not later than 10:00 AM, CDT, on November 10, 2016, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the Purchaser of the Bonds to complete the DTC Eligibility Questionnaire.

The undersigned agrees to complete, execute, and deliver to the City, at least six business days prior to delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the City and Bond Counsel.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Syndicate Members:

Name of Underwriter or Manager

Authorized Representative

Phone Number

Signature

Please check one of the options below regarding Good Faith Deposit:

Submit by Wire Transfer

Submit by Bank Cashier's/Certified Check

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Bryan, Texas, subject to and in accordance with the Notice of Sale and Bidding Instructions, this the 11th day of October, 2016.

ATTEST:

Mayor
City of Bryan, Texas

City Secretary
City of Bryan, Texas

CERTIFICATE OF PURCHASER

The undersigned hereby certifies as follows with respect to the sale of the \$4,590,000* City of Bryan, Texas, Waterworks and Sewer System Revenue Bonds, New Series 2016A, (the "Bonds"):

1. The undersigned is the underwriter or the manager of the syndicate of underwriters, which has purchased the Bonds from the City of Bryan, Texas (the "Issuer") at competitive sale.
2. The undersigned and/or one or more other members of the underwriting syndicate, if any, have made a bona fide offering to the public of all of the Bonds of each maturity at the respective price set forth below.
3. The initial offering price (expressed as a percentage of principal amount or yield and exclusive of accrued interest) for the Bonds of each maturity at which a substantial amount (at least 10%) of the Bonds of such maturity, except for the Bonds maturing in the years _____, _____, _____, _____, and _____ (the "Excepted Maturities"), was sold to the public is as set forth below:

Principal Amount	Year of Maturity	Offering Price (%/Yield)	Principal Amount	Year of Maturity	Offering Price (%/Yield)
\$ 225,000	2017	_____	\$ 220,000	2027	_____
185,000	2018	_____	230,000	2028	_____
190,000	2019	_____	235,000	2029	_____
195,000	2020	_____	240,000	2030	_____
195,000	2021	_____	250,000	2031	_____
200,000	2022	_____	255,000	2032	_____
205,000	2023	_____	265,000	2033	_____
210,000	2024	_____	275,000	2034	_____
215,000	2025	_____	285,000	2035	_____
220,000	2026	_____	295,000	2036	_____

On October 11, 2016, the date the Issuer entered into a binding written obligation to sell the Bonds, the undersigned reasonably expected to sell at least 10% of each of the Excepted Maturities to the public at the initial offering price set forth above.

4. The term "public," as used herein, means persons other than bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers.
5. The offering prices described above reflect current market prices at the time of such sales.
6. The undersigned and/or one or more other members of the underwriting syndicate, as the case may be, (have) (have not) purchased bond insurance for the Bonds.

The bond insurance for the Bonds, if any, has been purchased from _____ (the "Insurer") for a premium cost of \$_____ (net of any nonguarantee cost, e.g., rating agency fees). The amount of such cost is set forth in the Insurer's commitment and is separately stated from all other fees or charges payable to the Insurer. The premium does not exceed a reasonable charge for the transfer of credit risk taking into account payments charged by guarantors in comparable transactions (including transactions in which a guarantor has no involvement other than as a guarantor). The present value of the debt service savings expected to be realized as a result of such insurance, discounted at a rate equal to the yield on the Bonds which results after recovery of the insurance premium, exceeds the present value of the bond insurance premium.

7. The undersigned understands that the statements made herein will be relied upon by the Issuer in its effort to comply with the conditions imposed by the Internal Revenue Code of 1986, as amended, on the excludability of interest on the Bonds from the gross income of the owners thereof.

EXECUTED and DELIVERED this _____ day of _____, 2016.

(Name of Purchaser or Manager of Purchasing Syndicate)

By: _____

Title: _____

* Preliminary, subject to change (see "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts").

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT

Dated October 4, 2016

RATING:
S&P: Applied For
See "OTHER INFORMATION – Rating" herein.

NEW ISSUES - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX EXEMPTION" herein, and is not includable in the alternative minimum taxable income of individuals. See "TAX EXEMPTION" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations.



\$4,590,000*
CITY OF BRYAN, TEXAS
(A Home Rule City located in Brazos County, Texas)
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, NEW SERIES 2016A

Dated Date: October 1, 2016

Due: July 1, as shown on inside cover

Interest Accrues from Delivery Date

PAYMENT TERMS . . . Interest on the \$4,590,000* City of Bryan, Texas Waterworks and Sewer System Revenue Bonds, New Series 2016A (the "Bonds") will accrue from the date of initial delivery (the "Delivery Date"), will be payable January 1 and July 1 of each year, commencing July 1, 2017, until maturity or earlier redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be 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 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is Wilmington Trust, N.A., Dallas, Texas. See "THE BONDS - Paying Agent/Registrar".

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1502, Texas Government Code, as amended ("Chapter 1502"), and a bond ordinance (the "Ordinance") adopted by the City Council, and constitute special obligations of the City of Bryan, Texas (the "City"), payable, together with certain outstanding revenue bonds of the City and any parity obligations issued or incurred in the future, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City's Waterworks and Sewer System (the "Waterworks and Sewer System"). The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see "THE BONDS - Authority for Issuance" and "- Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) constructing, improving, repairing, renovating, enlarging, extending and equip the Waterworks and Sewer System, and (ii) paying related professional services, including legal, fiscal, engineering and design fees, and costs of issuance of the Bonds.

CUSIP PREFIX: 117622
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on inside cover

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchaser(s) (the "Purchaser") and subject to the approving opinion of the Attorney General of Texas and the legal opinion of Andrews Kurth Kenyon LLP, Austin, Texas, Bond Counsel. See "APPENDIX D - Form of Bond Counsel's Opinion".

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about November 10, 2016.

BIDS ON THE BONDS DUE TUESDAY, OCTOBER 11, 2016 AT 10:00 AM, CDT

* Preliminary, subject to change (see "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts" in the Notice of Sale and Bidding Instructions for the Bonds).

MATURITY SCHEDULE*

<u>Maturity July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
2017	\$ 225,000			
2018	185,000			
2019	190,000			
2020	195,000			
2021	195,000			
2022	200,000			
2023	205,000			
2024	210,000			
2025	215,000			
2026	220,000			
2027	220,000			
2028	230,000			
2029	235,000			
2030	240,000			
2031	250,000			
2032	255,000			
2033	265,000			
2034	275,000			
2035	285,000			
2036	295,000			

(Interest Accrues from Date of Initial Delivery)

* Preliminary, subject to change (see “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts” in the Notice of Sale and Bidding Instructions for the Bonds).

(1) CUSIP numbers are included solely for convenience of owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor, nor the Purchaser take any responsibility for the accuracy of CUSIP numbers.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after July 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on July 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The Bonds may be subject to mandatory redemption in the event the Purchaser elects to aggregate two or more maturities as Term Bonds (see “THE BONDS – Redemption Provisions”).

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document may be treated as an Official Statement of the City with respect to the Bonds described herein 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.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give 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.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Purchaser. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

THE AGREEMENTS OF THE CITY AND OTHERS RELATED TO THE BONDS ARE CONTAINED SOLELY IN THE CONTRACTS DESCRIBED HEREIN. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER STATEMENT MADE IN CONNECTION WITH THE OFFER OR SALE OF THE BONDS IS TO BE CONSTRUED AS CONSTITUTING AN AGREEMENT WITH THE PURCHASERS OF THE BONDS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and no opinions, estimates and assumptions, whether or not expressly identified as such, should be considered statements of fact.

None of the City, the Purchaser, or the Financial Advisor makes any representation or warranty with respect to the information contained in this Official Statement regarding DTC or its Book-Entry-Only System.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

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OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE CITY**..... The City of Bryan, Texas (the “City”) is a political subdivision and a home rule municipal corporation of the State of Texas (the “State”), located in Brazos County. The City encompasses approximately 43.7 square miles in area.
- THE BONDS**..... The \$4,590,000* City of Bryan, Texas Waterworks and Sewer System Revenue Bonds, New Series 2016A (the “Bonds”) are issued as serial bonds maturing on July 1 in each of the years 2017 through and including 2036. See “THE BONDS - Description of the Bonds.”
- PAYMENT OF INTEREST**..... Interest on the Bonds will accrue from the Delivery Date and will be payable on July 1, 2017, and each January 1 and July 1 thereafter until maturity or earlier redemption. See “THE BONDS - Description of the Bonds.”
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1502, Texas Government Code, as amended (“Chapter 1502”), and a bond ordinance (the “Ordinance”) adopted by the City Council (see “THE BONDS - Authority for Issuance”).
- SECURITY FOR THE BONDS**..... The Bonds constitute special obligations of the City of Bryan, Texas (the “City”), payable, together with certain outstanding revenue bonds of the City and any parity obligations issued or incurred in the future, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City’s Waterworks and Sewer System (the “Waterworks and Sewer System”). The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see “THE BONDS - Authority for Issuance” and “- Security and Source of Payment”).
- REDEMPTION PROVISIONS**..... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after July 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on July 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Redemption Provisions”). The Bonds may be subject to mandatory redemption in the event the Purchaser elects to aggregate two or more maturities as Term Bonds.
- TAX EXEMPTION**..... In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX EXEMPTION” herein, and is not includable in the alternative minimum taxable income of individuals. See “TAX EXEMPTION” for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequence for corporations.
- USE OF PROCEEDS**..... Proceeds from the sale of the Bonds will be used for (i) constructing, improving, repairing, renovating, enlarging, extending and equip the Waterworks and Sewer System, and (ii) paying related professional services, including legal, fiscal, engineering and design fees, and costs of issuance of the Bonds.
- RATING**..... An application for a rating on the Bonds has been made to S&P Global Ratings, a Standard & Poor’s Financial Services LLC business (“S&P”). See “OTHER INFORMATION – Rating.”
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System.”
- PAYMENT RECORD**..... The City has never defaulted in payment of its tax-supported indebtedness.

* Preliminary, subject to change (see “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts” in the Notices of Sale and Bidding Instructions for the Bonds).

SELECTED FINANCIAL INFORMATION

<u>Fiscal Year Ended 9/30</u>	<u>Net Revenues Available For Debt Service</u>	<u>Annual Debt Service Requirements</u>	<u>Coverage of Debt</u>	<u>Average Daily Water Consumption (Gallons)</u>	<u>Maximum Daily Water Consumption (Gallons)</u>
2011	\$ 15,266,191	\$ 5,279,891	2.89 x	11,981,855	24,620,000
2012	13,457,608	4,598,484	2.93 x	10,572,675	21,521,000
2013	13,519,111	4,105,963	3.29 x	10,414,774	23,281,000
2014	12,000,692	3,808,332	3.15 x	9,605,065	19,389,000
2015	12,606,158	4,134,125	3.05 x	9,896,634	21,972,000

For additional information regarding the City, please contact:

Joe Hegwood
 Chief Financial Officer
 City of Bryan
 P. O. Box 1000
 Bryan, Texas 77805
 (979) 209-5081

or

Steven A. Adams, CFA
 Paul N. Jasin
 Specialized Public Finance Inc.
 4925 Greenville Ave., Suite 465
 Dallas, Texas 75206
 (214) 373-3911

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Occupation</u>	<u>Start of Service</u>	<u>Term Expires</u>
Jason Bienski Mayor	Property Management	May, 2010 ⁽¹⁾	November, 2016
Al Saenz Councilmember	Shipping/Receiving	November, 2013	November, 2016
Rafael Pena, III Councilmember	Security Service	December, 2013	November, 2016
Ben Hardeman Councilmember	Business Owner	November, 2015	November, 2018
Buppy Simank Councilmember	Business Owner	November, 2015	November, 2018
Greg Owens Councilmember	Business Owner	November, 2012	November, 2018
Mike Southerland Councilmember	Retired	November, 2014	November, 2017

(1) Started on the Council in May 2005.

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Start of Service</u>
Kean Register	City Manager	September, 2000
Joe Hegwood	Chief Financial Officer	March, 2006
Hugh Walker	Deputy City Manager - Support Services	April, 1995
Joey Dunn	Deputy City Manager - Community Services	April, 2006
Janis Hampton	City Attorney	October, 1997
Mary L. Stratta	City Secretary	December, 1990

CONSULTANTS AND ADVISORS

Auditors	Weaver & Tidwell LLP Houston, Texas
Bond Counsel	Andrews Kurth Kenyon LLP Austin, Texas
Financial Advisor	Specialized Public Finance Inc. Dallas, Texas

OFFICIAL STATEMENT
RELATING TO
\$4,590,000*
CITY OF BRYAN, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, NEW SERIES 2016A

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$4,590,000* City of Bryan, Texas Waterworks and Sewer System Revenue Bonds, New Series 2016A (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted by the City Council authorizing the issuance of the Bonds (the "Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding 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's Financial Advisor, Specialized Public Finance Inc., Dallas, Texas.

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1871, and first adopted its Home Rule Charter in 1941. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is three years with two of the Councilmembers' terms expiring each year. The Mayor's term of office expires in 2016. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police, fire and emergency medical services), streets, health, culture, parks and recreation, planning, public improvements, general administrative services, electrical, water, sewer and solid waste systems. The 2010 Census population for the City was 76,201 and the 2015 estimate was 82,118. The City covers approximately 43.7 square miles.

THE BONDS

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) constructing, improving, repairing, renovating, enlarging, extending and equip the Waterworks and Sewer System, and (ii) paying related professional services, including legal, fiscal, engineering and design fees, and costs of issuance of the Bonds.

DESCRIPTION OF THE BONDS . . . The Bonds are dated October 1, 2016 (the "Dated Date"). The Bonds mature on July 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30 day months, will accrue from their Delivery Date, and is payable July 1, 2017, and each January 1 and July 1 thereafter until maturity or earlier redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity or earlier redemption and will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "- Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1502, Texas Government Code, as amended ("Chapter 1502"), and the Ordinance.

* Preliminary, subject to change (see "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts" in the Notices of Sale and Bidding Instructions for the Bonds).

SECURITY AND SOURCE OF PAYMENT . . . The Bonds constitute special obligations of the City of Bryan, Texas (the “City”), payable, together with certain outstanding revenue bonds of the City and any parity obligations issued or incurred in the future (the “Parity Obligations”), both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City’s Waterworks and Sewer System (the “Waterworks and Sewer System”) pledged therefor under the Ordinance. Operation and maintenance expenses of the Waterworks and Sewer System include all contractual payments of the Waterworks and Sewer System to the extent permitted by law and to the extent so characterized in any such contract(s). The Bonds are not a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City or the State. The Ordinance does not create a mortgage on the Waterworks and Sewer System and any judgment against the City may not be enforced by levy and execution against any property owned by the City. The outstanding Waterworks and Sewer System Parity Obligations of the City consists of the following:

<u>Dated Date</u>	<u>Outstanding Debt ⁽¹⁾</u>	<u>Issue Description</u>
3-15-2007	\$ 23,640,000	Waterworks and Sewer System Revenue Refunding and Improvement Bonds, New Series 2007
8-1-2009	4,135,000	Waterworks and Sewer System Revenue Bonds, New Series 2009A
8-15-2009	420,000	Waterworks and Sewer System Revenue Bonds, New Series 2009B
11-1-2010	3,940,000	Waterworks and Sewer System Revenue Bonds, New Series 2010A
3-15-2012	<u>14,050,000</u>	Waterworks and Sewer System Revenue Bonds, New Series 2011
	\$ 46,185,000	

(1) As of September 1, 2016.

Concurrently with the sale of the Bonds, the City is selling its Waterworks and Sewer System Revenue Bonds, New Series 2016B in the amount of approximately \$2,345,000 to the Texas Water Development Board.

RESERVE FUND . . . As additional security for the Parity Obligations, there has been established a Reserve Fund which shall be funded in an amount equal to the lesser of (a) 1.25 times the average Annual Debt Service Requirements of Parity Obligations then Outstanding, (b) 1.00 times the Annual Debt Service Requirements of the Parity Obligations to be Outstanding in the Fiscal Year during which such Annual Debt Service Requirements are scheduled to be greatest, or (c) 10 percent of the aggregate proceeds (within the meaning of Section 148(d)(2) of the Internal Revenue Code) of the Parity Obligations (the “Reserve Fund Requirement”) (see “APPENDIX C - “SELECTED PROVISIONS OF THE ORDINANCE – Definitions” and “ - Reserve Fund”).

The City may satisfy its obligation to maintain an amount equal to the Reserve Fund Requirement in the Reserve Fund by making monthly deposits of Net Revenues to the credit of the Reserve Fund over a period of sixty (60) months in an amount equal to 1/60th of the difference between the amount in the Reserve Fund and the Reserve Fund Requirement, determined as of the delivery date of any Additional Bonds. The City may also satisfy its covenant to maintain the Reserve Fund in an amount equal to the Reserve Fund Requirement with a Credit Facility that will provide funds, together with other Reserve Fund Obligations, if any, credited to the Reserve Fund, at least equal to the Reserve Fund Requirement. The City may replace or substitute a Credit Facility for cash or Authorized Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility (see “APPENDIX C – SELECTED PROVISIONS OF THE BOND ORDINANCE – Reserve Fund”).

The Reserve Fund is currently funded with a combination of cash, Authorized Investments and surety bonds issued by Financial Guaranty Insurance Company (“FGIC”). FGIC’s rating has been withdrawn by Moody’s Investors Service, Standard & Poor’s Rating Services and Fitch Ratings. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant.

PERFECTION OF SECURITY FOR THE BONDS . . . Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of the Net Revenues, and such pledge will therefore be valid, effective and perfected upon issuance of the Bonds. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Net Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

PLEDGED REVENUES . . . All revenues of the Waterworks and Sewer System are deposited in the Revenue Fund and are applied first to the payment of all necessary and reasonable expenses of operation and maintenance of the Waterworks and Sewer System; next, to the Debt Service Fund and Reserve Fund created for the payment of principal of and interest on the Parity Obligations; next, to pay Subordinated Debt; and then to any other purpose permitted by law. Currently, there is no Subordinated Debt outstanding.

RATES . . . The City has covenanted in the Ordinance that it will at all times charge and collect for services rendered by the Waterworks and Sewer System rates sufficient to (i) pay all operating, maintenance, debt service, depreciation, replacement and betterment charges of the Waterworks and Sewer System, (ii) establish and maintain the Debt Service Fund and the Reserve Fund as provided in the ordinances authorizing the issuance of any outstanding Parity Obligations and the ordinance authorizing the issuance of the Bonds, (iii) produce Net Revenues, no less than an amount equal to 1.25 times the average Annual Debt Service Requirements of the Parity Obligations from time to time, and (iv) pay all other obligations reasonably anticipated to be payable from the revenues

of the Waterworks and Sewer System, as and when the same become due (see “APPENDIX C - SELECTED PROVISIONS OF THE BOND ORDINANCE – Rates and Charges”).

ADDITIONAL BONDS . . . Subject to satisfying certain conditions for the issuance of Parity Obligations, the City has reserved the right in the Ordinance to issue Additional Bonds. Any such Additional Bonds will be secured on a parity with the pledge of the Net Revenues of the Waterworks and Sewer System that secures the Outstanding Parity Obligations, including the Bonds. Among the other conditions required by the Ordinance for the issuance of Additional Bonds, is the delivery of a certificate from a Certified Public Accountant showing that the Net Revenues of the Waterworks and Sewer System for either the completed Fiscal Year next preceding the date of the Additional Bonds or a consecutive twelve-month period out of the last 15 months next preceding the date of the Additional Bonds is equal to at least 1.25 times the average Annual Debt Service Requirements of all outstanding Parity Obligations which will be outstanding after the issuance of the Additional Bonds. In making a determination of the Net Revenues, the City may take into consideration a change in the rates and charges for services and facilities afforded by the Waterworks and Sewer System that became effective at least sixty (60) days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, an independent engineer or engineering firm may make a pro forma determination of the Net Revenues of the Waterworks and Sewer System for a period of time covered by his or her certification based on such change in rates and charges being in effect for the entire period covered.

REDEMPTION PROVISIONS . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after July 1, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on July 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot or other customary random selection method the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (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.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the Paying Agent/Registrar shall give notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds 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 at the close of business on the business day next preceding the date of mailing such notice. Any notice so mailed shall be conclusively presumed to have been duly given irrespective of whether or not the registered owner receives such notice.

With respect to any optional redemption of the Bonds, unless all prerequisites to such redemption required by the Ordinance have been met, including monies sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed having been received by the Paying Agent/Registrar prior to the giving of notice of such redemption, such notice shall state that said redemption may, at the option of the City, be conditional upon the satisfaction of all prerequisites and receipt of such monies by the Paying Agent/Registrar on or prior to the date fixed for such redemption, and if such prerequisites to the redemption and sufficient monies are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

DTC NOTICE AND REDEMPTION PROVISIONS . . . The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption. See “Book-Entry-Only System” herein.

AMENDMENTS TO THE ORDINANCE . . . The City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, except as provided in the next succeeding paragraph, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of the registered owners of all of the Bonds, no such amendment, addition, or rescission may (i) extend the time or times on which the principal of, premium, if any, or any installment of interest on any Bond is due and payable, reduce the principal amount, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any

preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of the Bonds required for consent to any amendment, addition, or rescission.

The City may also amend the Ordinance with respect to its continuing disclosure obligations as described under “CONTINUING DISCLOSURE OF INFORMATION - Limitations and Amendments.”

DEFEASANCE . . . The Ordinance provide for the defeasance of the Bonds in any manner now or hereafter permitted by law, including by depositing with the Paying Agent/Registrar, a trust company or commercial bank other than the Paying Agent/Registrar, or with the Comptroller of Public Accounts of the State of Texas either: (a) cash in an amount equal to the principal amount of such Bonds and premium, if any, an interest thereon to the date of maturity or redemption or (b) pursuant to an escrow or trust agreement, cash and/or (1) direct, non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (2) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that on the date of purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and (3) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding obligations.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

Neither the City nor the Purchaser can or does give any assurance that (1) DTC will distribute payments of debt service on the Bonds, 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 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, 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 Bonds. The Bonds 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 Bond will be issued for each maturity of the Bonds, 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 Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“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 Bonds 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 Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 registrar and request that copies of notices be provided directly to them.

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

Payments on the Bonds 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 date 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 is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments 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 Bonds 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, Bonds 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, Bonds will be printed and delivered.

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

Use of Certain Terms in Other Sections of this Official Statement: In reading this Official Statement it should be understood that while the Bonds 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 Bonds, 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.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Purchaser.

Effect of Termination of Book-Entry-Only System: In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

So long as Cede & Co. is the registered owner of the Bonds, the City will have no obligation or responsibility to the Direct Participants or Indirect Participants, or the persons for which they act as nominees, with respect to the payment to or providing of notice to such Direct Participants, Indirect Participants or the persons for which they act as nominees.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar for the Bonds is Wilmington Trust, N.A., Dallas, Texas. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid.

In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice will give the address of the Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations, having the same stated maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

RECORD DATE FOR INTEREST PAYMENT . . . The date for determining the person to whom the interest is payable on the Bonds on any interest payment date means the close of business on the fifteenth day of the month next preceding such interest payment date ("Record Date").

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each holder of an Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES . . . The Ordinance does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. Furthermore, the Ordinance does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. A registered owner of Bonds could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax (and, in the case of the Bonds, surplus revenues of the waterworks and sewer system) sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Ordinance. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The City is also 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, such as the Surplus Revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

USE OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied as follows:

SOURCES OF FUNDS	
Par Amount of the Bonds	\$ -
Bid Premium	-
Total Sources	<u>\$ -</u>
USES OF FUNDS	
Deposit to Project Construction Fund	\$ -
Costs of Issuance/Rounding Amount	-
Total Uses	<u>\$ -</u>

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THE WATERWORKS AND SEWER SYSTEM

WATERWORKS SYSTEM

The City provides municipal water from ten wells. These wells, located north of the City, draw water from the Simsboro Aquifer. The wells have an average depth of approximately 2,800 feet and vary in individual capacity from 2,000 gallons per minute to 3,300 gallons per minute. Total capacity of the ten wells is approximately 37,708,000 gallons per day. Peak monthly consumption occurred July, 2016 when 549,346,000 gallons were used, which is an average of approximately 17,990,710 gallons per day. The water is delivered from the wells to the City through two 27-inch concrete cylinder supply lines and one 54-inch ductile iron supply line. The system includes ground storage capacity of 10,000,000 gallons and elevated storage of 4,000,000 gallons. Treatment consist of aeration and chlorination.

TABLE 1 – HISTORICAL WATER CONSUMPTION (GALLONS)

Fiscal Year Ended 9/30	Daily Average Usage (Gallons)	Peak Daily Usage (Gallons)	Total Usage
2011	11,981,855	24,620,000	4,373,377,200
2012	10,572,675	21,521,000	3,869,598,900
2013	10,414,774	23,281,000	3,801,392,400
2014	9,605,065	19,389,000	3,505,848,800
2015	9,896,634	21,972,000	3,612,271,400

Source: City of Bryan.

TABLE 2 – TEN LARGEST WATER AND SEWER CUSTOMERS (BASED ON GALLONS OF WATER CONSUMED) (AS OF SEPTEMBER 30, 2015)

Customer	Type of Industry	Water Usage (Gallons)	% of Total Water Usage
Wellborn Special Utility District	Utility District	113,086,700	3.13%
Bryan ISD	Public School	90,554,300	2.51%
St. Joseph Hospital	Health Care Facility	72,373,400	2.00%
City of Bryan	Local Government	62,321,800	1.73%
Brazos County	County Government	49,529,700	1.37%
TDCJ-Hamilton Unit	Correctional Facility	34,129,700	0.94%
Federal Prison Camp	Correctional Facility	33,578,600	0.93%
Oakwood/Country Village	MHP	29,924,300	0.83%
Housing Authority of Bryan	Housing	25,096,200	0.69%
Crestview	Retirement Community	20,950,000	0.58%
		531,544,700	14.71%

Source: City of Bryan.

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TABLE 3 – MONTHLY WATER RATES (AS OF SEPTEMBER 30, 2015)

<u>Water Class</u>	<u>Customer Charge Per Month</u>	<u>Volume Charge Per 1,000 Gallons</u>	
Residential	\$ 8.31	\$ 2.76	
Commercial/Industrial	13.74	2.38	
Bryan Public Schools	13.74	2.38	
Interdepartmental	13.74	2.38	
Special Contracts	13.74	4.05	
Bulk Sales	N/A	5.54	(per 500 gallons)

WASTEWATER SYSTEM

The City operates three wastewater treatment plants that treat all of the City's sewage. The Burton Creek Plant (Plant No. 1), which is a two-stage high rate trickling filter/activated sludge process, has a capacity of 8.0 MGD. The City's Still Creek Plant (Plant No. 2) uses a trickling filter/active sludge process and has a capacity of 4.0 MGD. The Turkey Creek Plant (Plant No. 3) was acquired in the 1981 annexation of an adjacent municipal utility district. Plant No. 3 is a contact stabilization plant with a capacity of 0.75 MGD. All three plants were improved in 1993, in order to meet the respective requirements of the discharge permits. Sewage collection lines range in size from 6 inches to 36 inches and consist of a total of 369 miles of pipe.

TABLE 4 – WASTEWATER USAGE (GALLONS) (AS OF SEPTEMBER 30, 2015)

<u>Fiscal Year Ended 9/30</u>	<u>Daily Average</u>	<u>Monthly Average</u>	<u>Total Usage</u>	<u>Total FYE Revenues</u>
2011	6,525,488	198,483,583	2,381,803,000	\$ 12,478,220
2012	6,995,218	213,354,158	2,560,249,900	12,469,568
2013	6,499,737	197,700,333	2,372,404,000	11,793,584
2014	6,997,132	212,829,417	2,553,953,000	11,989,872
2015	7,352,896	224,263,333	2,691,160,000	12,065,649

Source: City of Bryan.

TABLE 5 – MONTHLY SEWER RATES (AS OF SEPTEMBER 30, 2015)

<u>Wastewater Class</u>	<u>Customer Charge Per Month</u>	<u>Volume Charge Per 1,000 Gallons</u>
Non Commercial	\$ 7.88	\$ 4.03
Commercial/Industrial	7.88	3.80

DEBT INFORMATION

TABLE 6 – PROFORMA WATERWORKS AND SEWER SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2017	\$ 3,525,000	\$ 1,673,746	\$ 5,198,746	\$ 225,000	\$ 79,270	\$ 304,270	\$ 5,503,016
2018	3,755,000	1,532,006	5,287,006	185,000	119,038	304,038	5,591,044
2019	3,995,000	1,386,711	5,381,711	190,000	115,338	305,338	5,687,049
2020	4,240,000	1,260,854	5,500,854	195,000	111,538	306,538	5,807,391
2021	4,420,000	1,111,791	5,531,791	195,000	107,638	302,638	5,834,429
2022	4,595,000	950,666	5,545,666	200,000	103,738	303,738	5,849,404
2023	2,420,000	777,704	3,197,704	205,000	99,738	304,738	3,502,441
2024	2,370,000	706,491	3,076,491	210,000	95,638	305,638	3,382,129
2025	2,525,000	633,273	3,158,273	215,000	91,438	306,438	3,464,710
2026	2,590,000	545,135	3,135,135	220,000	87,138	307,138	3,442,273
2027	2,660,000	452,929	3,112,929	220,000	82,738	302,738	3,415,666
2028	2,660,000	356,391	3,016,391	230,000	76,138	306,138	3,322,529
2029	2,735,000	256,241	2,991,241	235,000	69,238	304,238	3,295,479
2030	2,185,000	151,079	2,336,079	240,000	62,188	302,188	2,638,266
2031	740,000	66,063	806,063	250,000	54,988	304,988	1,111,050
2032	770,000	33,688	803,688	255,000	47,488	302,488	1,106,176
2033	-	-	-	265,000	39,200	304,200	304,200
2034	-	-	-	275,000	29,925	304,925	304,925
2035	-	-	-	285,000	20,300	305,300	305,300
2036	-	-	-	295,000	10,325	305,325	305,325
	<u>\$ 46,185,000</u>	<u>\$ 11,894,768</u>	<u>\$ 58,079,768</u>	<u>\$ 4,590,000</u>	<u>\$ 1,503,032</u>	<u>\$ 6,093,032</u>	<u>\$ 64,172,800</u>

(1) Excludes the Waterworks and Sewer System Revenue Bonds, New Series 2016B in the amount of approximately \$2,345,000, to be issued to the Texas Water Development Board concurrently with the issuance of the Bonds.

(2) Interest on the Bonds has been calculated as of the posted date of the Preliminary Official Statement for purposes of illustration. Preliminary, subject to change.

ANTICIPATED ISSUANCE OF ADDITIONAL REVENUE BONDS . . . Concurrently with the sale of the Bonds, the City is selling its Waterworks and Sewer System Revenue Bonds, New Series 2016B in the amount of approximately \$2,345,000 to the Texas Water Development Board.

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PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (“TMRS”), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX B, “Excerpts from the City of Bryan, Texas Annual Financial Report” - Note #9.)

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to providing pension benefits through the TMRS, the City has opted to provide eligible retired employees with the following post-employment benefits:

- Eligible retirees may purchase health insurance from the City’s healthcare provider at the City’s cost to cover current employees.
- Eligible retirees may purchase health insurance from the City’s healthcare provider at the City’s cost to cover current employees for dependents if the dependents were covered at the point of retirement.

In the year ended September 30, 2015, retirees paid \$626,963 in premiums and \$1,329,277 in claims were paid for post-retirement health care and administrative charges. As of September 30, 2015, the City has 35 retirees, 39 retirees and spouses, 7 retirees and families and 4 retirees and child(ren) participating in the health plan, out of the 403 employees eligible to participate upon retirement. Expenses are recognized as retirees submit claims.

Prior to January 1, 2010, all retirees electing health plan coverage received a health premium subsidy averaging 40%. Beginning January 1, 2010, the City implemented new eligibility requirements for subsidized retiree premiums. The new eligibility requirements require retirees to meet the ‘Rule of 80’ (sum of age plus years of service at retirement must equal to at least 80), in order to receive the subsidized retiree premium. Retirees not meeting the ‘Rule of 80’ may still elect the City’s retiree health plan coverage, but will not receive a subsidy.

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other than Pensions*, which establishes standards for the measurement, recognition and display of other postemployment benefit expenditures and related liabilities, and note disclosures in the financial report. Basically, public-sector employers must accrue the cost of other postemployment benefits (OPEB) over the active service life of benefiting employees. This statement was effective for the City for the fiscal year ending September 30, 2008.

For more information concerning the City’s post-employment benefits, see the financial statements of the City, and the notes thereto.

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FINANCIAL INFORMATION

TABLE 7 – CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ending September 30,				
	2015	2014	2013	2012	2011
<u>Revenues</u>					
Waterworks	\$ 12,390,019	\$ 11,678,692	\$ 12,723,839	\$ 12,879,376	\$ 14,281,996
Sewer System	12,883,147	12,496,697	12,429,017	13,072,233	13,112,105
Interest Income	145,864	103,389	91,845	170,563	239,262
Total Revenues	\$ 25,419,030	\$ 24,278,778	\$ 25,244,701	\$ 26,122,172	\$ 27,633,363
<u>Expenses</u> ⁽¹⁾					
Waterworks	\$ 6,261,237	\$ 5,718,140	\$ 5,798,421	\$ 6,585,168	\$ 6,235,774
Sewer System	6,551,635	6,559,946	5,927,169	6,079,396	6,131,398
Total Expenses	\$ 12,812,872	\$ 12,278,086	\$ 11,725,590	\$ 12,664,564	\$ 12,367,172
Net Revenues available for Debt Service	\$ 12,606,158	\$ 12,000,692	\$ 13,519,111	\$ 13,457,608	\$ 15,266,191
Water Connections	22,870	22,418	22,171	21,913	21,804
Sewer Connections	22,350	22,021	21,770	21,539	21,460

(1) Excludes depreciation and amortization. 2015 includes an adjustment to reflect actual pension contributions.

TABLE 8 – COVERAGE AND FUND BALANCES

Average Annual Principal and Interest Requirements (2017 - 2036)	\$ 3,424,057
Coverage of Average Annual Requirements by 2015 Net Revenues	3.68x
Maximum Principal and Interest Requirements, 2022	\$ 5,849,404
Coverage of Maximum Requirements by 2015 Net Revenues	2.16x
Waterworks and Sewer System Revenue Bonds (August 31, 2016) ⁽¹⁾	\$67,305,000
Interest and Sinking Fund (August 31, 2016)	\$ 1,877,863
Reserve Fund (August 31, 2016) ⁽²⁾	\$ 2,227,771

(1) Excludes the Bonds and the City's Waterworks and Sewer System Revenue Bonds, New Series 2016B.

(2) As permitted by the ordinances authorizing the Previously Issued Parity Bonds, the Reserve Fund is currently funded by cash, Authorized Investments, and a surety policy issued by Financial Guaranty Insurance Company in the amount of \$2,848,495 for the reserve fund requirement. The surety guarantee amount of the surety policy is reduced as bonds of the correlating series are paid and retired.

FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements represent increases and decreases in net total assets. Proprietary fund types are accounted for using the accrual basis of accounting.

General Fund Balance . . . It is the City's policy to maintain an unencumbered fund balance equal to at least 60 days of expenditures. If the fund balance is drawn down in any one year, the fund balance will be restored in the following year.

Use of Bond Proceeds . . . It is the City's policy that debt will only be issued to finance long-term capital projects, that debt will not be issued to fund current expenditures, and that debt will not be issued with a maturity longer than the estimated life of the project.

Budgetary Procedures . . . It is the City's policy that a five-year financial forecast shall be prepared annually, to be used as a planning tool in developing the following year's operating budget. The budget is developed by the City staff and presented to the City Council for consideration.

Fund Investments . . . It is the City's policy to invest funds with the foremost objective of safety of principal, followed by liquidity and yield. Eligible investment instruments include U.S. government and agency securities, collateralized or insured Bonds of deposit, collateralized repurchase agreements, and other instruments authorized by State law, excluding bankers acceptances, commercial paper, and reverse repurchase agreements.

Cost of Service . . . It is the City's policy to maintain a full cost of service philosophy concerning rates within the Enterprise Fund. Rates of each utility (electric, water and sewer) shall be designed in a manner that will separate the full costs of each utility, provide debt service coverage and other requirements placed on the utilities by revenue bond covenants and separate sufficient funds to ensure adequate and appropriate levels of working capital.

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INVESTMENTS

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

LEGAL INVESTMENTS . . . 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, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which are guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (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 a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) 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 (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) 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 and (13) 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 this paragraph, 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. In addition, Bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of Bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

INVESTMENT POLICIES . . . Under 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 fund's 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 of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

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

TABLE 9 - CURRENT INVESTMENTS

As of August 31, 2016, the City’s investable funds were invested in the following categories:

Description	Book Value	% of Total
Pooled Funds	\$ 5,017,706	5.47%
Agency Securities	40,995,190	44.69%
Operating Account	5,732,237	6.25%
IMMA Account	39,980,292	43.59%
Total Investments	\$ 91,725,425	100.00%

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TAX EXEMPTION

In the opinion of Andrews Kurth Kenyon LLP, Austin, Texas, Bond Counsel, interest on the Bonds (1) is excludable from gross income of the owners thereof for federal income tax purposes, and (2) is not includable in the alternative minimum taxable income of individuals or, except as described below, corporations.

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

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

Interest on the Bonds owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

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

Bond Counsel's opinions are not a guarantee of a result, but represent its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinions are not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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

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

PROPOSED TAX LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion of gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel express no opinion.

TAX TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS

DISCOUNT BONDS . . . Some of the Bonds may be offered at an initial offering price which is less than the stated redemption price payable at maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, an initial owner who purchases the Bonds of that maturity (the "Discount Bonds") will be considered to have "original issue discount" for federal income tax purposes equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Bond and (b) the initial offering price to the public of such Discount Bond. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on a Bond and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Bond continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Bonds under the caption "TAX EXEMPTION" generally applies to original issue discount deemed to be earned on a Discount Bond while held by an owner who has purchased such Bond at the initial offering price in the initial public offering of the Bonds and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Bond prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Bond in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Bond continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Bond will be treated for federal income tax purposes as interest on a Bond, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Corporations that purchase Discount Bonds must take into account original issue discount as it is deemed to be earned for purposes of determining the alternative minimum tax. Other owners of a Discount Bond may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning a Bond. See "TAX EXEMPTION" for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Bond or of the City. The portion of the principal of a Discount Bond representing original issue discount is payable upon the maturity or earlier redemption of such Bond to the registered owner of the Discount Bond at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Bond is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Bonds by an owner that did not purchase such Bonds in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Bonds should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Bonds.

PREMIUM BONDS . . . Some of the Bonds may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Bonds. If a substantial amount of any maturity of the Bonds is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Bonds of such maturity ("Premium Bonds") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Bond in the hands of an initial purchaser who purchases such Bond in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Bond by the amount of amortizable bond premium with respect to a Premium Bond. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Bond based on the initial purchaser's original basis in such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Premium Bonds that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Premium Bonds of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective purchasers of Premium Bonds should consult their tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, as described below. The City will provide the updated information to the Municipal Securities Rulemaking Board (“MSRB”) in an electronic format prescribed by the MSRB, as further described below under “Availability of Information.”

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 9 and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2016.

The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide audited financial statements when and if such audited financial statements become available and unaudited financial statements within 12 months after fiscal year end, unless audited financial statements are sooner provided. 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 may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”).

The City’s current fiscal year end is September 30. Accordingly, it must provide updated financial information and operating data by March 31 in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB.

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

For these purposes, any event described in clause (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 FROM MSRB . . . The City has agreed to provide the foregoing information only as described above. The information will be available free of charge via the MSRB’s Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years the City has complied in all material respects with its prior continuing disclosure agreements entered into pursuant to the Rule, except as follows: On September 11, 2015, the City provided notice of a rating upgrade, relating to the City's Waterworks and Sewer System Revenue Bonds, originally issued on October 30, 2013 by S&P.

OTHER INFORMATION

RATING . . . An application for a rating on the Bonds has been made to S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"). 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 the company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Bonds.

LITIGATION . . . It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (V.T.C.A., Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments governed by V.T.C.A., Chapter 8, Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, V.T.C.A., Chapter 2256, Texas Government Code, as amended, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states. No representation is made that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes.

LEGAL MATTERS . . . The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds 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 EXEMPTION" herein. The form of such opinion is attached hereto as APPENDIX D. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

The legal opinion to be delivered concurrently with the delivery of the Bonds express as 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 to the Purchaser (as defined below), dated as of the Delivery Date, executed by an authorized officer of the City, a certificate to the effect that, except as disclosed in this Official Statement, no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

CERTIFICATION OF THE OFFICIAL STATEMENT . . . At the time of payment for and delivery of the Bonds, the City will furnish a certificate, executed by proper officials, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of such Bonds and the acceptance of the best bid therefor, and on the date of their delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION . . . The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

INITIAL PURCHASER . . . After requesting competitive bids for the Bonds, the City accepted the bid of _____ (the "Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of the Official Statement at a price of _____% of par. The Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

FORWARD-LOOKING STATEMENTS DISCLAIMER . . . 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. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included 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 will prove to be accurate.

The Ordinance authorizing the issuance of the Bonds approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Purchaser.

/s/ _____
Mayor
City of Bryan, Texas

ATTEST:

/s/ _____
City Secretary
City of Bryan, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

LOCATION

The City of Bryan is located in Brazos County in East Central Texas, the center of a triangle formed by the Cities of Houston, Austin and Waco and approximately 90 miles from each. Bryan is the county seat and together with the adjacent City of College Station, forms the nucleus of a Standard Metropolitan Statistical Area (SMSA) of seven counties.

POPULATION

Bryan's population at the 2000 Census was 66,069, an increase of 20.12% over the 1990 Census of 55,002. The City's 2010 Census population was 76,201 and the 2015 estimate was 82,118.

ECONOMY

The area is changing substantially from an agricultural to an urban atmosphere based on a diversified economy. These economic factors include:

- Education - Nearby College Station is the home of Texas A&M University, among the fastest growing universities in the country. With approximately 48,000 students and 16,000 employees on the College Station campus, the University is a major contributor to the area in construction activity and in retail sales.
- Petroleum - Crude oil and natural gas production in the seven-county Brazos Valley area is an important part of the local economy. Activity has stabilized at present, at significantly lower levels than during the early 1980's period.
- Light Industry - Manufacturing activity in the area is diverse with products including aluminum and other building products, electronics, oilwell tubing, concrete, furniture, drilling tools, business forms, food and drink products, custom aluminum and bronze engravings and sheet metal products.
- Agriculture and Livestock - Several large working ranches are located in Brazos County with Bryan serving as a marketing center for livestock and for agricultural output from the productive farm land in the area. Agricultural income amounts to more than \$28 million annually.
- Power Generation - The Texas Municipal Power Agency operates a net 465-MW electrical generating facility some 20 miles southeast of the City. The plant provides employment for approximately 121 persons.

LABOR FORCE

The City of Bryan employment figures are as follows:

	July	Average Annual				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Civilian Labor Force	40,825	40,163	39,503	39,129	38,044	38,222
Total Employed	39,159	38,748	37,926	37,182	35,999	35,858
Total Unemployed	1,666	1,415	1,577	1,947	2,045	2,364
% Unemployed	4.1%	3.5%	4.0%	5.0%	5.4%	6.2%

The Brazos County employment figures are as follows:

	July	Average Annual				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Civilian Labor Force	107,793	105,943	104,333	103,089	99,926	99,772
Total Employed	103,435	102,351	100,179	98,074	94,659	93,755
Total Unemployed	4,358	3,592	4,154	5,015	5,267	6,017
% Unemployed	4.0%	3.4%	4.0%	4.9%	5.3%	6.0%

Source: Labor Market Information Department of Texas Workforce Commission.

EDUCATION

Public education in the City is provided by the Bryan Independent School District, which also serves a rural part of northern Brazos County and a small part of College Station. The school district operates sixteen elementary schools, four middle schools and three high schools (two traditional high schools, and one early college high school). Student enrollment for 2015-16 is approximately 16,164 with 2,259 employees.

Texas A&M University is located in College Station and six additional institutions of higher education are within 100 miles of the City.

The Washington County Junior College District (“Blinn College”) operates a campus on a 72 acre site in Bryan. The campus provides higher education, technical and trade education, and other community services.

MEDICAL FACILITIES

St. Joseph Regional Health Center employs about 1,560. The St. Joseph Heart Center, the 15-year-old cardiac program located within the hospital is recognized as a top-ranked heart program. Other highly ranked centers of St. Joseph include the Cancer Center, one of the few associated with the M.D. Anderson Cancer manager program; the Rehabilitation Center, the only one of its kind in the area; and the Emergency Center, providing 24-hour service to residents of the area. In 2004 a four story tower addition added a new 36-bed critical care unit, a 36-bed medical surgery unit and a new outpatient services area. The fourth floor of the facility was left as shell space for future growth.

College Station Medical Center (“CSMC”) provides a full array of medical services including pediatrics, occupational and physical therapy, obstetrics, general surgery and cancer treatment. Recognized as having the number-one rated surgery program in the state and one of the highest rated obstetrical programs in the state, CSMC proves to be a top-notch facility. In addition to the high-quality services CSMC provides to the area, the hospital aids in the growth of the local economy as well. CSMC has an economic impact of over \$25 million on the local economy, with growth in their future.

Texas A&M University provides health service for its students at the University Health Center (the “Center”). The Center includes a 44-bed hospital, a complete physiotherapy department, a laboratory and X-ray department, a pharmacy, ambulance service and an urgent-care treatment center.

Brazos Valley Physicians Organization has a 16-bed hospital and clinic in the City.

Among other health care facilities located in the area are a psychiatric center, a Scott and White Clinic (affiliated with the Scott and White Clinic in Temple, Texas), a mental health-mental retardation center and four retirement and convalescent homes.

Research Valley BioCorridor - In December 2011, the Cities of Bryan and College Station (the Cities) adopted an inter-local agreement (ILA) for the development of the Research Valley BioCorridor. The purpose of the BioCorridor is to attract bio-related industries that develop life-changing medical technologies, build tax base, and attract high-paying jobs and investment to the Cities. The ILA outlines a number of ways the Cities will work together to create and manage an environment conducive for development and growth of the BioCorridor. The agreement applies to four tracts of land totaling approximately 196 acres owned by Bryan Commerce and Development, of which, approximately 147 acres are located in College Station.

The agreement provides for the joint construction and cost-sharing of HSC Parkway, the major roadway within the BioCorridor, creation of joint development standards, ad valorem revenue sharing on real and personal properties, sewer service to be provided by Bryan; Water service to be provided by College Station and a swap of exclusive sewer service territories that enables each City to more effectively provide service due to terrain and proximity to existing sewer systems.

TRANSPORTATION

The City is traversed by U.S. Highway 190 and State Highways 6, 30 and 21. Two major railroads serve the City as well as seven motor freight lines. Two bus services provide transportation facilities for area citizens. Passenger air service is available at Easterwood Airport, two miles west of College Station. The Airport is owned by Texas A&M University and has two 5,150 foot and one 7,000 paved all-weather runways. The 7,000 foot and one of the 5,150 foot runways are lighted. Coulter Air Field, located three miles east of Bryan, is owned by Bryan and leased to a private operator. Coulter Field has one 3,200 foot lighted and paved runway and one unpaved 2,000 foot runway. Commercial air freight services are available daily and one service provides 24-hour parcel priority package service.

LARGEST EMPLOYERS

A partial listing of area employers is as follows:

<u>Company</u>	<u>Product</u>	<u>Estimated Number of Employees</u>
Texas A&M University	Higher Education; Government Services	16,248
Bryan Independent School District	Local School District	1,949
St. Joseph Regional Health Center	Medical Facility	1,590
Sanderson Farms	Chicken Processing	1,539
College Station Independent School District	Local School District	1,400
Reynolds & Reynolds	Computer Hardware/Software	959
City of Bryan	City Services	889
City of College Station	City Services	865
Brazos County	County Government	751
Wal-Mart	Retail	650

Source: City of Bryan.

CONSTRUCTION PERMITS

Year Ended <u>31-Dec</u>	<u>Residential</u>		<u>Commercial</u>		<u>Grand Total</u>	
	<u>Number of Permits*</u>	<u>Value</u>	<u>Number of Permits*</u>	<u>Value</u>	<u>Number of Permits</u>	<u>Value</u>
2011	725	\$ 29,070,732	503	\$53,564,008	1,228	\$ 82,634,740
2012	871	39,053,892	504	73,757,756	1,375	112,811,678
2013	720	40,708,127	254	72,622,245	974	113,330,372
2014	750	56,336,279	253	73,625,822	1,003	129,962,101
2015	853	68,671,896	397	190,147,904	1,250	258,819,800

*Permits reflected include both new construction and remodels
Source: City of Bryan Building Services Division.

APPENDIX B

EXCERPTS FROM THE CITY OF BRYAN, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2015

The information contained in this APPENDIX consists of excerpts from the City of Bryan, Texas Annual Financial Report for the Year Ended September 30, 2015, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of City Council
City of Bryan, 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 Bryan, 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Bryan Business Council, Inc. (BBC), the discretely presented component unit of the City. We also did not audit the financial statements of the Brazos Valley Solid Waste Management Agency, Inc. (BVSWMA), a joint venture of the City, representing \$13,588,808 of the assets and \$679,322 of the income of the business-type activities and aggregate remaining fund information of the City. The financial statements of BBC and BVSWMA were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for BBC and BVSWMA, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of BBC and BVSWMA were not audited in accordance with *Government Auditing Standards*.

To the Honorable Mayor and
Members of City Council
City of Bryan, Texas

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bryan, Texas, 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.

Change in Accounting Principle

As discussed in Note 1 to the basic financial statements, the City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Beginning net position on the government-wide Statement of Activities and on the proprietary funds Statement of Revenues, Expenses and Changes in Net Position has been restated to reflect the effect of implementation of these statements. Our opinion is not modified with respect to this matter.

To the Honorable Mayor and
Members of City Council
City of Bryan, Texas

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, Schedule of Required Contributions – Texas Municipal Retirement System, and Schedule of Changes in the City's Net Pension Liability and Related Ratios – Texas Municipal Retirement System 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 and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 by us and the other auditors. In our opinion, the combining and individual nonmajor fund statements 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.

To the Honorable Mayor and
Members of City Council
City of Bryan, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, TX
March 14, 2016

City of Bryan, Texas

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2015
(Unaudited)

As management of the City of Bryan, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the letter of transmittal, which can be found on pages viii -xii of this report.

Financial Highlights

Government-wide financial statements

- assets exceed liabilities by \$504,316,454 (net position)
- unrestricted net position was \$92,913,733; these funds may be used to meet ongoing obligations to citizens and creditors
- total net position increased by \$28,060,209
- total debt decreased by \$26,025,000 or 6.7%
 - \$19,480,000 in general obligation refunding bonds were issued during FY 15 in order to reduce interest costs on current outstanding debt. These general obligation bonds along with the offering premium refunded \$12,150,000 in general obligation bonds and \$7,980,000 in Electric System revenue bonds.
 - \$25,375,000 in additional outstanding debt was retired. Total debt retired during FY 15, including the refunded bonds was \$45,505,000.
 - \$26,845,674 of outstanding debt is due within one year as of September 30, 2015.

Fund Financial Statements

- governmental funds reported combined ending fund balances of \$68,323,317
 - an increase of \$6,471,146 in fund balances is due primarily to higher tax revenues, one time land sale revenues and sales of capital assets
 - approximately \$30,612,358 or 44.8% is available for spending at the City's discretion (unassigned fund balance)
- General Fund unassigned fund balance was \$30,621,712 or 53.7% of total general fund expenditures during FY 15

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

The Statement of Net Position presents all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve, to some extent, as an indicator of whether the City's financial position is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities describe services provided by the City and include general government, development services, public works (streets and drainage), public safety, and cultural and recreational (parks and recreation, library service, and other community service activities). The business-type activities of the City include electric generation, distribution and transmission, water supply and distribution, wastewater collection and treatment, solid waste collection, and a general purpose airport.

The government-wide financial statements include not only the City itself (known as the "primary government"), but also Bryan Business Council, Inc., 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.

Bryan Texas Utilities' qualified scheduling entity (BTU QSE Services, Inc.) and Bryan Commerce and Development, Inc. are also legally separate functions, but for all practical purposes operate as departments of the City of Bryan, and therefore have been included as an integral part of the primary government. For reporting purposes, BTU QSE Services, Inc. is combined with the City Electric System. Included in Note 1 of the financial statements are separate Condensed Statements of Net Position and Condensed Statements of Revenues, Expenditures, and Changes in Net Position for BTU QSE Services, Inc.

The government-wide financial statements can be found on pages 24-26 of this report.

Fund Financial Statements. The financial statements are prepared on the basis of funds. A fund is a self balancing grouping of related accounts that is used to report and maintain control over resources that have been segregated for specific activities or objectives. The City of Bryan, like other state and local governments, uses fund accounting to demonstrate and ensure compliance with finance-related legal and local policy requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for the 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 resources, as well as on balances of resources available to meet obligations at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

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Because the focus of governmental fund financial statements 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 financial activities. 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 currently maintains twenty-four (24) individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and the Debt Service Fund, both of which are considered to be major funds (2). Data from eleven (11) special revenue funds, two (2), capital project funds, and nine (9) permanent funds have been combined into one single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Bryan adopts an annual appropriation budget for its General Fund, Debt Service Fund and special revenue funds. Individual fund budgetary comparison schedules are provided in the Required Supplementary and the Supplementary sections of this report (starting on page 97).

The basic governmental fund financial statements can be found on pages 28-31 of this report.

Proprietary Funds. The City maintains two different types of proprietary funds, enterprise funds and internal service funds, and adopts an annual appropriation budget for each. The City's ten (10) proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses seven (7) enterprise funds to account for its city electric, rural electric, water, wastewater, solid waste, economic development corporation and airport. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses three (3) internal service funds to account for its warehouse operations, self-insurance operations and employee benefits trust fund.

Proprietary funds provide the same types of information as the government-wide financial statements. The proprietary fund financial statements provide separate information in the Proprietary Fund Statement of Net Position, the Statement of Revenues, Expenses and Changes in Fund Net Position, and the Statement of Cash Flows for the city electric, rural electric, water and wastewater systems, all of which are considered major funds of the City. Data from three (3) non-major enterprise funds have been combined into one single, aggregated presentation in the proprietary fund financial statements. All internal service funds are also combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the aggregated proprietary funds and the internal service funds is provided in the form of combining statements in the Supplementary section of this report (starting on page 103).

The basic proprietary fund financial statements can be found on pages 32-37 of this report.

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Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 38 of this report.

Notes to the Financial Statements. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-96 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and a budgetary comparison schedule for the General Fund to demonstrate compliance with the budget. Required supplementary information can be found on pages 97-101 of this report.

The combining statements referred to earlier in connection with non-major governmental funds, non-major enterprise funds, and internal service funds are presented following the required supplementary information. Combining and individual statements and schedules can be found on pages 106-138 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Bryan, assets exceed liabilities by \$504,316,454 as of September 30, 2015.

The adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. Employers are required to report the difference between the actuarial total pension liability and the pension plan's fiduciary net position as the net pension liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated contributions.

Also adopted for FY 15, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68* addresses an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement, in conjunction with GASB Statement No. 68 requires restatement of net position as of October 1, 2014 as follows:

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	Governmental Activities		Business Type Activities	
Net Position, beginning of period - as previously reported	\$	117,589,868	\$	385,528,131
Net pension liability		(21,484,900)		(11,948,356)
Reverse net pension obligation as reported 9/30/14		4,417,571		2,453,427
Reverse pension accrual in Construction-in-Progress*		-		(299,496)
Net Position, beginning of period - as restated	\$	100,522,539	\$	375,733,706

For more information on this restatement, please see Note 1.

The largest portion of the City's net position \$349,009,941, or 69.2%, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure, and improvements), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. An additional portion of the City's net position \$62,392,780, or 12.4%, represents resources that are subject to external restrictions on their usage. The remaining balance of unrestricted net position, \$92,913,733 or 18.4%, may be used to meet the government's ongoing obligations to citizens and creditors. At the end of FY 15, the City of Bryan was able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities.

City of Bryan's Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 81,901,112	\$ 73,523,290	\$ 191,857,934	\$ 213,941,920	\$ 273,759,046	\$ 287,465,210
Capital assets	151,505,157	157,659,865	533,751,076	517,413,723	685,256,233	675,073,588
Total assets	<u>233,406,269</u>	<u>231,183,155</u>	<u>725,609,010</u>	<u>731,355,643</u>	<u>959,015,279</u>	<u>962,538,798</u>
Deferred outflows	6,612,784	1,850,603	21,157,300	17,191,503	27,770,084	19,042,106
Non-current liabilities	110,209,138	96,893,545	295,087,340	302,355,778	405,296,478	399,249,323
Other liabilities	18,954,449	18,550,345	49,629,357	55,206,857	68,583,805	73,757,202
Total liabilities	<u>129,163,587</u>	<u>115,443,890</u>	<u>344,716,697</u>	<u>357,562,635</u>	<u>473,880,283</u>	<u>473,006,525</u>
Deferred inflows	881,500	-	7,707,125	5,456,380	8,588,625	5,456,380
Net position:						
Net investment in						
capital assets	68,002,663	67,019,218	281,007,278	269,168,669	349,009,941	336,187,887
Restricted	22,972,793	23,068,934	39,419,987	34,139,444	62,392,780	57,208,378
Unrestricted	18,998,510	27,501,716	73,915,223	82,220,018	92,913,733	109,721,734
Total net position*	<u>\$ 109,973,966</u>	<u>\$ 117,589,868</u>	<u>\$ 394,342,488</u>	<u>\$ 385,528,131</u>	<u>\$ 504,316,454</u>	<u>\$ 503,117,999</u>
Restated amounts	-	(17,067,329)	-	(9,794,425)	-	(26,861,754)
Total net position as restated*	<u>\$ 109,973,966</u>	<u>\$ 100,522,539</u>	<u>\$ 394,342,488</u>	<u>\$ 375,733,706</u>	<u>\$ 504,316,454</u>	<u>\$ 476,256,245</u>

*Note: Restatement of FY14 Net Position, reference Note 1.

The \$28,060,209 increase to \$504,316,454 in total net position is due to increases in business-type activities as well as governmental activities. The net position of business type activities increased \$18,608,782 due primarily to the excess of operating revenues over expenses in the Electric, Rural Electric, Water, Wastewater and land sales in the Bryan Commerce and Development fund. The net

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\$18,608,782 due primarily to the excess of operating revenues over expenses in the Electric, Rural Electric, Water, Wastewater and land sales in the Bryan Commerce and Development fund. The net position of the Governmental Activities increased by \$9,451,427 primarily as a result of program and general revenues plus transfers in exceeding expenses. The net effect of the restatement amounts is reflected in the changes to net position and are outlined in the above table and discussed in Note 1 of the financial statements.

A decrease of \$16,808,001 to \$92,913,733 in the City's total unrestricted net position is due to an increase in investments in capital assets as well as the restatement due to GASB Statements No. 68 and No. 71. The unrestricted net position of the Business-Type Activities decreased by \$8,304,795 to \$73,915,223. The unrestricted net position of the Governmental Activities decreased by \$8,503,206 to \$18,998,510. As previously stated, the net effect of the restated amounts from FY 14 are outlined in the above table.

City of Bryan's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 6,926,299	\$ 6,828,230	\$ 261,421,051	\$ 252,053,246	\$ 268,347,350	\$ 258,881,476
Operating grants and contributions	2,769,647	2,490,517	-	-	2,769,647	2,490,517
Capital grants and contributions	2,049,078	1,661,849	2,755,942	1,784,937	4,805,020	3,446,786
General revenues:						
Property taxes	28,039,989	25,765,716	-	-	28,039,989	25,765,716
Other taxes	21,683,058	21,834,534	-	-	21,683,058	21,834,534
Other	10,589,029	10,230,726	4,273,025	3,096,044	14,862,054	13,326,770
Total revenues	<u>72,057,100</u>	<u>68,811,572</u>	<u>268,450,018</u>	<u>256,934,227</u>	<u>340,507,117</u>	<u>325,745,799</u>
Expenses:						
General Government	9,775,235	11,862,123	-	-	9,775,235	11,862,123
Development Services	5,403,697	5,265,275	-	-	5,403,697	5,265,275
Public Works Services	16,894,814	14,180,817	-	-	16,894,814	14,180,817
Public Safety	33,648,379	33,069,954	-	-	33,648,379	33,069,954
Cultural and Recreational	8,374,038	8,332,012	-	-	8,374,038	8,332,012
Interest on long-term debt	3,299,163	3,548,311	-	-	3,299,163	3,548,311
Electric	-	-	171,705,349	170,664,644	171,705,349	170,664,644
Rural electric	-	-	36,214,517	33,312,663	36,214,517	33,312,663
Water	-	-	9,841,218	9,761,250	9,841,218	9,761,250
Wastewater	-	-	9,935,489	10,272,703	9,935,489	10,272,703
Other	-	-	7,860,010	7,851,301	7,860,010	7,851,301
Total expenses	<u>77,395,326</u>	<u>76,258,492</u>	<u>235,556,583</u>	<u>231,862,561</u>	<u>312,951,909</u>	<u>308,121,053</u>
Increase (decrease) in net position before transfers and special items	(5,338,226)	(7,446,920)	32,893,435	25,071,666	27,555,208	17,624,746
Special items - sale of plant equipment	-	-	505,000	2,493,174	505,000	2,493,174
Net Transfers	14,789,653	12,138,907	(14,789,653)	(12,138,907)	-	-
Increase (decrease) in net position	9,451,427	4,691,986	18,608,782	15,425,933	28,060,208	20,117,920
Net position - October 1*	100,522,539	112,897,882	375,733,706	370,102,198	476,256,245	483,000,080
Net position - September 30	<u>\$ 109,973,966</u>	<u>\$ 117,589,868</u>	<u>\$ 394,342,488</u>	<u>\$ 385,528,131</u>	<u>\$ 504,316,453</u>	<u>\$ 503,118,000</u>
Restated amounts	-	(17,067,329)	-	(9,794,425)	-	(26,861,754)
Total net position as restated*	<u>\$ 109,973,966</u>	<u>\$ 100,522,539</u>	<u>\$ 394,342,488</u>	<u>\$ 375,733,706</u>	<u>\$ 504,316,454</u>	<u>\$ 476,256,245</u>

*Note: Restatement of FY14 Net Position, reference Note 1.

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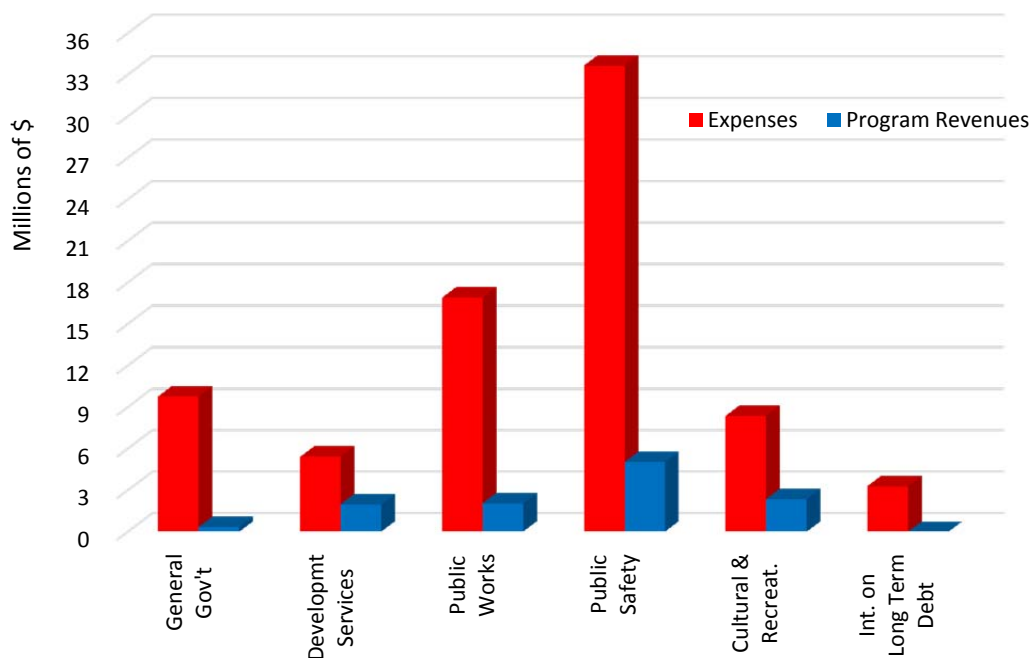
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Governmental Activities. Total governmental activity revenues increased in FY15 from FY14 by \$3,245,528 or 4.7% to \$72,057,100. Several factors contributed to this increase in FY15. Property tax revenues increased by \$2,274,273, or 8.8%. Capital grants and contributions increased by \$387,229, or 23.3% in FY15 over FY14 revenues. During FY15, other revenues (including transportation and drainage assessments, investment earnings, and miscellaneous items) increased in total by \$358,303 or 3.5%.

The Government Wide presentation of expenses attempts to consolidate all revenues and expenses on a basis similar to a private business. This presentation removes capital spending and principal payments (see note 4 for capital assets of the governmental activities) and allocates expenses of internal service activities to all related parties. Governmental activities expenses increased in FY15 as compared to FY14 by \$1,136,834 to \$77,395,326. The major changes in this category were:

- Public safety expenses increased \$578,425 in FY15 when compared to FY14. This increase is primarily due to added firefighter positions and training costs.
- Public Works expenses increased by \$2,713,997 or 19.1%. This increase is attributable to increased street maintenance FY15. Street maintenance expenditures in the Street Improvement fund increased \$2,608,520 from FY14 to FY15.
- These increases are partially offset by savings in other categories.

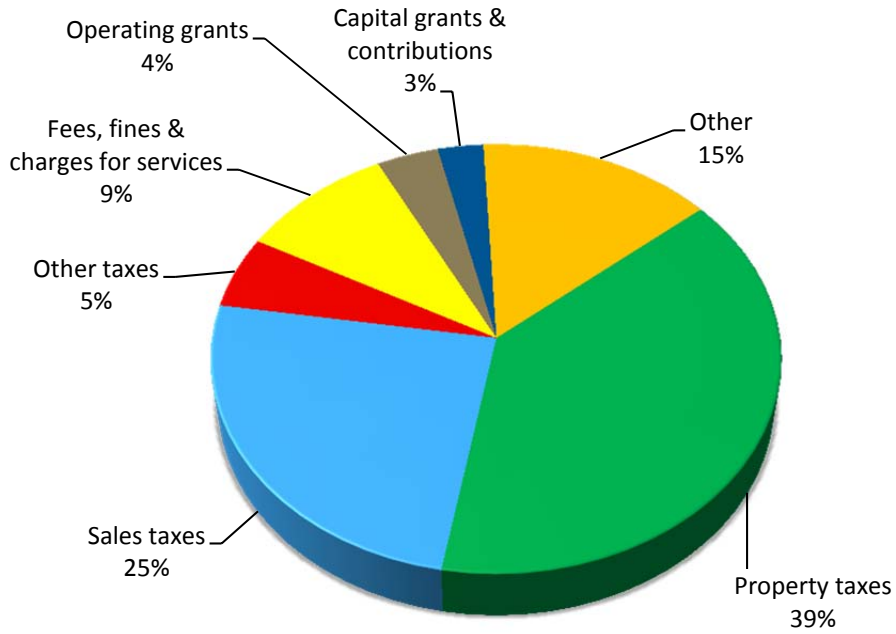
Expenses and Program Revenues - Governmental Activities



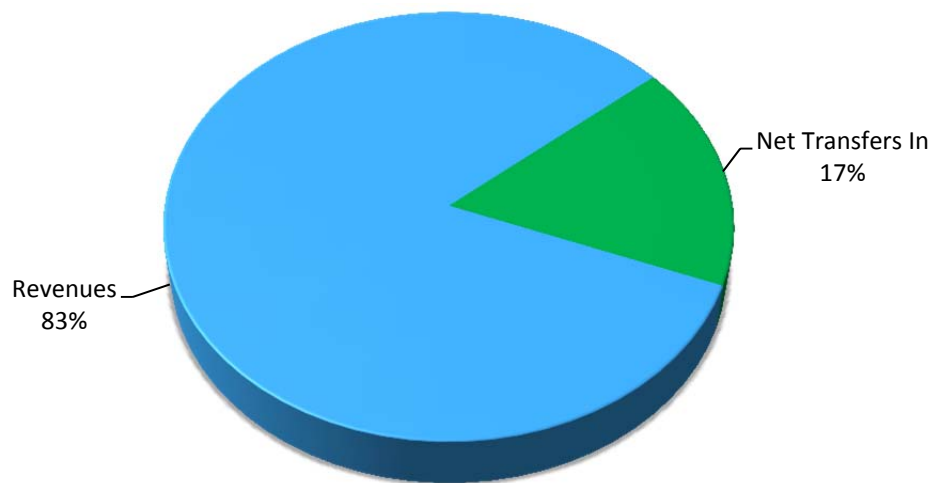
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Revenues by Source - Governmental Activities



All Governmental Resources



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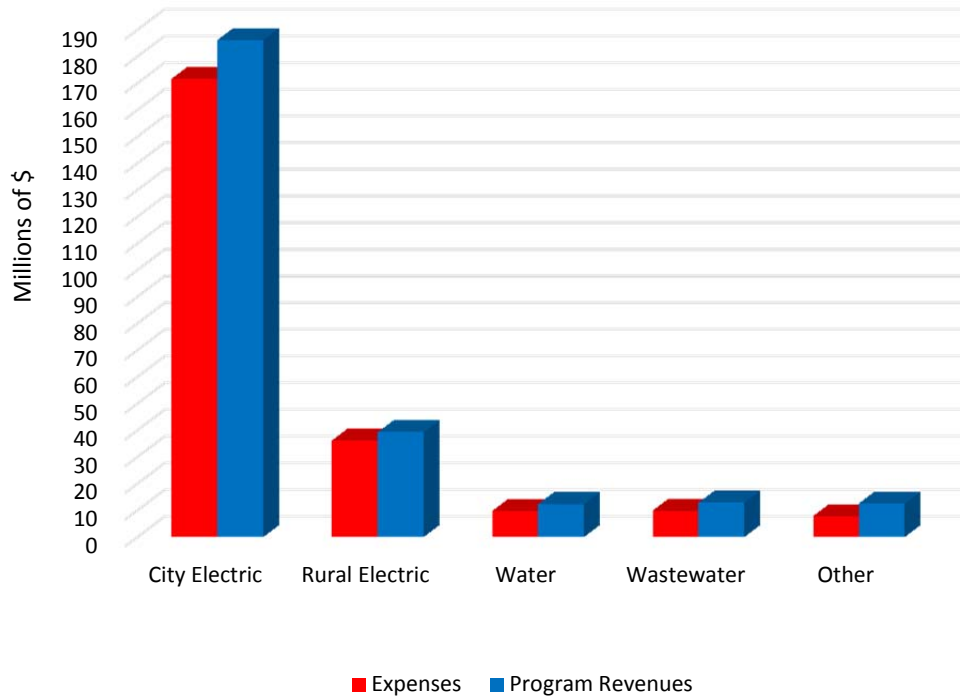
Business-type Activities. Business-type activities net position increased by \$18,608,782, or 5.0%, to \$394,342,488 in FY15. Charges for services for business-type activities increased \$9,367,805, or 3.7%, to \$261,421,051, while expenses increased \$3,694,022, or 1.6%, to \$235,556,583. Key elements of the variances are as follows:

- For the City and Rural Electric Systems, combined charges for services for FY15 and FY14 were \$223,539,164 and \$219,651,541 respectively, an increase of 1.8%. The slight increase in revenues for City and Rural Electric are primarily due to higher base rates, customer growth, higher usage due to weather, and larger transmission cost of service revenue during the fiscal year ended September 30, 2015. These higher revenues were offset by lower fuel revenues on both the wholesale and retail markets. Combined City and Rural Electric expenses for FY15 and FY14 were \$207,919,866 and \$203,977,307 respectively, an increase of 1.9%. Combined net position for the electric systems for the year ended September 30, 2015 was \$232,969,665 of which \$51,995,185 is available to meet ongoing obligations.
- Water system charges for services showed an increase in FY15 of \$711,327, or 6.1%, to \$12,390,019 due to lower summer rainfall in FY15 as well as increased wholesale water sales. Water system expenditures increased slightly by \$79,968, or 0.1% in FY15. FY15 ending net position for the Water system was \$62,831,047 of which \$7,812,750 is available to meet ongoing obligations.
- Net position of the Wastewater system at FY15 year end was \$66,927,750, of which \$10,532,496 was available to meet ongoing obligations. Wastewater system charges for services increased by \$386,450 or 3.1%. Expenses for FY15 were \$9,935,489, a decrease from FY14 of \$337,214 or 3.3%.

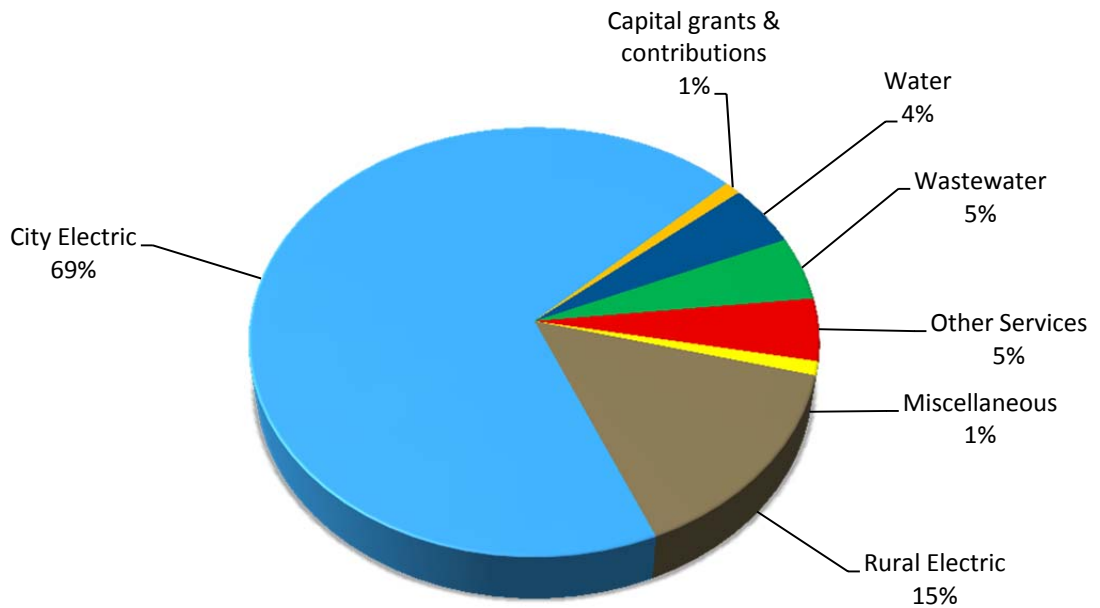
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Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-Type Activities



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Financial Analysis of the City's Funds

As noted earlier, the City of Bryan uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements can be found starting on page 106 of this report.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and the balance 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 a government's net resources available for spending at the end of the fiscal year.

General Fund. The General Fund is the primary governmental fund of the City of Bryan. The fund balance of the General Fund increased by \$7,189,233, during FY15 compared to an increase of \$5,718,276 in FY14. Revenues of the fund increased \$257,609 and expenditures increased by \$2,905,932. Expenditures were in excess of revenues by \$8,891,412. Transfers in increased by \$2,915,306 and transfers out increased by \$375,502. FY15 transfers in and out of the fund netted \$14,488,911. Sales of capital assets increased in FY15 over FY14 by \$1,579,476. Net transfers and sale of capital assets both helped offset the excess of expenditures over revenues. Some items to note in the General Fund are:

- Property tax revenues to the General Fund increased by \$1,225,978 or 7.3% to \$18,090,087 due to increased property values.
- Other revenues for the year, which includes oil and gas leases and royalties, decreased in FY15 over FY14 by \$927,756 or 43.5%.
- Investment earnings in FY15 increased by \$123,363 or 99.0% due to slightly increased investment rates.
- Capital outlay increased in FY15 by \$1,640,775 or 128.4% due to public safety vehicle purchases including ambulance purchases and new police and municipal court vehicles.
- Public safety non capital expenditures increased in FY15 by \$804,500, or 2.7%. This was mainly due to salaries and benefits increasing by \$963,620 or 3.6%. Savings in other public safety expenditures partially offset this increase in payroll expenses.
- Cultural and recreational expenditures increased by \$195,053 or 3.1%. Increases in payroll and parks maintenance contributed to this year over year increase.

Debt Service Fund. The Debt Service Fund ended the fiscal year with a total fund balance of \$6,080,301, compared to \$6,128,399 at the end of FY14. All of the fund balance is restricted for the payment of debt. Tax revenues in the Debt Service Fund increased by \$102,417 or 1.4% to \$7,574,218. Debt service payments from the fund totaled \$10,512,311 with debt issuance costs totaling \$67,859. The additional debt service is supported by transfers from TIRZ 10, TIRZ 19, TIRZ 22 and the General Fund in the amount of \$2,418,836.

Other Governmental Funds. The Other Governmental Funds include the Special Revenue Funds, Capital Project Funds, and Permanent Funds. The total fund balance in Other Governmental Funds decreased in FY15 over FY14 by \$669,989, or 2.4% to \$26,874,611.

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Special Revenue Funds. The City's special revenue funds include the Grant Fund, Community Development fund, Hotel Tax fund, Tax Increment Reinvestment Zones (TIRZ), and some special assessment funds. The fund balances in the special revenue funds increased by \$133,026, or 0.1%, in FY15.

- The Community Development Fund provides programs and services to low and moderate income persons. The most significant expense is \$1,427,193 spent on the various programs funded by state, local, and federal grants.
- Hotel Tax Revenues for FY15 were \$1,286,072. Expenditures total \$635,760. These funds primarily go to fund outside agencies who promote the hotel and tourism industries in Bryan, TX.
- The Street Improvement Fund expenditures total \$6,770,143 on street maintenance projects. The fund balance was \$12,387,623, which is committed or encumbered for street improvement projects at the end of FY15.
- The Drainage Improvement Fund expended \$481,805 in FY15 on drainage projects throughout the City. Ending fund balance was \$2,364,950, which is committed or encumbered for drainage projects at the end of FY15.

Capital Projects Funds. The total expenditures from Capital Projects Funds were \$1,225,200. The net fund balance in the Capital Project Funds decreased by \$820,428 to \$7,465,788. This decrease in fund balance is due to activities and expenditures relating to the construction of capital infrastructure. All of the fund balance is either available for capital projects or encumbered for capital projects.

Permanent Funds. Expenditures from the permanent funds come from spendable revenue generated by non-spendable donations in the form of interest earning. In FY15 \$39,575 in spendable funds was used for expansion and upkeep of the City of Bryan Cemetery. The fund balance increased by \$17,413 to \$1,917,624 due to contributions of \$43,350. Investment earnings of \$13,638 helped offset the expenditures.

Proprietary Funds. The City of Bryan's Proprietary Funds are used to track the enterprise and internal service activities of the City. Detailed information regarding this fund's activities is captured in the Business-Type activities in the Government Wide financial statements and is discussed above.

General Fund Budgetary Highlights

General Fund revenues are mainly derived from taxes, charges for services, fines, and grants. Other miscellaneous, non-operating revenues are derived from items such as one time sales of capital assets, sales of land, and oil and gas royalties and lease payments. Property taxes in the General Fund are derived from the maintenance and operations portion of the tax rate (M&O rate). The M&O rate in effect during FY15 was \$0.442658 per \$100 of valuation. The adopted tax rate for FY15 was \$0.629990 per \$100 of valuation. The remainder of the tax rate is used to fund the City's debt service and is called the interest and sinking fund rate (I&S rate). The I&S rate for FY15 was \$0.187332 per \$100 of valuation.

City of Bryan, Texas

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2015
(Unaudited)

Total General Fund revenues for FY15 were \$48,109,990 and were \$2,553,271 or 5.6% ahead of budget and \$257,609 or 0.5% more than revenues in FY14. Tax revenues for the General Fund include property tax, sales tax, franchise tax, bingo tax, and alcoholic beverage tax. General Fund tax revenues were 80.0% of total General Fund revenues in FY15. Notable variances in General Fund tax revenues for FY15 are:

- FY15 General Fund property tax revenues were \$18,090,087 and \$39,744 or 0.2% below budget. As noted above, property taxes in FY15 were \$1,225,978 or 7.3% higher than FY14 property tax revenues.
- Sales taxes were \$1,055,930 or 6.3% above budget in FY15. Compared to FY14 revenues, FY15 sales taxes were down slightly by \$94,019, or 0.5%. February 2015 sales tax included a refund in the amount of \$615,196 related to collections during 2007-2011. The State Comptroller notified the City that a taxpayer incorrectly paid sales tax during that time. Excluding this refund, FY15 sales tax revenues were \$521,177 or 2.9% higher than FY14.
- Franchise tax revenue for FY15 was \$2,191,346 and \$74,364, or 3.5% above budget for FY15. Franchise tax revenues were \$189,441, or 8.0% below FY14 revenues.
- Alcoholic beverage taxes were \$37,776, or 33.7%, above budget for FY15 and \$18,985, or 14.5%, ahead of FY14 revenues.

Charges for services in the General Fund include ambulance charges, recreational charges, health and public safety fees, and other miscellaneous charges. Charges for services make up 9.4% of General Fund total revenues in FY15. Some notable items in this category are:

- Ambulance charges in FY15 were \$235,132, or 13.8% above budget. FY15 saw an increase of \$48,914, or 2.6% over FY14 revenues in this category.
- Revenues for recreational activities were \$51,275 or 3.9% below budget in FY15. Compared to FY14 revenues, FY15 saw a decline of \$24,932 or 1.9%.
- Miscellaneous charges for services was \$192,974 or 133.8% ahead of budget and was \$50,306 or 17.5% above FY14 revenues.

Other categories of note for General Fund revenues include fines and court charges, licenses and permits, grants, investment earnings, and other revenues. Items to note in these categories are as follows:

- Fines and court charges were \$158,933 or 8.4% below budget for the year in FY15. This category has remained steady in FY15 as compared to FY14 with only a 0.1% decrease year over year.
- Federal, state, and local grants make up 2.7% of General Fund revenues and were \$216,814 or 20.3% above budget for FY15. Grant revenues decreased slightly by \$5,535, or 0.4% in FY15 as compared to FY14.
- Other revenues were \$835,574 or 226.8% above budget in FY15 due to the sale of the Municipal Office Building Annex (former City of Bryan Police Station). Compared to FY14, other revenues saw a decrease of \$927,756 or 43.5% due to a decrease in oil and gas activity and a decrease in land sales in FY15.

City of Bryan, Texas

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2015
(Unaudited)

Total General Fund operating expenditures are broken down into major categories in the accompanying required supplementary section of the report beginning on page 100. General fund activities are broken down into the following main categories:

- General Government and Administrative – This category includes Executive, City Secretary, Legal Services, Fiscal Services, Information Technology, Human Resources, and other administrative departments that serve the City.
- Development Services – This category includes Planning, Engineering, Building, and Special Projects.
- Public Works Services – Includes Drainage and Streets and Traffic Operations.
- Public Safety – Police, Fire and Ems, the Municipal Court, and the City of Bryan Animal Center are included in this category.
- Cultural and Recreations – Includes the golf course, parks and recreation services, and the libraries.
- Other General Fund activities include capital expenditures, administrative reimbursements, and transfers in and out.

General Fund expenditures for the year totaled \$57,001,402 and were \$4,243,221 or 6.9% less than budget. All departments were encouraged to manage spending and conserve money wherever possible. Additionally, some projects in parks and recreation, such as the Sadie Thomas Pool and the Williamson Skate Park, were delayed and will be completed in FY16. As a result, many of the General Fund departments ended the year below their final appropriation amount.

Total general government and administrative expenditures were \$13,667,518 or 10.6% under budget for FY15. This makes up 24.0% of total FY15 General Fund expenditures. Some notable budget variances in this category are as follows:

- The Executive department was below budget by \$250,107 or 10.5% due to unfilled positions, savings in utility costs, consultants, office equipment rental, and festivals and events.
- The City Secretary department was below budget by \$189,292 or 19.2% due to unfilled positions and contractual service costs.
- Payments to other agencies were below budget by \$272,248 or 8.1% due primarily to incentives not earned by economic development partners of the City.
- The Fiscal Services department was below budget by \$193,636 or 12.9% due primarily to savings in personnel costs, vacant positions, and contractual services.
- Information Technology was below budget by \$210,185, or 6.8% due to certain projects that have been postponed indefinitely.
- Fleet services was below budget in FY15 by \$252,512 or 33.5% due to staff vacancies and supplies cost.

Development services finished FY15 below budget by \$378,146 or 11.0%. Expenditure totals in this category were \$3,058,936 and made up 5.4% of total General Fund expenditures for FY15. Notable budget variances in this category include engineering which was \$249,199, or 17.9% under budget for FY15 due to staff vacancies.

City of Bryan, Texas

Management's Discussion and Analysis
 For the Fiscal Year Ended September 30, 2015
 (Unaudited)

Public Works services total expenditures for FY15 were \$3,422,137 and makes up 6.0% of total General Fund expenditures for the year. Overall Public Works was \$149,345 or 4.2% under budget due primarily to staff vacancies and capital projects that will be completed in FY16.

Public Safety expenditures for FY15 are \$30,850,086 and \$855,855 or 2.7% under budget. Public safety accounts for 54.1% of all General Fund expenditures in FY15. Some notable variances include:

- Police services are \$291,618, or 1.8% below budget due to staff vacancies and other non-capital expenditure categories.
- Fire and EMS is below budget by \$331,128, or 2.5%, for FY15 due to staff vacancies.
- Municipal Court expenditures for FY15 are \$150,396, or 10.5% under budget for the year due to savings in professional services and other miscellaneous categories.
- The City of Bryan Animal Center is under budget by \$82,713, or 10.4%, due to vacant positions throughout FY15.

Cultural and recreational services expenditures for FY15 total \$6,560,486 and were \$39,779, or 0.6% under budget for the year. Library, parks and recreation, and the golf course make up 11.5% of total General Fund expenditures in FY15.

Capital Asset and Debt Administration

Capital Assets. The City of Bryan's investment in capital assets for its governmental and business-type activities as of September 30, 2015 was \$685,256,233 (net of accumulated depreciation), an increase of \$10,182,645 or 1.5%. This investment in capital assets includes land, park facilities, buildings and system improvements, machinery and equipment, street and drainage systems, and construction in progress.

Capital Assets for FY15 included the following:

City of Bryan's Capital Assets*

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 11,591,736	\$ 11,591,736	\$ 16,701,003	\$ 16,701,003	\$ 28,292,739	\$ 28,292,739
Buildings	24,321,616	26,911,018	925,746	1,077,661	25,247,362	27,988,679
Equipment	7,997,064	7,944,349	3,970,340	3,767,070	11,967,404	11,711,419
Improvements	9,401,066	10,420,959	490,025,105	430,443,540	499,426,171	440,864,499
Infrastructure	94,101,920	95,543,864	-	-	94,101,920	95,543,864
Construction in Progress	4,091,755	5,247,939	22,128,882	65,424,449	26,220,637	70,672,388
Total	<u>\$ 151,505,157</u>	<u>\$ 157,659,865</u>	<u>\$ 533,751,076</u>	<u>\$ 517,413,723</u>	<u>\$ 685,256,233</u>	<u>\$ 675,073,588</u>

*Note: Net of accumulated depreciation. See Note 4.

Additional information on the City's capital assets can be found in Note 4 to the financial statements on pages 57-58 of this report.

City of Bryan, Texas

Management's Discussion and Analysis
 For the Fiscal Year Ended September 30, 2015
 (Unaudited)

Long-term Debt. At the end of fiscal year 2015, the City of Bryan had total debt outstanding of \$364,015,000. Of this amount, \$145,530,000 (general obligation bonds and certificates of obligation) comprises debt backed by the full faith and credit of the City. The remainder of the City's debt is secured by specified revenue sources (revenue bonds).

Outstanding Debt at Year End Bonds and Notes Payable

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 43,553,982	\$ 48,590,908	\$ 15,421,019	\$ 8,359,093	\$ 58,975,001	\$ 56,950,001
Revenue bonds	-	-	218,485,001	242,020,001	218,485,001	242,020,001
Certificates of obligation	40,780,021	43,290,021	45,775,000	47,780,000	86,555,021	91,070,021
Total	<u>\$ 84,334,003</u>	<u>\$ 91,880,929</u>	<u>\$ 279,681,020</u>	<u>\$ 298,159,094</u>	<u>\$ 364,015,023</u>	<u>\$ 390,040,023</u>

During FY15, the City's total debt decreased by \$26,025,000 or 6.7%. The City retired or refunded \$45,505,000 in outstanding principal. The City issued new refunding debt totaling \$19,480,000.

The City's General Obligation, Certificates of Obligation and Revenue bond ratings are listed below.

	Moody's Investors Service	Standard & Poor's
General Obligation Bonds	Aa2	AA
Certificates of Obligation	Aa2	AA
Revenue Bonds - Waterworks and Sewer	Aa2	AA-
Revenue Bonds - City Electric	A2	A+
Revenue Bonds - Rural Electric	A2	A+

Additional information on the City's long-term debt can be found in Note 5 to the financial statements on pages 59-63 of this report.

Economic Factors and Next Year's Budgets and Rates

Bryan continued its strong growth trajectory during FY15, realizing increases in property values and sales tax revenues which positively impacted the City's governmental funds. Bryan and neighboring College Station are the economic center of the region comprised of Brazos County and the surrounding seven counties. While not immune from factors that affect the state and national economies, the area is somewhat insulated due to the concentration of stable or growing employment sectors: government, higher education and health care. Five of the top ten employers in the area fall into these classifications.

City of Bryan, Texas

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2015
(Unaudited)

During 2014, Brazos county and surrounding counties saw a significant increase in oil and gas production activity as the result of the application of hydraulic fracturing techniques in the Eagle Ford shale formation. The economic activity surrounding this development had a positive impact on sales tax revenues, City lease royalties and property values. However, during 2015, this activity saw a steady decrease. This is reflected in lower one-time revenues associated with this activity. The City is taking a conservative approach to these revenues in the FY16 budget as well as future growth forecasts.

Continued growth in the area allowed the City to lower the property tax rate for FY14 from \$0.633308 per \$100 of property valuation to the effective tax rate of \$0.62999. Tax rates were not changed for FY15 or FY16. Ad valorem property taxes comprised approximately 37.6% of General Fund revenues in FY15. FY16 budgeted General Fund property tax revenues increased 5.2% from FY15 bolstered by continued growth in Bryan and the surrounding area. FY16 sales tax revenue is budgeted to increase by 0.2% when compared to FY15 actual sales tax revenue. This reflects the conservative approach the City has taken over the last budget cycle assuming a decline in the impact of oil and gas activities in FY15 and FY16. Thus far in FY16, actual tax receipts are higher than budget. Actual sales tax receipts for the first three (3) months of FY16 are \$407,000 or 10.4% above budget. While the City still expects some moderation in retail activities, any slowdown should be cushioned by the areas economic base previously described. As always, staff continues its efforts to hold the line on operating costs.

Revenues for the entire electric system for FY16 are projected to be \$241,078,571, which is an increase of \$4,609,881 or 1.9% in FY16 versus FY15 budget. This projected increase is due primarily to rural base revenues associated with phased in rates and to higher transmission revenues. FY16 budgeted electric expenditures are projected to be \$240,427,478, which is an increase of \$5,934,178 or 2.5% from the FY15 budget. This rise is driven by higher departmental costs and increased TMPA capacity costs.

The Water Fund has budgeted a decrease in operating expenditures for FY16 compared to the FY15 budget of \$101,686 or 1.5% to \$6,796,353. Total expenditures for the Water Fund, including debt service and capital expenditures is budgeted to decrease by \$3,447,300, or 21.4% due to completion of capital projects and debt service costs savings as a result of refunded debt during FY15.

The Wastewater Fund budget for FY16 shows operating revenues of \$12,701,323, which is \$377,223 or 3.1% higher than the FY15 budget. Budgeted operating expenditures for FY16 are \$6,790,911 which is \$268,468 or 3.8% less than the FY15 budget. Total expenditures including capital projects and debt service are projected to decrease during FY16 by \$3,085,259, or 15.4% due to completed capital projects and debt service cost decreases.

The Solid Waste Fund budget for FY15 shows total revenues of \$7,913,293. This is \$156,129 or 2.0% more than the FY15 budget. The FY16 budgeted operating expenditures are projected to be \$5,438,593, which is an increase of \$7,624 or 0.1% from the FY15 budget. Total expenditures are budgeted for \$8,066,646 in FY16 which is a \$589,299 decrease from FY15. This is primarily due to capital expenditure decreases resulting from the purchase of new Solid Waste trucks FY15.

City of Bryan, Texas

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2015
(Unaudited)

Requests for Information

This financial report is designed to provide a general overview of the City of Bryan's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Bryan, Fiscal Services Department, Attention: Chief Financial Officer, P.O. Box 1000, Bryan, Texas 77805-1000 or visit our website at <http://www.bryantx.gov>.



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CITY OF BRYAN, TEXAS

Statement of Net Position

As of September 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Bryan Business Council, Inc.
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 52,416,619	\$ 70,024,971	\$ 122,441,590	\$ 1,417,098
Investments	16,225,385	5,567,558	21,792,943	-
Receivables:				
Accounts	5,659,943	24,965,921	30,625,864	35,511
Less allowance for uncollectible	(3,258,890)	(1,113,943)	(4,372,833)	-
Property taxes	1,184,655	-	1,184,655	-
Less allowance for uncollectible	(1,012,704)	-	(1,012,704)	-
Sales taxes	3,054,823	-	3,054,823	-
Grants	233,248	75,001	308,249	-
Interest	34,447	95,907	130,354	-
Notes	450,000	-	450,000	156,549
Internal balances	1,291,821	(1,291,821)	-	-
Inventories	206,131	4,295,203	4,501,334	-
Under-recovered fuel cost	-	1,030,124	1,030,124	-
Under-recovered regulatory fee	-	1,339,933	1,339,933	-
Prepaid energy costs	-	8,300,717	8,300,717	-
Prepaid and other assets	9,672	1,007,321	1,016,993	20,000
Restricted assets:				
Permanently restricted:				
Investments	895,724	-	895,724	-
Total current assets	<u>77,390,874</u>	<u>114,296,892</u>	<u>191,687,766</u>	<u>1,629,158</u>
Noncurrent assets:				
Receivables:				
Assessments	115,056	-	115,056	-
Notes	4,166,519	20,631	4,187,150	180,703
Prepaid energy costs	-	20,726,973	20,726,973	-
Restricted assets:				
Cash and cash equivalents	-	5,679,135	5,679,135	-
Investments	-	37,545,495	37,545,495	-
Investment in BVSWMMA	-	13,588,808	13,588,808	-
Investment in Economic Development Foundation	228,663	-	228,663	-
Capital assets:				
Land	11,591,736	16,701,003	28,292,739	1,474,150
Buildings	38,783,545	1,920,180	40,703,725	-
Improvements other than buildings	32,198,451	738,269,339	770,467,790	207,477
Machinery and equipment	31,914,180	13,813,251	45,727,431	-
Infrastructure	186,160,966	-	186,160,966	-
Construction in progress	4,091,755	22,128,882	26,220,637	46,027
Less accumulated depreciation	(153,235,476)	(259,081,579)	(412,317,055)	(100,839)
Total capital assets	<u>151,505,157</u>	<u>533,751,076</u>	<u>685,256,233</u>	<u>1,626,815</u>
Total noncurrent assets	<u>156,015,395</u>	<u>611,312,118</u>	<u>767,327,513</u>	<u>1,807,518</u>
Total assets	<u>\$ 233,406,269</u>	<u>\$ 725,609,010</u>	<u>\$ 959,015,279</u>	<u>\$ 3,436,676</u>
<u>Deferred outflows</u>				
Accumulated decrease in fair value of of hedging derivatives	\$ -	\$ 17,801,026	\$ 17,801,026	\$ -
Pensions	4,975,222	2,850,801	7,826,023	-
Unamortized loss on refunded debt	1,637,562	505,473	2,143,035	-
Total deferred outflows	<u>\$ 6,612,784</u>	<u>\$ 21,157,300</u>	<u>\$ 27,770,084</u>	<u>\$ -</u>

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Bryan Business Council, Inc.
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	\$ 3,116,922	\$ 11,660,455	\$ 14,777,377	\$ 26,266
Accrued liabilities and retainage	3,067,994	1,652,630	4,720,624	-
Claims	1,658,311	-	1,658,311	-
Accrued vacation and sick pay	2,232,701	406,982	2,639,683	-
Unearned revenue	414,122	82,466	496,588	-
Derivative financial instruments	-	6,009,018	6,009,018	-
Deferred credits	117,682	-	117,682	-
Accrued interest	352,857	83	352,940	-
General obligation bonds	-	-	-	-
Certificates of obligation	-	-	-	-
Notes	-	-	-	50,643
Payable from restricted assets:				
Accounts payable	-	-	-	-
Derivative financial instruments	-	-	-	-
Accrued liabilities	-	774,191	774,191	-
Accrued interest	-	2,739,941	2,739,941	-
Over recovered fuel	-	2,173,575	2,173,575	-
Revenue bonds	-	15,375,001	15,375,001	-
General obligation bonds	4,926,492	1,414,181	6,340,673	-
Certificates of obligation	2,915,000	2,215,000	5,130,000	-
Customer deposits	152,368	5,125,834	5,278,202	-
Total current liabilities	18,954,449	49,629,357	68,583,806	76,909
Noncurrent liabilities:				
General obligation bonds	38,627,490	14,006,838	52,634,328	-
Certificates of obligation	37,865,021	43,560,000	81,425,021	-
Revenue bonds	-	203,110,000	203,110,000	-
Unamortized bond premiums (discounts)	806,053	6,618,518	7,424,571	-
Unamortized gain on refunded debt	-	-	-	-
Notes	-	-	-	88,598
Claims	1,092,875	-	1,092,875	-
Derivative financial instruments	-	11,792,008	11,792,008	-
Net pension liability (NPL)	24,990,390	13,897,248	38,887,638	-
Other post employment benefits (OPEB)	2,082,820	931,544	3,014,364	-
Accrued vacation and sick pay	4,744,489	864,833	5,609,322	-
Other noncurrent liabilities	-	306,351	306,351	-
Total noncurrent liabilities	110,209,138	295,087,340	405,296,478	88,598
Total liabilities	129,163,587	344,716,697	473,880,284	165,507
<u>Deferred Inflows</u>				
Pensions	881,500	505,099	1,386,599	-
Deferred regulatory liability	-	7,202,026	7,202,026	-
Total deferred inflows	881,500	7,707,125	8,588,625	-
<u>Net Position</u>				
Net investment in capital assets	68,002,663	281,007,278	349,009,941	1,487,574
Restricted for:				
BVSWMA, Inc.	-	13,588,808	13,588,808	-
Economic Development Foundation	228,663	-	228,663	-
Debt retirement	-	10,552,883	10,552,883	-
Debt service	5,727,444	6,911,885	12,639,329	-
Perpetual care:				
Expendable	1,021,900	-	1,021,900	-
Nonexpendable	895,724	-	895,724	-
Rate stabilization	-	1,687,392	1,687,392	-
Collateral deposits	-	6,679,019	6,679,019	-
Noncurrent notes receivable	4,166,519	-	4,166,519	-
Police activities	78,500	-	78,500	-
Court activities	468,114	-	468,114	-
Record preservation	80,057	-	80,057	-
Capital improvements	7,465,788	-	7,465,788	-
TIRZ Development	706,544	-	706,544	-
Other purposes	2,133,540	-	2,133,540	-
Unrestricted	18,998,510	73,915,223	92,913,733	1,783,595
Total net position	\$ 109,973,966	\$ 394,342,488	\$ 504,316,454	\$ 3,271,169

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

CITY OF BRYAN, TEXAS
Statement of Activities

For the Fiscal Year Ended September 30, 2015

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Position			Component Unit Bryan Business Council, Inc.	
	Expenses	Fees, Fines and Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities		Total
Primary government:								
Governmental activities:								
General government and administration	\$ 9,775,235	\$ 337,174	\$ -	\$ -	\$ (9,438,061)	\$ -	\$ -	
Development services	5,403,697	625,106	1,353,433	-	(3,425,158)	-	-	
Public works services	16,894,814	-	-	2,049,078	(14,845,736)	-	-	
Public safety	33,648,379	4,684,494	332,099	-	(28,631,786)	-	-	
Cultural and recreational	8,374,038	1,279,525	1,084,115	-	(6,010,398)	-	-	
Interest on long-term debt	3,299,163	-	-	-	(3,299,163)	-	-	
Total governmental activities	77,395,326	6,926,299	2,769,647	2,049,078	(65,650,302)	-	-	
Business-type activities:								
Electric	171,705,349	184,252,089	-	-	12,546,740	12,546,740	-	
Rural electric	36,214,517	39,287,075	-	-	3,072,558	3,072,558	-	
Water	9,841,218	12,390,019	-	1,463,704	4,012,505	4,012,505	-	
Wastewater	9,935,489	12,883,147	-	1,292,238	4,239,896	4,239,896	-	
Other	7,860,010	12,608,721	-	-	4,748,711	4,748,711	-	
Total business-type activities	235,556,583	261,421,051	-	2,755,942	28,620,410	28,620,410	-	
Total primary government	312,951,909	268,347,350	2,769,647	4,805,020	(65,650,302)	28,620,410	(37,029,892)	
Component unit:								
Bryan Business Council, Inc.	\$ 216,253	\$ -	\$ 412,518	\$ -	\$ -	\$ -	\$ 196,265	
General revenues:								
Property taxes					28,039,989	-	28,039,989	
Sales taxes					17,788,430	-	17,788,430	
Franchise taxes					2,191,346	-	2,191,346	
Alcoholic beverage taxes					149,776	-	149,776	
Bingo taxes					267,434	-	267,434	
Hotel occupancy taxes					1,286,072	-	1,286,072	
Transportation and drainage assessments					6,553,176	-	6,553,176	
Unrestricted investment earnings					523,146	1,032,154	1,555,300	
Miscellaneous					3,512,707	3,240,871	6,753,578	
Special items - Gain on sale of power plant equipment					-	505,000	505,000	
Transfers (net)					14,789,653	(14,789,653)	-	
Total general revenues, special items, and transfers					75,101,729	(10,011,628)	65,090,101	
Change in net position					9,451,427	18,608,782	28,060,209	
Net position, October 1, 2014 as restated					100,522,539	375,733,706	476,256,245	
Net position, September 30, 2015					\$ 109,973,966	\$ 394,342,488	\$ 504,316,454	

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



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CITY OF BRYAN, TEXAS

Balance Sheet

Governmental Funds

As of September 30, 2015

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 25,677,449	\$ 1,441,187	\$ 21,379,381	\$ 48,498,017
Investments	8,395,413	471,620	6,996,280	15,863,313
Receivables:				
Accounts	4,872,397	-	725,706	5,598,103
Less allowance for uncollectible	(3,165,526)	-	(93,364)	(3,258,890)
Property taxes	832,210	352,445	-	1,184,655
Less allowance for uncollectible	(711,744)	(300,960)	-	(1,012,704)
Sales taxes	3,054,823	-	-	3,054,823
Assessments	115,056	-	-	115,056
Grants	365	-	232,883	233,248
Interest	16,921	948	14,049	31,918
Notes	16,519	4,600,000	-	4,616,519
Due from other funds	271,826	-	261,717	533,543
Prepaid and other assets	9,307	-	365	9,672
Total assets	<u>\$ 39,385,016</u>	<u>\$ 6,565,240</u>	<u>\$ 29,517,017</u>	<u>\$ 75,467,273</u>
<u>Liabilities, Deferred Inflows, and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 876,741	\$ -	\$ 1,962,329	\$ 2,839,070
Accrued liabilities	2,643,072	-	23,348	2,666,420
Retainage payable	-	-	365,189	365,189
Due to other funds	146,631	-	209,736	356,367
Customer deposits	152,368	-	-	152,368
Unearned revenue	-	450,000	-	450,000
Total liabilities	<u>3,818,812</u>	<u>450,000</u>	<u>2,560,602</u>	<u>6,829,414</u>
Deferred inflows:				
Deferred property taxes	82,743	34,939	-	117,682
Other deferred revenue	115,056	-	81,804	196,860
Total deferred inflows	<u>197,799</u>	<u>34,939</u>	<u>81,804</u>	<u>314,542</u>
Fund balances:				
Nonspendable	109,393	-	895,724	1,005,117
Restricted	720,583	6,080,301	11,235,668	18,036,552
Committed	2,384,963	-	14,752,573	17,137,536
Assigned	1,531,754	-	-	1,531,754
Unassigned	30,621,712	-	(9,354)	30,612,358
Total fund balances	<u>35,368,405</u>	<u>6,080,301</u>	<u>26,874,611</u>	<u>68,323,317</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 39,385,016</u>	<u>\$ 6,565,240</u>	<u>\$ 29,517,017</u>	<u>\$ 75,467,273</u>

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

CITY OF BRYAN, TEXAS

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
As of September 30, 2015

Total fund balances - governmental funds		\$ 68,323,317
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. (Includes net capital assets of the Internal service funds in the amount of \$127,543).		151,505,157
Other long-term assets are not available to pay for current-period expenditures and, therefore, are recorded as unearned in the funds.		232,740
The City's equity in the Economic Development Foundation is included in the Statement of Net Position but is not included at the fund level.		228,663
Internal service funds are used by management to charge the costs of risk management, employee health insurance benefits and central warehousing to individual funds. The assets and liabilities of the internal service funds related to governmental activities are included in the governmental activities in the statement of net position. (Net of amount allocated to business-type activities of \$(1,056,061) and net capital assets in the amount of \$127,543).		1,348,836
Interest payable on long-term debt does not require current financial resources, and therefore, is not reported as a liability in the governmental funds balance sheet.		(352,857)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds. These items are detailed below:		
General obligation bonds payable	\$ 43,553,982	
Certificates of obligation payable	40,780,021	
Deferred amount on refunding and premium charges on debt	(831,509)	
Net Pension Liability	24,990,390	
Deferred amounts on pensions (net)	(4,093,722)	
Accrued vacation and sick leave (Net of internal service fund liability in the amount of \$64,463)	6,912,728	
		<u>(111,311,890)</u>
Net position of governmental activities		<u>\$ 109,973,966</u>

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

CITY OF BRYAN, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended September 30, 2015

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 18,090,087	\$ 7,574,218	\$ 2,610,275	\$ 28,274,580
Sales taxes	17,788,430	-	-	17,788,430
Franchise taxes	2,191,346	-	-	2,191,346
Alcoholic beverage taxes	149,776	-	-	149,776
Bingo taxes	267,434	-	-	267,434
Hotel occupancy taxes	-	-	1,286,072	1,286,072
Transportation and drainage assessments	-	-	6,553,176	6,553,176
Charges for services	4,538,814	-	-	4,538,814
Fines and court charges	1,723,017	-	39,362	1,762,379
Licenses and permits	625,106	-	-	625,106
Grants	1,284,034	-	1,485,613	2,769,647
Investment earnings	247,920	32,728	205,894	486,542
Other	1,204,026	435,417	477,821	2,117,264
Total revenues	<u>48,109,990</u>	<u>8,042,363</u>	<u>12,658,213</u>	<u>68,810,566</u>
Expenditures:				
Current:				
General government and administration	13,667,518	-	-	13,667,518
Development services	3,058,936	-	1,565,643	4,624,579
Public works services	3,422,137	-	7,046,090	10,468,227
Public safety	30,850,086	-	103,942	30,954,028
Cultural and recreational	6,560,486	-	644,876	7,205,362
Administrative reimbursement	(3,476,440)	-	-	(3,476,440)
Capital outlay	2,918,679	-	1,849,557	4,768,236
Debt service:				
Bond and principal retirement	-	7,141,927	-	7,141,927
Interest and fiscal charges	-	3,370,384	-	3,370,384
Debt issuance costs	-	67,859	-	67,859
Total expenditures	<u>57,001,402</u>	<u>10,580,170</u>	<u>11,210,108</u>	<u>78,791,680</u>
Excess (deficiencies) of revenues over (under) expenditures	<u>(8,891,412)</u>	<u>(2,537,807)</u>	<u>1,448,105</u>	<u>(9,981,114)</u>
Other financing sources (uses):				
Sales of capital assets	1,591,734	-	-	1,591,734
Transfers in	15,303,568	2,418,836	405,000	18,127,404
Transfers out	(814,657)	-	(2,523,094)	(3,337,751)
Long-term debt issued	-	-	-	-
Refunding bonds issued	-	11,745,000	-	11,745,000
Premium on refunding bonds	-	557,141	-	557,141
Premium on long-term debt issued	-	-	-	-
Payment to refunded bond escrow agent	-	(12,231,268)	-	(12,231,268)
Total other financing sources (uses)	<u>16,080,645</u>	<u>2,489,709</u>	<u>(2,118,094)</u>	<u>16,452,260</u>
Net change in fund balances	7,189,233	(48,098)	(669,989)	6,471,146
Fund balances, October 1, 2014	<u>28,179,172</u>	<u>6,128,399</u>	<u>27,544,600</u>	<u>61,852,171</u>
Fund balances, September 30, 2015	<u>\$ 35,368,405</u>	<u>\$ 6,080,301</u>	<u>\$ 26,874,611</u>	<u>\$ 68,323,317</u>

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

CITY OF BRYAN, TEXAS
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended September 30, 2015

Net change in fund balances - total governmental funds	\$ 6,471,146
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	4,768,236
The City's investment in the Economic Development Foundation is reported at the government-wide level but not at the fund level.	761,895
The net effect of various transactions involving capital assets (i.e., sales and contributions) is to increase net position.	239,366
Depreciation expense on capital assets reported in the government-wide statement of activities does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(11,211,655)
The issuance of long-term debt 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 has any effect on net position. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is detailed below:	
General obligation refunding bonds issued	(11,745,000)
Payment to refunded bond escrow agent	12,231,268
Premium amount on refunding bond	(557,141)
Debt principal repayments	<u>7,141,927</u>
7,071,054	7,071,054
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.	1,800,784
Accrued interest expense on long-term debt is reported in the government-wide statement of activities, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.	139,080
Some property taxes will not be collected for several months after the city's fiscal year end, and are not considered "available" revenues in the governmental funds.	117,682
Some revenues reported in the governmental funds were earned in prior periods; and therefore, are not reported in the government-wide statement of activities.	(352,273)
Internal service funds are used by management to charge the costs of risk management, employee health insurance benefits and central warehousing to individual funds. The net revenue of the internal service funds related to governmental activities is reported with governmental activities (net of amount allocated to business-type activities of (\$407,014).	<u>(353,888)</u>
Change in net position of governmental activities.	<u>\$ 9,451,427</u>

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

CITY OF BRYAN, TEXAS
Statement of Net Position
Proprietary Funds
As of September 30, 2015

	Business-type Activities - Enterprise Funds						Governmental Activities
	City Electric Fund	Rural Electric Fund	Water Fund	Wastewater Fund	Other Enterprise Funds	Total Enterprise Funds	
Assets							
Current assets:							
Cash and cash equivalents	\$ 47,165,143	\$ 5,859,226	\$ 4,783,066	\$ 7,961,587	\$ 4,255,949	\$ 70,024,971	\$ 3,918,602
Investments	16,447,363	4,404,707	1,567,492	2,607,396	1,392,670	5,567,558	1,257,796
Accounts receivable	(709,738)	(130,879)	(76,930)	(105,864)	(90,532)	(1,113,943)	61,840
Less allowance for uncollectible	-	-	75,001	-	-	75,001	-
Grants receivable	83,618	-	3,824	5,669	2,796	95,907	2,529
Interest receivable	3,852,895	-	426,542	-	15,766	4,295,203	206,131
Inventories	4,910,629	-	466,132	337,955	224,989	5,939,705	95,360
Due from other funds	1,200,665	138,871	-	-	397	1,339,933	-
Under-recovered regulatory fee	-	1,030,124	-	-	-	1,030,124	-
Under-recovered fuel cost	8,300,717	-	-	-	-	8,300,717	-
Prepaid energy costs	1,007,321	-	-	-	-	1,007,321	-
Prepaid and other assets	82,258,613	11,302,049	9,161,835	12,393,166	6,412,755	121,528,418	5,542,258
Total current assets	20,726,973	-	-	-	-	20,726,973	-
Noncurrent assets:	12,721	7,910	-	-	-	20,631	-
Prepaid energy costs	-	-	-	-	-	-	-
Other noncurrent assets	-	-	-	-	-	-	-
Restricted assets:	1,644,655	308,635	1,574,445	2,151,400	-	5,679,135	-
Cash and cash equivalents	34,998,055	2,003,860	332,014	211,566	-	37,545,495	-
Investments	-	-	-	-	13,588,808	13,588,808	-
Investment in BVSWMA	-	-	-	-	-	-	-
Capital assets:	6,021,381	111,483	571,812	377,644	9,618,683	16,701,003	-
Land	-	-	222,294	444,492	1,253,394	1,920,180	23,420
Buildings	-	-	2,254,058	3,702,491	7,856,702	13,813,251	114,453
Equipment	412,203,114	88,633,153	116,042,632	117,684,204	3,706,236	738,269,339	188,658
Improvements other than buildings	9,003,716	3,492,202	3,099,426	6,452,214	81,324	22,128,882	-
Construction in progress	(144,714,362)	(27,821,169)	(37,509,985)	(41,051,768)	(7,984,295)	(259,081,579)	(198,988)
Less accumulated depreciation	282,513,849	64,415,669	84,680,237	87,609,277	14,532,044	533,751,076	127,543
Total capital assets (net of accumulated depreciation)	339,896,253	66,736,074	86,586,696	89,972,243	28,120,852	611,312,118	127,543
Total noncurrent assets	\$ 422,154,866	\$ 78,038,123	\$ 95,748,531	\$ 102,365,409	\$ 34,533,607	\$ 732,840,536	\$ 5,669,801
Total assets	\$ 17,801,026	\$ -	\$ -	\$ -	\$ -	\$ 17,801,026	\$ -
Accumulated decrease in fair value of hedging derivatives	2,033,780	-	238,754	287,753	290,514	2,850,801	-
Pensions	-	-	349,080	156,393	-	505,473	-
Unamortized loss on refunded debt	-	-	-	444,146	-	444,146	-
Total deferred outflows	\$ 19,834,806	\$ -	\$ 587,834	\$ -	\$ 290,514	\$ 21,157,300	\$ -

Governmental
Activities

Business-type Activities - Enterprise Funds

Liabilities	Business-type Activities - Enterprise Funds						Total Enterprise Funds	Internal Service Funds
	City Electric Fund	Rural Electric Fund	Water Fund	Wastewater Fund	Other Enterprise Funds	Total Enterprise Funds		
Current liabilities:								
Accounts payable	\$ 10,120,563	\$ 715,530	\$ 341,652	\$ 333,636	\$ 149,074	\$ 11,660,455	\$ 277,852	
Accrued liabilities	1,042,068	152,948	118,230	140,050	199,334	1,652,630	36,386	
Claims payable	-	-	-	-	-	-	1,765,039	
Due to other funds	1,317,356	4,858,109	-	-	-	6,175,465	36,776	
Unearned revenue	-	-	-	82,466	-	82,466	-	
Derivative financial instruments	6,009,018	-	-	-	-	6,009,018	-	
Accrued interest	-	-	-	-	83	83	-	
Accrued vacation and sick pay	192,348	22,934	64,989	67,189	59,522	406,982	43,835	
Current liabilities payable from restricted assets:								
Accrued liabilities	-	-	583,172	191,019	-	774,191	-	
Accrued interest	2,098,535	107,756	284,461	249,189	-	2,739,941	-	
Over recovered fuel	2,173,575	-	-	-	-	2,173,575	-	
Revenue bonds	11,505,000	485,000	1,586,365	1,798,636	-	15,375,001	-	
Certificates of obligation	1,005,000	220,000	476,503	513,497	-	2,215,000	-	
General obligation bonds	730,000	-	487,015	193,979	3,187	1,414,181	-	
Customer deposits	4,094,526	1,021,128	-	-	10,180	5,125,834	-	
Total current liabilities	40,287,989	7,583,405	3,942,387	3,569,661	421,380	55,804,822	2,159,888	
Noncurrent liabilities:								
Revenue bonds	150,265,000	6,660,000	20,344,543	25,840,457	-	203,110,000	-	
Certificates of obligation	33,020,000	4,950,000	2,690,556	2,899,444	-	43,560,000	-	
General obligation bonds	7,005,000	-	5,087,708	1,892,113	22,017	14,006,838	-	
Notes	-	-	-	-	-	-	-	
Unamortized bond premiums (discounts)	6,450,082	141,705	28,076	(1,345)	-	6,618,518	-	
Claims payable	-	-	-	-	-	-	986,147	
Derivative financial instruments	11,792,008	-	-	-	-	11,792,008	-	
Net pension liability	10,004,206	-	1,117,136	1,397,966	1,377,940	13,897,248	-	
Other post employment benefits (OPEB)	572,543	-	114,509	89,750	154,742	931,544	2,082,820	
Accrued liabilities	306,351	-	-	-	-	306,351	-	
Accrued vacation and sick pay	408,739	48,735	138,101	142,776	126,482	864,833	20,628	
Total noncurrent liabilities	219,823,929	11,800,440	29,520,629	32,261,161	1,681,181	295,087,340	3,089,595	
Total liabilities	260,111,918	19,383,845	33,463,016	35,830,822	2,102,561	350,892,162	5,249,483	
Deferred Inflows								
Pensions	\$ 360,341	\$ -	\$ 42,302	\$ 50,983	\$ 51,473	\$ 505,099	\$ -	
Deferred regulatory liability	943,521	6,258,505	-	-	-	7,202,026	-	
Total deferred inflows	\$ 1,303,862	\$ 6,258,505	\$ 42,302	\$ 50,983	\$ 51,473	\$ 7,707,125	\$ -	
Net Position								
Net investment in capital assets	111,918,177	46,433,208	53,856,796	54,348,671	14,506,840	281,063,692	127,543	
Restricted for:								
BVSWMIA	-	-	-	-	13,588,808	13,588,808	-	
Debt retirement	10,552,883	-	-	-	-	10,552,883	-	
Debt service	3,252,939	450,862	1,161,501	2,046,583	-	6,911,885	-	
Rate stabilization	1,687,392	-	-	-	-	1,687,392	-	
Collateral deposits	6,679,019	-	-	-	-	6,679,019	-	
Unrestricted	46,483,482	5,511,703	7,812,750	10,532,496	4,574,439	74,914,870	292,775	
Total net position	\$ 180,573,892	\$ 52,395,773	\$ 62,831,047	\$ 66,927,750	\$ 32,670,087	\$ 395,398,549	\$ 420,318	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						(1,056,061)		
Net position of business-type activities						\$ 394,342,488		

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

CITY OF BRYAN, TEXAS
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended September 30, 2015

	Business-type Activities - Enterprise Funds						Governmental Activities
	City Electric Fund	Rural Electric Fund	Water Fund	Wastewater Fund	Other Enterprise Funds	Total Enterprise Funds	
Operating revenues:							
Electrical system	\$ 184,252,089	\$ 39,287,075	\$ -	\$ -	\$ -	\$ 223,539,164	\$ -
Water system	-	-	12,390,019	-	-	12,390,019	-
Sewer system	-	-	-	12,883,147	-	12,883,147	-
Other	1,971,432	-	-	-	10,656,231	12,627,663	11,156,972
Total operating revenues	<u>186,223,521</u>	<u>39,287,075</u>	<u>12,390,019</u>	<u>12,883,147</u>	<u>10,656,231</u>	<u>261,439,993</u>	<u>11,156,972</u>
Operating expenses:							
Personnel services	10,154,424	486,813	2,147,384	2,565,189	2,700,108	18,053,918	655,224
Electric operations	122,456,678	32,094,082	-	-	-	154,550,760	-
Maintenance	4,525,063	513,023	749,373	1,077,904	422,878	7,288,241	2,629
Claims	-	-	-	-	-	-	8,941,082
Other services and charges	985,529	-	1,989,763	1,350,267	1,793,646	6,119,205	2,913,245
Other expenses	1,851,048	-	208,982	381,129	805,947	3,247,106	30,859
General and administrative	2,421,146	170,909	1,125,886	1,136,415	1,106,237	5,960,593	-
Total operating expenses	<u>142,393,888</u>	<u>33,264,827</u>	<u>6,221,388</u>	<u>6,510,904</u>	<u>6,828,816</u>	<u>195,219,823</u>	<u>12,543,039</u>
before depreciation and amortization	43,829,633	6,024,248	6,168,631	6,372,243	3,827,415	66,220,170	(1,386,067)
Operating income (loss) before depreciation and amortization	20,304,460	2,452,264	2,702,592	2,691,001	961,938	29,112,255	11,321
Depreciation and amortization	23,525,173	3,569,984	3,466,039	3,681,242	2,865,477	37,107,915	(1,397,388)
Operating income (loss)							
Nonoperating revenues (expenses):							
Investment earnings	770,945	75,800	60,478	85,386	39,545	1,032,154	36,604
Interest expense	(8,761,732)	(497,426)	(871,428)	(685,535)	(1,370)	(10,817,491)	-
Grants	-	-	-	-	54,541	54,541	-
Distributive share of BVSWMA net income	-	-	-	-	679,322	679,322	-
Other - net	1,529,782	-	341,043	188,711	428,530	2,488,066	599,882
Total nonoperating revenues (expenses)	<u>(6,461,005)</u>	<u>(421,626)</u>	<u>(469,907)</u>	<u>(411,438)</u>	<u>1,200,568</u>	<u>(6,563,408)</u>	<u>636,486</u>
Income (loss) before contributions, transfers and special items	17,064,168	3,148,358	2,996,132	3,269,804	4,066,045	30,544,507	(760,902)
Special items - gain on sale of power plant equipment	505,000	-	-	-	-	505,000	-
Capital contributions	-	-	1,463,704	1,292,238	-	2,755,942	-
Transfers in	-	-	32,567	34,500	216,379	283,446	150,000
Transfers out	(11,411,380)	-	(641,959)	(644,754)	(2,375,006)	(15,073,099)	(150,000)
Change in net position	<u>6,157,788</u>	<u>3,148,358</u>	<u>3,850,444</u>	<u>3,951,788</u>	<u>1,907,418</u>	<u>19,015,796</u>	<u>(760,902)</u>
Net position, October 1, 2014 as restated	174,416,104	49,247,415	58,980,603	62,975,962	30,762,669	1,181,220	
Net position, September 30, 2015	<u>\$ 180,573,892</u>	<u>\$ 52,395,773</u>	<u>\$ 62,831,047</u>	<u>\$ 66,927,750</u>	<u>\$ 32,670,087</u>	<u>\$ 420,318</u>	<u>\$ 420,318</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.						(407,014)	
Change in net position of business-type activities.							<u>\$ 18,608,782</u>

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



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CITY OF BRYAN, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2015

	Business-type Activities - Enterprise Funds						Governmental Activities
	City Electric Fund	Rural Electric Fund	Water Fund	Wastewater Fund	Other Enterprise Funds	Total Enterprise Funds	
Cash flows from operating activities:							
Receipts from customers and users	\$ 187,678,205	\$ 38,707,792	\$ 11,870,597	\$ 12,842,820	\$ 10,633,709	\$ 261,733,123	\$ 4,272,562
Receipts for interfund services provided	-	-	-	-	-	-	8,428,367
Payments to suppliers	(138,237,992)	(33,882,043)	(2,961,034)	(2,708,748)	(3,644,265)	(181,434,082)	(13,075,122)
Payments to employees	(10,372,870)	(467,337)	(2,148,078)	(2,545,008)	(2,691,083)	(18,224,376)	(654,874)
Receipts for miscellaneous revenues	-	-	341,043	188,711	413,750	943,504	599,357
Payments for interfund services used	-	-	(1,125,886)	(1,136,415)	(475,342)	(2,737,643)	-
Net cash provided (used) by operating activities	39,067,343	4,358,412	5,976,642	6,641,360	4,236,769	60,280,526	(429,710)
Cash flows from noncapital financing activities:							
Transfers in	1,529,782	-	32,567	34,500	216,379	1,813,228	150,000
Transfers out	(11,411,380)	-	(641,959)	(644,754)	(2,375,006)	(15,073,099)	(150,000)
Net cash (used) by noncapital financing activities	(9,881,598)	-	(609,392)	(610,254)	(2,158,627)	(13,259,871)	-
Cash flows from capital and related financing activities:							
Acquisition and construction of capital assets	(17,445,453)	(7,091,923)	(2,868,917)	(3,231,509)	(1,330,033)	(31,967,835)	(60,666)
Grant proceeds	-	-	-	-	54,541	54,541	-
Revenue bond proceeds	46,675	-	-	-	-	46,675	-
Bond Issuance Costs	(44,691)	-	-	-	-	(44,691)	-
Principal paid on outstanding bonds	(12,560,000)	(690,000)	(2,463,386)	(2,517,209)	(2,477)	(18,233,072)	-
Payment to escrow agent	(9,804,526)	(540,969)	(1,310,819)	(1,092,953)	(710)	(12,749,977)	-
Net cash (used) by capital and related financing activities	(39,807,995)	(8,322,892)	(6,643,122)	(6,841,671)	(1,278,679)	(62,894,359)	(60,666)
Cash flows from investing activities:							
Purchase of investment securities	(7,993,406)	-	(657,070)	(1,020,613)	(569,791)	(10,240,880)	(447,772)
Sale of investment securities	2,000,000	-	720,349	894,799	226,635	3,841,783	402,243
Proceeds from sale of capital assets	505,000	-	-	-	-	505,000	-
Collateral deposits to counterparties	(5,000,000)	-	-	-	-	(5,000,000)	-
Interest on investments	493,568	74,668	59,537	83,725	39,317	750,815	36,394
Net cash provided (used) by investing activities	(9,994,838)	74,668	122,816	(42,089)	(303,839)	(10,143,282)	(9,135)
Net increase (decrease) in cash and cash equivalents	(20,617,087)	(3,889,812)	(1,153,056)	(852,654)	495,624	(26,016,985)	(499,511)
Cash and cash equivalents, October 1, 2014	69,426,885	10,057,673	7,510,567	10,965,641	3,760,325	101,721,091	4,418,113
Cash and cash equivalents, September 30, 2015	\$ 48,809,798	\$ 6,167,861	\$ 6,357,511	\$ 10,112,987	\$ 4,255,949	\$ 75,704,106	\$ 3,918,602

	Business-type Activities - Enterprise Funds						Governmental Activities
	City Electric Fund	Rural Electric Fund	Water Fund	Wastewater Fund	Other Enterprise Funds	Total Enterprise Funds	
Reconciliation of operating income to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 23,525,173	\$ 3,569,984	\$ 3,466,039	\$ 3,681,242	\$ 2,865,477	\$ 37,107,915	\$ (1,397,388)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities							
Depreciation and amortization	20,304,460	2,452,264	2,702,592	2,691,001	961,938	29,112,255	11,321
Bad debts	125,520	25,324	-	-	-	150,844	-
Receipts for miscellaneous revenues	-	-	341,043	188,711	413,750	943,504	599,882
Change in assets and liabilities:							
Change in accounts receivable	1,332,743	(470,361)	(425,296)	(776)	(5,168)	431,142	26,054
Change in inventory	409,173	-	(57,797)	-	(1,164)	350,212	75,427
Change in due from other funds	(920,269)	-	(94,126)	(39,551)	(30,874)	(1,084,820)	(53,669)
Change in over (under) recovered fuel	(3,404,415)	(2,080,702)	-	-	-	(5,485,117)	-
Change in under-recovered regulatory fee	(67,227)	(37,539)	-	-	-	(104,766)	-
Change in other assets	(45,895)	-	2,767	725	2,904	(39,499)	1,705
Deferred outflows/inflows of resources - pensions	(1,673,439)	-	-	-	-	(1,673,439)	-
Change in accounts payable	(2,418,609)	(184,363)	(44,207)	(20,496)	6,809	(2,660,866)	9,487
Change in accrued liabilities	7,309	19,476	105,171	134,558	19,548	286,062	134,213
Change in other liabilities	-	-	-	8,000	-	8,000	-
Change in customer deposits	121,942	29,948	-	-	(95)	151,795	-
Change in due to other funds	323,193	1,034,381	-	-	-	1,357,574	36,776
Change in claims payable	-	-	-	-	-	-	128,679
Change in accrued vacation and sick pay	-	-	7,205	41,388	28,974	77,567	(2,197)
Change in post employee benefits	1,447,684	-	(26,749)	(43,442)	(25,330)	1,352,163	-
Net cash provided (used) by operating activities	\$ 39,067,343	\$ 4,358,412	\$ 5,976,642	\$ 6,641,360	\$ 4,236,769	\$ 60,280,526	\$ (429,710)
Reconciliation of total cash and cash equivalents:							
Current assets - cash and cash equivalents	\$ 47,165,143	\$ 5,859,226	\$ 4,783,066	\$ 7,961,587	\$ 4,255,949	\$ 70,024,971	\$ 3,918,602
Restricted assets - cash and cash equivalents	1,644,655	308,635	1,574,445	2,151,400	-	5,679,135	-
Total cash and cash equivalents	\$ 48,809,798	\$ 6,167,861	\$ 6,357,511	\$ 10,112,987	\$ 4,255,949	\$ 75,704,106	\$ 3,918,602

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

CITY OF BRYAN, TEXAS
Statement of Fiduciary Net Position
Payroll Fund
As of September 30, 2015

Assets

Cash and cash equivalents	\$ 1,004,157
Accounts receivable	196,744
Total assets	<u>\$ 1,200,901</u>

Liabilities

Accounts payable	\$ 1,200,901
Total liabilities	<u>\$ 1,200,901</u>

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

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Bryan, Texas (the “City”) is a municipal corporation which operates under a Council-Manager form of government. The accompanying financial statements present the City and its component units, which are entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations. A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended component units

BTU QSE Services, Inc. (“QSE”) was created as a result of deregulation of the electric market within the state of Texas. The QSE exists to perform qualified scheduling services of electrical generation for the City of Bryan City Electric Fund. The QSE is a separate legal entity whose primary purpose is to provide a service to the City. The BTU Board of Directors serves as the board of the QSE. The QSE is reported as an enterprise fund and is combined with City Electric Fund.

Bryan Commerce and Development Incorporated (“BCD”) was created to assist and act on behalf of the City in promoting, developing, encouraging, and maintaining employment, commerce, economic development, and public facility development in the City. The Bryan City Council serves as the Board of Directors of BCD. Since the elected officials of the City are financially accountable for BCD and the primary purpose of BCD is to provide a service to the City, BCD is considered a blended component unit. BCD is not separately presented here as it is separately presented in the supplementary section of this report. See page 128.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

The condensed combined statements of net position for the City Electric System and QSE as of September 30, 2015 are as follows:

Condensed Statements of Net Position

	September 30, 2015		
	<u>BTU City</u>	<u>QSE</u>	<u>Combined</u>
Current assets	\$ 77,995,483	\$ 4,263,130	\$ 82,258,613
Capital assets, net	282,313,937	199,912	282,513,849
Restricted assets	36,642,710	-	36,642,710
Other	<u>20,739,694</u>	<u>-</u>	<u>20,739,694</u>
Total assets	417,691,824	4,463,042	422,154,866
Deferred outflows	19,834,806	-	19,834,806
Current liabilities	16,338,943	2,342,410	18,681,353
Current liabilities payable from restricted assets	21,606,636	-	21,606,636
Noncurrent liabilities	<u>219,823,929</u>	<u>-</u>	<u>219,823,929</u>
Total liabilities	257,769,508	2,342,410	260,111,918
Deferred inflows	1,303,862	-	1,303,862
Net position:			
Net investment in capital assets	111,718,265	199,912	111,918,177
Restricted	22,172,233	-	22,172,233
Unrestricted	<u>44,562,762</u>	<u>1,920,720</u>	<u>46,483,482</u>
Total net position	<u>\$ 178,453,260</u>	<u>\$ 2,120,632</u>	<u>\$ 180,573,892</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

The condensed combined statements of revenues, expenses, and changes in net position for the City Electric System and QSE for the year ended September 30, 2015, are as follows:

Condensed Statements of Revenues, Expenses And Changes in Net Position

	Fiscal Year Ended September 30, 2015		
	BTU City	QSE	Combined
Operating revenues	\$ 184,541,033	\$ 1,682,488	\$ 186,223,521
Operating expenses	<u>161,015,859</u>	<u>1,682,488</u>	<u>162,698,348</u>
Operating income	23,525,173	-	23,525,173
Investment income	770,945	-	770,945
Interest expense	<u>(8,761,732)</u>	<u>-</u>	<u>(8,761,732)</u>
Income before operating transfers & special items	15,534,386	-	15,534,386
Special items	505,000	-	505,000
Other non-operating, net	1,529,782	-	1,529,782
Transfers, net	<u>(11,411,380)</u>	<u>-</u>	<u>(11,411,380)</u>
Changes in net position	6,157,788	-	6,157,788
Net position, beginning of period	<u>179,430,914</u>	<u>2,120,632</u>	<u>181,551,546</u>
Prior period adjustment	(7,135,442)	-	(7,135,442)
Net position, beginning of period, restated	<u>172,295,472</u>	<u>2,120,632</u>	<u>174,416,104</u>
Net position, end of period	<u>\$ 178,453,260</u>	<u>\$ 2,120,632</u>	<u>\$ 180,573,892</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Discretely presented component unit

The City has included the Bryan Business Council, Inc. ("BBC") in its financial statements as a discretely presented component unit, since the City is financially accountable for the entity. The BBC, a non-profit corporation, was originally formed to market properties within the City owned Bryan Industrial Park. In addition, the BBC currently serves as an economic development arm of the City, and as such, provides a financial benefit to the City. The City provides coverage for the board of directors under the City's officer and employee liability plan and provides limited administrative support to the BBC. The BBC's board of directors is appointed by and serves at the discretion of the Bryan City Council. The Bryan City Council also directs the work plan and objectives of the BBC. Financial statements may be obtained by contacting:

The Bryan Business Council, Inc.
P. O. Box 1000
Bryan, Texas 77805

Cooperative Efforts

In January 2010, the City of Bryan entered into an Interlocal Cooperation Agreement with the City of College Station to create a local government corporation under Subchapter D of Chapter 431, Texas Transportation Code, to be known as the Brazos Valley Solid Waste Management Agency, Inc. ("BVSWMA"). The purpose of this Corporation is to finance, construct, own, manage and operate the existing and future municipal solid waste landfill facilities on behalf of the two cities. The City's one-half undivided interest in BVSWMA is reported in the Solid Waste Fund (see Note 14).

The City's financial statements do not include the Texas Municipal Power Agency ("TMPA"). TMPA, a separate municipal corporation, is a joint venture entered into by the Texas cities of Bryan, Garland, Denton and Greenville for the purpose of obtaining the economic advantages of jointly financing, constructing and operating electric generating units and transmission grid to supply the cities' electric energy needs. The eight-member board of directors of TMPA includes two members appointed by the Bryan City Council. The City has an ongoing financial interest in TMPA due to the City's guarantee of a portion of TMPA's debt (see Note 13).

In 2009, the City of Bryan and Brazos County entered into an agreement to create the City of Bryan and Brazos County Economic Development Foundation Inc. ("BBCEDF"), a local government corporation formed under Subchapter D of Chapter 431 of the Texas Transportation Code. The BBCEDF was created to promote, develop, encourage, and maintain employment, commerce, and economic development in the City and the County (see Note 21).

Government-wide and fund financial statements

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as general revenues.

In fund financial statements (the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances, the Proprietary Funds Statement of Net Position and Statement of Revenues, Expenditures, and Changes in Net Position and the Fiduciary Fund Statement of Fiduciary Net Position), the City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate financial statements are presented for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column in the appropriate governmental fund and proprietary fund statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balances of current financial resources.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The Debt Service Fund accounts for the financial resources accumulated for the payment of principal, interest and related costs on long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted exclusively for debt service expenditures.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Other Governmental Funds is a summarization of all the non-major governmental funds, including Special Revenue, Capital Projects, and Permanent funds. The purpose and source of revenue for each Special Revenue fund is:

- Grant Fund – The source of funds is grants awarded to the City. The use of these funds is restricted by the terms of each grant.
- Community Development Fund – The source of funds is federal grants awarded to the City and use of the grant money is restricted by the terms of the grants. Primarily, the Community Development fund provides programs and services to low and moderate income persons.
- Hotel and Motel Room Tax Fund – The source of funds is the hotel occupancy tax. The use of these funds is restricted by the tax code of the State of Texas.
- Sidewalks Fund – This fund was established by City of Bryan Ordinance to track money from developers and property owners for the construction and maintenance of sidewalks.
- Court Technology Fund – This fund was established by City Ordinance and the source of funds is a \$4.00 fee for each case that comes before the City’s Municipal Court. These funds are restricted to technology necessary for the Court’s operations.
- Street Improvement Fund – Per the City of Bryan Code of Ordinances, a transportation user fee was established in order to provide a properly maintained road system. That fee is the source of revenue for this fund. The use of these funds is restricted to the purposes of planning, constructing, operating, monitoring and maintaining the transportation system of the City.
- Drainage Improvement Fund – The drainage fee was established by the City of Bryan Code of Ordinances and is the source of funds for this fund. These funds can only be used for the City’s drainage system.
- Tax Increment Reinvestment Zone #10 - The source of funds is the incremental property tax revenue from the appreciated appraised value of this TIRZ. The use of these funds is restricted to the geographical area within this zone.
- Tax Increment Reinvestment Zone #19 - The source of funds is the incremental property tax revenue from the appreciated appraised value of this TIRZ. The use of these funds is restricted to the geographical area within this zone.
- Tax Increment Reinvestment Zone #21 - The source of funds is the incremental property tax revenue from the appreciated appraised value of this TIRZ. The use of these funds is restricted to the geographical area within this zone.
- Tax Increment Reinvestment Zone #22 - The source of funds is the incremental property tax revenue from the appreciated appraised value of this TIRZ. The use of these funds is restricted to the geographical area within this zone.

Proprietary funds include enterprise and internal service funds and are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are a determination of net income, financial position and cash flow. All assets and liabilities are included in the Statement of Net Position.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds 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 non-operating revenues and expenses. At fiscal year end, the City accrues estimated unbilled revenues (excluding fuel expense) for electric, water, and wastewater customers.

The City reports the following major enterprise funds:

The City Electric Fund (Bryan Texas Utilities or BTU) accounts for the activities necessary to provide electric services to the residents of the City. These activities include administration, electric generation, distribution, transmission system operations and maintenance, new construction, financing and related debt service, and billing and collection.

The Rural Electric Fund accounts for the activities necessary to provide electric services to its customers living outside the City and within its service area. These activities include electric distribution, operations and maintenance, new construction, financing and related debt service. Administrative, billing and collection services are provided by the City Electric Fund.

The Water Fund accounts for the activities necessary to provide water services to the residents of the City. These activities include administrative services, water production and distribution system operations and maintenance, new construction, financing and related debt service. Billing and collection services are provided by the City Electric Fund under a contractual agreement.

The Wastewater Fund accounts for the activities necessary to provide wastewater collection and treatment services to the residents of the City. These activities include administrative services, wastewater system operations and maintenance, new construction, financing and related debt service. Billing and collection services are provided by the City Electric Fund under a contractual agreement.

Other Enterprise Funds is a summarization of all of the non-major enterprise funds of the City.

Internal service funds account for the City's central warehouse function, administration of self-funded health insurance provided to City employees, and the City's risk management activities, including general liability and workers' compensation claims and associated administrative expenses on a cost reimbursement basis.

The Payroll Fund, a fiduciary fund, accounts for the City's payroll funds. Each of the other funds contributes its respective share of personnel costs to the Payroll Fund. Employee wages, associated employment taxes and employee benefits are paid from the fund. This fund is excluded from the government-wide Statement of Net Position and Statement of Activities since the assets are not available to support the City's own programs.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Measurement focus, basis of accounting, and financial statement presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The government-wide financial statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The operating statements present increases (revenues) and decreases (expenses) in net total assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become 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 property taxes available if they are collected within sixty (60) days of the end of the current fiscal period. A one hundred twenty (120) day availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, investment income and intergovernmental revenues. Sales taxes collected and held by the State at year end on behalf of the City are also recognized as revenue. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All other revenue items are considered to be measurable and available when cash is received by the City.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are payments-in-lieu-of taxes, payments for use of rights-of-way, and other charges between the City's electric, water, wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers and applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes. Likewise, internally dedicated resources are reported as general revenues rather than as program revenues.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB").

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Budgetary Control

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds and the permanent funds. Capital project fund expenditures are effectively controlled through bond indenture provisions. Permanent funds are controlled by the trust agreements which established the funds. All unexpended appropriations lapse at fiscal year-end.

The City Charter establishes the City's fiscal year as the twelve-month period beginning October 1. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The City's departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. Prior to September 1, the City Manager submits to the City Council a proposed operating budget of estimated expenditures and revenues.

Upon receipt of the budget estimate the City Council publishes notice of and conducts public hearings on the proposed budget to obtain citizen comment. Prior to October 1, the budget is legally enacted through passage of the Appropriations Ordinance.

The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

Budgeted amounts are as originally adopted, or as amended in accordance with the annual appropriations ordinance.

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders and contracts) outstanding at fiscal year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the amounts will be re-appropriated and honored in the subsequent year.

Cash and Investments

Cash for all funds, including restricted cash, but excluding fiduciary fund cash and BTU City and Rural Electric cash, is pooled into common accounts in order to maximize investment opportunities. Each fund participating in the pools has an equity interest therein. Investment earnings on these monies are allocated based upon relative equity at month end. An individual fund's pooled cash and investments are available upon demand. Negative balances incurred in pooled cash at fiscal year-end are treated as interfund receivables of the General Fund and interfund payables of the deficit fund.

Marketable securities with an original maturity of three months or less are considered to be cash equivalents.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Investments of all funds are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Inventories

All inventories are valued at average cost. Inventories owned by the Enterprise and Internal Service Funds are accounted for using the consumption method (an expense is recorded when the inventory item is used).

Prepaid Energy Costs

The Texas Municipal Power Agency's ("TMPA") rates for the purchase of electricity billed to the City Electric System (BTU) are designed to cover TMPA's annual system costs including debt service costs. During the fiscal year ended September 30, 2010, BTU, along with other TMPA member cities, issued debt in their own names to refund a portion of TMPA debt and to finance certain capital improvements of TMPA. Such amounts have been accounted for as a prepayment of future energy costs on the Statement of Net Position and are amortized through 2019, the life of the associated debt. Additionally, in 2007, BTU entered into a purchase power agreement with a subsidiary of Shell Energy North America (U.S.), L.P. As a part of the agreement, BTU prepaid \$14,000,000 of generation capacity costs. The prepayment is being amortized over the life of the agreement which extends through December 31, 2017. The amortization of prepaid energy costs is reported on the Statement of Revenues, Expenses and Changes in Net Position in depreciation and amortization and totaled \$8,300,717 for the fiscal year ended September 30, 2015.

Other Prepaid Items

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.

Interfund Receivables and Payables

Short-term amounts owed between funds are classified as "Due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of both Governmental and Proprietary Funds.

The City allocates to the proprietary funds a percentage of indirect costs incurred to provide general and administrative support services to those funds that are paid through the General Fund.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for the proprietary funds.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. To the extent the construction is performed by the City, the cost includes payroll and related costs and certain general and administrative expenses. Interest is not capitalized in these accounts because interest is recovered concurrently in the proprietary fund rate structure. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$5,000 or more and three or more years of useful life.

Depreciation has been calculated on each class of depreciable property using the straight-line method over the following estimated service lives:

	<u>Estimated Service Lives</u>
Buildings & improvements	15 - 40 years
Water and wastewater systems	40 years
Electric system	20 - 30 years
Electric generating and related equipment	20 - 40 years
Improvements other than buildings	5 - 40 years
Machinery and equipment	3 - 10 years
Library books	15 years
Software	3 years
Streets	20 years
Sidewalks	20 years
Traffic signals	20 years
Storm drains	35 years
Bridges and culverts	40 years
Works of art and historical treasures	Determined on individual basis

Minimum Fund Balance Policy

The City has set financial guidelines regarding the retention of General Fund fund balances and reserves, to ensure that adequate funds are available to cover daily operating expenditures and in anticipation of economic downturns or natural disasters. The City Council has adopted a financial

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

standard to maintain a General Fund minimum fund balance of 60 days of annual operating expense totals.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from these estimates.

Bond Issuance Expenses

According to the financial reporting requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, bond issuance expenses are to be expensed as incurred. Issuance expenses are reported on the Statement of Activities on the Government-Wide Financial Statements for Governmental Activities in interest on long-term debt expense and on the Statement of Revenues, Expenses, and Changes in Fund Balances in interest and fiscal charges. These amounts totaled \$67,859 for the fiscal year ended September 30, 2015. Issuance expenses for Business-Type Activities are reported on the on the Statement of Revenues, Expenses and Changes in Net Position in interest expense and totaled \$44,691 for the fiscal year ended September 30, 2015.

Utility Revenues, Fuel Recovery, and Regulatory Recovery

BTU City and Rural Electric Customers are billed on the basis of monthly cycle billings. At year end, the City and Rural Electric Systems accrue estimated unbilled revenues for the period ended September 30. The difference between fuel revenue billed and fuel expense incurred is recorded as an addition or a reduction to fuel and purchased power expense, with a corresponding entry to accounts payable – over recovered fuel or accounts receivable – under recovered fuel, whichever is appropriate. At September 30, 2015 the City Electric System reported a current liability – over recovered fuel of \$2,173,575. At September 30, 2015 the Rural Electric System reported a current asset – under recovered fuel of \$1,030,124.

The difference between regulatory revenue billed and regulatory expense incurred is recorded as an addition or a reduction to transmission cost of service expense, with a corresponding entry to accounts payable – over recovered regulatory fee or accounts receivable – under recovered regulatory fee, whichever is appropriate. At September 30, 2015 the City Electric System reported a current asset – under recovered regulatory fee of \$1,200,665. At September 30, 2015 the Rural Electric System reported a current asset – under recovered regulatory fee of \$138,871.

Deferred Regulatory Liability

To better align certain benefits received with BTU's retail rate design, the City Electric System utilizes regulatory accounting treatment for the funds it collects from customers and developers as contributions of aid in construction (AIC) under GASB Statement No. 62, *Codification of Accounting*

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB & AICPA Pronouncements. The City Electric System recognizes AIC received as a deferred regulatory liability in the deferred inflows section of the Statements of Net Position. The deferred regulatory liability is amortized to depreciation expense over the life of the asset constructed. During the fiscal year ended September 30, 2015, the City Electric System collected \$320,599 of AIC. During the fiscal year ended September 30, 2015, the Rural Electric System collected \$1,841,186 of AIC.

Compensated Absences

The City's policy in effect during Fiscal Year 2015 allows employees to earn vacation leave at rates of 10 to 20 days (80 to 160 hours) per year with unlimited accumulation. Classified employees in the police and fire departments earn vacation at the rate of 15 days (120 hours) per year in accordance with Texas Local Government Code, Chapter 143, until the employee reaches 15 years employment at which time the rate of accrual becomes the same rate as that for other City employees. Upon termination, employees with a minimum of one year employment, who leave in good standing, are paid for unused vacation time up to a maximum of two times the employee's annual accrual rate at the time of separation.

City employees earn sick leave at a rate of 10 days (80 hours) per year and are permitted to accrue a maximum of 120 days (960 hours). Classified employees in the police and fire departments earn sick pay at the rate of 15 days (120 hours) per year in accordance with Texas Local Government Code, Chapter 143, with unlimited accumulation. Upon termination, classified police and fire department employees are paid for any unused sick leave up to a maximum of 90 days (720 hours or 1080 hours for shift firefighters). Non-classified employees are paid for accumulated sick leave up to a maximum of 240 hours upon termination, if they have a minimum of 480 hours accrued, dependent upon leaving in good standing and being continuously employed for a minimum of ten years in a regular, full time position immediately prior to separation.

The City accrues vacation and sick pay when the liability is incurred. Amounts related to governmental fund types are reported in the government-wide financial statements. The liabilities of the governmental fund types are typically liquidated by the General fund and Community Development fund. All amounts related to proprietary fund types are recorded within those funds.

Pensions - For 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 using the flow of economic resources measurement focus and the full accrual basis of accounting. 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.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

New Accounting Pronouncements, Changes in Accounting Principles, and Restatements

For the fiscal year ended September 30, 2015, the City adopted:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. Employers are required to report the difference between the actuarial total pension liability and the pension plan's fiduciary net position as the net pension liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated contributions. Implementation of this pronouncement requires the City to restate net position. (See also Note 9.)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*. This Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement, in conjunction with GASB Statement No. 68 requires the City to restate net position. (See also Note 9.)

The following table provides a reconciliation of net position at September 30, 2014, as previously reported to net position at September 30, 2014, as restated:

	Governmental Activities	Business Type Activities
Net Position, beginning of period - as previously reported	\$ 117,589,868	\$ 385,528,131
Net pension liability	(21,484,900)	(11,948,356)
Reverse net pension obligation as reported 9/30/14	4,417,571	2,453,427
Reverse pension accrual in Construction-in-Progress*	-	(299,496)
Net Position, beginning of period - as restated	<u>\$ 100,522,539</u>	<u>\$ 375,733,706</u>

*This reflects the amount of pension accruals that were allocated to construction-in-progress in prior periods. Amount is included as part of prior period adjustment and also restates prior period capital assets on the Statement of Net Position.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term *government combinations* refers to a variety of transactions and may be mergers, acquisitions, or transfers of operations. This standard sets forth definitions of each of these transaction types and sets forth the specific accounting and reporting treatment to be given for each. The Statement also provides accounting and reporting guidance for disposals of government operations that have been sold or transferred. The requirements of this Statement will be applied prospectively, beginning in the period of adoption. The effect of this guidance on the City will be limited to its impact on recognition of potential combination and disposal transactions into which the City may enter in the future. This pronouncement had no impact on the City in FY 2015.

The following guidance issued by GASB is effective for FY 2016 and is expected to be applicable to the City:

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

2. DEPOSITS AND INVESTMENTS

Deposits

State statutes require that all deposits in financial institutions be fully collateralized with depository insurance or by U.S. Government obligations or its agencies and instrumentalities; or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. At year-end, the City's demand deposits at BB&T were entirely covered by federal depository insurance or by collateral held by the Federal Reserve Bank in the City's name. At September 30, 2015 the amount of the City's demand deposits was \$70,203,708, BTU's demand deposits were \$55,308,235 and the combined bank balance was \$125,511,943.

Investments

The City's investment program is guided by State statutes, by various City ordinances and by the City's investment policy which amplifies those guidelines and prescribes how the City will operate its investment program in accordance with applicable laws and regulations.

The City's policy, which was adopted by the City Council on August 26, 2014, for the fiscal year ending September 30, 2015, sets forth (1) the basic principles governing the investment of City

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

funds; (2) the objectives of the City's investment program; and (3) the authority, responsibilities, limitations, documentation and requirements to be used in the administration and operation of the City's investment program.

Investments authorized by the investment policy are those approved by the revised State of Texas Public Funds Investment Act, Chapter 2256. These investments include the following:

- a. Direct obligations of the United States or its agencies and instrumentalities;
- b. Debentures or discount notes issued by, guaranteed by, or for which the credit of any Federal Agencies and Instrumentalities is pledged for payment;
- c. Direct obligations of the State of Texas or its agencies;
- d. Bonds or other obligations, the principal and interest of which is guaranteed by the full faith and credit of the United States;
- e. Certificates of deposit issued by state and national banks within the state of Texas that are secured by obligations qualified as acceptable collateral;
- f. Certificates of deposit issued by savings and loan associations within the state of Texas that are secured by obligations qualified as acceptable collateral;
- g. Bankers Acceptances eligible for discounting with the Federal Reserve maturing within 90 days;
- h. Commercial paper with a stated maturity of 180 days or less from the date of issuance that is rated not less than A-1, P-1, F-1 or its equivalent;
- i. Fully collateralized repurchase agreements having a defined termination date of 90 days or less, secured by qualified obligations, pledged with a third party, and placed through a primary government securities dealer as defined by the Federal Reserve, or a bank domiciled in Texas;
- j. Money-market mutual funds that are SEC registered no-load funds with dollar-weighted average portfolio maturity of 90 days or less;
- k. The City utilizes local government investment pools rated no lower than AAA or AAA-m from at least one nationally recognized rating agency;
- l. Hedging contracts and related security insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations;

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

- m. Reverse repurchase agreements are allowed only if the term does not exceed 90 days after delivery, and money received is used to acquire additional authorized investments with a maturity date not to exceed the expiration date stated in the agreement.

The City's investment policy prohibits the substitution of collateral on repurchase agreements without prior approval of the City.

At September 30, 2015, the fair market value of the City's portfolio is as follows:

	<u>Fair</u> <u>Value</u>	<u>Percentage</u> <u>of Total</u>	<u>Wgt. Avg.</u> <u>Maturity</u>	<u>Credit</u> <u>Risk</u>
U. S. Agencies and Instrumentalities	\$ 50,504,940	26.82%	1030	AAA
Collateral Deposits	6,679,019	3.55%		
Investments in Government Pools	8,013,378	4.25%	1 day	AAAm
Cash	123,138,055	65.38%	1 day	
Total Investments and deposits	<u>\$ 188,335,392</u>	<u>100.00%</u>		

Investments of all funds are stated at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

The revenue bond ordinances require disclosure of the investments held by the reserve fund. Sufficient investments exist in the pool to adequately meet reserve fund requirements. A detailed list of those securities is available in the office of the Chief Financial Officer.

Custodial Risk – City deposits in excess of the \$250,000 amount covered by the Federal Depository Insurance Corporation (“FDIC”) must be secured by authorized securities with a market value equal to or greater than 105% of the total deposits. At September 30, 2015, all City deposits were insured or adequately collateralized.

Interest Rate Risk – The City minimized the risk associated with the decline in market value of securities due to rising interest rates (interest rate risk) by maintaining a (“buy and hold”) strategy whereby investment securities are purchased with the intent to hold the securities in the portfolio until maturity. Additionally, the City's Investment Policy limits the weighted average maturity of all securities and Certificates of Deposit in the City's portfolio to no more than three years at any given time. The City's investment strategy acts to reduce interest rate risk through investing funds to meet cash flow requirements; monitoring the credit ratings of portfolio investments to assure compliance with the Investment Policy and the Texas Public Funds Investment Act; and investing in a diversified portfolio of assets including obligations of the United States and its agencies and instrumentalities, money market mutual funds, and government investment pools.

Credit Risk and Concentration of Credit Risk – In compliance with the City's Investment Policy and the Texas Public Funds Investment Act, the City managed credit risk through portfolio diversification

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

by limiting investments to avoid over concentration in securities from a specific issuer; limiting investments in securities with high credit risk; and investing in securities with varying maturities. At September 30, 2015, the City had no single investment category that exceeded 10% of investable funds.

Foreign Currency Risk – By virtue of the City’s Investment Policy and the Texas Public Funds Investment Act, the City is not exposed to foreign currency risk because the City is not authorized to maintain deposits or investments denominated in a foreign currency.

3. PROPERTY TAXES

Property tax is levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City Council.

Taxpayers have two options for paying property taxes, the full payment option or the split payment option. Taxpayers electing the full payment option have from October 1 of the tax year to January 31 of the following year to pay the full amount of taxes without penalty or interest. Taxes become delinquent on February 1. Any unpaid balance will accrue penalty and interest. Taxpayers electing the split payment option have from October 1 to November 30 of the tax year to pay half of the tax amount. The remaining half may be paid without penalty or interest any time on or before June 30 of the following year. Taxes become delinquent on July 1.

Taxpayers who were 65 years of age or older on January 1, and have filed an application for exemption may pay the taxes on their homestead in four equal installments. Quarterly payments are due January 31, March 31, May 31, and July 31.

Delinquent taxes are subject to interest and penalty charges. The tax rate to finance general governmental services including debt service was 62.999 cents per \$100 of assessed valuation for the year ended September 30, 2015. Under provisions adopted by the City, the maximum tax rate is limited to \$1.50 per \$100 of assessed valuation.

The Brazos County Appraisal District (“Appraisal District”) is responsible for the recording and appraisal of property for all taxing units in the County. The Appraisal District is required to assess property at 100% of its appraised value. Real property must be reappraised at least every three years. The City may, at its own expense, require annual reviews by the Appraisal District through various appeals and, if necessary, legal action. Under this system, if the rate, excluding tax rates for bonds and other contractual obligations adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The Brazos County Tax Office bills and collects the property taxes of the City.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015 was as follows:

	Balance October 1	Additions / Completions	Retirements / Adjustments	Balance September 30
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 11,591,736	\$ -	\$ -	\$ 11,591,736
Construction in Progress	5,247,939	1,851,749	(3,007,933)	4,091,755
Total capital assets not being depreciated	<u>16,839,675</u>	<u>1,851,749</u>	<u>(3,007,933)</u>	<u>15,683,491</u>
Capital assets, being depreciated				
Buildings	42,835,334	240,267	(4,292,056)	38,783,545
Equipment	30,465,396	2,156,858	(708,074)	31,914,180
Improvements	31,909,671	288,780	-	32,198,451
Infrastructure	180,812,706	5,348,260	-	186,160,966
Total capital assets being depreciated	<u>286,023,107</u>	<u>8,034,165</u>	<u>(5,000,130)</u>	<u>289,057,142</u>
Less accumulated depreciation for:				
Buildings	(15,924,316)	(1,049,946)	2,512,333	(14,461,929)
Equipment	(22,521,047)	(2,074,153)	678,084	(23,917,116)
Improvements	(21,488,712)	(1,308,673)	-	(22,797,385)
Infrastructure	(85,268,842)	(6,790,204)	-	(92,059,046)
Total accumulated depreciation	<u>(145,202,917)</u>	<u>(11,222,976)</u>	<u>3,190,417</u>	<u>(153,235,476)</u>
Total capital assets being depreciated, net	<u>140,820,190</u>	<u>(3,188,811)</u>	<u>(1,809,713)</u>	<u>135,821,666</u>
Governmental activities capital assets, net	<u>\$ 157,659,865</u>	<u>\$ (1,337,062)</u>	<u>\$ (4,817,646)</u>	<u>\$ 151,505,157</u>
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 16,701,003	\$ -	\$ -	\$ 16,701,003
Construction In Progress	65,424,449	30,293,749	(73,589,316)	22,128,882
Total capital assets not being depreciated	<u>82,125,452</u>	<u>30,293,749</u>	<u>(73,589,316)</u>	<u>38,829,885</u>
Capital assets, being depreciated				
Buildings	1,920,180	-	-	1,920,180
Equipment	13,192,580	1,306,565	(685,894)	13,813,251
Improvements	664,567,290	78,524,517	(4,822,468)	738,269,339
Total capital assets being depreciated	<u>679,680,050</u>	<u>79,831,082</u>	<u>(5,508,362)</u>	<u>754,002,770</u>
Less accumulated depreciation for:				
Buildings	(842,520)	(151,915)	-	(994,435)
Equipment	(9,425,510)	(1,045,122)	627,721	(9,842,911)
Improvements	(234,123,750)	(19,839,562)	5,719,079	(248,244,233)
Total accumulated depreciation	<u>(244,391,780)</u>	<u>(21,036,599)</u>	<u>6,346,800</u>	<u>(259,081,579)</u>
Total capital assets being depreciated, net	<u>435,288,270</u>	<u>58,794,483</u>	<u>838,438</u>	<u>494,921,191</u>
Business-type activities capital assets, net	<u>\$ 517,413,722</u>	<u>\$ 89,088,232</u>	<u>\$ (72,750,878)</u>	<u>\$ 533,751,076</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

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

Governmental activities:

General government and administration	\$ 1,298,100
Development services	732,242
Public works services	6,374,529
Public safety	1,743,124
Cultural and recreational	1,074,981
Total depreciation expense - Governmental activities	<u>\$ 11,222,976</u>

Business-type activities:

City Electric	\$ 12,033,227
Rural Electric	2,647,842
Water	2,702,592
Wastewater	2,691,000
Other Enterprise Funds	961,938
Total depreciation expense - Business-type activities	<u>\$ 21,036,599</u>

The City has active construction projects as of September 30, 2015. Total accumulated commitments for ongoing capital projects are composed of the following:

	<u>Committed</u>
Street improvements	\$ 8,584,499
Drainage improvements	1,162,500
Water system improvements	2,419,573
Wastewater system improvements	337,784
Total	<u>\$ 12,504,356</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions (except vacation and sick pay and claims and judgments) for the year ended September 30, 2015:

	Beginning Balance	Issued	Matured/ Refunded	Ending Balance	Due within one year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 48,590,908	\$ 11,745,000	\$ 16,781,926	\$ 43,553,982	\$ 4,926,492
Certificates of Obligation	43,290,021	-	2,510,000	40,780,021	2,915,000
Total governmental activities	<u>91,880,929</u>	<u>11,745,000</u>	<u>19,291,926</u>	<u>84,334,003</u>	<u>7,841,492</u>
<u>Business-type Activities:</u>					
Water, Sewer & Airport Systems:					
General Obligation Bonds	8,359,093	-	673,074	7,686,019	684,181
Certificates of Obligation	7,540,000	-	960,000	6,580,000	990,000
Revenue Bonds	52,920,001	-	3,350,000	49,570,001	3,385,001
Electric System :					
General Obligation Bonds	-	7,735,000	-	7,735,000	730,000
Certificates of Obligation	40,240,000	-	1,045,000	39,195,000	1,225,000
Revenue Bonds	189,100,000	-	20,185,000	168,915,000	11,990,000
Total business type activities	<u>298,159,094</u>	<u>7,735,000</u>	<u>26,213,074</u>	<u>279,681,020</u>	<u>19,004,182</u>
Total long-term debt	<u>\$ 390,040,023</u>	<u>\$ 19,480,000</u>	<u>\$ 45,505,000</u>	<u>\$ 364,015,023</u>	<u>\$ 26,845,674</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Long-term debt at September 30, 2015 consists of bonds and certificates of obligation maturing serially and is summarized as follows:

Issue	Interest Rates (%)	Series Matures	First Callable Date	Governmental	Business- type	Total
<u>General Obligation Bonds:</u>						
Refunding, Series 2010	2.00 - 4.00	2021	None	6,455,000	-	6,455,000
Refunding, Series 2013	2.00 - 3.50	2026	08/15/23	18,907,480	5,562,520	24,470,000
Refunding, Series 2014	2.00 - 3.25	2031	08/15/24	6,446,502	2,123,499	8,570,001
Refunding, Series 2015	2.00 - 4.00	2025	None	<u>11,745,000</u>	<u>7,735,000</u>	<u>19,480,000</u>
Total General Obligation Bonds				<u>43,553,982</u>	<u>15,421,019</u>	<u>58,975,001</u>
<u>Certificates of Obligation:</u>						
Combination Tax & Revenue, Series 2007	4.00 - 4.25	2026	08/15/16	8,680,000	-	8,680,000
Combination Tax & Revenue, Series 2008	4.00 - 5.00	2028	08/15/18	7,915,000	-	7,915,000
Combination Tax & Revenue, Series 2009	3.00 - 5.00	2029	08/15/19	6,305,000	-	6,305,000
Combination Tax & Revenue, Series 2010	2.00 - 4.38	2030	08/15/20	10,545,000	-	10,545,000
Combination Tax & Revenue Refunding, Series 2011	3.00 - 4.00	2022	None	-	6,580,000	6,580,000
Combination Tax & Revenue, Series 2013	3.00 - 4.25	2023	08/15/23	-	5,170,000	5,170,000
Combination Tax & Revenue, Series 2014	2.00 - 5.00	2039	08/15/24	<u>7,335,021</u>	<u>34,025,000</u>	<u>41,360,021</u>
Total Certificates of Obligation				<u>40,780,021</u>	<u>45,775,000</u>	<u>86,555,021</u>
<u>Revenue Bonds:</u>						
Water and Sewer System Revenue, Series 2007	4.00 - 5.00	2032	07/01/17	-	25,955,000	25,955,000
Water and Sewer System Revenue, Series 2009A	2.50 - 4.63	2029	07/01/19	-	4,380,000	4,380,000
Sewer System Revenue, Series 2009B	1.35 - 2.60	2019	None	-	550,000	550,000
Water Revenue, Series 2010A	2.00 - 4.25	2030	07/01/20	-	4,160,000	4,160,000
Sewer System Revenue, Series 2011	0.00 - 2.70	2030	None	-	14,525,000	14,525,000
Electric System Revenue City, Series 2006	4.00 - 5.00	2031	07/01/16	-	9,295,000	9,295,000
Electric System Revenue City, Series 2007	4.25 - 5.25	2032	07/01/17	-	25,665,000	25,665,000
Electric System Revenue City, Series 2008	4.00 - 5.25	2033	07/01/17	-	26,940,000	26,940,000
Electric System Revenue Rural, Series 2008	3.50 - 4.75	2034	07/01/17	-	5,220,000	5,220,000
Electric System Revenue City, Series 2009	4.00 - 5.00	2034	07/01/17	-	21,025,000	21,025,000
Electric System Revenue City, Series 2010	4.00 - 5.00	2019	07/01/17	-	26,765,000	26,765,000
Electric System Revenue Rural, Series 2011	3.00 - 5.00	2021	None	-	1,925,000	1,925,000
Electric System Revenue City, Series 2012	3.13 - 5.00	2037	07/01/22	-	52,080,001	52,080,001
Total Revenue Bonds				<u>\$ -</u>	<u>\$ 218,485,001</u>	<u>\$ 218,485,001</u>
Total long-term debt				<u>\$ 84,334,003</u>	<u>\$ 279,681,020</u>	<u>\$ 364,015,023</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Debt service requirements to maturity for all bonds, certificates of obligation, contractual obligations and notes payable are summarized as follows:

General Obligation Bonds

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2016	4,926,492	1,220,738	1,413,508	410,913	7,971,652
2017	4,734,136	1,120,847	1,430,864	388,638	7,674,485
2018	4,836,531	1,005,164	1,463,469	360,021	7,665,185
2019	4,576,005	879,858	1,398,995	327,002	7,181,860
2020	4,699,991	767,238	1,430,009	299,022	7,196,260
2021-2025	17,366,671	1,869,527	7,498,329	804,698	27,539,225
2026-2030	2,117,029	201,418	687,971	66,019	3,072,438
2031	297,126	9,657	97,875	3,181	407,839
Total	<u>\$ 43,553,982</u>	<u>\$ 7,074,447</u>	<u>\$ 15,421,019</u>	<u>\$ 2,659,495</u>	<u>\$ 68,708,943</u>

Certificates of Obligation

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2016	2,915,000	1,610,959	2,215,000	1,533,044	\$ 8,274,003
2017	2,415,000	1,520,509	2,275,000	1,476,644	7,687,153
2018	2,505,000	1,432,634	2,260,000	1,408,394	7,606,028
2019	2,600,000	1,335,884	2,235,000	1,348,744	7,519,628
2020	2,695,000	1,234,621	2,180,000	1,288,925	7,398,546
2021-2025	14,825,000	4,513,506	9,030,000	5,430,760	33,799,267
2026-2030	11,175,000	1,467,699	8,560,000	4,002,105	25,204,804
2031-2035	1,650,021	148,253	9,330,000	2,440,611	13,568,885
2036-3038	-	-	7,690,000	740,145	8,430,145
Total	<u>\$ 40,780,021</u>	<u>\$ 13,264,064</u>	<u>\$ 45,775,000</u>	<u>\$ 19,669,372</u>	<u>\$ 119,488,457</u>

Revenue Bonds

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2016	\$ -	\$ -	\$ 15,375,000	\$ 9,723,588	\$ 25,098,588
2017	-	-	14,805,000	9,073,865	23,878,865
2018	-	-	10,475,000	8,385,300	18,860,300
2019	-	-	31,560,000	7,960,568	39,520,568
2020	-	-	10,630,000	6,507,635	17,137,635
2021-2025	-	-	48,380,000	25,934,444	74,314,444
2026-2030	-	-	50,445,000	15,612,300	66,057,300
2031-2035	-	-	31,635,000	4,567,731	36,202,731
2036-3037	-	-	5,180,001	322,575	5,502,576
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,485,001</u>	<u>\$ 88,088,006</u>	<u>\$ 306,573,007</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Total Long Term Debt

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2016	\$ 7,841,492	\$ 2,831,697	\$ 19,003,508	\$ 11,667,545	\$ 41,344,242
2017	7,149,136	2,641,355	18,510,864	10,939,147	39,240,503
2018	7,341,531	2,437,798	14,198,469	10,153,715	34,131,513
2019	7,176,005	2,215,742	35,193,995	9,636,313	54,222,055
2020	7,394,991	2,001,860	14,240,009	8,095,582	31,732,441
2021-2025	32,191,671	6,383,033	64,908,329	32,169,902	135,652,936
2026-2030	13,292,029	1,669,117	59,692,971	19,680,425	94,334,542
2031-2035	1,947,147	157,909	41,062,875	7,011,524	50,179,455
2036-3037	-	-	12,870,001	1,062,720	13,932,721
Total	<u>\$ 84,334,003</u>	<u>\$ 20,338,511</u>	<u>\$ 279,681,020</u>	<u>\$ 110,416,872</u>	<u>\$ 494,770,406</u>

On July 28, 2015 the City issued general obligation refunding bonds totaling \$19,480,000. These bonds mature serially from August 15, 2016 through August 15, 2025 with coupon rates ranging from 2.0% to 4.0%. After the payment of issuance costs, the proceeds from the sale of the 2015 general obligation bonds are restricted to refunding portions of the City's outstanding debt and thus lowering the overall debt service requirements of the City. Proceeds from the sale of the bonds were used to refund a total of \$20,130,000, which includes \$12,150,000 of general obligation refunding bonds and \$7,980,000 of City Electric System Revenue Refunding Bonds. This represents a deferred gain of \$597,031, a net present value benefit savings of \$2,460,031, and an economic gain of \$2,748,676 by an average interest rate of 2.104%.

The net revenues of the City Electric Fund, Rural Electric Fund, Water and Wastewater Systems are pledged for the payment of each funds' respective revenue bonds. Net revenues, as defined by the various revenue bond ordinances, include substantially all of the revenues and expenses of each respective system other than certain interest income and expense and depreciation and amortization. These bond ordinances further require that the net revenues as defined equal at least 1.10 times the average annual debt service on all outstanding City Electric Fund revenue bonds, 1.20 times the average annual debt service on all outstanding Rural Electric Fund revenue bonds and 1.25 times the average annual debt service on all outstanding Water and Wastewater System revenue bonds.

Under the terms of the bond covenants, City Electric and Rural Electric Funds are required to maintain minimum reserve fund requirements equal to approximately one year of debt service requirements. The reserve fund requirements may be satisfied by cash, letter of credit or an insurance policy. The reserve fund requirements for the Series 2008, 2009, 2010, 2011, and 2012 Bonds are satisfied with restricted funds. The reserve fund requirements for the City Electric Fund Series 2006, Series 2007 bonds are satisfied with insurance policies, as are the Rural Electric Fund's Series 2008 bonds. There are no reserve requirements for the 2013 and 2014 certificates.

The ordinance authorizing the Waterworks and Sewer System revenue bonds stipulates that the City will deposit certain amounts into a reserve fund for the purpose of retiring the last of the bonds as

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

they become due or to pay principal of and interest on the outstanding bonds if necessary. The ordinance also allows the City to replace or substitute a credit facility for cash or investments on deposit in the reserve fund. For the Series 2007 and 2009A bonds, the City has exercised the option to replace the reserve fund requirement with a surety bond.

The City reserves the right at any time to merge its City Electric Fund and its Rural Electric Fund into a single operating electric utility system. The merger of the Rural Electric Division would not have an adverse impact on the bondholders.

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the City to rebate excess arbitrage earnings from bond proceeds to the federal government. As provided for by the bond ordinances, this amount would be as a liability in the Proprietary funds for the benefit of the federal government and will be paid as required by applicable regulations.

Other long term liabilities

Changes in the accrual for unpaid vacation and sick pay are detailed below:

	Year Ended September 30, 2015		
	Governmental Activities	Business-type Activities	Total
Beginning balance	\$ 6,241,310	\$ 1,165,356	\$ 7,406,666
Plus additions	2,230,549	559,419	2,789,968
Less payments	(1,494,669)	(452,960)	(1,947,629)
Ending balance	<u>\$ 6,977,190</u>	<u>\$ 1,271,815</u>	<u>\$ 8,249,005</u>
Amount due in one year	\$ 2,232,701	\$ 406,982	\$ 2,639,683
Amount due in over one year	\$ 4,744,489	\$ 864,833	\$ 5,609,322

6. PRIOR-YEAR DEFEASANCE OF DEBT

In FY 2015 and prior years, the City defeased certain outstanding general obligation bonds, certificates of obligation and revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements.

As of September 30, 2015, the City had outstanding General Obligation bonds and Certificates of Obligation totaling \$56,270,000 which were considered defeased.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

7. BONDS AVAILABLE FOR SALE

Authorized general obligation bonds available for future issue are as follows:

	<u>Year Authorized</u>	<u>Unissued Amount</u>
Streets	1984	\$ 8,225,000
Parks and Recreation Facilities	1984	1,775,000
Railroad Grade Separation	1984	2,850,000
Sanitary Landfill	1984	<u>200,000</u>
Total		<u>\$ 13,050,000</u>

During the fiscal year 1984, the City Council voted to comply with the option provided by state law that does not require voter approval on revenue bonds prior to issuance.

8. NATURE AND PURPOSE OF CLASSIFICATION OF FUND EQUITY

The fund balance classifications for Governmental Funds are:

- Nonspendable – includes fund balance amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through the adoption of an ordinance by the City Council. In order for fund balance to be committed, the City Council must adopt an ordinance stating the purpose for which the fund balance is committed. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (adoption of an ordinance) it employed to previously commit these amounts.
- Assigned – includes fund balance amounts that are self-imposed by the City to be used for a particular purpose. Fund balance can be assigned by the City Manager, the Chief Financial Officer or their designee. This authority was delegated to the City Manager and the Chief Financial Officer by formal resolution of the City Council. Assignments also include encumbrances for streets, drainage and capital projects.
- Unassigned – includes the residual fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Similarly, committed fund balances are reduced first followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications are available.

The City's classification of fund balances is as follows at September 30, 2015:

	General Fund	Debt Service Fund	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total
Nonspendable:						
Permanent Funds Corpus	\$ -	\$ -	\$ -	\$ -	\$ 895,724	\$ 895,724
Other Purposes	109,393	-	-	-	-	109,393
Restricted for:						
Debt Service	-	6,080,301	-	-	-	6,080,301
Grants	260,859	-	11,423	-	-	272,282
Hotel/Motel	-	-	1,784,048	-	-	1,784,048
Municipal Court	223,957	-	244,157	-	-	468,114
TIRZ Development	-	-	706,544	-	-	706,544
Capital Projects	-	-	-	7,465,788	-	7,465,788
Cemeteries	-	-	-	-	1,021,900	1,021,900
Police	78,500	-	-	-	-	78,500
Record Preservation	80,057	-	-	-	-	80,057
Other Purposes	77,210	-	1,808	-	-	79,018
Committed to:						
Parks	998,283	-	-	-	-	998,283
Libraries	186,366	-	-	-	-	186,366
Streets	-	-	12,387,623	-	-	12,387,623
Drainage	-	-	2,364,950	-	-	2,364,950
Severance Reserve	1,200,314	-	-	-	-	1,200,314
Assigned to:						
Encumbrances	1,531,754	-	-	-	-	1,531,754
Unassigned	30,621,712	-	(9,354)	-	-	30,612,358
Total fund balances	\$35,368,405	\$ 6,080,301	\$17,491,199	\$ 7,465,788	\$ 1,917,624	\$68,323,317

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Net position has been restricted at September 30, 2015 as follows:

Restricted for:	Business-Type Activities				Total
	Electric	Water	Waste Water	Other Enterprise	
Rate Stabilization	\$ 1,687,392	\$ -	\$ -	\$ -	\$ 1,687,392
Debt Retirement	10,552,883	-	-	-	10,552,883
Debt Service	3,703,801	1,161,501	2,046,583	-	6,911,885
Collateral Deposits	6,679,019	-	-	-	6,679,019
BVSWMA	-	-	-	13,588,808	13,588,808
Total	<u>\$ 22,623,095</u>	<u>\$ 1,161,501</u>	<u>\$ 2,046,583</u>	<u>\$ 13,588,808</u>	<u>\$ 39,419,987</u>

9. RETIREMENT PLAN

Plan Description

The City of Bryan 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 the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted

City of Bryan, Texas

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For the Fiscal Year Ended September 30, 2015

monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percentage had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

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	515
Inactive employees entitled to but not yet receiving benefits	388
Active employees	<u>824</u>
Total	1,727

Contributions

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

Employees for the City of Bryan were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Bryan were 16.20% and 15.50% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$7,686,872, and were equal to the required contributions.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

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 Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability 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% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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 covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. 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:

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

	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%

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Changes in the Net Pension Liability

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balance at 12/31/2013	\$ 263,183,703	\$ 224,239,250	\$ 38,944,453
Changes for the year:			
Service Cost	7,088,933	-	7,088,933
Interest	18,281,849	-	18,281,849
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,764,543)	-	(1,764,543)
Changes of assumptions	-	-	-
Contributions - employer	-	7,667,195	(7,667,195)
Contributions - employee	-	3,312,987	(3,312,987)
Net investment income	-	12,827,812	(12,827,812)
Benefit payments, including refunds of employee contributions	(11,117,789)	(11,117,789)	-
Administrative expense	-	(133,929)	133,929
Other changes	-	(11,011)	11,011
Net changes	<u>12,488,450</u>	<u>12,545,265</u>	<u>(56,815)</u>
Balance at 12/31/2014	<u>\$ 275,672,153</u>	<u>\$ 236,784,515</u>	<u>\$ 38,887,638</u>

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	<u>1% Decrease in Discount Rate (6.00%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase in Discount Rate (8.0%)</u>
City's net pension liability	\$79,923,757	\$38,887,638	\$5,450,213

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.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

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

For the year ended September 30, 2015 the city recognized pension expense of \$6,701,830.

At September 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 1,386,599
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	2,295,148	-
Contributions subsequent to the measurement date	<u>5,530,875</u>	-
Total	<u>\$ 7,826,023</u>	<u>1,386,599</u>

\$5,530,875 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Year Ended December 31</u>
2015	\$ 195,843
2016	195,843
2017	195,843
2018	321,020
2019	-
Thereafter	-
Total	<u>\$ 908,549</u>

10. EMPLOYEE BENEFITS

The City established the Employee Benefits Trust Fund effective October 1, 1986, covering health benefits for eligible employees. At that time the Council approved a formal trust agreement establishing the Fund. Employee premium costs are shared by the City and the employee, while dependent coverage is paid by the employee. The City's contract with its third party administrator and reinsurer sets an individual stop loss deductible in the amount of \$150,000 and a maximum aggregate stop loss deductible of \$6,788,366 for the twelve month period which began January 1, 2015 and ends December 31, 2015. These stop loss levels apply to medical coverage only.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Prescription drug and dental coverage is not included. There were no significant reductions in insurance coverage in the current year from coverage in the prior year. For the City's aggregate stop loss coverage, there have been no settlements that have exceeded insurance coverage for the past three calendar years. However, the City has paid out \$178,272 for calendar year 2013, \$116,383 for calendar year 2014, and \$282,458 for calendar year 2015 to date in settlements that exceed insurance coverage applicable to individual stop loss coverage.

The following schedule represents the changes in claims liabilities for the year:

	<u>FY 2015</u>	<u>FY 2014</u>
Beginning balance unpaid claims	\$ 859,163	\$ 1,010,988
Incurred claims	8,047,486	6,667,978
Claim payments	<u>(7,910,931)</u>	<u>(6,819,803)</u>
Ending balance unpaid claims	<u>\$ 995,718</u>	<u>\$ 859,163</u>
Amounts due in one year	\$ 995,718	\$ 859,163

11. OTHER POST-EMPLOYMENT BENEFITS

Effective January 1, 1991, by action of the City Council, the City began offering post-retirement health care benefits to employees. Effective January 1, 1993, retiree spouses were granted eligibility for benefits. Dependents were granted eligibility effective January 1, 1994. This plan is a single employer defined benefit, other post-employment benefit plan. A separate, audited GAAP-basis post-employment benefit plan report is not available.

To qualify for healthcare an employee must be at least 60 years of age and have five years of TMRS service credit or have at least 20 years of service credit. In order to be eligible, employees must elect to retire at time of separation, must elect in writing to continue health benefits coverage at the time of separation, and must pay the appropriate premium. Coverage can continue for life.

Employees terminating before normal retirement conditions are not eligible for retiree health coverage. Employees who retire under a disability retirement are not eligible for retiree health coverage.

Eligible retirees may continue health insurance benefits for eligible spouses and dependents covered at the time of retirement. A dependent not covered under the plan at this time is not eligible for coverage. If the retiree elects to continue coverage for any dependent and on any subsequent date elects to discontinue coverage, the dependent is no longer eligible for coverage.

Survivors of employees who die while actively employed are not eligible for retiree health coverage. However, surviving spouses and dependents of Texas public officers (as defined by Texas Government Code, Chapter 615) killed in the line of duty are entitled to purchase continued health insurance benefits. The surviving spouse is entitled to continue to purchase health insurance coverage until the date the surviving spouse becomes eligible for federal Medicare benefits.

City of Bryan, Texas

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For the Fiscal Year Ended September 30, 2015

Surviving dependent minor children are entitled to continue health insurance coverage until the dependent reaches the age of 18 years or a later date to the extent required by state or federal law. A surviving dependent who is not a minor child is entitled to continue health insurance coverage until the earlier of: (1) the date the dependent becomes eligible for group health insurance through another employer or (2) the date the dependent becomes eligible for federal Medicare benefits. Eligible survivors are entitled to purchase the continued coverage at the group rate for that coverage that exists at the time of payment.

Surviving covered spouses and dependents of deceased retired employees may continue health care coverage for up to 36 months through COBRA.

Once the retiree or spouse is enrolled in Medicare, the City's plan becomes the secondary payer. Retiree is responsible for payment of any Medicare premiums. The City does not provide any cash payment in lieu of electing the City's health care plan. Retirees who do not elect to continue coverage at time of separation are not eligible to opt back in.

The City does not offer life insurance coverage for retirees or their dependents. Employees who retire are eligible to convert their group life insurance coverage to a Whole Life Policy without accidental death and dismemberment until the employee reaches age 100 or a Group Term Life with AD&D until the employee reaches age 70.

The City's health care plan includes medical, dental, and prescription coverage. Retiree health plan coverage is the same as coverage provided to active City employees in accordance with the terms and conditions of the current City of Bryan Health Plan. The City also offers a fully insured optional vision plan that retirees and their dependents may purchase. The City reserves the right to modify premium amounts, to modify eligibility requirements and to modify or discontinue retiree health benefits.

In the year ended September 30, 2015, retirees paid \$626,963 in premiums and \$1,329,277 in claims were paid for post-retirement health care and administrative charges. As of September 30, 2015, the City has 35 retirees, 39 retirees and spouses, 7 retirees and families and 4 retirees and child(ren) participating in the health plan, out of the 403 employees eligible to participate upon retirement. Expenses are recognized as retirees submit claims.

The City also provides health benefits as required by the Federal Government under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"). COBRA requires employers that sponsor group health plans to provide continuation of group coverage to employees and their dependents under certain circumstances where coverage would otherwise end. Terminated employees who qualify under COBRA pay premium costs for themselves and dependents.

Expenses are recognized as claims when submitted. COBRA participants are reimbursed at the same levels as active employees. Participants paid premiums of \$9,143 and incurred claims and administrative expenses of \$20,649 during the year ended September 30, 2015. As of September 30, 2015, the City has 2 COBRA participants.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Future year estimated claims for all health plan participants are actuarially determined by the reinsurer. All assets of the Employee Benefits Trust Fund are available for future claim payments for health plan participants.

Prior to January 1, 2010, all retirees electing health plan coverage received a health premium subsidy averaging 40%. Beginning January 1, 2010, the City implemented new eligibility requirements for subsidized retiree premiums. The new eligibility requirements require retirees to meet the 'Rule of 80' (sum of age plus years of service at retirement must equal to at least 80), in order to receive the subsidized retiree premium. Retirees not meeting the 'Rule of 80' may still elect the City's retiree health plan coverage, but will not receive a subsidy.

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other than Pensions*, which establishes standards for the measurement, recognition and display of other postemployment benefit expenditures and related liabilities, and note disclosures in the financial report. Basically, public-sector employers must accrue the cost of other postemployment benefits (OPEB) over the active service life of benefiting employees. This statement was effective for the City for the fiscal year ending September 30, 2008.

Funding Policy and Annual OPEB Cost

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City had its most recent OPEB valuation performed as of December 31, 2013, as required by GASB. The City's annual OPEB cost for the current year and prior two years is as follows:

	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
Annual required contribution (ARC)	\$ 900,753	\$ 874,517	\$ 975,990
Interest on OPEB obligation	126,299	96,503	73,122
Adjustment to ARC	<u>(117,015)</u>	<u>(89,409)</u>	<u>(44,631)</u>
Annual OPEB cost	910,042	881,611	1,004,481
Contributions made	<u>(702,316)</u>	<u>(219,484)</u>	<u>(484,903)</u>
Increase (decrease) in net OPEB obligation	207,726	662,127	519,578
Net OPEB obligation, beginning of year	<u>2,806,638</u>	<u>2,144,511</u>	<u>1,624,933</u>
Net OPEB obligation/(asset), end of year	<u>\$ 3,014,364</u>	<u>\$ 2,806,638</u>	<u>\$ 2,144,511</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year ending September 30, 2015, and the preceding two fiscal years were as follows:

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Fiscal Year	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
2013	\$ 1,004,481	\$ 484,903	48.3%	\$ 2,144,511
2014	881,611	219,484	24.9%	2,806,638
2015	910,042	702,316	77.2%	3,014,364

Funding status and funding progress

The City had actuarial valuations performed as of December 31, 2013, December 31, 2011, December 31, 2009, and May 31, 2008. The funded status of the City's retiree health care plan, under GASB Statement No. 45, is as follows:

	FY 2015	FY 2014	FY 2013
Actuarial value of plan assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	10,704,428	10,704,428	11,860,133
Unfunded AAL	(10,704,428)	(10,704,428)	(11,860,133)
Funded Ratio	-	-	-
Covered Payroll	48,991,679	46,907,165	46,141,173
UAAL as a % of Covered Payroll	22%	23%	26%

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$10,704,428 at December 31, 2013.

Actuarial methods and assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age normal method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Inflation rate	- 3.00% per annum
Investment rate of return	- 4.50%, net of expenses
Actuarial cost method	- Projected Unit Credit Cost Method
Amortization method	- Level as a percentage of employee payroll
Amortization period	- 30-year, open amortization
Payroll growth	- 3.00% per annum
Healthcare cost trend rate	- Initial rate of 7.50% declining to an ultimate rate of 5.00% after 10 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

12. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, as amended, is available to all employees, and permits them to defer a portion of their salary until future years. The plan funds are not available to employees until termination, retirement, death, or emergency.

All amounts of compensation deferred under the plan (until paid or made available to the employee or other beneficiary) were placed in trust for the exclusive benefit of the participants and the beneficiaries. This is in accordance with changes made to Section 457 of the Internal Revenue Code. Since the City is no longer the Plan Administrator or the trustee, the assets of the Plan are no longer a reportable fund in the City's basic financial statements.

Similar to the Section 457, the City of Bryan offered its employees the Retiree Health Savings (RHS) Plan. The plan allowed employees to make pre-tax contributions from their salary or accrued leave time to fund medical expenses for employees and their family on a tax-free basis during retirement. Once an employee elected to participate, this cannot ever be changed or revoked unless there is employment separation.

Like the Section 457, all amounts of compensation deferred under the plan (until paid or made available to the employee or other beneficiary) were placed in trust for the exclusive benefit of the participants and the beneficiaries. The City is not the Plan Administrator or the trustee; therefore, the assets of the Plan are not a reportable fund in the City's basic financial statements.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

13. TEXAS MUNICIPAL POWER AGENCY

The Texas Municipal Power Agency (“TMPA”) was created in July 1975 by concurrent ordinances of the Texas cities of Bryan, Denton, Garland, and Greenville (“Cities”) pursuant to Acts 1995 64th Leg. Ch. 143, sec 1 (the “Act”). Under the provisions of the Act, TMPA is a separate municipal corporation. TMPA is exempt from federal income tax under section 115 of the Internal Revenue code.

In September 1976, TMPA entered into identical Power Sales Contracts (the “Contract”) with each of the Cities for the purpose of obtaining the economic advantages of jointly financing, constructing and operating large electric generating units and related facilities to supply the Cities’ future energy needs. Under the Contract, the Cities are required to pay, for the benefits received or to be received by them from such activities, an amount sufficient to recover TMPA’s operating and maintenance expenses and the Bond Fund, Reserve Fund and Contingency Fund requirements of the Revenue Bond Resolutions. In addition, the Cities are obligated to guarantee the payment of TMPA’s bonds and commercial paper. At September 30, 2015, the City’s portion of outstanding TMPA bonds and commercial paper was approximately \$119.9 million and \$18.7 million, respectively.

As originally written in 1976, the Contract was a requirements contract, which obligated the Cities, with certain exceptions, to purchase their wholesale electricity requirements from TMPA. In 1997, the Contract was amended and converted from a requirements contract to a take-or-pay contract, under which each City is obligated to take or pay for a specified percentage of electricity from TMPA’s generating facility. Those percentages are Bryan 21.7%; Denton 21.3%; Garland 47%; and Greenville 10%. The amendment confirmed the Cities’ obligations to pay all costs of TMPA.

TMPA operates the Gibbons Creek Steam Electric Station (“Gibbons Creek”), a coal-fired generating plant located in Grimes County, Texas with a net generating capability of 462 MW. The plant began commercial operation October 1, 1983.

Under the current debt structure, all generation debt will be paid off by September 1, 2018, causing the Power Sales Contract to expire on that same date. Thereafter, all remaining debt will be transmission debt, payable solely from transmission system revenues. TMPA and the Cities are developing a plan in relation to the ownership, operational, and contractual issues associated with TMPA following September 1, 2018.

During the year ended September 30, 2015, the City Electric System (BTU) paid TMPA \$49,561,344 for power purchases and related activity under the contract. As of September 30, 2015 BTU had payables to TMPA amounting to \$1,189,070.

The TMPA’s Comprehensive Annual Financial Report for the year ended September 30, 2015 reported the following:

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

	<u>FY 2015</u>
Total Assets	\$ 826,228,000
Total Deferred Outflows of Resources	9,471,000
Total Liabilities	801,623,000
Total Deferred Inflows of Resources	-
Total Net Position	<u>\$ 34,076,000</u>
Change in Net Position for year ended September 30, 2015	 \$ 6,867,000

TMPA's audited financial statements may be obtained by writing TMPA, P.O. Box 7000, Bryan, TX 77805.

14. BRAZOS VALLEY SOLID WASTE MANAGEMENT AGENCY

In 2010, the City Councils of Bryan and College Station approved, through an interlocal agreement, the creation of a local government corporation, BVSWMMA, Inc., which currently owns and manages landfill operations for both Cities. The expectation was that a combined landfill operation will minimize solid waste management costs for both Cities. BVSWMMA, Inc. superseded a previous agreement established in 1990 which combined landfill operations under the then newly created Brazos Valley Solid Waste Management Agency (BVSWMMA). The powers of BVSWMMA, Inc. are vested in a seven member Board of Directors, consisting of appointees from each City Council.

The bylaws for BVSWMMA, Inc., establish powers that include the issuance of debt, acquisition of land and equipment, the hiring of a general manager and staff to maintain and operate the facilities and the establishment of tipping fees. BVSWMMA, Inc., revenues are derived from tipping fees paid by landfill customers that include the Cities of Bryan and College Station, other unaffiliated businesses and the general public.

BVSWMMA, Inc. owns two landfill sites. The initial landfill site known as Rock Prairie Landfill, located in College Station, was closed in 2011 as it reached operating capacity. The Twin Oaks Landfill, located in Grimes County, was opened in 2011 and has an expected capacity of over 50 years.

In 2010, the City issued \$5,145,000 in Certificates of Obligation, Series 2010 to finance the construction of the Twin Oaks Landfill site. BVSWMMA has agreed to pay the City an amount equal to the future debt service requirements of these certificates of obligation. At September 30, 2015 the City reported a receivable in the amount of \$4,150,000 of which \$230,000 is due and payable to the City within one year.

The City of Bryan and the City of College Station each recognize a 50% ownership in BVSWMMA, Inc. The City of Bryan's 50% ownership is reflected in the Solid Waste Fund.

BVSWMMA's audited annual financial statements for the year ended September 30, 2015 reported the following:

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

	<u>FY 2015</u>
Total Assets	\$ 40,870,977
Total Liabilities	<u>13,693,361</u>
Total Net Position	<u>\$ 27,177,616</u>
Change in net position for the year ended September 30, 2015	\$ 1,358,643
Bryan's undivided 50% share of changes in net position for the year ended September 30, 2015	\$ 679,322

Audited financial statements for BVSWMA, Inc. may be obtained from:

BVSWMA, Inc.
2690 Hwy. 30
Anderson, TX 77830

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

15. INTERFUND BALANCES

Interfund receivable and payable balances at September 30, 2015 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
City Electric	General	\$ 52,520
Nonmajor governmental	General	94,111
Nonmajor governmental	City Electric	167,606
City Electric	Rural	4,858,109
Water	City Electric	466,132
Wastewater	City Electric	337,955
Nonmajor enterprise funds	City Electric	224,989
Internal service funds	City Electric	95,360
General	City Electric	25,314
General	Nonmajor governmental	209,736
General	Internal service	<u>36,776</u>
Total		<u>\$ 6,568,608</u>

Interfund receivable and payable balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur. Transactions are recorded in the accounting system and payments between funds are made. The interfund balances presented agree with the sum of interfund balances in the balance sheet for governmental funds and statement of net position for proprietary funds.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

16. INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2015 are as follows:

Transfers In	Transfers Out					Total	
	General Fund	Nonmajor Governmental Funds	City Electric Fund	Water Fund	Wastewater Fund		Nonmajor Enterprise Funds
General Fund	\$ -	\$ 300,000	\$ 11,411,380	\$ 612,491	\$ 639,191	\$ 2,340,506	\$ 15,303,568
Debt Service	195,742	2,223,094	-	-	-	-	2,418,836
Nonmajor governmental funds	405,000	-	-	-	-	-	405,000
Water Fund	32,567	-	-	-	-	-	32,567
Wastewater Fund	-	-	-	-	-	34,500	34,500
Nonmajor enter-prise funds	181,348	-	-	29,468	5,563	-	216,379
Total transfers out	\$ 814,657	\$ 2,523,094	\$ 11,411,380	\$ 641,959	\$ 644,754	\$ 2,375,006	\$ 18,410,850

Transfers are primarily used to move funds from:

- The proprietary funds to the General Fund for use of City owned rights-of-way and as payments in lieu of property taxes
- The proprietary funds to the Debt Service Fund as payments in lieu of property taxes
- The Capital Project Funds to the Water and Wastewater Funds as incidental utility system improvements made relative to street and drainage capital improvement projects
- The Tax Increment Reinvestment Zone Funds to the Debt Service Fund and Bryan Commerce and Development, Inc. for debt service payments as they become due
- Funds that are no longer needed and are closed by transferring all balances to other appropriate funds

The sum of all transfers presented agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

17. ADMINISTRATIVE ALLOCATIONS TO OTHER FUNDS

The General Fund provides general and administrative support services to the City Electric Fund, Rural Electric Fund, Water Fund, Wastewater Fund, Solid Waste Fund, Insurance Fund, TIRZ funds, Special Projects Fund, Employee Benefits Fund, Bryan Commerce and Development Fund, and Coulter Airfield Fund. Costs of these services are allocated as follows:

	<u>General Fund</u>
<u>Administrative costs allocated to:</u>	
City Electric Fund	\$ 868,591
Water Fund	668,809
Wastewater Fund	693,703
Nonmajor Enterprise Fund (Solid Waste Fund)	560,427
Internal Service Fund (Insurance Fund)	191,589
Street Improvement	116,310
Drainage Fund	61,500
Employee Benefits Fund	138,650
Warehouse Fund	70,019
Bryan Commerce & Development	36,374
Coulter Airfield Fund	70,468
	<u>\$ 3,476,440</u>

18. DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUE

The balance of deferred inflows of resources and unearned revenues at September 30, 2015 consists of the following:

	<u>Deferred Inflows of Resources</u>	<u>Unearned</u>	<u>Totals</u>
Delinquent property taxes receivable (General Fund)	\$ 82,743	\$ -	\$ 82,743
Delinquent property taxes receivable (Debt Service Fund)	34,939	-	34,939
Street and drainage assessments receivable (General Fund)	115,056	-	115,056
Notes receivable (Debt Service fund)	-	450,000	450,000
WasteWater unearned revenue	-	82,466	82,466
Nonmajor governmental funds	81,804	-	81,804
Total	<u>\$ 314,542</u>	<u>\$ 532,466</u>	<u>\$ 847,008</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

19. LITIGATION

There are several lawsuits pending in which the City is involved. In the event of an unfavorable outcome in any suit, in management's opinion, a claim against the City would be covered by insurance or funds available in the Insurance Fund and would not materially affect the financial statements of the City.

20. RISK MANAGEMENT

In fiscal year 1989, the City decided not to purchase commercial liability insurance. At that time, City management believed that it was more economical to manage liability risks internally and set aside assets for the payment of claims in an internal service fund. The "Insurance Fund" was established to service all claims for risk of losses relating to general liability and workers' compensation.

In fiscal year 1994, the City began purchasing excess liability insurance to reduce its exposure to catastrophic losses. Liability insurance providing a \$5,000,000 limit per occurrence/\$5,000,000 aggregate limit for general, auto, public officials, and police liability with a \$500,000 self-insured retention for claims was purchased with coverage effective October 1, 2015. Worker's compensation coverage is provided at \$20,000,000 with \$2,500,000 retention. There have been no settlements that have exceeded insurance coverage for each of the past three fiscal years.

All funds of the City participate in the Insurance Fund. The costs of providing claims servicing and claims payment are allocated by charging each fund a "premium" based upon a percentage of the respective fund's estimated current-year payroll and expenses and management's estimate of projected current costs. These charges consider exposure and recent trends in actual claims experience of the City as a whole and make provision for catastrophic losses.

The Insurance Fund liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The City has recorded a potential liability in the amount of \$1,755,468 for claims that have been incurred but not reported as of September 30, 2015. Because actual claims liabilities depend on such complex factors as changes in legal doctrines and damage awards, the process used in computing liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

The schedule below represents the changes in estimated claims liabilities:

	<u>2015</u>	<u>2014</u>
Unpaid claims at beginning of fiscal year	\$ 1,763,344	\$ 1,330,320
Incurred claims	520,171	888,152
Claim payments	<u>(528,047)</u>	<u>(455,128)</u>
Total unpaid claims at end of fiscal year	<u>\$ 1,755,468</u>	<u>\$ 1,763,344</u>
Amounts due in one year	\$ 769,321	\$ 662,593

Texas law limits recovery, under legislatively defined governmental functions, to \$500,000 per occurrence. Claims proceeding from proprietary functions are not limited.

21. COMMITMENTS AND CONTINGENCIES

Traditions Development

In 1999, the City embarked on a major development program for the City's west side encompassing approximately 850 acres. The City identified the land for possible development, located in Brazos County east of Highway 47 and south of Villa Maria Road. The City believed that a legitimate public interest would be served by purchasing this land and that economic development would be stimulated by developing this land into a first class resort, golf course, and planned community known as the Bryan Resort Project (subsequently known as the Traditions Development).

As a result, the City and Jordan Community Properties, L.P. entered into a Master Economic Development Agreement (MEDA) on November 2, 1999. One of the provisions of the MEDA was for the City to create a local government corporation to aid the City in completion of certain provisions in the MEDA. The local government corporation created was Bryan Commerce and Development, Incorporated (BCDI). BCDI purchased the land, identified by the City, for development. The City agreed to provide public infrastructure improvements including all major arterial streets, all major utilities including electrical, gas, water, sewer, telephone, cable, drainage structures, water delivery systems, street lighting, landscaping of median entryways, all signage for the project, traffic signals, entryway structures, and lighting necessary for the project.

The partnership between BCDI and Jordan Community Properties, L.P. was named Bryan/Jordan L.P. (subsequently known as Bryan/Traditions, L.P.). Bryan/Jordan L.P. was formed as a limited partnership, on October 26, 2000, under the laws of the State of Texas. The partners in Bryan/Jordan L.P. were CFJ Properties, Inc., a Texas corporation and the general partner, BCDI, a Texas local government corporation, a limited partner, and Jordan Community Properties, L.P., a Texas limited partnership and a limited partner. The partnership interest was as follows: 1%, 55% and 44% for Jordan Properties, Inc. or an affiliate thereof, Jordan L.P. and BCDI, respectively.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

The purpose of Bryan/Jordan L.P. was to develop a portion of the land, purchased by BCDI, into a planned community, including a residential community and a commercial development. This community would become known as Traditions. In order for Bryan/Jordan L.P. to develop the land, BCDI would periodically contribute portions of the land, as a partnership contribution, to Bryan/Jordan, L.P. by a special warranty deed.

Several changes to the original partnership agreement have taken place since October 26, 2000. The following is a history of the changes that have occurred.

On February 24, 2004, the partnership agreement was amended to reflect the change in names of certain partners. CFJ Properties, Inc. was now known as Rosemel Properties, Inc. and Jordan Community Properties, L.P. was now known as Melrose Community Properties, L.P. In addition, the name of the partnership was changed from Bryan/Jordan, L.P. to Bryan/Traditions, L.P.

On February 25, 2009, the partnership agreement, was amended and restated (Amendment) to reflect certain changes. Traditions Acquisition Partnership, GP, LLC, a Texas limited liability company, acquired the general partnership interest originally owned by CFJ Properties, Inc. and subsequently known as Rosemel Properties, Inc. Traditions Acquisition Partnership GP, a Texas limited partnership, acquired the limited partnership interest originally owned by Jordan Community Properties, Inc. subsequently known as Melrose Community Properties, L.P. Concurrent with the Amendment, Traditions Acquisition Partnership, L.P. agreed to acquire a group of loans payable from Bryan/Traditions, L.P. and payable to M&I Bank, relating to the Melrose entities, with a balance at the closing date was \$1,840,432. Traditions Acquisition Partnership, L.P. executed a release, that released the guarantors from their respective obligations for the loan from M&I Bank to Bryan/Traditions, L.P. In consideration for Traditions Acquisition Partnership, L.P.'s contribution, the Amendment specified the deeding of 34 existing lots, within the Traditions Development, from Bryan/Traditions, L.P. to Traditions Acquisition Partnership.

Other special provisions of the Amendment provided that:

- BCDI agrees to provide funding for the construction of a future bridge, roadways or other infrastructure as future development occurs.
- Upon Traditions Acquisition Partnership's completion of a club house to certain specifications, additional provisions were activated. Traditions Acquisition Partnership completed the club house as specified in the Agreement on March 1, 2011. The subsequent provisions included that Traditions Acquisition Partnership is entitled to receive the first \$150,000 of the net sales proceeds of each of the next 20 lots developed by Bryan/Traditions, L.P., and additionally, that Traditions Acquisition Partnership has the option to purchase 50 acres of BCDI land known as Parcel 35 for \$1. If they choose to exercise the option to purchase Parcel 35, they forgo a number of construction commitments by the City.

Except as noted above, the partnership interest is: 1%, 55% and 44% for Traditions Acquisition Partnership, GP, LLC, Traditions Acquisition Partnership GP and BCDI, respectively, on lot sales and

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

25% and 75% for Traditions Acquisition Partnership GP and BCDI, respectively, on larger parcel sales.

In 2000, the City approved an Ordinance creating Tax Increment Reinvestment Zone Ten (TIRZ Ten). TIRZ Ten, which includes most of the Traditions Development, funds public infrastructure improvements as further described in Note 26.

In September 2014, the City of Bryan entered into economic development agreements with Atlas Hotel, L.P., and Traditions Acquisitions Partnership, L.P., related to the Traditions development. The agreements provide funding of \$6,000,000 for a hotel conference center and the immediately surrounding infrastructure including roadways, utilities, landscaping, street lighting and other improvements to be funded solely by available TIRZ Ten revenues. A separate agreement provides up to \$2,250,000 from Hotel/Motel Tax revenues collected from the Atlas Hotel operations for qualifying expenses.

The Traditions Development currently includes a Jack Nicklaus designed golf course and an 800 acre high end housing development. At September 30, 2015, BCDI holds approximately 280 acres under the Agreement that remain to be developed. The Partnership is expected to stay operational until all Partnership property is sold. There is no debt outstanding related to land held by BCDI in the Traditions development. The City anticipates that the proceeds from BCDI's portion of future land sales will exceed the cost of future City infrastructure required by the Traditions Development.

City of Bryan and Brazos County Economic Development Foundation Inc.

In 2009, the City of Bryan and Brazos County entered into an agreement to create the City of Bryan and Brazos County Economic Development Foundation Inc. ("BBCEDF"), a local government corporation formed under Subchapter D of Chapter 431 of the Texas Transportation Code. The BBCEDF was created to promote, develop, encourage and maintain employment, commerce, and economic development in the City and the County. In 2009, the BBCEDF purchased 191 acres of land in north Brazos County to be developed as a business park. In March 2012, the BBCEDF entered into an option agreement which gave the BBCEDF the right to purchase up to 724 adjacent acres. The business park, known as the Texas Triangle Park, is primarily the focus for economic development for the BBCEDF.

In April 2013, the BBCEDF entered into an Economic Development Agreement (EDA) with Kuadrum Pipe and Tube, Inc. (Kuadrum) which was fulfilled by and with its affiliate corporation Axis Pipe and Tube, Inc. (Axis). Per the terms of the EDA, the BBCEDF and the City sold approximately 160 and 23 acres, respectively, to Axis to build a manufacturing facility. In addition, the BBCEDF will provide \$7,150,000 in development credits, the County will provide tax abatement and the City will provide a non-annexation agreement. Axis is also required to meet certain criteria including, among other items, purchasing additional land, achieving a particular taxable valuation and employing a minimum number of full-time employees. If Axis fails to meet its obligations under the EDA, the BBCEDF may terminate the EDA and tender a demand of \$1,500,000. On January 1, 2015 Axis had \$179,046,540 in taxable value in Brazos County, in compliance with agreement terms. Additionally,

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

in January 2015, Axis purchased 100 acres of land, satisfying its requirement to purchase from the BBCEDF 60 acres by January 23, 2015.

The City of Bryan's 50% ownership in BBCEDF is reflected on the Statement of Net Position as Investment in Economic Development Foundation.

Research Valley BioCorridor

In December 2011, the Cities of Bryan and College Station (the Cities) adopted an inter-local agreement (ILA) for the development of the Research Valley BioCorridor. The purpose of the BioCorridor is to attract bio-related industries that develop life-changing medical technologies, build tax base, and attract high-paying jobs and investment to the Cities. The ILA outlines a number of ways the Cities will work together to create and manage an environment conducive for development and growth of the BioCorridor. The agreement applies to four tracts of land totaling approximately 196 acres owned by Bryan Commerce and Development, of which, approximately 147 acres are located in College Station.

The agreement provides for the joint construction and cost-sharing of HSC Parkway, the major roadway within the BioCorridor, creation of joint development standards, ad valorem revenue sharing on real and personal properties, sewer service to be provided by Bryan; Water service to be provided by College Station and a swap of exclusive sewer service territories that enables each City to more effectively provide service due to terrain and proximity to existing sewer systems.

In 2014, the City of Bryan completed construction of roadways and sewer improvements under the agreement. Ad valorem taxes to be shared under the agreement are based on the lower of the Cities of Bryan and College Station's O&M tax rates, subject to a minimum rate of \$0.24 per \$100 valuation, and will be split on a 50/50 basis. No tax revenue sharing has occurred through September 30, 2015.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

22. ACCOUNTS RECEIVABLE

As of September 30, 2015, the receivables not expected to be collected within one year are notes and assessments receivable as follows:

	General Fund	Debt Service Fund	Total
Notes receivable	\$ 16,519	\$ 4,150,000	\$ 4,166,519
Street and drainage assessments	115,056	-	\$ 115,056
	<u>\$ 131,575</u>	<u>\$ 4,150,000</u>	<u>\$ 4,281,575</u>

23. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Below is a reconciliation of the various restricted cash, cash equivalents and investments reported as of September 30, 2015:

	City Electric Fund	Rural Electric Fund	Water Fund	Wastewater Fund	Total
Bond Retirement Reserve	\$ 10,552,883	\$ 311,042	\$ -	\$ -	\$ 10,863,925
Bond Debt Service	5,351,474	247,576	1,445,962	2,295,772	9,340,784
Rate Stabilization Reserve	1,687,392	-	-	-	1,687,392
Customer Deposits Payable	4,094,526	1,021,128	-	-	5,115,654
Over-Recovered Fuel Expense	2,173,575	-	-	-	2,173,575
Collateral Deposits	6,679,019	-	-	-	6,679,019
Capital Debt Proceeds	6,103,841	732,749	460,497	67,194	7,364,281
	<u>\$ 36,642,710</u>	<u>\$ 2,312,495</u>	<u>\$ 1,906,459</u>	<u>\$ 2,362,966</u>	<u>\$ 43,224,630</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

24. BUDGETARY EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the fiscal year ended September 30, 2015 budgetary expenditures in excess of appropriations are reported as indicated below:

<u>Governmental Funds</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - (Negative)</u>
Grant Fund			
Total expenditures	\$ -	\$ 135,339	\$ (135,339)
Debt Service Fund			
Total expenditures	10,514,760	22,811,438	(12,296,678)
TIRZ 19- Nash Street Fund			
Total expenditures	137,347	139,744	(2,397)
TIRZ 22- Lauth Development Fund			
Total expenditures	495,179	512,513	(17,334)
Self Insurance Fund			
Total expenditures	2,268,800	2,476,460	(207,660)
Employee Benefits Fund			
Total expenditures	8,867,756	9,907,289	(1,039,533)

For the fiscal year ended 30, 2015, the Grant fund exceeded budget by \$135,339 mainly due to expenditures of grant funds for police and fire equipment made during the year. The department had grant revenue and fund balance available to cover the expenditures.

Total expenditures in the Debt Service fund exceed budget by \$12,296,678 due to the cost associated with the 2015 GO refunding issue. The refunding bonds produce a net interest cost savings over their life.

Total expenditures in the TIRZ 19 exceeded budget by \$2,397 due to higher than budgeted debt service cost.

Total expenditures in the TIRZ 22 exceeded budget by \$17,334 due to higher than budgeted debt service cost.

Total expenditures in the Self Insurance fund exceeded budget by \$207,660 due to higher than budgeted worker's compensation and liability claims.

Total expenditures in the Employee Benefits fund exceeded budget by \$1,039,522 due to higher than budgeted health insurance claims.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

25. FUND DEFICITS

The Community Development Fund, a Special Revenue Fund, has a deficit unassigned fund balance as of September 31, 2015 in the amount of \$9,354. This is a result of expenditures incurred in advance of processing the related grant requests. The City will submit grant fund requests to cover the fund deficit in fiscal year 2016.

26. TAX INCREMENT FINANCING ZONES

Chapter 311 of the Texas Tax Code allows for the creation of Tax Increment Financing Zones ("TIFZ"). TIFZ are statutory tools available to municipalities in Texas to promote development or redevelopment in an area that would not occur in the foreseeable future solely through private investment. TIFZ are also a means to allow a community to enhance their ability to attract economic development or to allow businesses currently located within their area to expand. Once a City has designated a TIFZ, the governing bodies of the county and school district may choose to participate.

When a TIFZ is formed, a base value for the property located within the TIFZ is established. At the date of creation the appraised value is normally accepted as the base value. As the property within the TIFZ develops, property taxes are collected based upon appreciated appraised values at the rate established annually by the participating entities. Each participant in the TIFZ remits the amount of taxes attributable to the increase in the appraised values to the Tax Increment Financing Zone to be used to fund the project plan. Project plans normally include the creation of infrastructure such as roads, street improvements, water and sewer systems, lighting, landscaping, etc. A TIFZ can be terminated either on the date designated in the ordinance creating the zone, or the date on which all project costs, tax increment debt, and associated interest have been paid.

As of September 30, 2015, the City had four active Tax Increment Financing Zones:

Tax Increment Reinvestment Zone #10: In 2000, the City approved an ordinance creating a TIRZ known as "Reinvestment Zone Number Ten, City of Bryan, Texas" ("Zone Ten"). Zone Ten encompasses a portion of the west side of the City in the area known as Traditions. The development includes a Jack Nicklaus designed golf course and an 800-acre high end housing development. Through the fiscal year ended September 30, 2015, the City estimates that it has funded \$22.0 million in public infrastructure improvements and associated costs within Zone Ten. Combination Tax and Surplus Utility System Revenue Certificates of Obligation, Series 2000A, in the aggregate principal amount of \$17,000,000 were issued by the City to provide funds to commence certain of the public infrastructure improvements. In 2005, the Series 2000A bonds were refunded through the City's issuance of \$13,696,712 of General Obligation refunding bonds. In 2015, the 2005 GO Ref bonds were refunded through the City's issuance of \$12,150,000 of General Obligation refunding bonds. The outstanding debt balance as of September 30, 2105 is \$7,965,728 with debt service payments through 2025. The City contributes all of its incremental tax revenues to Zone Ten. Brazos County has agreed to allow 80% of its maintenance and operations rate to be diverted to Zone Ten through 2025. Incremental ad valorem property taxes provided 111% of the debt service payments in FY 2015.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Tax Increment Reinvestment Zone #19: In 2005, the City approved an ordinance creating a TIRZ known as “Reinvestment Zone Number Nineteen, City of Bryan, Texas” (“Zone Nineteen”). The development consists of 122 acres in the central portion of the City of Bryan in the vicinity of Nash Street. Through the fiscal year ended September 2015, the City estimates that it has funded \$1.8 million in public infrastructure improvements and associated costs within Zone Nineteen. Tax and Revenue Certificates of Obligation, Series 2005, in the aggregate principal amount of \$1,747,642 were issued by the City to provide funds to commence certain of the public infrastructure improvements within Zone Nineteen. Subsequently, in 2007, the City issued Tax and Revenue Certificates of Obligation, Series 2007, in the aggregate principal amount of \$200,000 for TIRZ Nineteen projects. In 2013 and 2014, the Series 2005 were refunded through the City’s issuance of \$1,534,542 of General Obligation refunding bonds. The outstanding debt balance as of September 30, 2015 is \$1,280,042 with debt service payments through 2031. The City contributes all of its incremental tax revenues to Zone Nineteen. Brazos County agreed to allow 100% of its maintenance and operations rate to be diverted to Zone Nineteen through 2013. Incremental ad valorem property taxes provided 91% of debt service payments in FY 2015.

Tax Increment Reinvestment Zone #21: In 2006, the City approved an ordinance creating a TIRZ known as “Reinvestment Zone Number Twenty-One, City of Bryan, Texas” (“Zone Twenty-One”). Zone Twenty-One is located in Downtown Bryan and was created to support the re-development of the Downtown district. Through the fiscal year ended September 2015, the City estimates that it has funded \$300,000 in public infrastructure improvements and associated costs within Zone Twenty-One.

Tax Increment Reinvestment Zone #22: In 2007, the City approved an ordinance creating a TIRZ known as “Reinvestment Zone Number Twenty-Two, City of Bryan, Texas” (“Zone Twenty-Two”). Zone Twenty-Two is a retail development on the east side of the City of Bryan in the vicinity of Bryan Towne Center. Through the fiscal year ended September 2015, the City estimates that it has funded \$5.2 million in public infrastructure improvements and associated costs within Zone Twenty-Two. Tax and Revenue Certificates of Obligation, Series 2007, in the aggregate principal amount of \$3,721,414 were issued by the City to provide funds to commence certain of the public infrastructure improvements within Zone Twenty-Two. Subsequently, in 2008, the City issued Tax and Revenue Certificates of Obligation, Series 2008, in the aggregate principal amount of \$287,914 for TIRZ Twenty-Two projects. In September 2013, bond funds of \$1,481,500 were assigned to Zone Twenty-Two from Tax and Revenue Certificates of Obligation, Series 2010. The outstanding debt balance as of September 30, 2015 is \$4,251,274 with debt service payments through 2030. The City contributes all of its incremental tax revenues to Zone Twenty-Two. Brazos County has agreed to allow 100% of its maintenance and operations rate to be diverted to Zone Twenty-Two through 2023. Incremental ad valorem property taxes provided 105% of debt service payments in FY 2015.

The following schedule is a ten year history of relevant data with regard to these TIFZ:

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Zone/ Fiscal Year	Base Value	Net Taxable Value	Captured Value	Tax Rate Per \$100 Valuation	Captured Tax Revenue
# 10					
2015	\$ 637,640	\$ 178,967,116	\$178,329,476	\$ 0.629990	\$ 1,123,458
2014	637,640	139,749,374	139,111,734	0.629990	876,390
2013	637,640	115,128,526	114,490,886	0.633308	725,080
2012	637,640	99,472,976	98,835,336	0.636400	628,988
2011	637,640	92,479,156	91,841,516	0.636400	584,479
2010	637,640	86,173,404	85,535,764	0.636400	544,350
2009	637,640	81,855,365	81,217,725	0.636400	516,870
2008	637,640	66,843,855	66,206,215	0.636400	421,336
2007	637,640	40,005,365	39,367,725	0.636400	250,536
2006	637,640	4,076,325	3,438,685	0.636400	21,884
# 22					
2015	2,464,400	33,898,290	31,433,890	0.629990	198,030
2014	2,464,400	27,947,440	25,483,040	0.629990	160,541
2013	2,464,400	24,662,080	22,197,680	0.633308	140,580
2012	2,464,400	25,047,040	22,582,640	0.636400	143,716
2011	2,038,090	27,353,460	25,315,370	0.636400	161,107
2010	2,038,090	29,254,110	27,216,020	0.636400	173,203
2009	2,038,090	8,388,060	6,349,970	0.636400	40,411
2008	2,038,090	2,038,090	-	0.636400	-
# 19					
2015	2,213,289	23,048,143	20,834,854	0.629990	131,257
2014	2,213,289	20,519,511	18,306,222	0.629990	115,327
2013	2,213,289	19,743,440	17,530,151	0.633308	111,020
2012	2,213,289	18,121,071	15,907,782	0.636400	101,237
2011	2,213,289	16,096,206	13,882,917	0.636400	88,351
2010	2,213,289	15,255,274	13,041,985	0.636400	82,999
2009	2,213,289	12,222,530	10,009,241	0.636400	63,699
2008	2,213,289	8,992,060	6,778,771	0.636400	43,140
2007	2,213,289	-	-	0.636400	-
# 21					
2015	41,070,995	56,999,200	15,928,205	0.629990	100,346
2014	41,070,995	54,701,063	13,630,068	0.629990	85,868
2013	41,070,995	53,611,658	12,540,663	0.633308	79,421
2012	41,070,995	52,889,681	11,818,686	0.636400	75,214
2011	41,070,995	52,504,534	11,443,539	0.636400	72,827
2010	41,070,995	51,057,085	9,986,090	0.636400	63,551
2009	41,070,995	43,915,850	2,844,855	0.636400	18,105
2008	41,070,995	-	-	0.636400	-

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

27. TAX ABATEMENTS

Chapter 312 of the Texas Tax Code authorizes the City to provide property tax abatements for limited time periods to encourage development or expansion of property. The terms of each agreement are limited by the guidelines and criteria established by the City Council. At September 30, 2015 the City had established abatement agreements with the following property owners:

Property Owner	Date of Abatement	FY 2015 Appraised Values	FY 2015 Taxable Values	FY 2015 Abated Values	FY 2015 Taxes Levied	FY 2015 Taxes Abated
Kent Moore	2008-2016	\$4,515,160	\$3,160,612	\$1,354,548	\$19,912	\$ 8,534
Penncro Associates	2011-2014	245,660	123,580	122,080	779	769
Woodbolt Distribution, LLC	2014-2023	6,154,050	1,393,920	4,760,130	8,782	29,988
Toyo Ink International	2008-2015	21,155,300	21,155,300	-	133,276	-

28. FINANCIAL HEDGING

On March 10, 2008, the City modified BTU's Energy Risk Policy to allow for the purchase and sale of certain financial instruments defined as hedge instruments. The essential goal of the Energy Risk Policy is to provide a framework for the operation of a fuel and energy purchasing and hedging program to better manage risk exposures in order to stabilize pricing and costs for the benefit of the City's customers.

The City applies GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"), which addresses the recognition, measurement, and disclosures related to derivative instruments. The City utilizes natural gas commodity swaps and options to hedge its exposure to fluctuating fuel prices. Since these derivatives are entered into for risk mitigation purposes, the instruments are considered potential hedging derivative instruments under GASB 53.

In accordance with the requirements of GASB 53, the City Electric Fund reports all fuel hedges on the Statement of Net Position at fair value. The fair value of option contracts are determined using New York Mercantile Exchange ("NYMEX") or Houston Ship Channel ("HSC") closing settlement prices as appropriate to the instrument. For swap transactions, the value is calculated as the difference between the closing futures price at the end of the reporting period, and the futures price at the time the positions were established, less applicable commissions.

The City evaluated all potential hedging derivative instruments for effectiveness as of September 30, 2015, and determined the derivatives to be effective in substantially offsetting the changes in cash flows of the hedgeable items. The City's hedgeable items are expected HSC natural gas purchases to serve budgeted load. The City projects total natural gas needs as part of a 10-year forecast. This forecast is the basis for the procurement amount of the hedgeable item. The City's potential hedging derivatives are NYMEX and HSC indexed commodity swaps and options. These derivatives act as cash flow hedges.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

The City utilized regression analysis to test effectiveness of its NYMEX hedges. Testing was based on the extent of correlation between historical NYMEX index and HSC natural gas prices for the prompt months of January 2003 to September 2015. The correlation coefficient of (0.8462) exceeds the minimum standard established by GASB 53 and indicates a strong linear relationship between the NYMEX and HSC prices. The calculated R² value of 0.9564 indicates that the changes in cash flows of the hedge substantially offset the changes in cash flows of the hedgeable item. The City Electric Fund also utilizes HSC indexed gas commodity swaps to hedge its open exposure after a NYMEX-based swap contract month settles. The City Electric Fund entered into Platts Gas Daily daily swaps to hedge this exposure. These HSC indexed swaps are hedging the physical purchases of natural gas also based on the HSC index and are effective cash flow hedges under the consistent critical terms method as defined by GASB 53. The swap is for the purchase of virtually the same quantity of the hedgeable item, has zero fair value at inception, and the reference rate of the swap and the hedgeable item are the same (HSC index).

For the fiscal year ended September 31, 2015, the total fair value of outstanding hedging derivative instruments was a net liability of \$17,801,026. The fair value of those instruments maturing within one year are reported on the Statement of Net Position in current liabilities as derivative financial instruments and were \$6,009,018 at September 30, 2015. The fair value of those instruments with maturities exceeding one year are reported on the Statement of Net Position in noncurrent liabilities as derivative financial instruments and were \$11,792,008 at September 30, 2015.

Hedge accounting treatment outlined in GASB 53 and GASB 63 requires changes in the fair value of derivative instruments deemed effective in offsetting changes in cash flows of hedged items be reported as deferred (inflows) outflows of resources on the Statement of Net Position. For the fiscal year ended September 30, 2014, the fair value of the City's Electric fund's hedging derivative instruments – NYMEX-based commodity swaps – decreased by \$1,083,731; which is reported in the Statement of Net Position as a reduction of deferred outflows of resources. The deferred outflows are reported until respective contract expirations occur in conjunction with hedged expected physical fuel purchases. When fuel purchase transactions occur, the deferred balance associated with the expired fuel hedging contract is recorded as an adjustment to fuel expense. At September 30, 2015 the deferred outflows of resources related to hedging derivatives were \$17,801,026 and are reported on the Statement of Net Position.

The following information details the City Electric Fund's hedging derivative instruments as of September 30, 2015:

Type	Terms	Volume Hedged (MMBtu)	Effective Dates	Maturity Dates	Reference Index	Fair Value
Commodity Swaps	BTU pays prices of \$3.072 - 6.49	5,678,000	Oct 2015- Dec 2018	Oct 2015 - Dec 2018	NYMEX	\$ (17,801,026)
		<u>5,678,000</u>				<u>\$ (17,801,026)</u>

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

Fuel swap contracts represent a financial obligation to buy or sell the underlying settlement point price. If held to expiration, as is the City's policy, the financial difference determined by mark-to-market valuation must be settled on a cash basis.

Credit Risk – The City's hedging derivative instruments generate exposure to a certain amount of risk that could give rise to financial loss. Since current hedges have a net liability position, the City is not exposed to counterparty credit risk. However, it is the City's policy to require full collateralization of the fair value of derivative instruments in asset positions should the counterparty's credit ratings fall below investment grade.

Basis Risk – The City is exposed to basis risk because the expected gas purchases being hedged will settle based on a pricing point (HSC) different than the pricing point of the hedge transactions (NYMEX). For September 2015, prompt month prices were \$2.638/MMBtu and \$2.614/MMBtu, for NYMEX and HSC, respectively.

Termination Risk - Exposure to termination risk occurs because the City or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The City's fuel hedges are exchange-traded instruments, and consequently, termination risk is mitigated by the rules and guidelines established by NYMEX, which is governed by the Commodity Futures Trade Commission.

29. SUBSEQUENT EVENTS

On October 1, 2015, BTU implemented phase two of a three phase electric rate adjustment for the City Electric System which includes City of Bryan retail customers and the Rural Electric System wholesale rate. After the third phase, to be effective October 1, 2016, base rates would have increased 2.4% over the prior three years.

On October 1, 2015, the City Electric System increased the Power Supply Adjustment (PSA) component of its rates for retail customers. The PSA is used to recover fuel costs, net purchased power costs, and adjustments for the over or under recovery for such costs from preceding periods. The City Electric system increased the PSA \$0.0025/kWh (an average of 8.5%) for retail customers to eliminate projected under recovery of fuel and purchased power costs.

On October 1, 2015, the City Electric System increased the Regulatory Charge (RC) component of its rates for retail customers and the Rural Electric System wholesale rate. The RC is used to recover BTU's full cost of the Wholesale Transmission Service Charge as established by the Public Utility Commission of Texas and for other fees assessed by regulatory bodies. The City Electric System increased the RC 20% for all retail customer classes and the Rural Electric System wholesale rate to eliminate projected under recovery of regulatory costs.

On October 6, 2015, following a resource planning study, BTU executed forward market power purchases for the years 2018 through 2022. Spread over five years, BTU transacted with four counterparties for the total purchase of approximately 949,000 MWh.

City of Bryan, Texas

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

On October 1, 2015, the City Electric System increased the Regulatory Charge (RC) component of its rates for retail customers and the Rural Electric System wholesale rate. The RC is used to recover BTU's full cost of the Wholesale Transmission Service Charge as established by the Public Utility Commission of Texas and for other fees assessed by regulatory bodies. The City Electric System increased the RC 20% for all retail customer classes and the Rural Electric System wholesale rate to eliminate projected under recovery of regulatory costs.

On October 6, 2015, following a resource planning study, BTU executed forward market power purchases for the years 2018 through 2022. Spread over five years, BTU transacted with four counterparties for the total purchase of approximately 949,000 MWh.

CITY OF BRYAN, TEXAS

Required Supplementary Information
 Schedule of Contributions
 Texas Municipal Retirement System
 Last Ten Fiscal Years (will ultimately be displayed)

	2015
Actuarially Determined Contribution	\$ 7,686,872
Contributions in relation to the actuarially determined contribution	7,686,872
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 48,991,679
Contributions as a percentage of employee covered payroll	15.69%

Note to Schedule of Contributions

Only one year of data is presented in accordance with GASB Standard No. 68 as the data for the years other than 2015 is not available. Additionally, GASB Standard No. 68 requires that the information on this schedule correspond with the period covered as of the City's current fiscal year end of September 30, 2015.

Methods and Assumptions Used to Determine the Contribution Ratio

Actuarial Cost Method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization period	24 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.5% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

Notes: There were no benefits changes this year.

CITY OF BRYAN, TEXAS

Required Supplementary Information
 Schedule of Changes in the City's Net Pension Liability and Related Ratios
 Texas Municipal Retirement System
 Last Ten Calendar Years (will ultimately be displayed)

	2014
Total Pension Liability	
Service Cost	\$ 7,088,933
Interest (on the Total Pension Liability)	18,281,849
Changes of benefit terms	-
Difference between expected and actual experience	(1,764,543)
Change of assumptions	-
Benefit payments, including refunds of employee contributions	(11,117,789)
Net Change in Total Pension Liability	<u>12,488,450</u>
Total Pension Liability - Beginning	<u>263,183,703</u>
Total Pension Liability - Ending (a)	<u><u>\$ 275,672,153</u></u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 7,667,195
Contributions - Employee	3,312,987
Net Investment Income	12,827,812
Benefit payments, including refunds of employee contributions	(11,117,789)
Administrative expense	(133,929)
Other	(11,011)
Net Change in Plan Fiduciary Net Position	<u>12,545,265</u>
Plan Fiduciary Net Position - Beginning	<u>224,239,250</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 236,784,515</u></u>
Net Pension Liability - Ending (a) - (b)	\$ 38,887,638
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.89%
Covered Employee Payroll	\$ 47,328,382
Net Pension Liability as a Percentage of Covered Payroll	82.17%

Note to Schedule of Changes in the City's Net Pension Liability and Related Ratios

Only one year of data is presented in accordance with GASB Standard No. 68 as the data for the years other than calendar year 2014 is not available. Additionally, GASB Standard No. 68 requires that the information on this schedule correspond with the period covered as of the end of December 31, 2014.

APPENDIX C

SELECTED PROVISIONS OF THE ORDINANCE

SELECTED PROVISIONS OF THE ORDINANCE

Definitions.

Unless otherwise expressly provided or unless the context clearly requires otherwise, in this Ordinance, the following terms shall have meanings specified below:

“Account” means any account created within a Fund established pursuant to the terms of this Ordinance or an ordinance authorizing the issuance of Parity Obligations.

“Additional Bonds” means the additional bonds the City reserves the right to issue in accordance with Section 10.01 hereof.

“Annual Debt Service Requirements” means, for any Fiscal Year, the principal of and interest on all Parity Bonds coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(1) Committed Take Out. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City’s obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(2) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the City) in any Fiscal Year either is equal to at least 25% of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein as Balloon Debt), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt (as defined in clause (2) above), if a Designated Financial Officer shall deliver to the City an Officer’s Certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such Officer’s Certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the City has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Debt. Principal of and interest on Parity Bonds, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Debt;

(5) Variable Rate.

(a) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the average for the then immediately preceding five (5) years of the SIFMA Index, plus twenty (20) basis points; provided, however, that (i) if, after the issuance of the Variable Rate Obligations then proposed to be issued, more than 20% of the aggregate of the Parity Obligations Outstanding will bear interest at a variable rate and (ii) any Parity Obligation is then insured by a Bond Insurer, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the greater of (x) the most recently announced 30-year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then borne by any Variable Rate Obligations then Outstanding, and (z) 1.25 times the average variable rate borne by any Variable Rate Obligations then Outstanding during the then immediately preceding twelve-month period, or if no Variable Rate Obligations are then Outstanding, 1.25 times the average variable rate for similarly rated obligations with comparable maturities during the then immediately preceding twelve-month period, and

(b) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations outstanding at the time of such calculation shall be deemed to be the lesser of (i) the then current per annum rate of interest borne by such Variable Rate Obligations or (ii) the average per annum rate of interest borne by such Variable Rate Obligations during the then immediately preceding twelve-month period; provided, however, that for any period during which (a) more than 20% of the aggregate of the Parity Obligations then Outstanding bear interest at a variable rate and (b) any Parity Obligation is then insured by a Bond Insurer, the rate of interest on such Variable Rate Obligations shall be the greater of (x) the most recently announced 30-year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Ordinance was adopted, in The City of New York, New York, (y) the rate of interest then in effect with respect to such Variable Rate Obligations in accordance with their terms, and (z) 1.25 times the average variable rate borne by such Variable Rate Obligations during the then immediately preceding twelve-month period;

(6) Guarantee. In the case of any guarantee, as described in clause (2) of the definition of Debt, no obligation will be counted if the City does not anticipate in its annual budget that it will make any payments on the guarantee. If however, the City is making payments on a guarantee or anticipates doing so in its annual budget, such obligation shall be treated as Parity Bonds, and calculations of annual debt service requirements with respect to such guarantee shall be made assuming that the City will make all additional payments due under the guaranteed obligation. If the entity whose obligation is guaranteed cures all defaults and the City no longer anticipates making payments under the guarantee, the guaranteed obligations shall not be included in the calculation of Annual Debt Service Requirements;

(7) Commercial Paper. With respect to any Parity Obligations issued in the form of commercial paper with maturities not exceeding 270 days, the interest on such Parity Obligations shall be calculated in the manner provided in clause (5) of this definition and the maturity schedule shall be calculated in the manner provided in clause (2) of this definition; and

(8) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement (other than payments made by the City in connection with the termination or unwinding of a Credit Agreement), from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (1) through (7) above and any payments otherwise included above under (1) through (7) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation.

With respect to any calculation of historic data, only those payments actually made in the subject period shall be taken into account in making such calculation and, with respect to prospective calculations, only those payments reasonably expected to be made in the subject period shall be taken into account in making the calculation.

“Authentication Certificate” shall have the same meaning given said term in Section 3.03(d) hereof.

“Authorized Denomination” shall have the same meaning given said term in Section 3.02(a) hereof.

“Authorized Investments” means any and all of the authorized investments described in the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, provided that such investments are, at the time made, included in and authorized by the City’s official investment policy approved from time to time by the City Council.

“Bondholder” or “Holder” or “Owner” or “Registered Owner” means the person who is the registered owner of a Bond or Bonds.

“Bond Insurer” means any insurance company insuring payment of municipal bonds and other similar obligations if such bond or obligations so insured by it are eligible for a rating by a Rating Agency, at the time of the delivery of a municipal bond insurance policy, in one of its two highest rating categories.

“Bonds” means the waterworks and sewer system revenue bonds authorized to be issued by Section 3.01 of this Ordinance, which Bonds constitute the ninth series of Parity Obligations.

“Business Day” shall mean a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions are authorized by law or executive order to close in the City or the city where the Designated Trust Office of the Paying Agent/Registrar is located.

“City” means the City of Bryan, Texas.

“Closing Date” means the date of the initial delivery of and payment for the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, including the regulations and published rulings thereunder.

“Credit Agreement” means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Bonds, purchase or sale agreements, interest rate swap agreements, currency exchange agreements, interest rate floor or cap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of Parity Bonds and on a parity therewith.

“Credit Facility” means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Parity Bonds would rate the Parity Bonds fully insured by a standard policy issued by the issuer in its two highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Parity Bonds would rate the parity obligations in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Parity Bonds and the interest thereon; and, in any case, no lower than the rating assigned by a Rating Agency to the Parity Bonds.

“Credit Provider” means any bank, financial institution, insurance company, surety bond provider, or other entity which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

“Dated Date” means October 1, 2016.

“Debt” means all:

(1) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the City that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(3) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by the City whether or not the City has assumed or become liable for the payment thereof.

For the purpose of determining the “Debt” of the City, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements prepared by or for the benefit of the City in prior Fiscal Years.

“Debt Service Fund” means the interest and sinking fund described in Section 8.02 of this Ordinance.

“Defeasance Securities” means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent.

“Designated Financial Officer” shall mean each of the City Manager and the Chief Financial Officer of the City.

“Designated Trust Office” shall mean the corporate trust office of the Paying Agent/Registrar in Dallas, Texas.

“DTC” shall mean The Depository Trust Company of New York, New York, or any successor securities depository.

“DTC Participant” shall mean brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

“Fiscal Year” means the twelve month period ending September 30 of each year, unless otherwise designated by the City.

“Fund” means any fund established pursuant to the terms of this Ordinance or an ordinance authorizing the issuance of Parity Obligations.

“Funded Debt” means all Parity Bonds that mature by their terms (in the absence of the exercise of any earlier right of demand), or are renewable at the option of the City to a date, more than one year after the original creation, assumption, or guarantee of such Debt by the City.

“Interest Payment Date” means the date or dates upon which interest on the Bonds is scheduled to be paid until their respective dates of maturity or prior redemption, such dates being January 1 and July 1 of each year, commencing on July 1, 2017.

“Issuance Date” means the date of delivery of the Bonds to the Underwriters in consideration of receipt of payment therefor.

“Maturity” when used with respect to any Debt means the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

“Maturity Date” means the dates specified in Section 3.02 hereof on which the principal of the Bonds is due and payable.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Earnings” means all income, receipts and revenues derived from the operation of the Waterworks and Sewer System, including interest earned on invested moneys in the special Funds created herein for the payment and security of obligations payable from the Net Revenues, after deduction of maintenance and operating expenses (but not deducting depreciation) and other expenditures which, under standard accounting practice, should be classified as capital expenditures. Revenues and receipts resulting solely from the ownership of the Waterworks and Sewer System (grants, meter deposits and gifts) and interest earned on Bond proceeds shall not be treated or included as income, revenues or receipts from the operation of the Waterworks and Sewer System for purposes of determining “Net Earnings”.

“Net Revenues” means all income, revenues and receipts of every nature derived from and received by virtue of the operation of the Waterworks and Sewer System including interest income and earnings received from the investment of moneys in the special Funds created by this Ordinance or ordinances authorizing Parity Obligations, after deducting and paying, and making provisions for the payment of, current expenses of maintenance and operation thereof, including all salaries, materials, repairs and extensions necessary to render efficient service; provided, however, only such expenses for repairs and extensions as in the judgment of the City Council reasonably and fairly exercised, are necessary to keep the Waterworks and Sewer System in operation and to render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from Net Revenues of the Waterworks and Sewer System, shall be deducted in determining “Net Revenues”. Contractual payments for the purchase of water or the treatment of sewage shall be a maintenance and operating expense of the Waterworks and Sewer System to the extent provided in the contract incurred therefor and as may be authorized by law. Depreciation shall never be considered as an expense of operation and maintenance.

“Non-Recourse Debt” means any Debt secured by a lien (other than a lien on Net Revenues), liability for which is effectively limited to the property subject to such lien with no recourse, directly or indirectly, to any other property of the City attributable to the Waterworks and Sewer System; provided, however, that such Debt is being incurred in connection with the acquisition of property only, which property is not, at the time of such occurrence, owned by the City and being used in the operations of the City.

“Officer’s Certificate” means a certificate executed by a Designated Financial Officer.

“Ordinance” means this Ordinance, under which the Bonds are authorized.

“Parity Bonds” means the Previously Issued Parity Bonds and the bonds authorized to be issued under the terms of this Ordinance secured by a first lien on and pledge of the Net Revenues of the Waterworks and Sewer System.

“Parity Obligations” means all Parity Bonds, as well as any other obligations issued or incurred by the City that are determined and declared by the City Council of the City to be on a parity with the Parity Bonds, including obligations of the City issued or incurred under the terms of a Credit Agreement.

“Paying Agent Agreement” means the Paying Agent/Registrar Agreement between the City and the Paying Agent/Registrar in substantially the form presented to the City Council with this Ordinance.

“Paying Agent/Registrar” shall have the same meaning given said term in Section 3.03(a) hereof.

“Person” means any natural person, firm, partnership, association, corporation, or public body.

“Previously Issued Parity Bonds” means, collectively, the following obligations: (i) City of Bryan, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, New Series 2007, (ii) City of Bryan, Texas Waterworks and Sewer System Revenue Bonds, New Series 2009A, (iii) City of Bryan, Texas Waterworks and Sewer System Revenue Bonds, New Series 2009B, (iv) City of Bryan, Texas Waterworks and Sewer System Revenue Bonds, New Series 2010A, and (v) City of Bryan, Texas Waterworks and Sewer System Revenue Bonds, New Series 2011.

“Purchase Contract” means the Purchase Contract by and between the City and the Underwriters, in substantially the form presented to the City Council with this Ordinance.

“Rating Agency” means Moody’s Investors Service and S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, and their respective successors.

“Record Date” means the fifteenth day of the month next preceding an Interest Payment Date.

“Registration Books” means the bond registration books specified in Section 3.03(a) of this Ordinance.

“Required Reserve Amount” means an amount equal to the lesser of (a) 1.25 times the average Annual Debt Service Requirements of the Parity Bonds then Outstanding, or (b) 1.00 times the Annual Debt Service Requirements of the Parity Bonds to be Outstanding in the Fiscal Year during which such Annual Debt Service Requirements are scheduled to be the greatest, provided, however, that the Required Reserve Amount shall not exceed ten percent (10%) of the aggregate proceeds (within the meaning of Section 148(d)(2) of the Code) of the Parity Bonds.

“Reserve Fund” means the reserve fund defined in Section 8.03 of this Ordinance.

“Reserve Fund Obligations” means cash, Authorized Investments, and any Credit Facility (one or more), or any combination of any of the foregoing.

“Revenue Fund” means the revenue fund described in Section 8.01 of this Ordinance.

“Rule” means SEC Rule 15c2-12, as amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

“SIFMA Index” means the “high grade” seven-day index (formerly known as “The Bond Market Association/PSA Municipal Swap Index” or “BMA Index”) made available by The Securities Industry and Financial Markets Association (formerly, The Bond Market Association of New York, New York), or any successor thereto, based upon 30-day yield evaluation at par of bonds, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes. In the event that neither The Securities Industry and Financial Markets Association nor any successor thereto makes available an index conforming to the requirements of the preceding sentence, the term “SIFMA Index” shall mean an index determined by the City based upon the rate for bonds rated in the highest short-term rating category by a Rating Agency, the interest income on which is excludable from gross income of the recipients thereof for federal income tax purposes, in respect of issuers most closely resembling the “high grade” component issuers selected by “SIFMA Index”.

“Stated Maturity” when used with respect to any Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

“Subordinated Debt” or “Subordinate Obligations” means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Bonds then outstanding or subsequently issued.

“Term of Issue” means with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or (ii) twenty-five (25) years.

“Unclaimed Payments” means money deposited with the Paying Agent/Registrar for the payment of principal, redemption premium, if any, or interest on the Bonds as the same come due and payable or money set aside for the payment of Bonds duly called for redemption prior to maturity.

“Underwriters” means the purchaser or purchasers of the Bonds identified in the Purchase Contract.

“Value of Investment Securities” and words of like import shall mean valuation at their market value, excluding accrued interest, in accordance with the City’s official investment policy approved from time to time by the City Council.

“Variable Rate Obligations” means Parity Obligations that bear interest at a rate per annum which is subject to adjustment so that the actual rate of interest is not ascertainable at the time such Parity Obligations are issued; provided, however, that upon the conversion of the rate of interest on a Variable Rate Obligation to a fixed rate of interest (whether or not the interest rate thereon is subject to conversion back to a variable rate of interest), such Parity Obligation shall not be treated as a “Variable Rate Obligation” for so long as such Parity Obligation bears interest at a fixed rate.

“Waterworks and Sewer System” means the waterworks and wastewater system components of the City, including all properties (real, personal or mixed and tangible or intangible) owned, operated, maintained, and vested in, the City for the supply, treatment and distribution of treated water for domestic, commercial, industrial and other uses and the collection and treatment of watered wastes, together with all future additions, extensions, replacements and improvements thereto; provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Waterworks and Sewer System shall not include any waterworks or sewer facilities which are declared not to be a part of the Waterworks and Sewer System and which are acquired or constructed by the City with the proceeds from the issuance of “Special Facilities Bonds”, which are hereby defined as being special revenue obligations of the City which are not secured by or payable from the Net Revenues as defined herein, but which are secured by and payable solely from special contract revenues or payments received from any other legal entity in connection with such facilities, and thus constitute Non-Recourse Debt; and such revenues or payments shall not be considered as or constitute gross revenues of the Waterworks and Sewer System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such “Special Facilities Bonds”.

Rates and Charges.

The City shall, at all times while any of the Bonds are outstanding and unpaid, maintain rates and collect charges for the facilities and services afforded by the Waterworks and Sewer System, as required by Section 1502.057, Texas Government Code, which will provide revenues sufficient at all times to:

- (a) Pay for all maintenance, operation, debt service, depreciation, replacement and betterment charges of the Waterworks and Sewer System;
- (b) Establish and maintain the Debt Service Fund and the Reserve Fund as provided for in this Ordinance;
- (c) Produce Net Revenues each year in an amount reasonably estimated to be not less than 1.25 times the average Annual Debt Service Requirements of the Parity Bonds from time to time outstanding; and
- (d) Pay all other obligations reasonably anticipated to be payable from the revenues of the Waterworks and Sewer System as and when the same become due.

Waterworks and Sewer System Revenue Fund.

The City affirms that there has been created and established on the books of the City a separate fund entitled the “City of Bryan, Texas, Waterworks and Sewer System Revenue Fund” (hereinafter called the “Revenue Fund”). All revenues of the Waterworks and Sewer System immediately shall be credited to the Revenue Fund upon receipt. The Revenue Fund shall be kept separate and apart from all other funds of the City, and, further shall be pledged and appropriated to the following uses and in the order of precedence shown:

- First: To the payment of all necessary and reasonable maintenance and operation expenses of the Waterworks and Sewer System, as said expenses are defined by law.
- Second: To the “Debt Service Fund” and the “Reserve Fund” for the payment of Parity Obligations, including specifically the payment of principal of and interest on the Parity Bonds, when and as the same fall due and mature.
- Third: To pay Subordinated Debt.
- Fourth: To any other purpose of the City now or hereafter permitted by law.

Debt Service Fund.

The City affirms that, for the sole purpose of paying obligations incurred under Parity Obligations, including specifically the payment of the principal of and interest on the Parity Bonds, as the same come due, there has been created and established on the books of the City a separate fund entitled the “City of Bryan, Texas, Waterworks and Sewer System New Series Revenue Bonds Debt Service Fund” (hereinafter called the “Debt Service Fund”). Monies in the Debt Service Fund are and shall be maintained at an official depository bank of the City.

Promptly after the delivery of the Bonds the City shall cause to be deposited to the credit of the Debt Service Fund any accrued interest received from the sale and delivery of the Bonds, and any such deposit shall be used for the payment of the interest next coming due on the Bonds.

The City shall transfer from the Net Revenues credited to the account of the Revenue Fund and deposit to the credit of the Debt Service Fund the amounts, at the times, as follows:

- (1) such amounts, deposited in approximately equal monthly installments on or before the last Business Day of each month hereafter, commencing with the month during which the Bonds are delivered, as will be sufficient, together with other amounts, if any, then on hand in the Debt Service Fund and available for such purpose, to pay the interest scheduled to accrue and come due on the Bonds on the next succeeding interest payment date; and
- (2) such amounts, deposited in approximately equal monthly installments on or before the last Business Day of each month hereafter, commencing with the month during which the Bonds are delivered, as will be sufficient,

together with other amounts, if any, then on hand in the Debt Service Fund and available for such purpose, to pay the principal scheduled to mature and come due on the Bonds on the next succeeding principal payment date.

The City reserves the right to establish accounts within the Debt Service Fund for the payment of Parity Obligations that are not Parity Bonds, including specifically obligations incurred under a Credit Agreement that are declared to be a Parity Obligation in the ordinance authorizing the execution of such Credit Agreement.

Reserve Fund.

The City affirms that there has been created and established on the books of the City a separate fund entitled the "City of Bryan, Texas, Waterworks and Sewer System New Series Revenue Bonds Reserve Fund" (hereinafter called the "Reserve Fund"). The Reserve Fund shall be maintained for the benefit of the owners and holders of the Parity Obligations. There shall be credited to the Reserve Fund any Reserve Fund Obligations so designated by the City. Reserve Fund Obligations in the Reserve Fund shall be used for the purpose of retiring the last of the Parity Obligations as they become due or paying principal of and interest on the Parity Obligations when and to the extent the amounts in the Debt Service Fund are insufficient for such purpose. The Reserve Fund shall be maintained in an amount at least equal to the Required Reserve Amount. The City may, at its option, withdraw and use all surplus in the Reserve Fund over the Required Reserve Amount for any lawful purpose not inconsistent with the City's ownership and operation of the Waterworks and Sewer System; provided, that should such surplus constitute the proceeds of Parity Obligations, such surplus shall be deposited to the Debt Service Fund.

The City may satisfy its covenant to maintain the Reserve Fund in an amount equal to the Required Reserve Amount with a Credit Facility that will provide funds, together with other Reserve Fund Obligations, if any, credited to the Reserve Fund, at least equal to the Required Reserve Amount. The City may, upon passage of an ordinance by the City Council of the City, replace or substitute a Credit Facility for cash or Authorized Investments on deposit in the Reserve Fund or in substitution for or replacement of any existing Credit Facility. Upon such replacement or substitution, cash or Authorized Investments in excess of the Required Reserve Amount may be withdrawn by the City, at its option, and transferred to the Revenue Fund; provided that the face amount of any Credit Facility may be reduced at the option of the City in lieu of such transfer; and provided, further, that if such amount withdrawn was originally funded with the proceeds of Parity Obligations, such funds shall be used to pay for improvements to the Waterworks and Sewer System or be transferred to the Debt Service Fund.

If the City is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the City shall promptly notify the issuer of such Credit Facility of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys or Authorized Investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency.

When and if the Reserve Fund contains less than the Required Reserve Amount due to the issuance of the Bonds or Additional Bonds, beginning on the last Business Day of the month following the delivery of the Bonds to the purchasers thereof, and continuing for sixty (60) months, the City shall transfer from the Net Revenues and deposit to the credit of the Reserve Fund an amount equal to 1/60th of the difference determined as of such delivery date between the amount in the Reserve Fund and the Required Reserve Amount. In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient Reserve Fund Obligations, all in an aggregate amount at least equal to the Required Reserve Amount, then the City shall, after making required deposits to the Debt Service Fund in accordance with the terms of this Ordinance, satisfy the Required Reserve Amount by depositing Reserve Fund Obligations into the Reserve Fund in monthly installments of not less than 1/12 of such deficiency on or before the last Business Day of each month following such deficiency, termination or expiration.

In the event of the redemption or defeasance of any of the Parity Obligations, any Reserve Fund Obligations on deposit in the Reserve Fund in excess of the Required Reserve Amount may be withdrawn and transferred, at the option of the City, to the escrow fund established for the retirement of such Parity Obligations or to the Revenue Fund for subsequent transfer to the Debt Service Fund, as a result of (i) the redemption of Parity Obligations or (ii) funds for the payment of the Parity Obligations having been deposited in the manner described in this Ordinance, the result of such deposit being that such Parity Obligations no longer are deemed to be outstanding under the terms of this Ordinance.

In the event there is a draw upon a Credit Facility, the City shall reimburse the issuer of such Credit Facility for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues; however, such reimbursement from Net Revenues shall be subject to the provisions of Section 8.02 above and shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Parity Obligations.

Construction Fund.

There is hereby created and there shall be established and maintained on the books of the City, and accounted for separate and apart from all other funds of the City, a separate fund designated as the "City of Bryan, Texas, Waterworks and Sewer System New Series 2016A Revenue Bonds Construction Fund" (hereinafter called the "Construction Fund"). A portion of the proceeds from the sale of the Bonds, identified in the letter of instructions described in Section 19.03 hereof to be deposited to the credit of the Construction Fund, shall be deposited to the credit of the Construction Fund for use by the City for payment of all lawful costs associated with the construction, improvement, repair, renovation, enlargement, extension and equipping of the Waterworks and Sewer System, as hereinbefore provided. Upon payment of all such costs, any moneys remaining on deposit in the Construction Fund shall be transferred FIRST, to the extent the City is liable, to pay rebate amounts to the United States of America pursuant to the terms of the Code and NEXT to the Debt Service Fund. Amounts so deposited to the Debt Service Fund shall be used in the manner described in Section 8.02.

Excess Revenues.

All revenues in excess of those required to establish and maintain the Debt Service Fund and the Reserve Fund as required may be used for any proper City purpose now or hereafter permitted by law including, without limitation, pledging any excess revenues in support of Subordinate Obligations.

Security of Funds.

All Funds and Accounts shall be secured in the manner and to the fullest extent required by law for the security of public funds, including Chapter 2257, Texas Government Code, as amended, and the funds created by the Ordinance shall be used only for the purposes therein specified.

Investment of Certain Funds.

Moneys in any Fund or Account established pursuant to this Ordinance may, at the option of the City, be placed or invested in Authorized Investments. The value of any such Fund or Account shall be established by adding any money therein to the Value of Investment Securities. The value of each such Fund or Account shall be established no less frequently than annually as of the last Business Day of each Fiscal Year, and in any event the value of each such Fund and Account shall be established as of the last Business Day of the month preceding the date the City Council adopts an ordinance authorizing the issuance and delivery of Parity Obligations. Authorized Investments credited to the Reserve Fund shall have stated maturities, or be redeemable at the option of the holder thereof at a stated price and time, not later than five (5) years after the date of the investment therein or the date of last maturity of Parity Obligations, whichever date is earlier. Authorized Investments credited to the Revenue Fund or the Debt Service Fund shall have stated maturities, or be redeemable at the option of the holder thereof at a stated price and time, not later than the date such moneys shall be needed to pay principal (including scheduled mandatory sinking fund redemption payments) and interest on Parity Obligations, or to pay operating and maintenance expenses of the Waterworks and Sewer System, as the case may be. Earnings derived from the investment of moneys on deposit in the various Funds and Accounts shall be credited to the Revenue Fund.

Issuance of Additional Bonds.

- (a) In addition to the right to issue Subordinate Obligations as authorized by law, the City reserves the right to issue Additional Bonds, under and in accordance with the Ordinance for the purpose of improving, extending, equipping and repairing the Waterworks and Sewer System, paying or refunding Parity Obligations or Subordinate Obligations and for any other lawful purpose. The Additional Bonds shall be secured by and payable from a lien on and pledge of the Net Revenues in the same manner and to the same extent as any then outstanding Parity Bonds, and the Additional Bonds then proposed to be issued shall in all respects be on a parity and of equal dignity as to lien and right. Additional Bonds may be issued under this Ordinance in one or more installments; provided, however, that none of the Additional Bonds shall be issued unless and until the following conditions have been met, to-wit:
 - (i) The City is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of the outstanding Parity Bonds;
 - (ii) Each of the special Funds created for the payment and security of the Parity Bonds contains the amount of money then required to be on deposit therein;

- (iii) The City has secured from a Certified Public Accountant a certificate showing that the Net Earnings of the Waterworks and Sewer System for either the completed Fiscal Year next preceding the date of the Additional Bonds or a consecutive twelve-month period out of the last fifteen (15) months next preceding the date of the Additional Bonds is equal to at least 1.25 times the average Annual Debt Service Requirements (calculated on a Fiscal Year basis) of all Parity Bonds which will be outstanding after the issuance of the proposed Additional Bonds. However, (A) should the certificate of the accountant certify that the Net Earnings of the Waterworks and Sewer System for the period covered thereby were less than required above, and (B) a change in the rates and charges for services afforded by the Waterworks and Sewer System became effective at least sixty (60) days prior to the last day of the period covered by the accountant's certificate, and (C) an independent engineer or engineering firm having a favorable reputation with respect to such matters will certify that, had such change in rates and charges been effective for the entire period covered by the accountant's certificate, the Net Earnings of the Waterworks and Sewer System covered by the accountant's certificate would have been, in the opinion of such engineer or engineering firm, at least equal to 1.25 times the average Annual Debt Service Requirements (calculated on a Fiscal Year basis) of the outstanding Parity Bonds after giving effect to the issuance of the Additional Bonds, then, in such event, the coverage specified in the first sentence of this paragraph (iii) shall not be required for the period specified, and such accountant's certificate will be sufficient if accompanied by an engineer's certificate to the above effect; and
- (iv) The ordinance authorizing the Additional Bonds (A) requires that deposits shall be made into the Debt Service Fund in amounts adequate to pay the principal and interest requirements of the Additional Bonds as the same become due; and (B) provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be an amount equal to the Required Reserve Amount for all outstanding Parity Bonds theretofore issued and to be outstanding after the issuance of said Additional Bonds and any additional amount shall be so accumulated in not more than sixty (60) months from the date of the Additional Bonds.
- (b) Wherever, in this Ordinance, the City reserves the right to issue Additional Bonds, such term shall also include, mean and refer to any other forms or types of obligations which may be made lawfully payable from and secured by the same source of revenues of the City.
- (c) If Additional Bonds are being issued for the purpose of refunding less than all outstanding Parity Bonds, the certification described in subsection (a)(iii) of this Section is not required so long as the Designated Financial Officer provides a certificate showing that the aggregate debt service requirements of such refunding Parity Bonds will not exceed the aggregate debt service requirements of the Parity Bonds being refunded.

Credit Agreements.

Payments to be made under a Credit Agreement may be treated as Parity Obligations if the governing body of the City makes a finding in the ordinance authorizing the execution and delivery of such Credit Agreement that the obligations of the City incurred under a Credit Agreement shall be treated as a Parity Obligation that, based upon the findings contained in a certificate executed and delivered by a Designated Financial Officer, the City will have sufficient funds to meet the financial obligations of the Waterworks and Sewer System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of the Waterworks and Sewer System and the financial obligations of the City relating to the Waterworks and Sewer System after giving effect to the treatment of the Credit Agreement as a Parity Obligation.

Separately Financed Projects.

The City expressly retains the right to issue or incur bonds, notes, or other obligations or evidences of indebtedness, other than Parity Obligations, for any project or purpose for goods or services other than the generation, transmission, distribution and sale of electric energy and capacity or related goods and services, which presently are or hereafter may be authorized or permitted to be provided or maintained by waterworks and sewer systems generally or the City specifically under the laws of the State of Texas, federal law or the City's home rule charter; provided the bonds, notes or other obligations issued or incurred for any such separately financed project are payable from and secured by other available funds derived from the ownership or operation thereof or excess Net Revenues remaining after satisfying, or making provision for the satisfaction of, the priority of claims identified on such Net Revenues in Section 8.01 hereof and separate books and records for such separately financed project or activity are maintained by the City.

Chapter 1208, Government Code, Applies to Bonds.

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Net Revenues granted by the City under Section 2.01 hereof, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the Net Revenues granted by the City is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, and enable a filing to perfect the security interest in said pledge to occur.

Maintenance and Operation; Insurance.

The City shall maintain the Waterworks and Sewer System in good condition and operate the same in an efficient manner and at reasonable cost. So long as any Parity Bonds are outstanding, the City agrees to maintain insurance for the benefit of the holder or holders thereof on the Waterworks and Sewer System of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business. Nothing in the Ordinance shall be construed as requiring the City to expend any funds derived from sources other than the operation of the Waterworks and Sewer System, but nothing therein shall be construed as preventing the City from doing so. In lieu of obtaining policies for insurance as provided above, the City may self-insure against risks, accidents, claims or casualties of the nature described above.

Records; Accounts; Accounting Reports.

The City covenants and agrees that so long as any Parity Bonds or any interest thereon remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of its Waterworks and Sewer System separate and apart from all other records and accounts; complete and correct entries shall be made of all transactions relating to the Waterworks and Sewer System, as provided by Section 1502.056, Texas Government Code, and that the holder or holders of any Parity Bonds or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto, and to inspect the Waterworks and Sewer System and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountants, shall particularly include the following:

- (a) A detailed statement of the income and expenditures of the Waterworks and Sewer System for such Fiscal Year.
- (b) A balance sheet as of the end of such Fiscal Year.
- (c) The accountant's comments regarding the manner in which the City has carried out the requirements of the Ordinance and his recommendations for any changes or improvements in the operation, records and accounts of the Waterworks and Sewer System.
- (d) A list of the insurance policies in force at the end of the Fiscal Year on the Waterworks and Sewer System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy's expiration date.

Expenses incurred in making the audits referred to hereinabove are to be regarded as maintenance and operation expenses and paid as such. Copies of the aforesaid annual audit shall be immediately furnished, upon request, to the original purchaser or any subsequent owner of the Parity Bonds.

Remedy in Event of Default.

In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Debt Service Fund or the Reserve Fund as required by this Ordinance, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the holder or holders of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in this Ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Remedies Not Exclusive.

No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Ordinance, the right to accelerate the debt evidenced by the Bond shall not be available as a remedy under this Ordinance.

The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

Competition; Sale of Waterworks and Sewer System.

So far as it legally may, the City covenants and agrees, for the protection and security of the Parity Bonds and the holders thereof from time to time, that it will not grant a franchise for the operation of any competing system in the City until all Parity Bonds shall have been retired. Neither the Waterworks and Sewer System, nor a substantial part thereof, shall be sold while the Parity Bonds are outstanding, but nothing in the Ordinance shall prevent the sale or disposal of properties constituting a part of the Waterworks and Sewer System which are no longer useful in connection with the operation thereof.

Defeasance of Bonds.

- (a) The City may defease the provisions of this Ordinance and discharge its obligations to pay the principal of and interest on any or all of the Bonds (a "Defeased Bond") in any manner now or hereafter permitted by law, including by depositing with the Paying Agent/Registrar, a trust company or commercial bank other than the Paying Agent/Registrar, or with the Comptroller of Public Accounts of the State of Texas either:
 - (i) cash in an amount equal to the principal amount of such Bonds and premium, if any, and interest thereon to the date of maturity or redemption; or
 - (ii) pursuant to an escrow or trust agreement, cash and/or Defeasance Securities, which (in the case of Defeasance Securities) may be in book-entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity or earlier redemption; provided however, that if any of the Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving notice of redemption as provided in this Ordinance.

Upon such deposit, such Bonds shall no longer be regarded to be Outstanding or unpaid. Any surplus amounts not required to accomplish such defeasance shall be returned to the City or deposited as directed in writing by the City.

- (b) Any agreement pursuant to which the money and/or Defeasance Securities are held for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of the requirements specified in subsection (a) above. All income from such Defeasance Securities which is not required for the payment of the Defeased Bonds, with respect to which such money has been so deposited, shall be remitted to the City or deposited as directed in writing by the City.
- (c) Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the City shall make proper arrangements to provide and pay for such services as required by this Ordinance.
- (d) In the event that the City elects to defease less than all of the principal amount of Bonds of a maturity, the Paying Agent/Registrar shall select, or cause to be selected, such amount of Bonds by such random method as it deems fair and appropriate.

Amendment of Ordinance.

- (a) That the holders of the Parity Bonds aggregating a majority in principal amount of then outstanding Parity Bonds shall have the right from time to time to approve any amendment to this Ordinance which may be

deemed necessary or desirable by the City; provided, however, that without the consent of the holders of all of the Parity Bonds at the time outstanding, nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Parity Bonds so as to:

- (i) Make any change in the maturity of the outstanding Parity Bonds;
 - (ii) Reduce the rate of interest borne by any of the outstanding Parity Bonds;
 - (iii) Reduce the amount of the principal payable on the outstanding Parity Bonds;
 - (iv) Modify the terms of payment of principal of or interest on the outstanding Parity Bonds or impose any conditions with respect to such payment;
 - (v) Affect the rights of the holders of less than all of the Parity Bonds then outstanding; or
 - (vi) Change the minimum percentage of the principal amount of Parity Bonds necessary for consent to such amendment.
- (b) That if at any time the City shall desire to amend the Ordinance under this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, once during each calendar week for at least two (2) successive calendar weeks; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Paying Agent/Registrar for inspection by all holders of Parity Bonds. Such publication is not required, however, if notice in writing is given to each holder of Parity Bonds.
- (c) That whenever at any time not less than thirty (30) days, and within one year, from the date of the first publication of said notice or other service of written notice the City shall receive an instrument or instruments executed by the holders of at least a majority in aggregate principal amount of all Parity Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Paying Agent/Registrar, the City Council may pass the amendatory ordinance in substantially the same form.
- (d) That upon the passage of any amendatory ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendatory ordinance, and the respective rights, duties and obligations under this Ordinance of the City and all the holders of then outstanding Parity Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendments.
- (e) That any consent given by the holder of a Parity Bond pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same Parity Bond during such period. Such consent may be revoked at any time after six (6) months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent/Registrar therefor and the City, but such revocation shall not be effective if the holders of a majority in aggregate principal amount of the then outstanding Parity Bonds as in this Section defined have, prior to the attempted revocation, consented to and approve the amendment.
- (f) For the purposes of this Section, the ownership and other matters relating to all Parity Bonds registered as to ownership shall be determined from the registration books kept by the registrar therefor. The Paying Agent/Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Paying Agent/Registrar. For purposes of this Section, the notional amount attributable to a Credit Agreement that is treated as a Parity Obligation shall be deemed to be the principal amount thereof.
- (g) The foregoing provisions of this Section notwithstanding, the City by action of the City Council may amend this Ordinance for any one or more of the following purposes:

- (i) To add to the covenants and agreements of the City in this Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to bondholders or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City;
- (ii) To make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, including, without limitation, those matters described in Section 20.04 hereof, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the holders of the Parity Bonds;
- (iii) To modify any of the provisions of this Ordinance in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all previously issued Parity Bonds outstanding at the date of the adoption of such modification shall cease to be outstanding, and (ii) such modification shall be specifically referred to in the text of all Additional Bonds issued after the date of the adoption of such modification.
- (iv) To make such amendments to this Ordinance as may be required, in the opinion of Bond Counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto;
- (v) To make such changes, modifications or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Parity Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility; and
- (vi) To make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the Parity Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar types of agreements with respect to the Parity Obligations.

Notice of any such amendment may be published by the City in the manner described in clause (b) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

Bond Insurer Deemed to be the Owner of Parity Bonds.

Notwithstanding anything in this Ordinance to the contrary, if a Bond Insurer has issued a municipal bond insurance policy in respect to any series of Parity Bonds, such Bond Insurer shall be deemed to be the holder of 100% of the Parity Bonds for which such Bond Insurer has issued and currently maintains a municipal bond insurance policy, and shall be entitled to approve on behalf of such holders of the Parity Bonds any and all amendments to this Ordinance for which less than 100% bondholder consent is required.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

_____, 2016

WE HAVE ACTED as Bond Counsel for the City of Bryan, Texas (the “City”), in connection with an issue of bonds (the “Bonds”) described as follows:

CITY OF BRYAN, TEXAS WATERWORKS AND SEWER SYSTEM REVENUE BONDS, NEW SERIES 2016A, dated October 1, 2016, in the aggregate principal amount of \$4,590,000 maturing on July 1 in each year from 20__ through and including 20__. The Bonds 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 Bonds and in the ordinance (the “Bond Ordinance”) adopted by the City Council of the City 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 Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds 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 Bonds, as described in the Bond Ordinance. The transcript contains certified copies of certain proceedings of the City; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. R-1 of this issue.

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 City or the disclosure thereof in connection with the sale of the Bonds.

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 Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds 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 Bonds have been authorized and delivered in accordance with law; and

- (2) The Bonds are special obligations of the City of Bryan, Texas and are payable solely from a first lien on and pledge of the Net Revenues of the City's waterworks and wastewater system. "Net Revenues" are the revenues to be derived from the operation of the City's waterworks and wastewater system after the payment of all operation and maintenance expenses thereof, as described in the Bond Ordinance.

THE CITY HAS RESERVED THE RIGHT in the Bond Ordinance to issue from time to time additional Parity Bonds which are equally and ratably secured on parity with the Bonds and the Previously Issued Parity Bonds by a first lien on and pledge of the Net Revenues.

ALSO BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is our further opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not subject to the alternative minimum tax on individuals or, except as hereinafter described, corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Bond Ordinance to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

INTEREST ON all tax-exempt obligations, including the Bonds, owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign

corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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.

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