

**NOTICE OF SALE  
AND  
BIDDING INSTRUCTIONS  
ON**

**\$35,995,000\*  
CITY OF TEMPLE, TEXAS  
(Bell County)**

**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2017**

**Bids Due Thursday, October 19, 2017 at 10:30 AM, CDT**

**THE SALE**

**CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BIDDING** . . . The City of Temple, Texas (the “City”), is offering for sale its \$35,995,000\* Combination Tax and Revenue Certificates of Obligation, Series 2017 (the “Certificates”). Bids may be submitted by either of three alternative procedures: (i) written bids; (ii) electronic bids; or (iii) telephone or facsimile bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the City nor its Financial Advisor, Specialized Public Finance Inc., assumes any responsibility or liability for a prospective bidding procedure.

The City and Specialized Public Finance Inc. assume no responsibility or liability with respect to any irregularities associated with the submission of electronic, telephone or facsimile bids.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Official Notice of Sale, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System (“PARITY”).

**WRITTEN BIDS DELIVERED IN PERSON** . . . Signed bids, plainly marked “Bid for Certificates,” should be addressed to “Mayor and City Council, City of Temple, Texas,” and delivered to the City’s Financial Advisor, Specialized Public Finance Inc. at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746 by 10:30 AM, CDT on October 19, 2017 (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, by 10:30 AM on the date of the bid opening, SIGNED Official Bid Forms to Dan Wegmiller, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746. 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 Certificates on the terms provided in the Notice of Sale, and shall be binding upon the bidder as if made by a signed 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 the Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale 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 information purposes only, bidders are requested to state in their electronic bids the true interest cost 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 Dan Wegmiller, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, and submit their bid by telephone or facsimile (fax) on the date of the bid opening.

Telephone bids will be accepted at (512) 275-7300, between 10:00 AM and 10:30 AM, CDT on the date of the bid opening.

Fax bids must be received between 10:00 AM and 10:30 AM, CDT, on the date of the bid opening at (512) 275-7305, attention Dan Wegmiller.

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

Specialized Public Finance Inc. assumes no responsibility or liability with respect to any irregularities associated with the submission of bids if telephone or fax options are exercised.

\*See “CONDITIONS OF THE SALE – Basis for Award.” Preliminary, subject to change.

**PLACE AND TIME OF BID OPENING** . . . The bids for the Certificates will be publicly opened and read in the office of the Financial Advisor at 10:30 AM, CDT, Thursday, October 19, 2017.

**AWARD OF THE CERTIFICATES** . . . The City Council will take action to award the Certificates (or reject all bids) at a meeting scheduled to convene at 5:00 PM, CDT, on Thursday, October 19, 2017. Upon awarding the Certificates, the City will also adopt the ordinance authorizing the Certificates (the “Ordinance”) and will approve the Official Statement, which will be an amended form of the Preliminary Official Statement. Sale of the Certificates will be made subject to the terms, conditions and provisions of the Ordinance to which Ordinance reference is hereby made for all purposes. The City reserves the right to reject any and all bids and to waive any and all irregularities, except time of filing.

**WITHDRAWAL OF THE BIDS** . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for ten hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

**EXTENSION OF SALE DATE** . . . The City reserves the right to extend the date and/or time for the receipt of bids by giving notice by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, CDT on Wednesday, October 18, 2017 of the new date and time of receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

## **THE CERTIFICATES**

**DESCRIPTION** . . . The Certificates will be dated November 8, 2017 (the “Dated Date”). Interest will accrue from the date of initial delivery of the Certificates and will be due on February 1, 2018, and each August 1 and February 1 thereafter until maturity or prior redemption. The Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The Certificates will mature on August 1 in each year as follows:

### **MATURITY SCHEDULE\***

Maturity (August 1)	Principal Amount	Maturity (August 1)	Principal Amount
2018	\$ 2,165,000	2028	\$ 1,485,000
2019	1,190,000	2029	2,100,000
2020	1,235,000	2030	2,180,000
2021	995,000	2031	2,250,000
2022	1,020,000	2032	2,320,000
2023	805,000	2033	2,390,000
2024	1,300,000	2034	2,470,000
2025	1,340,000	2035	2,560,000
2026	1,385,000	2036	2,640,000
2027	1,430,000	2037	2,735,000

\*See “CONDITIONS OF THE SALE – Basis for Award.” Preliminary, subject to change.

**OPTIONAL REDEMPTION** . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2027, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption”).

**SERIAL CERTIFICATES AND/OR TERM CERTIFICATES** . . . Bidders may provide that all of the Certificates be issued as serial Certificates or may provide that any two or more consecutive annual principal amounts be combined into one or more term Certificates.

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

**PAYING AGENT/REGISTRAR** . . . The initial Paying Agent/Registrar shall be The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see “THE CERTIFICATES – Paying Agent/Registrar” in the Official Statement).

**SOURCE OF PAYMENT** . . . The Certificates are direct obligations of the City and payable from a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates and is further secured by a limited pledge of the surplus revenues of the City's Utility System (the "System") (not to exceed \$10,000) all as provided in the Ordinance.

Further details regarding the Certificates are set forth in the Official Statement.

## CONDITIONS OF THE SALE

**TYPE OF BIDS AND INTEREST RATES** . . . The Certificates will be sold in one block on an "All or None" basis, and at a price of not less than their par value and not more than 110% of their par value. Bidders are invited to name the rate(s) of interest to be borne by the Certificates, 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. For Certificates having stated maturities on and after August 1, 2027, no reoffering yield producing a dollar price less than 98% for any individual maturities will be accepted. 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 Certificates of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered. In the event of mathematical discrepancies between the interest rates and the interest cost determined therefrom, as both appear on the "Official Bid Form," the bid will be determined solely from the interest rates shown on the "Official Bid Form."

**ESTABLISHING THE ISSUE PRICE FOR THE CERTIFICATES** . . . The City intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal bonds), which require, among other things, that the City receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the "Competitive Sale Requirement").

In the event that the bidding process does not satisfy the Competitive Sale Requirement bids will not be subject to cancellation and the winning bidder (i) agrees to promptly report to the City the first prices at which at least 10% of each maturity of the Certificates (the "First Price Maturity") have been sold to the Public on the Sale Date (the "10% Test") and (ii) agrees to hold-the-offering-price of each maturity of the Certificates that does not satisfy the 10% Test ("Hold-the-Price Maturity"), as described below.

In order to provide the City with information that enables it to comply with the establishment of the issue price of the Certificates under the Internal Revenue Code of 1986, as amended, the winning bidder agrees to complete, execute, and timely deliver to the City or to the City's financial advisor, (the "City's Financial Advisor") a certification as to the Certificates' "issue price" (the "Issue Price Certificate") substantially in the form and to the effect accompanying this Notice of Sale, within 5 business days of the Closing Date. In the event the winning bidder will not reoffer any maturity of the Certificates for sale to the Public (as defined herein) by the Closing Date, the Issue Price Certificate may be modified in a manner approved by the City. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale:

- (i) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to the Underwriter,
- (ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public),
- (iii) "Related Party" means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "Sale Date" means the date that the Certificates are awarded by the City to the winning bidder.

All actions to be taken by the City under this Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the City by the City's Financial Advisor, and any notice or report to be provided to the City may be provided to the City's

Financial Advisor.

The City will consider any bid submitted pursuant to this Notice of Sale to be a firm offer for the purchase of the Certificates, as specified in the bid and, if so stated, in the Official Bid Form.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Certificates of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Certificates to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Certificates of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wire.

By submitting a bid, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Certificates, that each Underwriter will neither offer nor sell any Hold-the-Price Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of (1) the close of the fifth (5th) business day after the Sale Date; or (2) the date on which the Underwriters have sold at least 10% of that Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public. The winning bidder shall promptly advise the City when the Underwriters have sold 10% of a Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

**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 Certificates will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the "Purchaser") making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the City. 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 Certificates on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Certificates. 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.

**After selecting the winning bid, the aggregate principal amount of the Certificates and the principal amortization schedule may be adjusted as determined by the City and its Financial Advisor in cooperation with the Purchaser in \$5,000 increments to reflect the actual interest rates. Such adjustments will not change the aggregate principal amount of the Certificates by more than 15% from the amount set forth herein or change the principal amount due on the Certificates in any year by more than 15%. The dollar amount bid for the Certificates by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Certificates finally determined to be issued. 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. Any such adjustment will be communicated to the winning bidder within three (3) hours after the opening of the bids.**

In order to provide the City with information required to be submitted to the Texas Certificate 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," which, at minimum, includes the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

**ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTEREST PARTY FORM 1295:** New obligation of the City to receive information from winning bidder. Effective January 1, 2016, pursuant to Texas Government Code Section 2252.908 ("the Interested Party Disclosure Act"), the City may not award the Certificates to the winning bidder unless the bidder has submitted a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the City prior to such award, as prescribed by the Texas Ethics Commission ("TEC"). In the event that the bidder's bid for the Certificates 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 TEC 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](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 Temple, Texas and (b) item 3 – the identification number assigned to this contract by the City: Temple 2017 Certificates, and a description of the services to be provided under the contract: Purchase of Certificates. 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 by email to the City at [tbarnard@ci.temple.tx.us](mailto:tbarnard@ci.temple.tx.us). Following the award of the Certificates, 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 Certificates 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 Certificates 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.

**Verification Pursuant to Chapter 2270 of the Texas Government Code:** To the extent the winning bid for the Certificates represents a contract for goods or services within the meaning of Section 2270.002 of the Texas Government Code, as amended, the Purchaser will be required to verify in the Official Bid Form, for purposes of Chapter 2270 of the Texas Government Code, as amended, that at the time of execution and delivery of its bid or, except to the extent otherwise required by applicable federal law, to the date of delivery of the Certificates, neither the Purchaser, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the Purchaser, boycotts or will boycott Israel. The terms “boycotts Israel” and “boycott Israel” as used in this paragraph have the meanings assigned to the term “boycott Israel” in Section 808.001 of the Texas Government Code, as amended.

**GOOD FAITH DEPOSIT** . . . The winning bidder will be required to provide a deposit in the amount of \$719,900 to the City as bid security by 5:00 p.m. CDT on October 19, 2017. The bid security may be provided to the City (i) via wire transfer (the City or its financial advisor, Specialized Public Finance Inc., will provide wire instructions to the winning bidder), or (ii) in the form of a certified or cashier’s check made payable to the order of City in the amount of the deposit set forth above. Cash deposited with the City using the wire option will be retained by the City and: (a) will be applied, without allowance for interest, against the purchase price when the Certificates are delivered to and paid for by such winning bidder or (b) will be retained by the City as liquidated damages if the winning bidder defaults with respect to the terms of its bid or (c) will be returned to the winning bidder if the Certificates are not issued by the City for any reason which does not constitute a default by the winning bidder. If the check option is utilized, the check will be (a) returned uncashed to the winning bidder when the Certificates are delivered to and paid for by such winning bidder, (b) cashed by the City as liquidated damages if the winning bidder defaults with respect to the terms of its bid or (c) returned uncashed to the winning bidder if the Certificates are not issued by the City for any reason which does not constitute a default by the winning bidder.

## **DELIVERY OF THE CERTIFICATES AND ACCOMPANYING DOCUMENTS**

**CUSIP NUMBERS** . . . It is anticipated that CUSIP identification numbers will appear on the Certificates, but neither the failure to print or type such number on any Certificate 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 Certificates in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. The Financial Advisor will obtain CUSIP identification numbers from the CUSIP Service Bureau, New York, New York prior to the date of sale. CUSIP identification numbers will be made available to the Purchaser at the time the Certificates are awarded or as soon thereafter as practicable. All expenses in relation to the assignment, printing or typing of CUSIP numbers on the Certificates shall be paid by the City.

**DELIVERY OF CERTIFICATES** . . . Delivery will be accomplished by the issuance of one Initial Certificate (also called the “Certificate” or “Certificates”), either in typed or printed form, in the aggregate principal amount of \$35,995,000\*, payable in stated installments to the Purchaser, signed by the Mayor and City Secretary, approved by the Attorney General of Texas, and registered and manually signed by the Texas Comptroller of Public Accounts. Upon delivery of the Initial Certificate, it shall be immediately cancelled and one definitive Certificate 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 a principal office of the Paying Agent/Registrar. Payment for the Certificates 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 Certificates. It is anticipated that delivery of the Certificates can be made on or about November 8, 2017, and it is understood and agreed that the Purchaser will accept delivery and make payment for the Certificates by 10:00 AM, CDT, on November 8, 2017, or thereafter on the date the Certificate is tendered for delivery, up to and including November 22, 2017. If for any reason the City is unable to make delivery on or before November 22, 2017, 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 Certificates, provided such failure is due to circumstances beyond the City’s reasonable control.

\*See “CONDITIONS OF THE SALE – Basis for Award.” Preliminary, subject to change.

**CONDITIONS TO DELIVERY** . . . The obligation of the Purchaser to take up and pay for the Certificates is subject to the Purchaser's receipt of (a) the legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel for the City ("Bond Counsel") and (b) the no-litigation certificate, all as further described in the 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 Certificates from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (no later than the close of business on the business day following the award of the bid) 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 will not reoffer the Certificates for sale, such certificate may be modified in a manner approved by the City. In no event will the City fail to deliver the Certificates as a result of the Purchaser's inability to sell a substantial amount of the Certificates at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate not later than the close of business on the business day following the award of the bid, 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 OPINION** . . . The Certificates 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 Certificates is subject to the receipt by the Purchaser of opinions of Bond Counsel, to the effect that the Certificates are valid and binding obligations of the City (except as the enforceability may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by principles of equity which permit the exercise of judicial discretion) and that the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" in the Official Statement.

**NO MATERIAL ADVERSE CHANGE** . . . The obligations of the City to deliver the Certificates and of the Purchaser to accept delivery of and pay for the Certificates are subject to the condition that at the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition of the City from those set forth in or contemplated by the "Preliminary Official Statement" as it may have been supplemented or amended through the date of sale.

**NO-LITIGATION CERTIFICATE** . . . On the date of delivery of the Certificates to the Purchaser, the City will deliver to the Purchaser a certificate, as of the same date, to the effect that to the best of the City's knowledge no litigation of any nature is pending or, to the best of the certifying officials' knowledge or belief, threatened against the City, contesting or affecting the Certificates; restraining or enjoining the authorization, execution, or delivery of the Certificates; affecting the provision made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Certificates; or affecting the validity of the Certificates or the title of the present officials of the City.

## **GENERAL**

**FINANCIAL ADVISOR** . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. 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 Certificates, 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 Certificates in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Certificates in accordance with the securities law of the states in which the Certificates are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Certificates or obtaining an exemption from registration in any state where such action is necessary, provided, however, that the City shall not be obligated 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 Certificates, but is merely notice of the sale of the Certificates. The offer to sell the Certificates is being made by means of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Certificates.

**ISSUANCE OF ADDITIONAL DEBT** . . . The City anticipates issuing additional general obligation debt within the next twelve months.

**RATING** . . . The Certificates and the outstanding general obligation debt of the City have been rated "AA" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") without regard to credit enhancement. The presently outstanding general obligation debt of the City is also rated "Aa2" by Moody's Investors Service, Inc. ("Moody's"). No application was made to Moody's for a rating on the Certificates. The City also has various issues outstanding which are insured by various commercial insurance companies.

**THE OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15C2-12** . . . The City has prepared the accompanying Official Statement and, for the limited purpose of complying with SEC Rule 15c2-12, deems such Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates. Representations made and to be made by the City concerning the absence of material misstatements and omissions in the Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the 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 Official Statement reflecting interest rates and other terms relating to the initial reoffering of the Certificates. The cost of any Official Statement in excess of the number specified 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 Official Statement in connection with the offering or reoffering of the subject securities.

**CONTINUING DISCLOSURE AGREEMENT** . . . The City will agree in the Ordinance to provide certain periodic information and notices of specified events in accordance with Securities and Exchange Commission Rule 15c2-12, as described in the Official Statement under “CONTINUING DISCLOSURE OF INFORMATION.” The Purchaser’s obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

The City has approved the form and content of the Notice of Sale and Bidding Instructions, the Official Bid Form and Official Statement, and authorized the use thereof in its initial offering of the Certificates. On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Certificates, confirm its approval of the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Certificates by the Purchaser.

/s/ DANNY DUNN  
Mayor  
City of Temple, Texas

ATTEST:

/s/ LACY BORGESON  
City Secretary  
City of Temple, Texas

October 12, 2017

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## OFFICIAL BID FORM

Honorable Mayor and City Council  
City of Temple, Texas  
#2 North Main  
Temple, Texas 76501

October 19, 2017

Members of the City Council:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated October 12, 2017, of \$35,995,000\* CITY OF TEMPLE, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2017, both of which constitute a part hereof.

For your legally issued Certificates, in the aggregate principal amount of \$35,995,000\*, we will pay you a price of \$ \_\_\_\_\_, representing \_\_\_\_\_% of the par value. Such Certificates mature August 1, in each of the years and in the amounts and interest rates shown below:

Maturity (August 1)	Principal Amount*	Interest Rate	Maturity (August 1)	Principal Amount*	Interest Rate
2018	\$ 2,165,000	%	2028	\$ 1,485,000	%
2019	1,190,000	%	2029	2,100,000	%
2020	1,235,000	%	2030	2,180,000	%
2021	995,000	%	2031	2,250,000	%
2022	1,020,000	%	2032	2,320,000	%
2023	805,000	%	2033	2,390,000	%
2024	1,300,000	%	2034	2,470,000	%
2025	1,340,000	%	2035	2,560,000	%
2026	1,385,000	%	2036	2,640,000	%
2027	1,430,000	%	2037	2,735,000	%

Of the principal maturities set forth in the table above, term Certificates have been created as indicated in the following table (which may include multiple term Certificates, one term Certificate or no term Certificate if none is indicated). For those years which have been combined into term Certificates, 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 Certificate maturity date shall mature in such year. The term Certificates created are as follows:

Term Certificates Maturing August 1	Year of First Mandatory Redemption	Principal Amount	Interest Rate
		\$	%
		\$	%
		\$	%
		\$	%
		\$	%

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

TRUE INTEREST COST \_\_\_\_\_%

The Initial Certificate shall be registered in the name of \_\_\_\_\_, which will, upon payment for the Certificates, be cancelled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the book-entry-only system.

\*See "CONDITIONS OF THE SALE – Basis for Award." Preliminary, subject to change.

A wire transfer or a cashiers or certified check to the City in the amount of \$719,900 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Certificates in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the City as complete liquidated damages against us. Please check the box below to designate your Good Faith Deposit option.

The City will consider any bid submitted pursuant to the Notice of Sale relating to the Certificates to be a firm offer for the purchase of the Certificates.

We agree to accept delivery of the Certificates utilizing the book-entry-only system through DTC and make payment for the Initial Certificate in immediately available funds in the Corporate Trust Division, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, not later than 10:00 AM, CDT, on November 8, 2017, or thereafter on the date the Certificates 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 Certificates to complete the DTC Eligibility Questionnaire.

The undersigned agrees to complete, execute, and deliver to the City, not later than the close of business on the day of the award of the sale of the Certificates, a certificate relating to the "issue price" of the Certificates 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 the pricing wire.

**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.**

To the extent this bid for the Certificates represents a contract for goods or services within the meaning of Section 2270.002 of the Texas Government Code, as amended, the undersigned verifies, for purposes of Chapter 2270 of the Texas Government Code, as amended, that at the time of execution and delivery of this bid or, except to the extent otherwise required by applicable federal law, to the date of delivery of the Certificates, neither the undersigned, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the undersigned, boycotts or will boycott Israel. The terms "boycotts Israel" and "boycott Israel" as used in this paragraph have the meanings assigned to the term "boycott Israel" in Section 808.001 of the Texas Government Code, as amended.

Respectfully submitted,

\_\_\_\_\_  
Name of Purchaser 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 City of Temple, Texas, this the 19<sup>th</sup> day of October, 2017.

ATTEST:

\_\_\_\_\_  
City Secretary  
City of Temple, Texas

\_\_\_\_\_  
Mayor  
City of Temple, Texas

## CERTIFICATE OF PURCHASER

(sales where 3 bids are received)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Combination Tax and Revenue Certificates of Obligation, Series 2017 issued by the City of Temple, Texas ("Issuer") in the principal amount of \$35,995,000\* ("Certificates"), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Certificates by the Purchaser, the Purchaser's reasonably expected initial offering prices of each maturity of the Certificates with the same credit and payment terms (the "Expected Offering Prices") to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Certificates, as attached to this Certificate as Schedule A. The Expected Offering Prices are the prices for the Certificates used by the Purchaser in formulating its bid to purchase the Certificates.

(b) The Purchaser had an equal opportunity to bid to purchase the Certificates and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Certificates.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public) to participate in the initial sale of the Certificates to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Certificates. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this \_\_\_\_\_.

\_\_\_\_\_, as Purchaser

By: \_\_\_\_\_

Name: \_\_\_\_\_

\*See "CONDITIONS OF THE SALE – Basis for Award." Preliminary, subject to change.

**SCHEDULE A**

**PRICING WIRE OR EQUIVALENT COMMUNICATION**

(Attached)

## CERTIFICATE OF PURCHASER

(sales where 3 bids are not received)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Combination Tax and Revenue Certificates of Obligation, Series 2017 issued by the City of Temple, Texas ("Issuer") in the principal amount of \$35,995,000\* ("Certificates"), hereby certifies and represents, based on its records and information, as follows:

(a) Other than the Certificates maturing in \_\_\_\_ ("Hold-the-Price Maturities"), if any, the first prices at which at least ten percent ("Substantial Amount") of the principal amount of each maturity of the Certificates having the same credit and payment terms ("Maturity") was sold on the date of sale of the Certificates (the "Sale Date") to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter ("Public") are their respective initial offering prices (the "Initial Offering Prices"), as listed in the pricing wire or equivalent communication for the Certificates that is attached to this Certificate as Schedule A.

(b) On or before the Sale Date, the Purchaser offered to the Public each Maturity of the Hold-the-Price Maturities at their respective Initial Offering Prices, as set forth in Schedule A hereto.

(c) As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Initial Offering Price for such Hold-the-Price Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells a Substantial Amount of a Hold-the-Price Maturity of the Certificates to the Public at no higher price than the Initial Offering Price for such Hold-the-Price Maturity.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public) to participate in the initial sale of the Certificates to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Certificates. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this \_\_\_\_\_.

\_\_\_\_\_, as Purchaser

By: \_\_\_\_\_

Name: \_\_\_\_\_

\*See "CONDITIONS OF THE SALE – Basis for Award." Preliminary, subject to change.

**SCHEDULE A**

**PRICING WIRE OR EQUIVALENT COMMUNICATION**

(Attached)

**PRELIMINARY OFFICIAL STATEMENT**

**Dated October 12, 2017**

**Rating:**  
**S&P: “AA”**  
**(See “OTHER INFORMATION -**  
**– Rating” herein)**

**NEW ISSUE – Book-Entry-Only**

*In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Certificates, defined below, will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations.*



**\$35,995,000\***  
**CITY OF TEMPLE, TEXAS**  
**(Bell County)**

**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2017**

**Dated Date: November 8, 2017**

**Due: August 1, as shown on the inside cover page**

**Interest to accrue from the date of initial delivery**

**PAYMENT TERMS . . .** Interest on the \$35,995,000\* City of Temple, Texas Combination Tax and Revenue Certificates of Obligation, Series 2017 (the “Certificates”) will accrue from the date of initial delivery, will be payable on February 1 and August 1 of each year commencing February 1, 2018, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates (see “THE CERTIFICATES – Book-Entry-Only System”). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see “THE CERTIFICATES – Paying Agent/Registrar”).

**AUTHORITY FOR ISSUANCE . . .** The Certificates are issued pursuant to the Texas Constitution and general laws of the State of Texas (the “State”), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the “Certificate of Obligation Act of 1971”), Chapters 1502 and 1371, Texas Government Code, as amended, and an ordinance to be adopted by the City Council of the City of Temple, Texas (the “City”) on October 19, 2017 (the “Ordinance”). The Certificates constitute direct obligations of the City, payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and a limited pledge of the surplus revenues of the City’s Utility System (the “System”) (not to exceed \$10,000) as provided in the Ordinance (see “THE CERTIFICATES – Authority for Issuance” and “THE CERTIFICATES – Security and Source of Payment”).

**PURPOSE . . .** Proceeds from the sale of the Certificates will be used for the purpose of (i) constructing, improving, extending, expanding, upgrading and/or developing streets, roads, bridges, trails, sidewalks, intersections, traffic signalization and other transportation improvement projects including related water, wastewater and drainage improvements, signage, landscaping, irrigation, purchasing any necessary rights-of-way and other related transportation costs; (ii) purchasing sanitation equipment and vehicles; (iii) purchasing public safety equipment, including radio communications equipment; (iv) costs related to drainage improvements, including a drainage master plan for the City; (v) improving, expanding, and upgrading the City’s park and recreational facilities; and (vi) professional services including fiscal, engineering, architectural and legal fees and other such costs incurred in connection therewith including the costs of issuing the Certificates.

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**CUSIP PREFIX: 880064**

**MATURITY SCHEDULE**

**See Inside Cover Page**

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**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2027, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption”). Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Purchaser elects to aggregate two or more maturities as term Certificates.

**LEGALITY . . .** The Certificates are offered by the initial purchaser (the “Purchaser”) subject to prior sale, when, as and if issued by the City and accepted by the Purchaser, subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Austin, Texas (see “APPENDIX C – Form of Bond Counsel’s Opinion”).

**DELIVERY . . .** It is expected that the Certificates will be available for initial delivery through DTC on November 8, 2017.

**BIDS DUE ON THURSDAY, OCTOBER 19, 2017, BY 10:30 AM, CDT**

\*See “CONDITIONS OF THE SALE – Basis for Award.” Preliminary, subject to change.

### MATURITY SCHEDULE\*

August 1 Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers <sup>(1)</sup>
2018	\$ 2,165,000			
2019	1,190,000			
2020	1,235,000			
2021	995,000			
2022	1,020,000			
2023	805,000			
2024	1,300,000			
2025	1,340,000			
2026	1,385,000			
2027	1,430,000			
2028	1,485,000			
2029	2,100,000			
2030	2,180,000			
2031	2,250,000			
2032	2,320,000			
2033	2,390,000			
2034	2,470,000			
2035	2,560,000			
2036	2,640,000			
2037	2,735,000			

**(Interest accrues from the date of initial delivery)**

\*See "CONDITIONS OF THE SALE – Basis for Award." Preliminary, subject to change.

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ LLC 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. CUSIP numbers are included herein solely for the convenience of the owners of the Certificates. None of the the City, the Financial Advisor or the Purchaser shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

*[The remainder of this page intentionally left blank.]*



*For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “Rule”), this document constitutes a preliminary official statement of the City with respect to the Certificates that has been “deemed final” by the City as of its date except for the omission of the information permitted by the Rule.*

*No dealer, broker, salesman or other person has been authorized by the City or the Purchaser to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Financial Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy Certificates in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer or solicitation.*

*The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinion or that they will be realized.*

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

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

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

## TABLE OF CONTENTS

<b>OFFICIAL STATEMENT SUMMARY .....</b>	<b>4</b>	<b>LEGAL MATTERS .....</b>	<b>29</b>
<b>CITY OFFICIALS, STAFF AND CONSULTANTS .....</b>	<b>6</b>	<b>APPENDICES</b>	
ELECTED OFFICIALS .....	6	GENERAL INFORMATION REGARDING THE CITY .....	A
APPOINTED OFFICIALS .....	6	EXCERPTS FROM THE CITY’S ANNUAL FINANCIAL	
CONSULTANTS AND ADVISORS .....	6	REPORT .....	B
<b>INTRODUCTION .....</b>	<b>7</b>	FORM OF BOND COUNSEL’S OPINION .....	C
<b>THE CERTIFICATES .....</b>	<b>7</b>		
<b>TAX INFORMATION .....</b>	<b>14</b>	The cover page hereof, this page, the appendices and schedule	
TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM		included herein and any addenda, supplement or amendment hereto,	
TAX DEBT .....	17	are part of the Preliminary Official Statement.	
TABLE 2 – VALUATION AND AD VALOREM TAX DEBT			
HISTORY .....	18		
TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY	18		
TABLE 4 – TEN LARGEST TAXPAYERS .....	18		
TABLE 5 – AD VALOREM TAX DEBT SERVICE			
REQUIREMENTS .....	19		
TABLE 6 – TAX ADEQUACY .....	19		
TABLE 7 – AUTHORIZED BUT UNISSUED AD VALOREM TAX			
DEBT .....	20		
<b>FINANCIAL INFORMATION .....</b>	<b>21</b>		
TABLE 8 – GENERAL FUND REVENUES AND EXPENDITURE			
HISTORY .....	21		
TABLE 9 – MUNICIPAL SALES TAX HISTORY .....	22		
<b>INVESTMENTS .....</b>	<b>24</b>		
TABLE 10 – CURRENT INVESTMENTS .....	25		
<b>TAX MATTERS .....</b>	<b>26</b>		
<b>CONTINUING DISCLOSURE OF INFORMATION .....</b>	<b>27</b>		
<b>OTHER INFORMATION .....</b>	<b>29</b>		

## 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 Certificates 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.

<b>THE CITY</b> .....	The City of Temple, Texas (the “City”), is a political subdivision located in Bell County, and is operating as a home-rule city under the laws of the State of Texas (the “State”) and a charter approved by voters in 1907, as amended (the “Charter”). The Charter provides for the governing and law-making body to be a City Council composed of a Mayor and four Councilmembers. Councilmembers are elected from single member districts of equal population and the Mayor is elected at large. The Mayor is chief executive officer of the City and may vote on all motions before the Council, but does not have veto power. The City Manager is appointed by the City Council as the chief administrative officer of the City. The City is approximately 70.5 square miles in area (see “INTRODUCTION – Description of the City”).
<b>THE CERTIFICATES</b> .....	The Certificates are issued as \$35,995,000* City of Temple, Texas Combination Tax and Revenue Certificates of Obligation, Series 2017. The Certificates are issued as serial Certificates maturing on August 1 in the years 2018 through 2037, inclusive, unless the Purchaser aggregates two or more maturities as Term Certificates.
<b>PAYMENT OF INTEREST</b> .....	Interest on the Certificates accrues from the date of initial delivery and is payable on February 1, 2018, and each August 1 and February 1 thereafter until maturity or prior redemption (see “THE CERTIFICATES – Description of the Certificates” and “THE CERTIFICATES – Optional Redemption”).
<b>AUTHORITY FOR ISSUANCE</b> .....	The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the “Certificate of Obligation Act of 1971”), Chapter 1502, Texas Government Code, as amended, and an ordinance to be adopted by the City Council of the City of Temple, Texas (the “City”) on October 19, 2017 (the “Ordinance”) (see “CERTIFICATE INFORMATION – Authority for Issuance”).
<b>SECURITY</b> .....	The Certificates constitute direct obligations of the City payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and a limited pledge of the surplus revenues of the City’s Utility System (not to exceed \$10,000) as provided in the Ordinance authorizing the issuance of the Certificates (see “CERTIFICATE INFORMATION – Security for Certificates”).
<b>OPTIONAL REDEMPTION</b> .....	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2027, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption”). Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Purchaser elects to aggregate two or more maturities as term Certificates.
<b>TAX EXEMPTION</b> .....	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS.”
<b>USE OF PROCEEDS</b> .....	Proceeds from the sale of the Certificates will be used for the purpose of (i) constructing, improving, extending, expanding, upgrading and/or developing streets, roads, bridges, trails, sidewalks, intersections, traffic signalization and other transportation improvement projects including related water, wastewater and drainage improvements, signage, landscaping, irrigation, purchasing any necessary rights-of-way and other related transportation costs; (ii) purchasing sanitation equipment and vehicles; (iii) purchasing public safety equipment, including radio communications equipment; (iv) costs related to drainage improvements, including a drainage master plan for the City; (v) improving, expanding, and upgrading the City’s park and recreational facilities; and (vi) professional services including fiscal, engineering, architectural and legal fees and other such costs incurred in connection therewith including the costs of issuing the Certificates.

\*See “CONDITIONS OF THE SALE – Basis for Award.” Preliminary, subject to change.

**RATING** ..... The Certificates and the outstanding general obligation debt of the City have been rated “AA” by Standard & Poor’s Ratings Services, A Standard & Poor’s Financial Services LLC (“S&P”) without regard to credit enhancement. The presently outstanding general obligation debt of the City is also rated “Aa2” by Moody’s Investors Service, Inc. (“Moody’s”). No application was made to Moody’s for a rating on the Certificates. The City also has various issues outstanding which are insured by various commercial insurance companies (see “OTHER INFORMATION – Rating”).

**BOOK-ENTRY-ONLY SYSTEM** ..... The definitive Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates 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 Certificates (see “THE CERTIFICATES – Book-Entry-Only System”).

**PAYMENT RECORD** ..... The City has never defaulted in the payment of its outstanding debt obligations.

#### SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation <sup>(1)</sup>	Taxable Assessed Valuation Per Capita	Ad Valorem Tax Debt Outstanding at End of Year <sup>(2)</sup>	Ad Valorem Debt Per Capita	% of Total Tax Collections
2014	71,761	\$ 3,742,350,334	\$ 52,150	\$ 90,410,000	\$ 1,260	97.98%
2015	73,408	4,179,891,894	56,941	132,125,000	1,800	98.63%
2016	75,293	4,510,818,003	59,910	145,595,000	1,934	98.93%
2017	75,293	4,406,597,441	58,526	137,565,000	1,827	98.56% <sup>(4)</sup>
2018	75,293	4,574,738,305	60,759	162,700,000 <sup>(3)</sup>	2,161	N/A

(1) Includes tax increment reinvestment zone values which for fiscal year 2017 were \$426,069,294.

(2) Excludes self-supporting debt.

(3) Projected; includes the Certificates. Preliminary, subject to change.

(4) Unaudited collections.

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## CITY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>
Danny Dunn Mayor	4 Years	May 2018
Tim Davis Mayor Pro-Tem	4 Years	May 2019
Judy Morales Councilmember	6 Years	May 2020
Susan Long Councilmember	Newly Elected	May 2020
Mike Pilkington Councilmember	1 Year	May 2019

### APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Brynn Myers	Interim City Manager	9 1/2 Years <sup>(1)</sup>
Traci Barnard, CPA	Director of Finance	24 1/2 Years <sup>(2)</sup>
Kayla Landeros	City Attorney	5 Years <sup>(3)</sup>
Lacy Borgeson	City Secretary	6 Years

(1) 3 months in present position.

(2) 15½ years in present position.

(3) 3 years in present position.

### CONSULTANTS AND ADVISORS

Auditors ..... Brockway, Gersbach, Franklin & Niemeier, P.C.  
Temple, Texas

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P.  
Austin, Texas

Financial Advisor.....Specialized Public Finance Inc.  
Austin, Texas

For additional information regarding the City, please contact:

Traci Barnard, CPA Director of Finance City of Temple #2 North Main Temple, Texas 76501 254/298-5631 254/298-5466 Fax	or	Dan Wegmiller Specialized Public Finance Inc. 248 Addie Roy Road Suite B-103 Austin, Texas 78746 512/275-7300 512/275-7305 Fax
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**PRELIMINARY OFFICIAL STATEMENT**  
**RELATING TO**  
**\$35,995,000\***  
**CITY OF TEMPLE, TEXAS**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2017**

**INTRODUCTION**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$35,995,000\* City of Temple, Texas Combination Tax and Revenue Certificates of Obligation, Series 2017 (the “Certificates”). The Certificates are being issued pursuant to an ordinance to be adopted by the City Council on October 19, 2017 (the “Ordinance”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates 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., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

**DESCRIPTION OF THE CITY . . .** The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City first adopted its Home Rule Charter in 1907 and the Charter was most recently amended in 2014. The City operates under the Council/Manager form of government with a City Council comprised of the Mayor and four Councilmembers. Councilmembers are elected from single member districts of equal population and the Mayor is elected at large. The Mayor is chief executive officer of the City and may vote on all motions before the Council, but does not have veto power. The City Manager is appointed by the City Council as the chief administrative officer of the City. The City covers approximately 70.5 square miles. For more information regarding the City, see “APPENDIX A – General Information Regarding the City”.

**THE CERTIFICATES**

**DESCRIPTION OF THE CERTIFICATES . . .** The Certificates are dated November 8, 2017 and mature on August 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest will accrue from the date of initial delivery, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 1 and August 1 of each year until maturity or prior redemption, commencing February 1, 2018. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein (“Book-Entry-Only-System”). **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates. See “Book-Entry-Only System” herein.

**AUTHORITY FOR ISSUANCE . . .** The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, as amended, and the Ordinance.

**SECURITY AND SOURCE OF PAYMENT . . .** The Certificates are direct obligations of the City and payable from a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates and is further secured by a limited pledge of the surplus revenues of the City’s Utility System (the “System”) (not to exceed \$10,000) all as provided in the Ordinance.

**TAX RATE LIMITATION . . .** All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution limits the maximum ad valorem tax rate for home-rule cities to \$2.50 per \$100 taxable assessed valuation for all purposes. The Home Rule Charter of the City limits such tax levy to no more than \$1.20 per \$100 taxable assessed valuation, including the payment of debt.

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\*See “CONDITIONS OF THE SALE – Basis for Award.” Preliminary, subject to change.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 1, 2027, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in book-entry-only form) shall determine by lot or other customary random method the Certificates or portions thereof, within such maturity to be redeemed. If any Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificate 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, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificates will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any 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 Certificate called for redemption or any other action premised or any such notice.

Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificate 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 Certificate from the beneficial owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificates for redemption. See “THE CERTIFICATES – Book-Entry-Only System” herein.

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by the Ordinance has been met and money sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

**DTC REDEMPTION PROVISIONS . . .** The Paying Agent/Registrar and the City, so long as a book-entry-only system (the “Book-Entry-Only System”) is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Certificates and such redemption 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 Certificates or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Certificates for redemption. See “THE CERTIFICATES – Book-Entry-Only System” herein.

**DEFEASANCE . . . General.** The Ordinance provides for the defeasance of the Certificates and the termination of the pledge of taxes, revenues and all other general defeasance covenants in the Ordinance under certain circumstances. Any Certificate and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a “Defeased Certificate”) within the meaning of the Ordinance, except to the extent provided below for the Paying Agent/Registrar to continue payments and for the City to retain the right to call Defeased Certificates to be paid at maturity, when the payment of all principal and interest payable with respect to such Certificate to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (1) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required

notice of redemption) or (2) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or an eligible trust company or commercial bank for such payment (a) lawful money of the United States of America sufficient to make such payment, (b) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the City with the Paying Agent/Registrar or eligible trust company or commercial bank for the payment of its services until after all Defeased Certificates shall have become due and payable or (c) any combination of (a) and (b). At such time as any Certificate shall be deemed to be a Defeased Certificate, such Certificate and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied in the Ordinance or the limited pledge of the surplus revenues of the City's System pledged as provided in the Ordinance, and such principal and interest shall be payable solely from such money or Defeasance Securities and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by law) for the payment of such defeased Certificate including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by law) to receive payment when due on the Defeased Securities.

The deposit under clause (2) above shall be deemed a payment of a Certificate when proper notice of redemption of such Certificates shall have been given, in accordance with the Ordinance. Any money so deposited with the Paying Agent/Registrar or eligible trust company or commercial bank may at the discretion of the City Council also be invested in Defeasance Securities, as hereinafter defined, maturing in the amounts and at the times as set forth in the Ordinance, and all income from such Defeasance Securities received by the Paying Agent/Registrar or eligible trust company or commercial bank that is not required for the payment of the Certificates and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City Council.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Ordinance for the payment of principal of the Certificates and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Certificates and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Certificates shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Certificates 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 the Ordinance.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or eligible trust company or commercial bank for the payment of Certificates and such Certificates shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Ordinance shall be made without the consent of the registered owner of each Certificate affected thereby.

*Retention of Rights.* To the extent that, upon the defeasance of any Defeased Certificate to be paid at its maturity, the City retains the right under Texas law to later call the Defeased Certificate for redemption in accordance with the provisions of the Ordinance authorizing its issuance, the City may call such Defeased Certificate for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions set forth above regarding such Defeased Certificate as though it was being defeased at the time of the exercise of the option to redeem the Defeased Certificate and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Certificate.

*Investments.* Any escrow agreement or other instrument entered into between the City and the Paying Agent/Registrar or eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar or eligible trust company or commercial bank for the payment of Defeased Certificates 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 certain requirements. All income from such Defeasance Securities received by the Paying Agent/Registrar or eligible trust company or commercial bank, which is not required for the payment of the Certificates, and interest thereon, with respect to which such money has been so deposited, will be remitted to the City Council.

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities, (ii) noncallable Certificates of an agency or instrumentality of the United States of America, including Certificates that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding Certificates or otherwise provide for the funding of an escrow to effect the defeasance of the Certificates are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable Certificates 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 City Council adopts or approves proceedings authorizing the issuance of refunding Certificates or otherwise provide for the funding of an escrow to effect the defeasance of the Certificates, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent, and (iv) any other then authorized securities or Certificate under applicable State law that may be used to defease the Certificates. For the purposes of these provisions, "Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance do not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no

assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

**BOOK-ENTRY-ONLY SYSTEM** . . . *This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates are registered in its nominee's 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.*

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

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

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

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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



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

All payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable 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 Certificates held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend 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 Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but neither the City nor the Purchaser take any responsibility for the accuracy thereof.

**USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . .** In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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, nor the Purchaser.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, the Certificates 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.

Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates 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 Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates 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 Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date ("Record Date") for the interest payable on any interest payment date means the close of business on the fifteenth day of the preceding month.

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

**CERTIFICATEHOLDERS' REMEDIES . . .** The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Registered owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Registered owners may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Registered owners 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 Certificates are qualified with respect to governmental immunity and the customary rights of debtors relative to their creditors and general principles or equity which permit the exercise of judicial discretion.

**AMENDMENTS TO THE ORDINANCE . . .** In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any owners for the purpose of amending or supplementing such Ordinance to (1) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the owners, (2) grant additional rights or security for the benefit of the owners, (3) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the owners, (4) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (5) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interest of the owners.

The Ordinance further provides that the owners of the Certificates aggregating in principal amount 51% of the outstanding Certificates shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the owners in original principal amount of the then outstanding Certificates no amendment may be made for the purpose of: (1) making any change in the maturity of any of the outstanding Certificates; (2) reducing the rate of interest borne by any of the outstanding Certificates; (3) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (4) modifying the terms of payment of principal of or interest or redemption premium on outstanding Certificates, or imposing any condition with respect to such payment; or (5) changing the minimum percentage of principal amount of the Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

**PURPOSE . . .** Proceeds from the sale of the Certificates will be used for the purpose of (i) constructing, improving, extending, expanding, upgrading and/or developing streets, roads, bridges, trails, sidewalks, intersections, traffic signalization and other transportation improvement projects including related water, wastewater and drainage improvements, signage, landscaping, irrigation, purchasing any necessary rights-of-way and other related transportation costs; (ii) purchasing sanitation equipment and vehicles; (iii) purchasing public safety equipment, including radio communications equipment; (iv) costs related to drainage improvements, including a drainage master plan for the City; (v) improving, expanding, and upgrading the City's park and

recreational facilities; and (vi) professional services including fiscal, engineering, architectural and legal fees and other such costs incurred in connection therewith including the costs of issuing the Certificates.

**SOURCES AND USES OF PROCEEDS . . .** The proceeds from the sale of the Certificates will be applied approximately as follows:

**SOURCES OF FUNDS:**

Par Amount

Bid Premium

Total Sources of Funds

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**USES OF FUNDS:**

Deposit to Project Fund

Costs of Issuance

Total Uses of Funds

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## TAX INFORMATION

**AD VALOREM TAX LAW . . .** The appraisal of property within the City is the responsibility of the Bell County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the appraised value of the property for the preceding tax year, (b) the appraised value of the property for the preceding tax year and (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District.

The Appraisal District is required to review the value of property with the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000 depending upon the degree of disability or whether the exemption is applicable to a surviving spouse or children. A disabled veteran who receives 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead; additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation on the same or subsequently qualified homestead of the total appraised value of the same property to which the disabled veteran's exemption applied.

Under Article VIII, Section 1-b(h) and State law, a city at its option may provide a prohibition on increasing the total ad valorem tax, except for increases attributable to certain improvements, on the residence homestead of a disabled person or person 65 years of age or older above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year the city chooses to establish the tax limitation. The above-referenced tax limitation is transferable to (1) a different residence homestead within the city and (2) to a surviving spouse living in such homestead who is

disabled or is at least 55 years of age. On the receipt of a petition signed by five percent of the registered voters of the City, the City shall call an election to determine by majority vote whether to establish such a tax limitation. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax limitation may not be repealed or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and Section 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

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

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

The City may create one or more tax increment financing zones within the City (“TIRZ”), under which the tax values on property in the zone are “frozen” at the value of the property at the time of creation of the zone. Other overlapping taxing units levying taxes in the TIRZ may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIRZ in excess of the “frozen values” to pay or finance the costs of certain public improvements in the TIRZ. Taxes levied by the City against the values of real property in the TIRZ in excess of the “frozen” value are not available for general City use but are restricted to paying or financing “project costs” within the TIRZ. The City also may enter into tax abatement agreements to encourage economic development. Under such tax abatement agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. A tax abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code (“Chapter 380”) to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public fund for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . .** The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

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

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

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

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year. Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in either the most recently published edition of the Annual Energy Outlook or the Short-Term Energy Outlook report, both published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, up to 20% attorney’s collection fee is added to the total tax penalty and interest charge. A taxpayer who is 65 years of age or older or is disabled may defer the collection of delinquent property taxes on his or her residence homestead and prevent the filing of a lawsuit to collect delinquent taxes until the 181st day after the taxpayer no longer owns and occupies the property as a residence homestead. However, taxes and interest continue to accrue against the property, and the delinquent taxes incur a penalty of 8% per annum with no additional penalties or interest assessed. The lien securing such taxes and interest remains in existence during the deferral or abatement period. In general, property subject to the City’s lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**CITY APPLICATION OF TAX CODE . . .** The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000 and the disabled are granted an exemption of \$3,000.

The City has granted an additional exemption of 20% of the market value of the residence homesteads; minimum exception of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

The City does not tax nonbusiness personal property; and the Bell County Tax Assessor-Collector collects taxes for the City.

The City does not permit split payments, and discounts are allowed.

The City has taken action to tax freeport property, and the City has not taken action to tax goods-in-transit.

The City has adopted a tax abatement policy.

The City has adopted a tax freeze for resident homesteads, disabled or 65 years of age or older.

**TAX ABATEMENT POLICY . . .** In order to be considered for tax abatement, a project must meet several criteria. Generally, projects are eligible for a tax abatement of up to 100% for a period of 10 years. There are minimums required for investments and job creation to be eligible for the 100% tax abatement. The City has a total of 11 current tax abatements. For the current tax year

(Fiscal Year 2016), the total appraised value of property subject to the City's abatement agreements equals \$410,132,811 and the latest expiration date for any of the agreements is 2026. See "APPENDIX B – Excerpts from the City of Temple Annual Financial Report."

**TAX INCREMENT FINANCING . . .** The City has created Reinvestment Zone Number One, City of Temple, Texas (the "Reinvestment Zone"). The tax increment base for the Reinvestment Zone established on December 16, 1982 is \$97,765,552. Taxes assessed and collected against the base value in the Reinvestment Zone may be used for general fund purposes. However taxes assessed and collected against the assessed valuation of real property in the Reinvestment Zone in excess of the tax increment base ("Tax Increment Revenues") are restricted to pay or finance projects within the Reinvestment Zone. In the case of the City, such Tax Increment Revenues are available to pay debt service on the City's Combination Tax & Revenue Certificates of Obligation, Series 2008. The 2016/2017 Tax Increment Value is \$436,256,703 and the taxes levied against the Tax Increment Value were \$19,117,244.

On November 4, 2010, the City expanded the boundary of the TIRZ to include approximately 2,221 acres of an area known as the Temple Medical and Education District and also extended the duration of the TIRZ from 2022 to 2062. The base of the newly expanded area is \$267,979,786.

**TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT**

2017/18 Market Valuation Established by the Tax Appraisal District of Bell County		
(excluding totally exempt property)	\$	5,993,618,505
Less Exemptions/Reductions at 100% Market Value:		<u>1,418,880,200</u>
2017/18 Taxable Assessed Valuation	\$	4,574,738,305 <sup>(1)</sup>
City Funded Debt Payable from Ad Valorem Taxes (as of 8/31/2017)		\$ 214,850,000 <sup>(2)</sup>
The Certificates		<u>35,995,000 <sup>(3)</sup></u>
Total Debt Payable from Ad Valorem Taxes	\$	250,845,000
Less Self-Supporting Debt:		
TIRZ		35,445,000
Solid Waste		4,360,000 <sup>(3)</sup>
Water & Sewer		34,490,000
Public Safety		1,175,000 <sup>(3)</sup>
Drainage		<u>3,975,000 <sup>(3)</sup></u>
Net Debt Payable from Ad Valorem Taxes	\$	171,400,000
Interest and Sinking Fund as of 8/31/2017	\$	534,592
Ratio Tax Supported Debt to Taxable Assessed Valuation		3.75%

2017 Estimated Population - 71,208

Per Capita Taxable Assessed Valuation - \$64,245

Per Capita Total Debt Payable from Ad Valorem Taxes - \$3,523

(1) Includes \$426,069,294 of Tax Increment Reinvestment Zone value.

(2) Excludes the Certificates.

(3) Preliminary, subject to change.

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**TABLE 2 – VALUATION AND AD VALOREM TAX DEBT HISTORY**

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation <sup>(1)</sup>	Taxable Assessed Valuation Per Capita	Ad Valorem Debt Outstanding at End Of Year <sup>(2)</sup>	Ratio of Ad Valorem Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2014	71,761	\$ 3,742,350,334	\$ 52,150	\$ 90,410,000	2.42%	\$ 1,260
2015	73,408	4,179,891,894	56,941	132,125,000	3.16%	1,800
2016	75,293	4,510,818,003	59,910	145,595,000	3.23%	1,934
2017	75,293	4,406,597,441	58,526	137,565,000	3.12%	1,827
2018	75,293	4,574,738,305	60,759	162,700,000 <sup>(3)</sup>	3.56%	2,161

(1) Includes Reinvestment Zone values which for fiscal year 2017 was \$426,069,294.

(2) Excludes self-supporting debt.

(3) Projected; includes the Certificates. Preliminary, subject to change.

**TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2014	\$ 0.5864	\$ 0.3324	\$ 0.2540	\$ 20,793,147	97.61%	97.98%
2015	0.5864	0.3324	0.2540	21,446,210	98.14%	98.63%
2016	0.6298	0.3234	0.3064	23,742,734	98.93%	98.93%
2017	0.6572	0.3142	0.3430	25,523,539	98.56% <sup>(1)</sup>	98.56% <sup>(1)</sup>
2018	0.6772	0.3142	0.3630	N/A	N/A	N/A

(1) Unaudited.

**TABLE 4 – TEN LARGEST TAXPAYERS**

Name of Taxpayer	2017 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Panda Temple Power LLC <sup>(1)</sup>	\$ 215,614,624	4.71%
McLane Company, Inc.	106,951,535	2.34%
Wal-Mart Real Estate Business Trust	89,784,571	1.96%
Wilsonart International	83,749,958	1.83%
Pactiv Corp.	78,913,372	1.72%
H.E. Butt Grocery	66,487,281	1.45%
Oncor Electric Delivery Co LLC	64,904,813	1.42%
Burlington Northern Santa Fe Railway	30,586,158	0.67%
Reynolds Consumer Products Inc.	29,414,742	0.64%
Performance Food Group Inc.	23,295,540	0.51%
	<u>\$ 789,702,594</u>	<u>17.26%</u>

(1) Panda Temple Power, LLC ("Panda"), a Delaware limited liability company, filed for voluntary Chapter 11 bankruptcy on April 17, 2017, along with its parent company, Panda Temple Power Intermediate Holdings II, LLC. The bankruptcy petition filed lists the City as an unsecured creditor of which Panda owes \$124,229 in utility related payments to the City as of the bankruptcy petition date. The City can make no assurances regarding the outcome of the bankruptcy proceedings and what impact the bankruptcy could have on the City overall due to the potential impact on ad valorem tax collections of the City with respect to Panda.



**TABLE 5 – AD VALOREM TAX DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 9/30	Outstanding Debt			The Certificates <sup>(1)</sup>			Less: Self- Supporting <sup>(2)</sup>	Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total		
2018	\$ 14,340,000	\$ 8,299,187	\$ 22,639,187	\$ 2,165,000	\$ 861,287	\$ 3,026,287	\$ 10,711,519	\$ 14,953,954
2019	14,885,000	7,882,494	22,767,494	1,190,000	1,135,648	2,325,648	10,722,084	14,371,057
2020	15,535,000	7,434,929	22,969,929	1,235,000	1,099,948	2,334,948	10,826,534	14,478,342
2021	15,175,000	6,871,042	22,046,042	995,000	1,062,898	2,057,898	9,824,334	14,279,605
2022	15,805,000	6,297,607	22,102,607	1,020,000	1,033,048	2,053,048	9,815,984	14,339,670
2023	13,945,000	5,667,374	19,612,374	805,000	1,002,448	1,807,448	7,063,384	14,356,437
2024	13,850,000	5,089,758	18,939,758	1,300,000	978,298	2,278,298	6,775,034	14,443,021
2025	14,490,000	4,515,939	19,005,939	1,340,000	937,673	2,277,673	6,789,440	14,494,171
2026	15,120,000	3,946,689	19,066,689	1,385,000	894,123	2,279,123	6,844,853	14,500,959
2027	12,455,000	3,380,195	15,835,195	1,430,000	849,110	2,279,110	3,487,390	14,626,915
2028	11,770,000	2,869,470	14,639,470	1,485,000	791,910	2,276,910	3,484,790	13,431,590
2029	9,345,000	2,399,933	11,744,933	2,100,000	732,510	2,832,510	2,337,790	12,239,653
2030	8,605,000	2,023,903	10,628,903	2,180,000	648,510	2,828,510	2,341,990	11,115,423
2031	8,975,000	1,676,663	10,651,663	2,250,000	583,110	2,833,110	2,350,090	11,134,683
2032	9,355,000	1,322,963	10,677,963	2,320,000	512,798	2,832,798	2,359,615	11,151,145
2033	9,350,000	927,613	10,277,613	2,390,000	437,398	2,827,398	2,365,303	10,739,708
2034	6,960,000	526,400	7,486,400	2,470,000	358,528	2,828,528	274,800	10,040,128
2035	3,370,000	214,700	3,584,700	2,560,000	275,165	2,835,165	276,700	6,143,165
2036	1,520,000	60,800	1,580,800	2,640,000	188,125	2,828,125	273,200	4,135,725
2037	-	-	-	2,735,000	95,725	2,830,725	274,275	2,556,450
	\$ 214,850,000	\$ 71,407,653	\$ 286,257,653	\$ 35,995,000	\$ 14,478,254	\$ 50,473,254	\$ 99,199,107	\$ 237,531,800

(1) Interest calculated at a final true interest cost of 3.34% for purposes of illustration. Preliminary, subject to change.

(2) Preliminary, subject to change.

**TABLE 6 – TAX ADEQUACY**

Ad Valorem Debt Service Requirements, Fiscal Year Ending 9-30-2018 <sup>(1)</sup>		\$ 25,665,474
2017 Interest and Sinking Fund Tax Levy	\$ 16,606,300	
Estimated Fiscal Year 2017 Interest and Sinking Fund Balance	572,313	
Self-Supporting Debt Service <sup>(1)</sup>	<u>10,711,519</u>	<u>27,890,132</u>
Estimated Balance, 9/30/2018		\$ 2,224,658

(1) Preliminary, subject to change.

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## ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt as of 7/31/2017
City of Temple	\$ 171,400,000 <sup>(1)</sup>	100.00%	\$ 171,400,000 <sup>(1)</sup>
Academy ISD	21,505,000	38.88%	8,361,144
Bell County	128,270,000	28.89%	37,057,203
Belton ISD	119,094,996	28.73%	34,215,992
Temple ISD	132,930,000	95.45%	126,881,685
Temple JCD	17,770,000	97.50%	17,325,750
Troy ISD	16,865,011	7.05%	1,188,983
Total Direct and Overlapping Tax Supported Debt			\$ 396,430,758
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			8.67%
Per Capita Overlapping Tax Supported Debt			\$ 5,265

(1) Includes the Certificates and excludes self-supporting debt. Preliminary, subject to change.

**TABLE 7 – AUTHORIZED BUT UNISSUED AD VALOREM TAX DEBT** – None. However, the City may incur non-voted debts payable from or secured by its collection of taxes and other sources of revenue, including certificates of obligation, tax notes, public property finance contractual obligations, funding bonds, and leases for various purposes.

**ANTICIPATED ISSUANCE OF AD VALOREM TAX DEBT** . . . The City anticipates the issuance of additional ad valorem tax debt in the next twelve months.

**OTHER OBLIGATIONS** . . . As of August 31, 2017, the City has a capital lease for golf carts. The balance of the lease is \$101,871 with an interest rate of 4.20%.

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## FINANCIAL INFORMATION

**TABLE 8 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ending September 30,				
	2016	2015	2014	2013	2012
<u>Revenues:</u>					
Taxes	\$ 33,989,898	\$ 34,058,553	\$ 31,390,633	\$ 29,756,777	\$ 28,265,985
Licenses, Permits and Franchise Fees	7,786,879	7,465,364	6,382,782	6,916,996	6,260,051
Charges for Services	23,183,784	22,404,557	21,457,272	20,432,764	20,020,074
Fines and Forfeitures	2,173,835	2,086,676	2,438,908	2,185,239	2,133,078
Miscellaneous and Interest	1,519,927	1,096,521	2,710,479	1,561,399	1,441,205
Total Revenues	\$ 68,654,323	\$ 67,111,671	\$ 64,380,074	\$ 60,853,175	\$ 58,120,393
<u>Expenditures:</u>					
General Government	\$ 14,605,188	\$ 14,782,723	\$ 14,072,889	\$ 12,244,780	\$ 11,166,805
Public Safety	30,639,068	29,204,662	27,028,615	24,894,611	24,971,496
Highways & Streets	3,244,888	3,018,125	3,020,229	2,914,374	3,807,113
Airport	2,247,236	2,478,744	3,184,039	2,904,032	3,114,535
Sanitation	5,869,985	5,171,235	5,329,772	5,172,168	4,893,208
Culture & Leisure Services	10,178,215	9,335,393	9,817,087	9,075,281	8,729,435
Debt Service	55,171	55,170	54,419	52,163	52,163
Total Expenses	\$ 66,839,751	\$ 64,046,052	\$ 62,507,050	\$ 57,257,409	\$ 56,734,755
Excess (Deficiency) of Revenues over Expenditures	\$ 1,814,572	\$ 3,065,619	\$ 1,873,024	\$ 3,595,766	\$ 1,385,638
Loan and Bond Proceeds	\$ -	\$ -	\$ 420,121	\$ -	\$ -
Budgeted Transfers In	-	14,824	168	193,840	515
Budgeted Transfers Out	(1,592,057)	(1,858,411)	(2,300,162)	(2,180,513)	(1,807,345)
	(1,592,057)	(1,843,587)	(1,879,873)	(1,986,673)	(1,806,830)
Net Increase (Decrease)	\$ 222,515	\$ 1,222,032	\$ (6,849)	\$ 1,609,093	\$ (421,192)
Fund Equity at Beginning of Year	\$ 27,329,256	\$ 26,107,224	\$ 26,114,073	\$ 24,504,980	\$ 24,926,172
Prior Period Adjustment	-	-	-	-	-
Fund Equity at End of Year	<u>\$ 27,551,771</u>	<u>\$ 27,329,256</u>	<u>\$ 26,107,224</u>	<u>\$ 26,114,073</u>	<u>\$ 24,504,980</u>

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**TABLE 9 – MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, V.A.T.C.S., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In January of 1990, the voters of the City approved the imposition on an additional sales and use tax of one-half of one percent (1/2% of 1%) for ad valorem property tax relief. Subject to the approval of a majority of the voters in a local option election, state law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues. State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6¼%). The city's total sales and use tax collections for fiscal years 2012 through 2017 are set forth in the following table:

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2012	\$ 16,967,401	91.29%	\$ 0.4922	\$ 248
2013	18,017,575	92.23%	0.5098	256
2014	18,981,471	91.29%	0.5072	267
2015	21,311,743	99.37%	0.5099	299
2016	20,859,081	79.69%	0.4624	293
2017 <sup>(1)</sup>	19,935,243	78.11%	0.4524	265

(1) Unaudited.

**FINANCIAL ADMINISTRATION . . .** The Finance Department is responsible for providing all City financial services including financial accounting and reporting, payroll and accounts payable disbursement functions, cash and investment management, debt management, purchasing, pension administration, utility customer services, municipal court, internal audit and special financial, and policy analysis for City management. The Director of Finance, appointed by the City Council of the City, supervises the Department's operations.

The City employs a computerized financial accounting system which includes a system of internal accounting controls. Such controls have been designed and are continually being re-evaluated to provide reasonable, but not absolute, assurance regarding: i) the safeguarding of assets against loss from unauthorized use or disposition, and ii) the reliability of financial records for preparing financial statements and maintaining accountability of assets.

The concept of reasonable assurance recognizes the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework, and are believed to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Accounting records for governmental fund types are maintained on a modified accrual basis, with revenues being recognized when available and measurable and expenditures being recognized when services or goods are received and the liabilities incurred. Accounting records for proprietary fund types and similar trust funds are maintained on the accrual basis.

The annual operating budget, or financial plan, is proposed by the City Manager and enacted by the City Council of the City after public discussion. Management control for the operating budget is maintained at the department level. Subsequent budget amendments within a department must be approved by the City Manager. All others must be approved by the City Council of the City. Any unappropriated balances at year-end lapse.

In 1991, the City Council of the City directed management to improve accounting and budgetary controls and the communication of financial data to the City Council of the City, employees, citizens and other interested parties. Management determined that simplifying the structure of funds would be beneficial in meeting this directive. Funds were analyzed to determine which funds were necessary to comply with laws and regulations and provide sound financial administration. All other funds were consolidated into the General Fund.

There were no legal restrictions on revenues or expenditures of the affected special revenue funds that required separate fund accounting. While the nature of activities included in the enterprise and internal service funds which were combined could have been proprietary, the actual operations and management of the funds was more consistent with that of a governmental-type fund. Financial accounting and budgetary controls were maintained on a governmental fund-type basis, except for purposes of year-end financial reporting.

Among other benefits, consolidation would help ensure that financial needs were matched with measurable and available resources on an annual basis, and that interim financial data was more available on an aggregate basis for the City. The City Council of the City approved the recommended consolidation of funds.

## **FINANCIAL POLICIES**

***Basis of Accounting.*** . . Basis of accounting refers to the time at which revenues and expenditures or expenses, and the related assets and liabilities, are recognized in the account and reported in the financial statements.

Governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e. both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt which is recognized when due and accrued vacation and sick leave, which is included in the general obligation long-term debt account group. This exception is in conformity with generally accepted governmental accounting principles.

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred revenue.

Sales taxes are recorded when susceptible-to-accrual, i.e., both measurable and available. Sales taxes are considered measurable when in the custody of the State Comptroller and are recognized as revenue at that time. Other major revenues that are considered susceptible to accrual include utility franchise taxes, grants-in-aid earned and other intergovernmental revenues. In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal contractual requirements of the numerous individual grant programs are used for guidance. There are essentially two types of intergovernmental revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt, or earlier, if the susceptible-to-accrual criteria are met.

The accrual basis of accounting is utilized by proprietary funds and the pension trust fund. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

Revenues in the Water and Sewer Fund are recognized as billed on a cycle basis. Unbilled utility Water and Sewer revenues are accrued at year end.

***Budgets and Budgetary Procedures*** . . . The City follows these procedures in establishing the budgetary data reflected in the financial statement:

1. On or before August 1, the City Manager submits a proposed operating budget to the City Council of the City by filing with the Director of Finance, who in turn submits it to the City Council of the City for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. On or before September 15, the budget is legally adopted by City Council of the City.
3. The City Manager has the authority to transfer appropriation balances from one expenditure category to another within a department. The City Council of the City must approve transfers of appropriations between departments, and any revisions that alter the total expenditures of any fund. Although costs are monitored on an expenditure category, the legal level of control (level at which expenditures may not exceed budget) is the department level. The reported budgetary data has been revised for amendments authorized during the year.
4. Formal budgetary integration is employed as a management control device by expenditure category during the year for the General Fund, Special Revenue Funds, and Interest and Sinking Fund. Formal budgetary integration is not employed for the capital projects funds because effective budgetary control is provided by the small number of contracts and projects in these funds, significant costs are subject to bidding, and projects usually span more than one fiscal year.
5. Budgets for the General Fund, Special Revenue Funds and Interest and Sinking Fund are adopted on a basis consistent with the modified accrual basis of accounting.

***Other Post-Employment Benefits*** . . . In addition to pension benefits, the City provides certain other post-employment benefits for retired employees ("OPEB"). The costs of these benefits are recognized as expenditures on a modified accrual basis when the underlying claims are paid. In fiscal year 2009, the City implemented GASB Statement No. 43 "Financial Reporting For Post-Employment Benefit Plans Other Than Pension Plans," and in fiscal year 2009, GASB Statement No. 45 "Accounting And

Financial Reporting By Employers For Post-Employment Benefits Other Than Pensions.” In connection with the implementation, an actuarial study was performed. City Staff received a Final Report of such actuarial study from an outside consultant regarding the City’s OPEB obligations. The Final Report actuarial study indicated an Actuarial Accrued Liability as of fiscal year 2008 in the range of \$8,397,543 million with a 5.5% discount rate to \$11,917,175 million with a 3.5% discount rate. Another actuarial study was performed for fiscal year 2010 which indicated an Actuarial Accrued Liability (AAL) as of fiscal year 2012 of \$7,406,228. This reduction in the AAL was primarily due to changes in the benefits. An actuarial study was performed for fiscal year 2013 which indicated an AAL as of fiscal year 2014 of \$5,727,264. The Fiscal Year 2013 report was used for fiscal years 2013 and 2014. Staff will continue to monitor the Actuarial Accrued Liability and may make recommend additional policy modifications in the future.

For more information concerning the City’s post-employment benefits, see “APPENDIX B – Excerpts from the City of Temple Annual Financial Report” and the notes thereto.

## INVESTMENTS

The City invests its investable funds in investments authorized by State 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.

**INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . .** Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (“FDIC”) or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) 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 complies with Security and Exchange Commission Rule 2a-7; and maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each; (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years and either has a duration of one year or more and is invested exclusively in obligations described in this paragraph or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than “A” or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City’s name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program 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.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAAm” or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City 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.

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 include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. 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, the City’s 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 City’s investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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 strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

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 family relationships with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City, (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) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City’s investment policy, (5) 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, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

#### TABLE 10 – CURRENT INVESTMENTS

As of August 31, 2017, the City’s investable funds were invested in the following categories:

Investments	Market Value	% of Total
Cash	\$ 49,825,170	37.87%
CD's	55,354,006	42.08%
Investment Pools	26,373,221	20.05%
	<u>\$ 131,552,397</u>	<u>100.00%</u>

As of such date, 81% of the City’s investment portfolio will mature within one year. The market value of the investment portfolio was approximately 100% of its purchase price.

## TAX MATTERS

**OPINION . . .** On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Certificates for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Certificates will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See “APPENDIX C – Form of Bond Counsel’s Opinion.”

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City’s federal tax certificate, and (b) covenants of the City contained in the Certificate documents relating to certain matters, including arbitrage and the use of the proceeds of the Certificates and the property financed or refinanced therewith. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Certificates to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel’s opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Certificates.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the property financed or refinanced with proceeds of the Certificates. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

**FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . .** The initial public offering price to be paid for one or more maturities of the Certificates may be less than the principal amount thereof or one or more periods for the payment of interest on the Certificates may not be equal to the accrual period or be in excess of one year (the “Original Issue Discount Certificates”). In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount. The “stated redemption price at maturity” means the sum of all payments to be made on the Certificates less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Certificate is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner’s basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Certificate.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Certificates which are not purchased in the initial offering at the initial offering price may be determined according to rules which



differ from those described above. All owners of Original Issue Discount Certificates should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Certificates and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Certificates.

**COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . .** The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Certificates. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

Interest on the Certificates will be included as an adjustment for “adjusted current earnings” to calculate the alternative minimum tax imposed on corporations by Section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Certificates, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Certificates, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

**STATE, LOCAL AND FOREIGN TAXES . . .** Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Certificates under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

**FUTURE AND PROPOSED LEGISLATION . . .** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Certificates under Federal or state law and could affect the market price or marketability of the Certificates. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Certificates should consult their own tax advisors regarding the foregoing matters.

## **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 Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). This information will be available to the public free of charge from the MSRB on its investment website at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 10 and in APPENDIX B. The City will update and provide this information within 6 months after the end of each fiscal year ending. The City will provide the updated information to the Municipal Securities Rulemaking Board (the “MSRB”). The MSRB intends to make the information available to the public without charge through an internet portal as part of an expansion of its Electronic Municipal Market Access (“EMMA”) system. Investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission Rule 15c2-12, as amended, (the “Rule”). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available within 12 months after any such fiscal year end, the City will file unaudited financial statements within such 12-month time period and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City’s current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB.

**NOTICE OF CERTAIN EVENTS . . .** The City will provide notice to the MSRB of any of the following events with respect to the Certificates, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Certificate calls; (4) release, substitution, or sale of property securing repayment of the Certificates; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The City will also provide notice to the MSRB of any of the following events with respect to the Certificates without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or 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-exempt status of the Certificates, or other events affecting the tax-exempt status of the Certificates; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the City (which 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).

The City will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under “– Annual Reports.”

**AVAILABILITY OF INFORMATION . . .** The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

Should the Rule be amended to obligate the City to make filing with or provide notices to entities other than the MSRB, the City agrees to undertake such obligation with respect to the Certificates in accordance with the Rule as amended.

**LIMITATIONS AND AMENDMENTS . . .** The City has agreed to update information and to provide notices of certain 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 obligations 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 Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with 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 Certificates 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 Certificates. 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 Certificates in the primary offering of the Certificates.

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 AGREEMENTS . . .** During the past five years the City has complied in all material respects with its continuing disclosure agreements entered into pursuant to the Rule, with the submission of their annual financial reports. The City’s water and sewer rates are not included in their financial reports but are publically available on their website.

## **OTHER INFORMATION**

**RATING . . .** The Certificates and the outstanding general obligation debt of the City have been rated “AA” by Standard & Poor’s Ratings Services, A Standard & Poor’s Financial Services LLC business (“S&P”). The presently outstanding general obligation debt of the City is also rated “Aa2” by Moody’s Investors Service, Inc. No application for a rating on the Certificates has been made to Moody’s. The City also has various issues outstanding which are insured by various commercial insurance companies. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective views of such organizations 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 one or more of such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Certificates.

**LITIGATION . . .** It is the opinion of the City Attorney and City staff that (i) there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations, and (ii) there is no pending litigation seeking to enjoin the issuance of the Certificates or the legal ability of the City to issue the same.

**REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE . . .** The sale of the Certificates 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 Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

**LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . .** Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, 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 Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – Rating” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates 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 Certificates are legal investments for various institutions in those states.

## **LEGAL MATTERS**

**LEGAL OPINION . . .** Issuance of the Certificates is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Certificates are valid and binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property within the City and a limited pledge of surplus revenues of the City’s Utility System, as provided in the Ordinance. Issuance of the Certificates is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. (“Bond Counsel”), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Certificates, to the effect that the Certificates are valid and binding obligations of the City payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel’s legal opinion will also address the matters described herein under “TAX MATTERS.” Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Certificates. In connection with the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the City. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are based upon a percentage of Certificates actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Certificates.

The legal opinion to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinion 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.

**FINANCIAL ADVISOR . . .** Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, 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.

**FORWARD-LOOKING STATEMENTS . . .** The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements.

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

**INITIAL PURCHASER . . .** After requesting competitive bids for the Certificates, the City accepted the bid of \_\_\_\_\_ (the "Purchaser") to purchase the Certificates at the interest rates shown on page 2 of the Official Statement at a price of approximately \_\_\_\_\_ % of par. The Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

**MISCELLANEOUS . . .** The financial data and other information contained herein have been obtained from the City's 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. The Ordinance authorizing the issuance of the Certificates will also approve 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 Certificates by the Purchaser.

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

**UPDATING THE OFFICIAL STATEMENT DURING UNDERWRITING PERIOD . . .** If, subsequent to the date of the Official Statement to and including the date the Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the City learns or is notified by the Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the City will promptly prepare and supply to the Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Purchaser, unless the Purchaser elects to terminate its obligation to purchase the Certificates as described in the notice of sale accompanying this Official Statement. The obligation of the City to update or change the Official Statement will terminate when the City delivers the Certificates to the Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Purchaser provides written notice the City that less than all of the Certificates have been

sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Certificates have been sold to ultimate customers. In the event the Purchaser provides written notice to the City that less than all of the Certificates have been sold to ultimate customers, the Purchaser agrees to notify the City in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

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

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Mayor  
City of Temple, Texas

ATTEST:

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City Secretary  
City of Temple, Texas

## **APPENDIX A**

### **GENERAL INFORMATION REGARDING THE CITY**

**THE CITY . . .** What began in 1881, as a model city built from railroad blueprints, is still a city built on vision. The town was incorporated in 1882 and named for Bernard Moore Temple, Santa Fe’s Chief construction engineer. Now, more than 100 years later, Temple continues to grow. Temple is strategically located on transportation systems linked northward to the heartland of the Nation and southward into the developing North American Trade area. Diversity has been and continues to be Temple’s trademark as it moves forward with steady growth and into broader national and international roles for the 21<sup>st</sup> century. By offering both the benefits of city living and the ease of country life, Temple continues to draw more and more families and businesses.

**LOCATION . . .** Temple is located in the heart of Central Texas on Interstate Highway 35, connecting with the international market of Mexico via Laredo, and at the junction of US Highway 190 and state highways 36, 53 and 95.

- 60 miles north of Austin
- 140 miles north of San Antonio
- 125 miles south of Dallas/Ft. Worth
- 165 miles northwest of Houston

#### **BASIC ECONOMIC SECTORS & STRENGTHS**

- Distribution, wholesale trade, and transportation
- Healthcare services, education, and research
- Manufacturing, fabrication, and electronics
- Governmental center (local, regional, county, state and federal)
- Education and training
- Agricultural businesses, education, and research
- Military facilities (Ft. Hood at Killeen)

#### **COMMUNITY-PLANNED DEVELOPMENT AREAS**

Reinvestment Zone Number 1 – Established in 1982. In February 1999, the Zone was expanded to include the downtown, southeast Industrial Park, and also expanded to the north and west. The Zone presently contains industrial, manufacturing, office space and fine dining facilities and consists of approximately 12,650 acres in the Northwest, Southeast and Downtown sections of the City. The Zone has become home to over 70 businesses and over 9,000 jobs. Over 65% of the current business park is either developed or held in ownerships for future development that may prevent assembly of these lands for attracting new industries. The current Zone is established for a term initially lasting through Year 2022. In November, 2010, the Zone was expanded to include the Temple Medication and Education District which is approximately 2,221 acres in area and extended the duration of the Zone for an additional 40 years to 2062.

Municipal Airport and Airpark – Aircraft maintenance, Texas National Guard operations.

Medical Complex Area – Scott & White Hospital and Clinic, VA medical complex, Cardiovascular Research Center, King’s Daughters Hospital, and State of Texas Medical Veterans Nursing Home.

State and Federal Government - Agri-Business and Research Area Texas A&M University’s Agricultural Station’s Blackland Research Center USDA Soil Conservation Service USDA/Agricultural Research Service’s Grassland, Soil, and Water Research Lab Texas State Soil and Water Conservation Board.

#### **DIRECTORY OF MAJOR EMPLOYERS AND MAJOR GOVERNMENT EMPLOYERS**

##### ***Major Government Employers***

Employers	Employees
Central Texas Veterans Healthcare Systems	2,269
Temple Independent School District	1,223
City of Temple	794
Temple College	275

## Major Corporate Employers

Employers	Employees
Scott & White Hospital and Clinic	8,847
McLane Company -Corporate Headquarters & SW Distrib. Ctr.	1,640
Wal-Mart Superstore, Distribution Center & Sam's Club	1,173
Wilsonart International	957
Sprint/Nextel Communications	700
PACTIV Packaging Corporation	600
Acer America Corporation	469
Texas Hydraulics	395
Artco-Bell	390
PFG-Performance Food Group	371

**MEDICAL & HEALTHCARE SERVICES** . . . The City of Temple is recognized by the medical community in the United States as a leading medical provider with two major hospitals located within Temple. Scott & White Hospital (“S&W”) and the Olin E. Teague Veterans Hospital, combined, employ approximately 9,000 full time positions. The hospitals provide medical care to the surrounding local, state, and international community. Texas A&M University School of Medicine in conjunction with S&W and Veterans Hospital provide the four years of medical school as well as research and development.

In August 2012, Scott & White Healthcare broke ground on a \$32 million, five story pediatric clinic adjacent to the McLane Children’s Hospital. The 112,000 square foot facility will coordinate both outpatient and inpatient pediatric speciality services with physicians in one location. The clinic building will office more than 80 highly specialized physicians and providers, residents, fellows and approximately 200 support staff. The building will have 135 exam rooms, 13 treatment rooms and eight infusion rooms. It will feature a drive-through outpatient pharmacy, diagnostic x-ray and laboratory services. The facility opened in 2014.

In December 2012, the boards of Baylor Health Care System and Scott & White Healthcare approved the signing of an agreement of intent to combine the strengths of their two health systems to create a \$8.3 billion organization with the vision and resources to offer its patients continued exceptional care while creating a model system for an industry undergoing fundamental transformation. The completion of the merger occurred in September 2013.

A health care system sufficient to provide care in virtually every service area gives Temple its enviable reputation as a regional and national medical center. Temple offers an abundance of superior health care facilities and representation in nearly all medical disciplines. Over 700 physicians, surgeons and specialists are involved in the many service areas.

Scott and White Memorial Hospital and Clinic, is one of the nation’s largest medical centers, emphasizing high-tech, comprehensive, personalized health care enhanced by education and research. It is also a teaching hospital aligned with Texas A&M University Health Science Center College of Medicine.

In March 2008, Scott & White was ranked one of the “Top 100 Hospitals” in a national survey conducted by Thompson, a health care rating group. Scott & White is one of only two major teaching hospitals in Texas as well as the only healthcare institution in Central Texas to make the prestigious Thompson Healthcare 100 Top Hospitals list for 2007.

Scott & White has three major components: the 483-bed Scott & White Memorial Hospital; Scott & White Clinic with 464 physicians; and the 185,000-member Scott & White Health Plan.

Scott & White recently purchased a 500,000 square foot former Texas Instruments building to house biotechnology research and commercialization activities. This “West Campus,” as it is known, is also home to the Cancer Research Institute. Scott & White signed a contract with OnaTac for commercialization of drugs developed at the Institute.

Also located on Scott & White’s West Campus, the Texas Bioscience Institute began classes in Fall 2006 and prepares students for careers in the bioscience industry.

The Olin E. Teague Veterans’ Center is a major component of the largest Veterans Administration medical complex in Texas and the fourth largest in the United States. The Temple facility employs over 2,800 and covers a primary service area of 40 counties including 200,000 veterans.

The Teague Center has an annual operating budget of over \$97 million and is located on a 185-acre campus. There is a medical staff of more than 80 physicians. The Veterans’ Center is also a teaching hospital aligned with the Texas A&M University Health Science Center College of Medicine.

The creation of the Temple Free Clinic in October 1992 provides health care for those who can not afford private health care and do not qualify for government aid. The Free Clinic offers visits with trained medical personnel for initial diagnoses and treatment, as well as free X-rays, laboratory tests and medication. Over 7,000 patients have been seen by the hundreds of dedicated volunteers who donate their time and talent to the project.



In November 2003, Temple voters approved the Temple Health and Bioscience Economic Development District, which has the same geographic boundaries as the City of Temple. The District voters on May 9, 2009, approved the levy of up to \$.15 in ad valorem taxes for economic development. The District levied an initial ad valorem tax rate of \$0.02436.

The future of medicine and bioscience is bright in Temple. Scott & White's Center for Advanced Medicine ("CAM") is a 381-bed hospital that offers the most sophisticated technology and state-of-the-art equipment, including larger, private patient rooms and an emergency, children's, women's, heart and vascular institute designed so that patients can receive specialized care without having to travel throughout the institution. Within this improved workflow design, the latest technological innovations will also be integrated. The ability to digitally double-check medicines at the bedside, an integrated communication system, and electronic charting will all help provide seamless patient care.

**EDUCATION . . . Temple Independent School District (TISD)** – has an enrollment of over 8,850 student in K through 12th grades. Students at Temple High School (1,807 enrolled) can take advantage of extensive honors programs, tech prep program, magnet schools, and alternative programs. SAT scores average 1,015. There are 8 institutions of higher education within 35 miles of Temple.

**Temple College** – a community college with 1,930 full and 3,373 part-time students, offers a wide range of academic and technical programs leading to an Associates Degree or Certificate of Completion. Continuing education and extended programs for local industries enhance the educational opportunities for area residents.

**Texas A&M University Health Science Center and College of Medicine** – students complete their final 2 years of medical school in Temple and work in conjunction with the teaching facilities at Scott & White Hospital and the VA Medical Center near the campus.

**University of Mary Hardin Baylor** – a 4-year university in nearby Belton with a strong liberal arts, nursing and pre-professional academic programs offered. Enrollment is about 3,400.

**Central Texas College, Killeen** – a community college strongly aligned with the military at Ft. Hood, offers distance learning and a wide range of programs. Total worldwide campus enrollment is approximately 84,568 students.

**Tarleton State University at Central Texas, Killeen** – TSU/CT, a branch of Tarleton State University and a member of the Texas A&M University System, offers upper level courses between a bachelor's degree with some master level programs. Enrollment is approximately 1,200.

Temple also has extensive research facilities aligned with Texas A&M University and the medical complex.

The **Blackland Research Center** focuses on extensive agriculture-related research and extensive computer-modeling in collaboration with state and national agriculture agencies.

The new **Cardiovascular Research Institute**, occupying the building next to the Texas A&M College of Medicine and the VA Medical Complex is a recent addition to Temple's growing medical/biotech community. This \$12 million building is a joint venture with the Veterans' Administration, Scott & White, and Texas A&M University. The institute will have 25-30 researchers and 150-200 students and staff.

**AIRPORT SERVICES . . . Draughon Miller Regional Airport** is a modern, award-winning aviation facility operated by the City of Temple.

The Airport is located approximately six miles northwest of the Temple central business district and 2.6 miles from IH 35.

The Airport property occupies 922 acres, and is primarily devoted to aviation use and support facilities, with additional undeveloped areas available for development.

The Airport has maintained a full Federal Aviation Administration Part 139 Certificate for 25+ years and has an enviable record of discrepancy-free ratings on our annual Certification Safety Inspections.

**THE AIRPORT CONSISTS OF:**

- Runway/taxiway facilities capable of accommodating aircraft up to DC9/737
- Aircraft Rescue and Firefighting facilities, aircraft traffic control services provided by Unicom
- Jet A single point/over the wing and Avgas full service fueling operation
- Automated Weather Observation System with certified Weather Observers and an aviation weather briefing system from WSI
- Passenger and general aviation terminal facilities with ample free parking
- T-hangars, Corporate hangars, Aircraft parking aprons

Two hard surface Runways are available 24 hours with radio controlled lighting.

#### **RAIL SERVICES**

- AMTRAK Passenger Service (daily)
- Union Pacific Railroad
- Burlington Northern Santa Fe Railroad

Piggy-back service is available via Dallas off-loading facility through contractual arrangements with the Santa Fe Line.

#### **BUS LINES**

##### ***Inter-City Services***

- Greyhound Bus Lines
- Arrow-Trailways Bus Lines
- Pioneer Charter Bus Services
- Intra-City Services. The City of Temple has implemented a subsidized fixed route and complementary paratransit public transportation service.

#### **UTILITY SERVICES:**

##### **Electrical Power Services:**

TXU Electric Company

##### **Water & Wastewater Services:**

City of Temple

##### **Natural Gas Services:**

TXU Gas

##### **Telephone Services:**

AT&T

**AMENITIES . . .** Temple has a wide variety of amenities to offer its citizens: museums, galleries, local theater, musical and sports events, recreation facilities, public parks and sports fields. The Corp of Engineers built 2 major lakes nearby: Lake Belton (9 miles) and Stillhouse Hollow Reservoir (15 miles).

Temple's Mayborn Convention Center and the Bell County Exposition Center offer convention and meeting facilities for local, statewide and national events. The City has a private country club managed by Club Corp of America, one movie theater, a bowling alley and a skating rink and area restaurants. The community is also diverse in its religious denominations and social organizations.

#### **RECREATIONAL AMENITIES**

Playgrounds and Basketball Courts	58
Public Swimming Pools	4
Golf Courses	1
Tennis Courts	16
Community and Recreation Centers	5
Soccer Complex and Multi-Purpose Fields	17
Picnic Pavilions	27
Area Lakes - Belton Lake – 9 miles west of Temple: A 2,000 acre Corp of Engineers lake with a 136 mile shore line.	
Stillhouse Hollow Lake – 15 miles southwest of Temple	

## LABOR MARKET PROFILE

	City of Temple	
	August 2017	August 2016
Total Civilian Labor Force	35,536	34,728
Total Employment	34,208	33,417
Total Unemployment	1,328	1,311
Percent Unemployed	3.7%	3.8%

	State of Texas	
	August 2017	August 2016
Total Civilian Labor Force	13,406,779	13,295,171
Total Employment	12,802,022	12,638,955
Total Unemployment	604,757	656,216
Percent Unemployed	4.5%	4.9%

## **APPENDIX B**

### **EXCERPTS FROM THE CITY OF TEMPLE, TEXAS ANNUAL FINANCIAL REPORT For the Year Ended September 30, 2016**

The information contained in this APPENDIX consists of excerpts from the City of Temple, Texas Annual Financial Report for the Year Ended September 30, 2016, 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 AUDITORS' REPORT

The Honorable Mayor and  
Members of the City Council  
City of Temple, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Temple, Texas (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

## **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Temple, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and respective budgetary comparison for the general fund and pass through financing project fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 37-51, the Schedule of Changes in Net Pension Liability and related ratios for TMRS and the Temple Firefighters' Relief and Retirement Fund 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 schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2017, 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 the City's internal control over financial reporting and compliance.



Temple, Texas  
January 27, 2017





## **Management's Discussion and Analysis**



**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2016**

Our discussion and analysis of the City of Temple's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The City's net position of the primary government was \$ 153,583,842 at September 30, 2016. Of this amount, \$ 36,162,503 is unrestricted and may be used to meet the City's future obligations. Of the \$ 36.2 million net unrestricted net position, \$ 3,032,699 is related to governmental activities, which includes the General Fund. The \$ 33,129,804 net balance of unrestricted net position is related to business-type activities, which is the City's enterprise fund (water and sewer).
- The City of Temple's total net position increased by \$ 2,484,328 during the current fiscal year. Net position of governmental activities decreased \$ 1,411,136 from \$ 49,102,280. Net position of business-type activities increased \$ 3,895,464 from \$ 101,997,234. The net decrease in governmental activities is attributable to the implementation of GASB 68, *Accounting and Financial Reporting for Pensions* and the pass-through financing project. The increase in the business-type activities is attributable to an increase in the City's investment in capital assets.
- As of September 30, 2016, the City of Temple's governmental funds reported combined ending fund balances of \$ 72,836,275, a decrease of \$ 3,693,711 in comparison with the prior fiscal year. The capital projects fund had a net decrease of \$ 3,046,644 due to the issuance of limited tax notes in September 2016 and the issuance of certificate of obligation bonds in February 2016 and the expenditure of bond proceeds from Transportation Capital Improvement Program and the expenditure of bond proceeds from the Parks General Obligation bonds. In addition, the net decrease was also attributable to a decrease in the debt service fund of \$ 235,694 due to the use of fund balance for debt service. The Pass-Through Financing Project fund had a decrease in fund balance of \$ 177,418 related to the expenditure of the bond proceeds. There was an increase in fund balance in the general fund of \$ 192,515 and a decrease in the fund balance in the nonmajor governmental funds of \$ 456,470.
- At the end of the current fiscal year, assigned/unassigned fund balance for the general fund was \$ 26,031,125 or approximately 38.04% of total general fund expenditures.

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

- The City's total net bonded debt increased by \$ 10,237,589 during the current fiscal year. This net increase was due to the issuance of 2016 Certificate of Obligation bonds in the amount of \$ 18,285,000 issued for the Transportation Capital Improvement Program and the issuance of the 2016 Limited Tax Notes issued for the purchase of five commercial sanitation trucks, building security upgrades, and major building improvements

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements** - The government-wide financial statements are designed to provide readers with a broad overview of the City of Temple's finances, in a manner similar to private-sector business. The statement of net position presents information on all of the City of Temple's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Temple is improving or deteriorating. The statement of net position combines and consolidates governmental funds current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but not used vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

In the Statement of Net Position and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here, including the police, fire, library, airport, streets, sanitation, culture and recreation, and general government. Property taxes, sales taxes and franchise fees finance most of these activities.

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system activity are reported here.
- Component units – The City includes two separate legal entities in its report – the Temple Economic Development Corporation and the Reinvestment Zone No. 1 (a tax incremental financing unit). Although legally separate, these "component units" are important because the City is financially accountable for them.

**Reporting the City's Most Significant Funds**

**Fund Financial Statements** - The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by the City's charter and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's three kinds of funds – governmental, proprietary and fiduciary – utilize different accounting approaches.

- Governmental funds – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

The City of Temple maintains seven individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital projects fund and the pass-through financing project fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

- Proprietary funds – The City of Temple maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government wide financial statements. The City uses an enterprise fund to account for its water and sewer utility.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer utility. The water and sewer utility is considered a major fund of the City.

- Fiduciary funds – fiduciary funds are used to account for resources held for the benefit of parties outside of 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 for fiduciary funds is much like that used for proprietary funds.

The City's fiduciary fund consists of the City of Temple Employee Benefits Trust which accounts for the activities of the trust to provide City officers, employees, qualified retirees, and their dependents with life, disability, dental, accident and other health related benefits through the purchase of insurance.

**Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 71 through 132 of this report.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees and the City's contributions related to the Temple Firefighters' Relief and Retirement Fund. Required supplementary information can be found on page 134 through 138 of this report.

**THE CITY AS A WHOLE – Government-Wide Financial Analysis**

The City's combined net position (assets exceeding liabilities) was \$ 153,583,842 as of September 30, 2016. The following tables focus on the net position (Table I) and general revenues and significant expenses of the City's governmental and business-type activities (Table II).

By far the largest portion of the City's net position (74.92%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment); less any related debt

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table I**  
**Summary of Statement of Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 94,743,103	\$ 99,933,882	\$ 54,377,870	\$ 61,502,215	\$ 149,120,973	\$ 161,436,097
Capital assets	164,595,010	143,510,633	148,144,431	141,839,476	312,739,441	285,350,109
Total assets	259,338,113	243,444,515	202,522,301	203,341,691	461,860,414	446,786,206
Deferred outflows of resources	19,667,977	9,179,606	4,194,797	3,657,753	23,862,774	12,837,359
Long-term liabilities outstanding	220,698,727	191,229,683	97,249,149	101,262,699	317,947,876	292,492,382
Other liabilities	10,086,060	11,019,440	3,499,423	3,565,958	13,585,483	14,585,398
Total liabilities	230,784,787	202,249,123	100,748,572	104,828,657	331,533,359	307,077,780
Deferred inflows of resources	530,159	1,272,718	75,828	173,553	605,987	1,446,271
Net Position:						
Net investment in capital assets	43,934,442	40,996,292	71,123,596	69,469,800	115,058,038	110,466,092
Restricted	724,003	959,697	1,639,298	1,334,468	2,363,301	2,294,165
Unrestricted	3,032,699	7,146,291	33,129,804	31,192,966	36,162,503	38,339,257
Total net position	\$ 47,691,144	\$ 49,102,280	\$ 105,892,698	\$ 101,997,234	\$ 153,583,842	\$ 151,099,514

An additional portion of the City of Temple's net position (1.54%) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position*, \$ 36,162,503, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Temple is able to report positive balances in all three categories of net position for the government as a whole.

There was an increase of \$ 3,895,464 in net position reported in connection with the City of Temple's business-type activities. The net increase is the result of an increase in operating revenues for FY 2016.

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

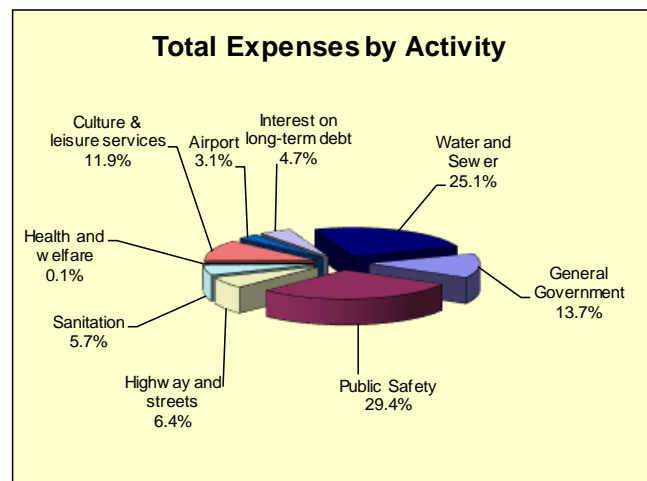
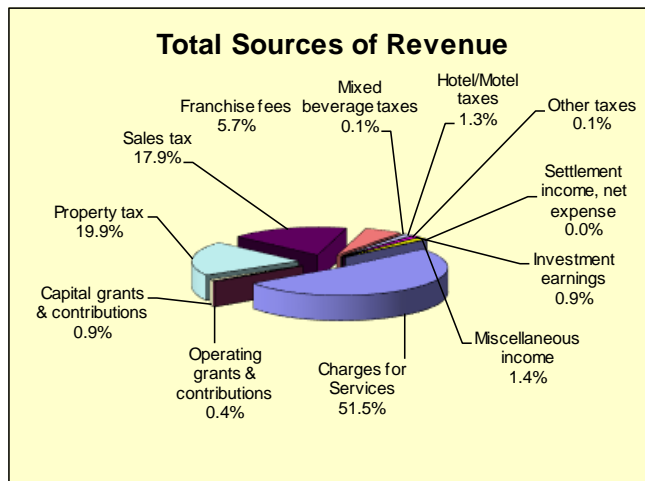
Governmental and business-type activities increased the City's net position by \$ 2,484,328. The key elements of this increase are as follows:

**Table II**  
**Statement of Activities, Changes in Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 28,356,759	\$ 27,109,293	\$ 31,720,917	\$ 30,375,811	\$ 60,077,676	\$ 57,485,104
Operating grants and contributions	453,554	12,501,829	-	-	453,554	12,501,829
Capital grants and contributions	899,586	391,026	134,570	381,295	1,034,156	772,321
General revenues:						
Property tax	23,231,944	20,847,366	-	-	23,231,944	20,847,366
Sales tax	20,859,081	21,311,743	-	-	20,859,081	21,311,743
Franchise fees	6,712,490	6,780,354	-	-	6,712,490	6,780,354
Mixed beverage taxes	148,247	156,030	-	-	148,247	156,030
Hotel/Motel taxes	1,473,592	1,440,351	-	-	1,473,592	1,440,351
Other taxes	62,915	72,392	-	-	62,915	72,392
Investment earnings	398,306	156,778	689,095	353,239	1,087,401	510,017
Miscellaneous income	1,598,627	746,050	-	-	1,598,627	746,050
Total revenues	84,195,101	91,513,212	32,544,582	31,110,345	116,739,683	122,623,557
Expenses:						
General government	15,656,749	14,904,124	-	-	15,656,749	14,904,124
Public safety	33,628,711	29,912,951	-	-	33,628,711	29,912,951
Highway and streets	7,273,731	10,259,565	-	-	7,273,731	10,259,565
Sanitation	6,455,973	5,990,896	-	-	6,455,973	5,990,896
Health and welfare	149,961	112,058	-	-	149,961	112,058
Culture & leisure services	13,589,344	12,312,968	-	-	13,589,344	12,312,968
Airport	3,500,076	3,683,154	-	-	3,500,076	3,683,154
Interest on long-term debt	5,351,692	4,237,351	-	-	5,351,692	4,237,351
Water and sewer	-	-	28,649,118	26,081,271	28,649,118	26,081,271
Total expenses	85,606,237	81,413,067	28,649,118	26,081,271	114,255,355	107,494,338
Increase (decrease) in net position before transfers	(1,411,136)	10,100,145	3,895,464	5,029,074	2,484,328	15,129,219
Transfers	-	(2,267)	-	2,267	-	-
Increase (decrease) in net position	(1,411,136)	10,097,878	3,895,464	5,031,341	2,484,328	15,129,219
Net position - beginning, as restated	49,102,280	39,004,402	101,997,234	96,965,893	151,099,514	135,970,295
Net position - ending	\$ 47,691,144	\$ 49,102,280	\$ 105,892,698	\$ 101,997,234	\$ 153,583,842	\$ 151,099,514



**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**



For FY 2016, revenues from governmental activities totaled \$ 84,195,101. Property taxes and sales tax are the largest components of revenues (52.37%). Charges for services account for 33.68% of total governmental revenue.

For FY 2016, expenses for governmental activities totaled \$ 85,606,237. The City's five largest funded programs are for public safety, general government, highways and streets, sanitation, and culture and leisure services.

For governmental activities, the Statement of Activities on page 55 shows that \$ 28,356,759 was financed by those receiving services, \$ 453,554 from operating grants and contributions, \$ 899,586 from capital grants and contributions, with the City's general revenues financing \$ 54,485,202 of the remaining program expenses.

The debt service fund has a total fund balance of \$ 724,003, all of which is reserved for the payment of debt service. The decrease in fund balance during the current year in the debt service fund was attributable to the use of fund balance for debt service payments.

The capital projects fund has a total fund balance of \$ 40,774,514. The fund balance decreased by \$ 3,046,644 during the current fiscal year. This net decrease is due to the issuance of bonds and expenditure of the prior years' bond proceeds.

The pass-through financing project fund has a total fund balance of \$ 923,928. This major fund was new in FY 2012 and was derived from the issuance of pass-through agreement revenue & limited tax bonds. The majority of those bonds were spent during FY 2014. Remaining bond proceeds are expected to be spent during FY 2017.

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

**Business-type Activities**

Revenues of the City's business-type activities were \$ 32,544,582 for the fiscal year ended September 30, 2016. Revenues increased approximately \$ 1,434,237 as compared to the prior fiscal year. Expenses for the City's business-type activities were \$ 28,649,118, an increase of \$ 2,567,846, or 9.85%, compared to the prior fiscal year. The increase in revenues is the net result of the increase in sales of effluent water and an increase in consumption. Water consumption increased 2.3% in FY 2016 compared to the prior fiscal year. Unrestricted net position of the water and sewer fund was \$ 33,129,804. The water and sewer fund unrestricted net position increased in the current fiscal year by \$ 1,936,838.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the FY 2016, the City had \$ 312,739,441 invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges and water and sewer lines.

**Table III**  
**Capital Assets at Year-End**  
**(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 20,308,327	\$ 17,909,330	\$ 2,153,038	\$ 1,940,240	\$ 22,461,365	\$ 19,849,570
Construction in progress	19,047,378	14,077,352	15,895,973	15,334,058	34,943,351	29,411,410
Buildings	43,381,654	45,109,664	19,664,609	20,617,896	63,046,263	65,727,560
Infrastructure	62,964,860	50,188,854	107,296,056	100,336,030	170,260,916	150,524,884
Furniture & equipment	7,058,447	6,274,639	214,165	328,218	7,272,612	6,602,857
Machinery & equipment	11,834,344	9,950,794	2,920,590	3,283,034	14,754,934	13,233,828
	<u>\$ 164,595,010</u>	<u>\$ 143,510,633</u>	<u>\$ 148,144,431</u>	<u>\$ 141,839,476</u>	<u>\$ 312,739,441</u>	<u>\$ 285,350,109</u>

Major capital asset additions during the current fiscal year included the following:

- SH 317 Waterline Relocation 2305 to 439 - \$ 2,567,509
- Western Hills Roadway Improvements - \$ 7,045,698
- Water Line Replacement at Lamar from 7<sup>th</sup> to Nugent - \$ 725,198
- South 23<sup>rd</sup> Street Extension - \$ 672,211
- Outer Loop, Phase III - \$ 3,174,848
- Wastewater Line Replacement at Barton Avenue to French Avenue - \$ 774,070

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

- Rehabilitation of Airport and Range Road Tank - \$ 1,402,102
- Property Acquisition of Prairie View, Phase II - \$ 845,946
- Water Line Improvement for North Temple (Elm Creek) - \$ 735,034
- Northam Complex - \$ 652,887
- Legacy Pavement Preservation Overlay - \$ 5,328,971
- Traffic Signal Upgrade for South 1<sup>st</sup> Street @ West Avenue R - \$ 262,109
- Jefferson Park Equipment - \$295,722
- Replacement of 105 Public Safety Laptops - \$ 440,520

Additional information on the City of Temple's capital assets can be found in Note III on pages 90 through 92 of this report.

**Debt**

At year-end, the City had \$ 241,227,714 in bonds and notes payable outstanding as shown in Table IV.

**Table IV**  
**Outstanding Debt, at Year-End**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 70,300,000	\$ 75,420,000	\$ 36,760,000	\$ 39,000,000	\$ 107,060,000	\$ 114,420,000
Certificate of obligation	53,360,000	36,650,000	-	-	53,360,000	36,650,000
Contractual obligations	5,700,000	4,415,000	-	-	5,700,000	4,415,000
Revenue bonds	-	465,000	50,380,000	52,855,000	50,380,000	53,320,000
Pass-through revenue & limited tax bonds	24,580,000	24,700,000	-	-	24,580,000	24,700,000
Notes payable	147,714	195,819	-	-	147,714	195,819
Totals	<u>\$ 154,087,714</u>	<u>\$ 141,845,819</u>	<u>\$ 87,140,000</u>	<u>\$ 91,855,000</u>	<u>\$ 241,227,714</u>	<u>\$ 233,700,819</u>

The City of Temple maintains an "AA" rating from Standard & Poor's for general obligation debt and revenue bonds.

The City is permitted by State law and provisions of the City Charter to levy taxes up to \$ 1.20 per \$ 100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The current ratio of tax-supported debt to assessed value of all taxable property is 4.95%.

Additional information on the City of Temple's long term debt can be found in Note III on pages 97 through 105 of this report.

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

**FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS**

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

At the end of the current fiscal year, the City of Temple's governmental funds reported combined ending fund balances of \$ 72,836,275. Approximately 38.04% of this total amount, \$ 26,031,125, constitutes assigned/unassigned fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it is nonspendable for inventory and prepaid items \$ 463,545; has already been restricted 1) to pay for debt service, \$ 724,003; 2) to pay for drug enforcement, \$ 204,399; 3) to pay for library collection enhancement and other, \$ 874,506; 4) to pay for bond-funded construction projects, \$ 41,698,442; 5) to pay for museum expenditures \$ 11,775; 6) to pay for promotion of tourism \$ 1,338,791 or 7) committed to drainage in the amount of \$ 1,489,689.

In the general fund, the City budgeted for a decrease in the fund balance of \$ 6,244,445, which was primarily resulting from transfers of \$ 1,673,702 to capital project funds, debt service fund, and to the grant fund. An additional \$ 2,795,522 was to fund capital and economic development matrix incentives. This decrease was a reduction of excess fund balance to fund "pay as you go" capital projects and economic development matrix incentives. The actual fund balance increased for fiscal year 2016 by \$ 222,515. This increase was due to a net variance with the final adopted budget of \$ 6,466,960. This net increase was comprised of the following: sales tax for the City came in \$ 524,081 over the budgeted amount, franchise fees were \$ 173,541 over budget, charges for services were \$ 622,643 under budget, licenses and permits were \$ 367,957 over budget, property taxes were \$ 6,934 over budget, interest income was \$ 76,210 over budget, sale of assets were \$ 29,805 over budget, and fines were \$ 177,599 over budget. All other revenues netted together came in under budget in an amount of \$ 346,459. In addition, total expenditures in the General Fund came in \$ 5,305,372 under budget. Expenditures coming in under budget falls in line with our budgetary philosophy of "estimating expenditures high". Hiring lag was one reason that expenditures came in under budget. Other expenditures that came in under budget were electricity, fuel, Airport cost of goods sold, and golf course. Expenditures spread across all departments accounted for \$ 1,778,816 of expenditures that came in under budget.

Debt service fund balance decreased in 2016 by \$ 235,694 for an ending balance of \$ 724,003. The decrease in the debt service fund balance was attributable to the use of fund balance for debt payments. Capital projects fund balance had a net decrease in 2016 of \$ 3,046,644 due to the issuance of bonds and expenditure of prior bond proceeds. Pass-through financing project fund balance decreased by \$ 177,418 due to the expenditure of bond proceeds issued in 2012.

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

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

Unrestricted net position of the Water and Sewer fund are \$ 33,129,804, an increase of \$ 1,936,838. The water and sewer fund unrestricted net position increase in the current fiscal year was due to increase resulted from the increase in revenues related to residential water sales and effluent water sales.

**General Fund Budgetary Highlights** – The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in an increase in budgeted expenditures from the original budget of 7.41% or \$ 5,088,609. A significant portion of the increase was due to increases in transfers out of \$ 528,513 to the capital projects fund, \$ 126,269 in transfers to the grant fund and \$ 77,650 in transfers to the bond programs.

During the year there was a \$ 4,356,177 increase in appropriations between the original operating budget and final amended budget. Following are the main components of the increase:

- \$ 1,578,350 increase in personnel services for various departments. Of this amount,
  - \$ 426,356 was re-appropriated from contingency (compensation) to the individual department personnel accounts to cover the 2% and 4% Performance Pay for all eligible employees, as well as, selected market adjustments during FY 2016.
  - \$ 738,000 was appropriated to the Police department's overtime accounts to fund outside assignments that are reimbursed by various entities.
  - \$ 115,000 supplemental funding for Fire to cover shortage in personnel services due to additional step-up pay.
  - \$ 224,500 supplemental funding in Special Services to cover the additional separation pay for General Fund employees in FY 2016.
- \$ 587,219 supplemental funding in operations to various departments within the General Fund for projects that were not completed in the previous year.
- \$ 1,711,241 supplemental funding in capital to various departments within the General Fund for projects that were not completed in the previous year.
- \$ 17,034 supplemental funding in economic development to fund additional amount needed for the FY 2016 "Operating Expense Component" and "Incentive Matrix Component" to TEDC.
- \$ 144,000 supplemental appropriation from Reinvestment Zone for the expenditures related to the Downtown Transformation Team.
- \$ 211,490 appropriation for producing the 2016 Bloomin' Temple Festival.
- \$ 32,800 appropriation of donation received from Temple Lions Club Parks and Charities for the expansion of Lions Junction Family Water Park Facility.
- \$ 54,123 appropriation for starting a third summer camp (Camp Harmony) in FY 2016.
- \$ 39,100 appropriation for the payment of a replacement housing supplement to the owner of 807 Henderson Street.
- \$ 118,613 supplemental funding for the Chapter 380 Agreement with Buc-ee's.

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

The increase in expenditure appropriations was partially possible because of additional anticipated revenues. Increases in revenues were from an increase in various charges for services to cover increases in services provided (\$ 1,275,024), increase in insurance proceeds (\$ 128,563), and an increase in other income from various sources (\$ 236,099). The remaining increases in expenditure appropriations were funded with Assigned General Fund Balance.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City's elected and appointed officials considered many factors when setting the FY 2016 budget, tax rates and fees that will be charged for the business-type activities. One of those factors is the economy. The population growth experienced by the City has stimulated local business and development activity, and the community has placed additional demands on the City to maintain or enhance services provided to our citizens. Temple's greatest economic strength is the diversified employment base. The three largest job sectors are health and medical, distribution and manufacturing. It is anticipated that future growth for the region will focus on healthcare and small businesses. The City has one of the lowest unemployment rates at 3.58% as compared to the State of Texas, which is 4.55%. The reasonable costs of living and homes priced below the national average continue to make Temple an attractive area for new business locations and re-locations. The City continues to attract new and existing companies due to the strategy of working diligently with corporations on relocation incentives.

These indicators are taken into account when adopting the General Fund budget for fiscal year 2017. The total 2016-2017 combined budget appropriation totals \$ 122,901,891 for six operating funds.

The 2016-2017 General Fund Budget of \$ 70,472,396 represents a 2.53% increase or \$ 1,742,180 from the adopted 2015-2016 budget. With regard to the FY 2016-2017 budget, the general priorities in the O&M area are as follows:

1. Serving our community;
2. Improving our infrastructure;
3. Expanding the tax base; and
4. Growing the health and bioscience industries.

These were the general priorities and parameters used in the development of the FY 2015-2016 budget. As always, the preparation of the budget must also take into consideration our ability to pay for the programs and services that were proposed.

Overall, the City Council has been presented with a budget that requires \$ 2,981,218 from fund balance to assist in the funding of \$ 2,359,218 in capital outlay, \$ 522,000 for TEDC Matrix allocation, and \$ 100,000 for Strategic Investment Corridor (SIZ) to be funded with Assigned Fund Balance – Capital Projects. The budget assesses a tax rate of \$ 0.6572 per \$ 100 valuation, and increase of \$ 0.0274 compared to last year's actual rate of \$ 0.6298 per \$ 100.

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

The budget recognizes increases in sales tax, solid waste charges for services, culture & recreation charges for services, and licenses and permits.

The General Fund's largest revenue source in FY 2015-2016 is charges for services. For the fiscal year ending 2014-2015, the General Fund's largest revenue source was also charges for services.

As a cost of service for the Enterprise Fund, Water & Wastewater rates must be sufficiently set to pay the total operations and maintenance, debt and depreciation, and meet bond covenant coverage requirements. During FY 2012, staff engaged the services of a consultant to develop a five-year cost of service study. One of the key elements of the study was to develop the revenue requirement for a five-year capital improvement program to construction, replace or rehab numerous components in the City of Temple distribution and collection systems, address additional staffing needs for the operations and maintenance of the water treatment plant, and other operations and maintenance cost of the system.

Multiple scenarios were considered. The rate proposal chosen includes all of the rate adjustment in FY 2013 which achieves the lowest rate at the end of the five-year period. The rate schedule adjusts the minimum bill by meter size in proportion to the ability of the meter to demand water from the system. There are no additional rate increases reflected in the FY 2016 and FY 2017 budget.

Over the past years, the City has faced demands from Federal/State regulators to develop a more aggressive schedule of system improvements. Combined with the demands from regulatory agencies and the line relocations associated with TxDOT projects, the City has developed a revised Capital Improvement Program.

The water and wastewater rate structure implemented in FY 2013 meets the estimated revenue requirement through FY 2017. An updated water and wastewater rate structure is currently underway to set the rates for FY 2018 through FY 2022. The FY 2017 budget of \$ 34,029,828, an increase of 1.68% compared with the prior year. Cost drivers for this increase include cash capital outlays and debt service associated with the water and sewer capital improvement plan. The capital improvements include the allocation of \$ 35,000,000 to continue the long-term replacement program of water and sewer infrastructure and equipment needs. The table below reflects the capital improvement plan over the next year.

	<b>2015/2016</b>	<b>2017</b>	<b>Total</b>
Water	\$ 16,784,195	\$ 11,300,000	\$ 28,084,195
Wastewater	9,715,805	23,700,000	33,415,805
<b>Total</b>	<b>\$ 26,500,000</b>	<b>\$ 35,000,000</b>	<b>\$ 61,500,000</b>

**CITY OF TEMPLE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**September 30, 2016**

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Director of Finance, at City of Temple, 2 North Main, Suite 302, Temple, TX 76501.



## **Basic Financial Statements**

**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF NET POSITION**  
**September 30, 2016**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Reinvestment Zone No. 1	Temple Economic Development Corporation
<b>ASSETS</b>					
Cash	\$ 10,300	\$ 4,687	\$ 14,987	\$ -	\$ 2,379,447
Investments	77,681,183	31,261,359	108,942,542	20,329,562	-
Property taxes, net of allowance for uncollectibles	431,909	-	431,909	74,178	-
Receivables, net of allowance for uncollectibles	3,216,211	1,762,887	4,979,098	55,722	186,753
Due from other governments	12,216,944	-	12,216,944	-	-
Inventories	312,035	352,634	664,669	-	-
Prepays	151,510	208,089	359,599	-	-
Other assets	18,561	-	18,561	-	-
Restricted assets:					
Permanently restricted:					
Cash and investments	704,450	20,788,214	21,492,664	8,620,941	2,794,260
Land held for investment	-	-	-	-	4,553,709
Capital assets not being depreciated:					
Land	20,308,327	2,153,038	22,461,365	12,001,956	-
Construction in progress	19,047,378	15,895,973	34,943,351	12,962,025	72,788
Capital assets, net of accumulated depreciation:					
Buildings	43,381,654	19,664,609	63,046,263	528,836	353,816
Infrastructure	62,964,860	107,296,056	170,260,916	48,723,646	-
Furniture and equipment	7,058,447	214,165	7,272,612	-	32,444
Machinery and equipment	11,834,344	2,920,590	14,754,934	17,498	-
Total assets	<u>259,338,113</u>	<u>202,522,301</u>	<u>461,860,414</u>	<u>103,314,364</u>	<u>10,373,217</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred amounts on refunding	3,426,576	2,740,548	6,167,124	246,500	-
Deferred amounts of contributions	4,510,638	422,517	4,933,155	-	-
Deferred amount of investment experience, net	11,730,763	1,031,732	12,762,495	-	-
Total deferred outflows of resources	<u>19,667,977</u>	<u>4,194,797</u>	<u>23,862,774</u>	<u>246,500</u>	<u>-</u>
<b>LIABILITIES</b>					
Vouchers and contracts payable	4,387,675	1,658,920	6,046,595	1,034,676	230,110
Retainage payable	958,654	366,163	1,324,817	132,899	-
Accrued payroll	1,368,254	122,424	1,490,678	-	-
Deposits	109,798	711,585	821,383	-	-
Unearned revenues	2,310,899	70,641	2,381,540	-	-
Accrued interest payable	950,780	569,690	1,520,470	285,935	-
Noncurrent liabilities:					
Due within one year	10,534,109	5,157,224	15,691,333	4,108,555	61,012
Due in more than one year	210,164,618	92,091,925	302,256,543	41,245,610	98,505
Total liabilities	<u>230,784,787</u>	<u>100,748,572</u>	<u>331,533,359</u>	<u>46,807,675</u>	<u>389,627</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred amounts on expected and actual experience, net	530,159	75,828	605,987	-	-
Total deferred inflows of resources	<u>530,159</u>	<u>75,828</u>	<u>605,987</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>					
Net investment in capital assets	43,934,442	71,123,596	115,058,038	37,433,804	459,048
Restricted for:					
Debt service	724,003	1,639,298	2,363,301	-	-
Economic development incentives	-	-	-	-	2,612,376
Unrestricted	3,032,699	33,129,804	36,162,503	19,319,385	6,912,166
Total net position	<u>\$ 47,691,144</u>	<u>\$ 105,892,698</u>	<u>\$ 153,583,842</u>	<u>\$ 56,753,189</u>	<u>\$ 9,983,590</u>

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

**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**For the year ended September 30, 2016**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Reinvestment Zone No. 1	Temple EDC
<b>Primary government:</b>									
Governmental activities:									
General government	\$ 15,656,749	\$ 4,189,072	\$ 34,126	\$ -	\$ (11,433,551)	\$ -	\$ (11,433,551)	\$ -	\$ -
Public safety	33,628,711	4,778,461	132,622	-	(28,717,628)	-	(28,717,628)	-	-
Highways and streets	7,273,731	1,425,168	8,352	685,038	(5,155,173)	-	(5,155,173)	-	-
Sanitation	6,455,973	11,764,582	-	135,975	5,444,584	-	5,444,584	-	-
Health and welfare	149,961	-	83,828	28,573	(37,560)	-	(37,560)	-	-
Culture and leisure services	13,589,344	4,025,396	144,666	-	(9,419,282)	-	(9,419,282)	-	-
Airport	3,500,076	2,174,080	49,960	50,000	(1,226,036)	-	(1,226,036)	-	-
Interest on long-term debt	5,351,692	-	-	-	(5,351,692)	-	(5,351,692)	-	-
Total governmental activities	85,606,237	28,356,759	453,554	899,586	(55,896,338)	-	(55,896,338)	-	-
Business-type activities:									
Water and sewer	28,649,118	31,720,917	-	134,570	-	3,206,369	3,206,369	-	-
Total business-type activities	28,649,118	31,720,917	-	134,570	-	3,206,369	3,206,369	-	-
Total primary government	\$ 114,255,355	\$ 60,077,676	\$ 453,554	\$ 1,034,156	(55,896,338)	3,206,369	(52,689,969)	-	-
<b>Component units:</b>									
Reinvestment Zone No. 1	\$ 5,280,311	\$ 78,277	\$ -	\$ -	-	-	-	(5,202,034)	-
Temple Economic Development Corporation	1,865,079	-	2,361,837	-	-	-	-	-	496,758
Total component units	\$ 7,145,390	\$ 78,277	\$ 2,361,837	\$ -	-	-	-	(5,202,034)	496,758
General Revenues:									
Property taxes					23,231,944	-	23,231,944	23,495,743	-
Sales taxes					20,859,081	-	20,859,081	-	-
Franchise fees					6,712,490	-	6,712,490	-	-
Mixed beverage taxes					148,247	-	148,247	-	-
Hotel/Motel taxes					1,473,592	-	1,473,592	-	-
Other taxes					62,915	-	62,915	-	-
Investment income					398,306	689,095	1,087,401	113,767	6,694
Miscellaneous income					1,598,627	-	1,598,627	743,456	-
Total general revenues					54,485,202	689,095	55,174,297	24,352,966	6,694
Change in net position					(1,411,136)	3,895,464	2,484,328	19,150,932	503,452
Net position-beginning, as restated					49,102,280	101,997,234	151,099,514	37,602,257	9,480,138
Net position-ending					\$ 47,691,144	\$ 105,892,698	\$ 153,583,842	\$ 56,753,189	\$ 9,983,590

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

**CITY OF TEMPLE, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**September 30, 2016**

	General	Debt Service	Capital Projects	Pass-Through Financing Project	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash	\$ 5,700	\$ -	\$ -	\$ -	\$ 4,600	\$ 10,300
Investments	30,257,390	713,187	42,541,447	1,322,101	2,847,058	77,681,183
Property taxes, net	212,012	219,897	-	-	-	431,909
Other receivables, net	2,974,059	-	-	-	242,152	3,216,211
Due from other funds	275,398	-	-	-	-	275,398
Due from other governments	84,509	11,732,169	-	-	400,266	12,216,944
Inventories, at cost	298,160	-	-	-	13,875	312,035
Prepaid items	143,581	-	-	-	7,929	151,510
Restricted cash and investments	704,450	-	-	-	-	704,450
Museum collection	-	-	-	-	18,561	18,561
Total assets	<u>\$ 34,955,259</u>	<u>\$ 12,665,253</u>	<u>\$ 42,541,447</u>	<u>\$ 1,322,101</u>	<u>\$ 3,534,441</u>	<u>\$ 95,018,501</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Vouchers and contracts payable	\$ 2,939,659	\$ 384	\$ 1,210,962	\$ -	\$ 236,670	\$ 4,387,675
Retainage payable	4,986	-	552,330	398,173	3,165	958,654
Accrued payroll	1,318,957	-	3,641	-	45,656	1,368,254
Vacation and sick leave payable	614,186	-	-	-	32,070	646,256
Deposits and refundable contracts	47,351	-	-	-	62,447	109,798
Due to other funds	-	-	-	-	275,398	275,398
Unearned revenues	2,478,349	11,940,866	-	-	16,976	14,436,191
Total liabilities	<u>7,403,488</u>	<u>11,941,250</u>	<u>1,766,933</u>	<u>398,173</u>	<u>672,382</u>	<u>22,182,226</u>
Fund Balances:						
Nonspendable:						
Inventories and prepaid items	441,741	-	-	-	21,804	463,545
Restricted for:						
Debt service	-	724,003	-	-	-	724,003
Drug enforcement	204,399	-	-	-	-	204,399
Library and other	874,506	-	-	-	-	874,506
Construction	-	-	40,774,514	923,928	-	41,698,442
Museum	-	-	-	-	11,775	11,775
Promotion of tourism	-	-	-	-	1,338,791	1,338,791
Committed to:						
Drainage	-	-	-	-	1,489,689	1,489,689
Assigned to:						
Capital technology acquisition-General Fund	379,099	-	-	-	-	379,099
Capital projects-General Fund	5,061,813	-	-	-	-	5,061,813
Purchases on order	1,429,303	-	-	-	-	1,429,303
Unassigned	19,160,910	-	-	-	-	19,160,910
Total fund balances	<u>27,551,771</u>	<u>724,003</u>	<u>40,774,514</u>	<u>923,928</u>	<u>2,862,059</u>	<u>72,836,275</u>
Total liabilities and fund balances	<u>\$ 34,955,259</u>	<u>\$ 12,665,253</u>	<u>\$ 42,541,447</u>	<u>\$ 1,322,101</u>	<u>\$ 3,534,441</u>	<u>\$ 95,018,501</u>

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

**CITY OF TEMPLE, TEXAS**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2016**

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Total fund balances-governmental funds \$ 72,836,275

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. These assets consist of:

Land	\$ 20,308,327	
Construction in progress	19,047,378	
Buildings	78,236,650	
Infrastructure	151,435,790	
Furniture and equipment	25,173,007	
Machinery and equipment	33,874,928	
Accumulated depreciation	(163,481,070)	
Total capital assets	<u>\$ 164,595,010</u>	164,595,010

Deferred outflows of resources represent the consumption of net position that applies to future periods and will not be recognized as an expense until then:

Deferred amounts on refunding	3,426,576
Deferred amounts of contributions	4,510,638
Deferred amounts of investment experience	11,730,763

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end. On the accrual basis, however, those revenues would be recognized of when they are collected.

Maintenance & operations taxes not collected	\$ 184,426	
Interest & sinking fund taxes not collected	208,697	
Pass-through toll agreement	11,732,169	
Total deferred revenue reclassified	<u>\$ 12,125,292</u>	12,125,292

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the governmental funds balance sheet. (950,780)

Some long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Due within one year	\$ 9,887,853	
Long-term debt, including premium/discount	210,164,618	
Total long-term liabilities	<u>\$ 220,052,471</u>	(220,052,471)

Deferred inflow of resources represent an acquisition of net position that applies to future periods and so will not be recognized as revenue until then:

Deferred amounts on expected and actual experience	<u>(530,159)</u>
--	------------------

Net position of governmental activities \$ 47,691,144

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

**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the year ended September 30, 2016**

	General	Debt Service	Capital Projects	Pass-Through Financing Project	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 33,989,898	\$ 10,336,786	\$ -	\$ -	\$ 1,473,592	\$ 45,800,276
Franchise fees	6,712,490	-	-	-	-	6,712,490
Licenses and permits	961,527	-	-	-	-	961,527
Intergovernmental	112,862	1,339,427	-	-	711,241	2,163,530
Drainage fees	-	-	-	-	1,157,851	1,157,851
Charges for services	23,183,784	-	-	-	523,522	23,707,306
Fines	2,173,835	-	-	-	-	2,173,835
Interest and other	1,519,927	154,981	180,514	3,604	223,496	2,082,522
Total revenues	<u>68,654,323</u>	<u>11,831,194</u>	<u>180,514</u>	<u>3,604</u>	<u>4,089,702</u>	<u>84,759,337</u>
Expenditures:						
Current:						
General government	14,605,188	-	647,192	-	34,127	15,286,507
Public safety	30,639,068	-	1,951,625	-	89,492	32,680,185
Highways and streets	3,244,888	-	16,897,387	181,022	2,083,920	22,407,217
Sanitation	5,869,985	-	1,404,119	-	105,975	7,380,079
Health and welfare	-	-	-	-	83,828	83,828
Culture and leisure services	10,178,215	-	5,816,208	-	2,140,784	18,135,207
Airport	2,247,236	-	-	-	99,960	2,347,196
Debt service:						
Principal retirement	48,106	7,625,000	-	-	-	7,673,106
Interest and fiscal charges	7,065	5,475,502	115,707	-	-	5,598,274
Total expenditures	<u>66,839,751</u>	<u>13,100,502</u>	<u>26,832,238</u>	<u>181,022</u>	<u>4,638,086</u>	<u>111,591,599</u>
Excess (deficiency) of revenues over expenditures	<u>1,814,572</u>	<u>(1,269,308)</u>	<u>(26,651,724)</u>	<u>(177,418)</u>	<u>(548,384)</u>	<u>(26,832,262)</u>
Other financing sources (uses):						
Transfers in	-	941,270	578,073	-	91,914	1,611,257
Transfers out	(1,592,057)	-	(19,200)	-	-	(1,611,257)
Issuance of loans and bonds	-	-	20,235,000	-	-	20,235,000
Refunding bonds issued	-	9,500,000	-	-	-	9,500,000
Discount on bond issuance	-	(58,705)	(117,533)	-	-	(176,238)
Original issue premium	-	1,229,850	2,928,740	-	-	4,158,590
Payment to refunded bond escrow agent	-	(10,578,801)	-	-	-	(10,578,801)
Total other financing sources (uses)	<u>(1,592,057)</u>	<u>1,033,614</u>	<u>23,605,080</u>	<u>-</u>	<u>91,914</u>	<u>23,138,551</u>
Net change in fund balances	222,515	(235,694)	(3,046,644)	(177,418)	(456,470)	(3,693,711)
Fund balances, beginning of year	27,329,256	959,697	43,821,158	1,101,346	3,318,529	76,529,986
Fund balances, end of year	<u>\$ 27,551,771</u>	<u>\$ 724,003</u>	<u>\$ 40,774,514</u>	<u>\$ 923,928</u>	<u>\$ 2,862,059</u>	<u>\$ 72,836,275</u>

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

**CITY OF TEMPLE, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the year ended September 30, 2016**

Net change in fund balances-total governmental funds \$ (3,693,711)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures	\$ 31,519,203	
Depreciation expense	(10,170,242)	
Net adjustment	<u>\$ 21,348,961</u>	21,348,961

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, disposals and donations) is to increase net position. (264,584)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment is to recognize the net change in "unavailable" revenues. Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance the expenditures of the current period; accrual- basis recognition is not limited to availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year. (305,327)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of general obligation bonds	\$ (29,735,000)	
Discount/(premium) on issuance	(3,982,352)	
To bondholders	7,633,105	
Payment to escrow agent for refunding	9,860,000	
Increase in deferred amount on refunding	758,801	
Amortization of bond premiums/discounts	880,405	
Amortization of bond refunding amounts	(336,690)	
Net adjustment	<u>\$ (14,921,731)</u>	(14,921,731)

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

Increase in compensated absences liability	\$ (412,947)	
Increase in other post-employment benefits liability	(145,553)	
Total adjustment	<u>\$ (558,500)</u>	(558,500)

Governmental funds report contributions to the pension plan as expenditures. However, in the Statement of Activities, pension expense is determined by an actuary as of the measurement period.

Increase in net pension liability	\$ (13,527,930)	
Deferred experience losses, net	10,050,590	
Decrease in deferred assumption gains	742,559	
Increase in deferred pension contributions	15,670	
	<u>\$ (2,719,111)</u>	(2,719,111)

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. This amount is the change in accrued interest. (297,133)

Change in net position of governmental activities \$ (1,411,136)

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





**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the year ended September 30, 2016**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
<b>Revenues:</b>				
Taxes	\$ 33,467,720	\$ 33,467,720	\$ 33,989,898	\$ 522,178
Franchise fees	6,538,949	6,538,949	6,712,490	173,541
Licenses and permits	593,570	593,570	961,527	367,957
Intergovernmental	98,340	88,602	112,862	24,260
Charges for services	22,531,403	23,806,427	23,183,784	(622,643)
Fines	1,950,813	1,996,236	2,173,835	177,599
Interest and other	753,899	1,082,876	1,519,927	437,051
Total revenues	65,934,694	67,574,380	68,654,323	1,079,943
<b>Expenditures:</b>				
Current:				
General government:				
City council	209,179	209,210	138,860	70,350
City manager	948,838	1,036,320	754,204	282,116
Assistant city manager	235,485	253,072	241,983	11,089
General services	274,047	308,158	246,856	61,302
Finance	1,464,071	1,496,898	1,450,413	46,485
Purchasing	377,868	385,850	363,070	22,780
City secretary	413,271	464,056	374,706	89,350
Special services	1,297,580	1,438,045	1,186,220	251,825
Legal	803,105	826,389	815,132	11,257
City planning	631,883	648,954	565,655	83,299
Information technology services	2,582,632	2,945,094	2,709,799	235,295
Human resources	837,535	870,690	750,616	120,074
Economic development	2,158,461	2,284,300	2,263,800	20,500
Fleet services	1,103,300	1,164,022	1,012,353	151,669
Inspections	464,890	486,296	480,504	5,792
Facility services	1,395,174	1,559,244	1,251,017	308,227
Total general government	15,197,319	16,376,598	14,605,188	1,771,410
Public safety:				
Municipal court	721,161	753,683	710,570	43,113
Police	15,888,031	17,106,208	16,504,807	601,401
Animal control	476,309	502,596	444,655	57,941
Fire	11,532,611	11,699,230	11,532,123	167,107
Communications	843,748	843,748	843,748	-
Code Enforcement	582,041	676,597	603,165	73,432
Total public safety	30,043,901	31,582,062	30,639,068	942,994
Highways and streets:				
Street	2,679,050	2,693,915	2,319,773	374,142
Traffic signals	407,302	471,938	433,117	38,821
Engineering	561,186	570,777	491,998	78,779
Totals highways and streets	3,647,538	3,736,630	3,244,888	491,742
Sanitation:	5,418,447	6,029,753	5,869,985	159,768
Parks & Recreation:				
Parks	3,436,705	3,870,422	3,351,251	519,171
Recreation	3,299,015	3,757,059	3,441,385	315,674
Administration	538,547	546,807	534,294	12,513
Golf course	1,383,552	1,448,825	1,206,038	242,787
Education	1,697,680	1,746,505	1,645,247	101,258
Total parks & recreation	10,355,499	11,369,618	10,178,215	1,191,403
Airport:	3,071,071	2,995,291	2,247,236	748,055
Debt service:				
Principal	48,106	48,106	48,106	-
Interest	7,065	7,065	7,065	-
Total debt service	55,171	55,171	55,171	-
Total expenditures	67,788,946	72,145,123	66,839,751	5,305,372
Excess (deficiency) of revenues over expenditures	(1,854,252)	(4,570,743)	1,814,572	6,385,315
<b>Other financing sources (uses):</b>				
Transfers out	(941,270)	(1,673,702)	(1,592,057)	81,645
Total other financing sources (uses)	(941,270)	(1,673,702)	(1,592,057)	81,645
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(2,795,522)	(6,244,445)	222,515	6,466,960
Fund balance, beginning of period	27,329,256	27,329,256	27,329,256	-
Fund balance, end of period	\$ 24,533,734	\$ 21,084,811	\$ 27,551,771	\$ 6,466,960

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



**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**PASS-THROUGH FINANCING PROJECT FUND**  
**For the year ended September 30, 2016**

	<b>Budgeted Amounts</b>			<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
Revenues:				
Interest and other	\$ -	\$ -	\$ 3,604	\$ 3,604
Total revenues	-	-	3,604	3,604
Expenditures:				
Highways and streets:	1,100,857	1,100,857	181,022	919,835
Total expenditures	1,100,857	1,100,857	181,022	919,835
Excess (deficiency) of revenues over expenditures	(1,100,857)	(1,100,857)	(177,418)	923,439
Fund balance, beginning of year	1,101,346	1,101,346	1,101,346	-
Fund balance, end of year	\$ 489	\$ 489	\$ 923,928	\$ 923,439

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

**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF FUND NET POSITION**  
**PROPRIETARY FUND**  
**September 30, 2016**  
**(With comparative amounts for September 30, 2015)**

<b>Business-type Activities-Enterprise Fund</b>		
	<b>Water and Sewer</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 4,687	\$ 5,820
Investments	31,261,359	29,856,070
Restricted cash and investments:		
Revenue bond debt service	1,639,298	1,334,468
Customer deposits	711,585	673,924
Construction account	18,437,331	27,158,021
Customer receivables	1,406,210	1,643,184
Accounts receivable	356,677	323,812
Inventories	352,634	308,986
Prepaid items	208,089	197,930
Total current assets	<u>54,377,870</u>	<u>61,502,215</u>
Noncurrent assets:		
Capital assets:		
Land	2,153,038	1,940,240
Buildings	47,926,285	47,894,344
Improvements other than buildings	180,023,798	168,418,379
Machinery, furniture, and equipment	9,662,695	9,521,016
	<u>239,765,816</u>	<u>227,773,979</u>
Less accumulated depreciation	(107,517,358)	(101,268,561)
Construction in progress	15,895,973	15,334,058
Total capital assets (net of accumulated depreciation)	<u>148,144,431</u>	<u>141,839,476</u>
Total noncurrent assets	<u>148,144,431</u>	<u>141,839,476</u>
Total assets	<u>202,522,301</u>	<u>203,341,691</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amounts on refunding	2,740,548	3,061,405
Deferred amounts of contributions	422,517	430,622
Deferred amounts of investment experience, net	1,031,732	165,726
Total outflows of resources	<u>4,194,797</u>	<u>3,657,753</u>

**Business-type Activities-Enterprise Fund**

	<b>Water and Sewer</b>	
	<b>2016</b>	<b>2015</b>
<b>LIABILITIES</b>		
Current liabilities:		
Vouchers and contracts payable	\$ 1,658,920	\$ 2,117,976
Retainage payables	366,163	213,954
Accrued payroll	122,424	96,201
Unearned revenues	70,641	70,641
Customer deposits	711,585	673,924
Accrued interest - revenue bonds	569,690	393,262
Current maturities of long-term liabilities	<u>5,157,224</u>	<u>5,226,974</u>
Total current liabilities	<u>8,656,647</u>	<u>8,792,932</u>
Noncurrent liabilities:		
Revenue bonds payable	87,183,453	92,292,424
Compensated absences payable	353,853	388,688
Other postemployment benefits payable	677,293	619,388
Net pension liability	<u>3,877,326</u>	<u>2,735,225</u>
Total noncurrent liabilities	<u>92,091,925</u>	<u>96,035,725</u>
Total liabilities	<u>100,748,572</u>	<u>104,828,657</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred amounts on expected and actual experience, net	<u>75,828</u>	<u>173,553</u>
Total inflows of resources	<u>75,828</u>	<u>173,553</u>
<b>NET POSITION</b>		
Net investment in capital assets	71,123,596	69,469,800
Restricted for:		
Debt service	1,639,298	1,334,468
Unrestricted	<u>33,129,804</u>	<u>31,192,966</u>
Total net position	<u>\$ 105,892,698</u>	<u>\$ 101,997,234</u>

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



**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**

**For the year ended September 30, 2016**

**(With comparative amounts for the year ended September 30, 2015)**

<b>Business-type Activities-Enterprise Fund</b>		
	<b>Water and Sewer</b>	
	<b>2016</b>	<b>2015</b>
Operating revenues:		
Charges for sales and services:		
Water service	\$ 17,827,215	\$ 16,998,755
Sewer service	11,875,697	11,245,340
Other	2,018,005	2,131,716
Total operating revenues	<u>31,720,917</u>	<u>30,375,811</u>
Operating expenses:		
Personnel services	4,785,592	4,405,792
Supplies	1,542,173	1,454,823
Repairs and maintenance	994,685	1,136,329
Depreciation	6,398,506	6,065,845
Other services and charges	11,798,139	11,127,914
Total operating expenses	<u>25,519,095</u>	<u>24,190,703</u>
Operating income	<u>6,201,822</u>	<u>6,185,108</u>
Nonoperating revenues (expenses):		
Interest income	689,095	353,240
Interest expense	(3,130,023)	(1,890,569)
Total nonoperating revenues (expenses)	<u>(2,440,928)</u>	<u>(1,537,329)</u>
Income before transfers and contributions	3,760,894	4,647,779
Contributions-TxDot	79,758	381,295
Contributed Capital	54,812	-
Transfer in-Health Insurance Fund	<u>-</u>	<u>2,267</u>
Change in net position	3,895,464	5,031,341
Total net position - beginning	<u>101,997,234</u>	<u>96,965,893</u>
Total net position - ending	<u><u>\$105,892,698</u></u>	<u><u>\$101,997,234</u></u>

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

**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND**

**For the year ended September 30, 2016**

**(With comparative amounts for the year ended September 30, 2015)**

<b>Business-type Activities-Enterprise Fund</b>		
	<b>Water and Sewer</b>	
	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Cash received from customers	\$ 31,995,552	\$ 30,166,702
Cash paid to suppliers	(9,585,906)	(9,047,712)
Cash paid to employees	(4,765,584)	(4,521,005)
Cash paid to other funds for administration, franchise fees and data processing	<u>(5,294,819)</u>	<u>(5,225,284)</u>
Net cash provided by operating activities	12,349,243	11,372,701
Cash flows from noncapital financing activities:		
Transfers from other funds	<u>-</u>	<u>2,267</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>2,267</u>
Cash flows from capital and related financing activities:		
Capital expenses	(12,327,016)	(13,567,899)
Capital contributions	54,812	-
Interest paid on debt	(3,090,706)	(2,014,843)
Debt principal payments	(4,715,000)	(3,450,000)
Proceeds from other governmental entities	65,529	130,190
Proceeds from debt issuance	<u>-</u>	<u>26,896,684</u>
Net cash provided (used) by capital and related financing activities	(20,012,381)	7,994,132
Cash flows from investing activities:		
Interest received on investments	<u>689,095</u>	<u>353,240</u>
Net cash provided by investing activities	<u>689,095</u>	<u>353,240</u>
Net change in cash and cash equivalents	(6,974,043)	19,722,340
Cash and cash equivalents, beginning of year	<u>59,028,303</u>	<u>39,305,963</u>
Cash and cash equivalents, end of year	<u><u>\$ 52,054,260</u></u>	<u><u>\$ 59,028,303</u></u>

(Continued)



**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND**

(Continued)

For the year ended September 30, 2016

(With comparative amounts for the year ended September 30, 2015)

<b>Business-type Activities-Enterprise Fund</b>		
	<b>Water and Sewer</b>	
	<b>2016</b>	<b>2015</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,201,822	\$ 6,185,108
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,398,506	6,065,845
Change in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Change in accounts receivable	204,109	208,950
Change in inventory	(43,648)	17,341
Change in prepaids	(10,159)	(4,965)
Change in vouchers payable	(459,056)	(1,012,140)
Change in accrued liabilities	26,223	(119,596)
Change in opeb liability	57,905	69,856
Change in net pension liability	(29,285)	(106,409)
Change in customer deposits	37,661	27,775
Change in accrued vacation and sick leave	(34,835)	40,936
Total adjustments	6,147,421	5,187,593
Net cash provided by operating activities	<u>\$ 12,349,243</u>	<u>\$ 11,372,701</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS FROM STATEMENT OF CASH FLOWS TO STATEMENT OF NET POSITION</b>		
Cash	\$ 4,687	\$ 5,820
Investments	31,261,359	29,856,070
Restricted assets - debt service, and bond proceeds:		
Cash and investments	20,788,214	29,166,413
Total cash and cash equivalents	<u>\$ 52,054,260</u>	<u>\$ 59,028,303</u>

During the fiscal years ended September 30, 2016, and 2015, the estimated value of water and sewer infrastructure contributed by developers was \$ 0 and \$ 0, respectively.

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



**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUND**  
**September 30, 2016**

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	<b>City of Temple Employee Benefits Trust</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 453,721
Total assets	<u>453,721</u>
<b>LIABILITIES</b>	
Vouchers payable	<u>453,721</u>
Total liabilities	<u>453,721</u>
<b>NET POSITION</b>	
Held in trust for benefits and other purposes	<u><u>\$ -</u></u>

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

**CITY OF TEMPLE, TEXAS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUND**  
**For the year ended September 30, 2016**

	<u>City of Temple Employee Benefits Trust</u>
<b>Additions:</b>	
Contributions:	
Employer	\$ 3,224,514
Employee	1,632,528
Retiree	539,486
Total contributions	<u>5,396,528</u>
Total additions	<u>5,396,528</u>
 <b>Deductions:</b>	
Benefits	<u>5,396,528</u>
Total deductions	<u>5,396,528</u>
 Change in net position	-
 Net position held in trust for benefits and other purposes	
Beginning of year	-
End of year	<u>\$ -</u>

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

CITY OF TEMPLE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING MODEL AND ENTITY

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

**Management's Discussion and Analysis** - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of a "management's discussion and analysis" (MD&A). This analysis is similar to the analysis the private sector provides in their annual reports.

**Government-Wide Financial Statements** - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities, business-type activities and activities of its discretely presented component units on the statement of net position and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Obligations Account Group (such as building and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure. In addition to the government-wide financial statements, the City has prepared governmental fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the City's General Fund, Capital Projects Fund, Pass-Through Financing Project Fund, and Debt Service Fund, the City's major governmental funds are similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by GASB Statement No. 34.

**Statement of Net Position** - The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of the government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. FINANCIAL REPORTING MODEL AND ENTITY (Continued)**

**Statement of Activities** - The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

**Financial Reporting Entity**

The City of Temple, Texas (the "City"), a home-rule municipal corporation organized and existing under the provisions of the Constitution of the State of Texas, adopted its first charter March 27, 1907. The City operates under a council-manager form of government and, as authorized by its charter, provides the following services: economic development; education; police, fire and other public safety; highways, streets and engineering; sanitation; health and welfare; parks, recreation and civic center; library; and airport facilities.

In evaluating the City's financial reporting entity, management has considered all potential component units. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth in GASB Statement No. 14. The following legally separate entities are noted as discretely presented component units of the City in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government. Discretely presented component units are entities that are legally separate from the City, but for which the City is financially accountable or whose relationship with the City are such that exclusion would be misleading or incomplete.

**Discretely Presented Component Units**

**The Reinvestment Zone No. 1 (Zone)** was established during 1982 to provide funds for development and improvement projects within the Zone. The receipt of property taxes from taxing units with property within the boundaries of the Zone provides the funding for projects. The Zone has been included in the reporting entity as a non-major discretely presented component unit of the City because the City appoints a voting majority of the board, approves the budget, and maintains the ability to impose its will on the board.

The Zone is audited as part of the City of Temple; however, separately issued unaudited financial statements are available through the City of Temple Finance Department, 2 North Main, Suite 302, Temple, Texas 76501.

**Temple Economic Development Corporation (TEDC)** is a legally separate entity from the City. TEDC was created for the purpose of promoting economic development within the City of Temple. The Board of Directors consist of fifteen voting members appointed by the City, acting through its City Council. The Mayor and one other council member periodically designated by resolution of the City Council, the City Manager, and the Chairman of the Board of Directors for the City of Temple Reinvestment Zone No. 1 are voting members of the Board. Of the remaining eleven positions on the TEDC Board (the "Public Directors"), the City Council appoints four voting members from the membership of Board of Directors of the Temple Chamber of Commerce, and four voting members from the membership of the Board of Directors of Temple Industrial Foundation. The remaining three Public Directors are chosen by the City Council from the public at large. The Bell County Judge, the

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. FINANCIAL REPORTING MODEL AND ENTITY (Continued)**

**Discretely Presented Component Units (Continued)**

**Temple Economic Development Corporation (TEDC) (Continued)**

President of Temple College, and the Superintendents of the Temple and Belton Independent School Districts are ex officio (non-voting) members of the Board of Directors with the right to have notice of, to attend, and to speak at all meetings of the TEDC Board of Directors. TEDC has been included in the reporting entity as a non-major discretely presented component unit of the City because the City appoints a voting majority of the board, provides 100% of funding for the board and maintains the ability to impose its will on the board.

Separately issued audited financial statements are available from TEDC, 2 North 5th Street, Temple, Texas 76501.

**Related Organizations**

The Mayor appoints the governing board of the Temple Housing Authority, but cannot remove members or appoint the director, and the Council exercises no control over the governing board. The Authority's operating and capital expenditures, including debt service, are financed entirely from federal grants and rentals, and the City has no involvement in the determination of the Authority's budget and rental rates or any obligation for the Authority's outstanding debt. The Temple Independent School District and Temple College have their own elected officials and governing board. They are not responsible to the elected officials of the City of Temple and the City is not responsible for their financial matters. The City has no financial accountability for any of these three entities. Accordingly, these entities are excluded from the accompanying financial statements.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Temple's nonfiduciary activities of the primary government and its component units with most of the interfund activities removed. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer and solid waste 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. *Governmental activities*, which 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 services.

Likewise, the primary government is reported separately from component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)**

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate fund based financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. An emphasis is placed on major funds within the governmental and proprietary categories. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The major governmental funds are the general fund, the debt service fund, the capital projects fund and the pass-through financing project fund. The nonmajor funds are combined in a separate column in the fund financial statements.

The internal service fund, which provides services to the other funds of the government, is presented as part of the proprietary fund financial statements. Because the principal users are the City's governmental activities, financial statements of the internal service fund are consolidated into the governmental column when presented at the government-wide level. The costs of these services are reflected in the appropriate functional activity (general government, public safety, highways and streets, etc.).

The City's fiduciary fund is presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, this fund is not incorporated into the government-wide statements.

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

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

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



**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)**

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. FUND ACCOUNTING**

The government reports the following major governmental funds:

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

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). Capital projects are funded primarily by general obligation bonds and certificates of obligation.

The *pass-through financing project fund* is used to account for financial resources to be used for the construction of the Northwest Loop 363 project. This project is substantially funded with funds from the Texas Department of Transportation.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. FUND ACCOUNTING (Continued)**

The government reports the following major proprietary fund:

The *water and sewer fund* accounts for the water and sewer services provided to residents of the City.

Additionally, the City reports the following fund types:

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue, other than major capital projects and major special revenue funds that are legally restricted to expenditures for specified purposes. These funds consist of the Hotel/Motel Fund, Federal/State Grant Fund, and Drainage Fund.

Fiduciary Funds:

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City accounts for one fiduciary fund. The trust fund is the City of Temple Employee Benefits Trust which accounts for the activities of the trust to provide City officers, employees, and qualified retirees and their dependents with life, disability, sickness, accident and other health benefits through the purchase of insurance.

***Reconciliation of Government-Wide and Fund Financial Statements***

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position for governmental activities as shown on the government-wide statement of net position is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the difference between net changes in fund balances as reflected on the governmental funds statement of revenues, expenditures, and changes in fund balances and change in net position for governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balance. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

**1. Deposits and Investments**

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

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the Statement of Net Position as "Investments". Income from the cash and investment pool is allocated to the various funds in accordance with the ratio of the funds' investment. In addition, investments are separately held by several of the City's funds.

Investments are stated at fair value or amortized cost in accordance with GASB Statement No. 31. Money market investments, including U. S. Treasury and agency obligations that have a remaining maturity at the time of purchase of one year or less are stated at amortized cost. Methods used to determine fair value are as follows: securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value. Security transactions and any resulting gains or losses are accounted for by the specific identification method. The investment policies of the City are governed by State Statute and an adopted City Investment Policy. Major provisions of the City's investment policy include: responsibility for investments, authorized investments, bank and security dealer selection and qualifying procedures, safekeeping and custodial procedures, statement of investment objectives and investment reporting procedures. This policy permits investment in U. S. Treasury or U. S. Agency issues, mutual funds, public funds investment pools and repurchase agreements. Statutes require that securities underlying repurchase agreements be limited to federal government securities having a market value of at least 102% of the cost of the repurchase agreement.

**2. Receivables**

Receivables are presented net of allowances for doubtful accounts. The amounts of the allowances by fund are as follows:

General Fund	\$ 2,433,744
Special Revenue Funds	35,207
Debt Service Fund	90,057
Enterprise Fund	629,437

**3. Inventories and Prepaid Items**

Inventories which are expended as they are consumed are stated at cost. Cost is determined for inventories of supplies and fuel using the moving-average method.

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year and are recorded as prepaid items in both government-

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)**

**3. Inventories and Prepaid Items (Continued)**

wide and fund financial statements.

Reported inventories and prepaid items in governmental funds are offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current position.

**4. Restricted Assets**

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year was \$ 9,381,559. Of this amount, \$ 858,895 was included as part of the cost of capital assets during FY 2016.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)**

**5. Capital Assets (Continued)**

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 - 50
Building improvements	20
Infrastructure	20 - 50
Vehicles	5 - 7
Office equipment	5 - 7
Computer equipment	5 - 7

**6. Compensated Absences**

Full-time employees accumulate eight to twelve hours per month for vacation, and can accumulate a maximum credit of two years. Sick leave benefits are earned by full-time employees at a rate of eight hours per month and may be accumulated without limit. In the event of termination, an employee with at least one year continuous service is reimbursed for all accumulated vacation days up to a maximum of one year's accrued credit. If the terminating employee has at least five years continuous service, reimbursement is also made for all accrued sick leave up to ninety working days.

All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured, for example, as a result of employee resignations or retirements.

**7. Net Pension Liability**

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – amendment of GASB Statement No. 27*.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)**

**8. Other Post-Employment Benefits**

In the government-wide and proprietary fund financial statements, other post-employment benefit (OPEB) liabilities are reported as liabilities for the amount that the annual required contribution exceeds the amount funded by the City on a cumulative basis. The City began reporting this liability for fiscal year 2009 on a prospective basis.

**9. Interfund Transactions**

During the course of normal business operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. These transactions are generally reflected as transfers. Subsidies between funds are recorded as transfers.

**10. Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expensed as incurred per GASB 65.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**11. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Deferred charges on refundings – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)**

**11. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

**12. Net Position**

Net position in government-wide and proprietary financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

**13. Fund Balance**

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

**Nonspendable Fund Balance** - Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

**Restricted Fund Balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

**Committed Fund Balance** – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

**Assigned Fund Balance** – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body. The City Council authorizes the assignment of fund balance by resolution.

**Unassigned Fund Balance** – amounts that are available for any purpose; positive amounts are reported in the General Fund.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance, the highest level of action. This is typically done through adoption of the budget. A fund balance commitment is further indicated in the budget document as a commitment of the fund. Assigned fund balance is established by City Council by passage of a resolution

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (Continued)**

**13. Fund Balance (Continued)**

**Unassigned Fund Balance (Continued)**

either through adoption or amendment of the budget as intended for specific purposes.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

In the General Fund, the City strives to maintain an unassigned fund balance to be used for unanticipated emergencies of at least 33% of the annual operating expenditures. This percentage is equal to four months operational expenditures.

**14. Comparative Data/Reclassification**

Comparative total data for the prior year have been presented only for individual enterprise funds and in the fund financial statements in order to provide an understanding of changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**15. Estimates**

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Specifically, the actuarial calculations used to determine the annual required contributions and related liabilities of the City's two retirement plans and post-employment obligations are based on assumptions about the possibility of events far into the future. Accordingly, actual results could differ from those estimates.

**F. NEW AND FUTURE FINANCIAL REPORTING REQUIREMENTS**

The GASB has issued the following statement which will become in the current year.

Statement No. 72, *Fair Value Measurement and Application* – This statement addresses accounting and financial issues related to fair value measurements. This statement becomes effective for the City in the current fiscal year.

The GASB has issued the following statements which will become effective in future years.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – This statement changes the focus of accounting of postemployment benefits other than pensions from whether they are responsibly funding the benefits over time to a point-in-time liability that is reflected on the employer's financial statements for any actuarially unfunded portion of benefits earned to date. This statement will become effective for the City in fiscal year 2018.



**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. NEW AND FUTURE FINANCIAL REPORTING REQUIREMENTS (Continued)**

Statement No. 77, *Tax Abatement Disclosures* – This statement requires governments that enter into tax abatement agreements to provide certain disclosures regarding these commitments. This statement will become effective for the City in fiscal year 2017. The City has chosen to early implement this statement during fiscal year 2016.

**G. PRIOR PERIOD ADJUSTMENT**

The City restated its government-wide net position as of September 30, 2015 to record the net present value of guaranteed future toll reimbursements, under the Pass-Through Toll Agreement, as a receivable and recognize the corresponding revenue on the government-wide statements. It was previously believed that these future reimbursements were conditional. It was determined that the City is guaranteed this revenue and therefore, should be recorded. Prospectively applying this change results in the adjustment below:

	Government-wide Statement of Activities		
	Governmental Activities	Business-type Activities	Total
Net position at September 30, 2015, as previously reported	\$ 37,089,280	\$ 101,997,234	\$ 139,086,514
Addition of Pass-Through Toll Revenue	12,013,000	-	12,013,000
Net position at September 30, 2015, as restated	<u>\$ 49,102,280</u>	<u>\$ 101,997,234</u>	<u>\$ 151,099,514</u>

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects fund, which adopt project-length budgets. All annual appropriations lapse at fiscal year-end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 1, the City Manager submits a proposed operating budget to the Director of Finance, who in turn submits it to the City Council for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- On or before September 15, the budget is legally adopted by the Council.
- The City Manager has the authority to transfer appropriation balances from one expenditure category to another within a department. The City Council must approve transfers of appropriations between departments, and any revisions that alter the total expenditures of any fund. Although costs are monitored on an expenditure category level, legal level of control (level at which expenditures may not exceed budget) is the

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

**A. BUDGETARY INFORMATION (Continued)**

department level. The reported budgetary data has been revised for amendments authorized during the year. Significant amendments were to provide: carry forwards from previous year for projects not complete, appropriations offset by revenues, and capital projects funds from designated fund balance to project funds.

- Formal budgetary integration is employed as a management control device by expenditure category during the year for the general fund, special revenue funds, and debt service fund. Formal budgetary integration is not employed for the capital projects fund because effective budgetary control is provided by the small number of contracts and projects in this fund, significant costs are subject to bidding, and projects usually span more than one fiscal year.
- Budgets for the general fund, special revenue funds and debt service fund are adopted on a basis consistent with the modified accrual basis of accounting.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported within restricted, committed, or assigned fund balance depending upon the specific purpose of the purchase order and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. Encumbrances by major funds and nonmajor funds in the aggregate are shown below:

Major Funds:	<u>Encumbrances</u>
General Fund	\$ 1,429,303
Capital Projects Fund	8,574,784
Pass-Through Financing Project	917,565
Nonmajor Funds:	<u>356,625</u>
Totals	<u><u>\$ 11,278,277</u></u>

**III. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

**Legal and Contractual Provisions Governing Deposits and Investments**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities,

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Legal and Contractual Provisions Governing Deposits and Investments (Continued)**

(9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

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

**Deposits**

As of September 30, 2016, the City's deposit balances were as follows:

	Primary Government	Component Units	Total Reporting Entity
Total Deposits	<u>\$ 79,799,188</u>	<u>\$ 28,661,411</u>	<u>\$ 108,460,599</u>
Carrying Amount	<u>\$ 78,776,053</u>	<u>\$ 27,243,288</u>	<u>\$ 106,019,341</u>
Petty Cash	<u>\$ 14,987</u>	<u>\$ -</u>	<u>\$ 14,987</u>

Foreign Currency Risk – The City's deposits are not exposed to foreign currency risk.

Custodial Credit Risk – The City's policy is to be collateralized. The City was fully collateralized during the year for deposits. The policies of the Temple Economic Development Corporation, discretely presented component unit, also require full collateralization. As of September 30, 2016, the Temple Economic Development Corporation had a total of \$ 6,678,934 in deposits. Of this amount, \$ 414,195 was insured, and \$ 6,264,739 was collateralized with securities held by pledging financial institution's agent in the entity's name.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Investments**

The City categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are other observable inputs; and level 3 inputs are unobservable inputs. As of September 30, 2016, the City had the following investments:

	Carrying Amount	Fair Value	Input Level
<b><u>Primary Government</u></b>			
Investment pools:			
Texpool	\$ 6,587,187	\$ 6,587,187	2
TexSTAR	36,232,112	36,232,112	2
Texas CLASS	8,839,854	8,839,854	2
Total investment in pools:	<u>51,659,153</u>	<u>51,659,153</u>	
 Total investments	 <u>\$ 51,659,153</u>	 <u>\$ 51,659,153</u>	
<b><u>Discretely Presented Component Units</u></b>			
Investment pools:			
Texpool	\$ 1,358,536	\$ 1,358,536	2
TexSTAR	2,696,331	2,696,331	2
Texas CLASS	2,826,055	2,826,055	2
Total investment in pools:	<u>6,880,922</u>	<u>6,880,922</u>	
 Total investments	 <u>\$ 6,880,922</u>	 <u>\$ 6,880,922</u>	
<b><u>Reporting Entity</u></b>			
Total investments	<u>\$ 58,540,075</u>	<u>\$ 58,540,075</u>	

Foreign Currency Risk – The City’s investments are not exposed to foreign currency risk.

Custodial Credit Risk – The City’s policy requires investments, other than investment pools and money market mutual funds, to be held by a third party custodian bank. All of the City’s investments, other than investment pools, were held by the City’s third party custodian bank in the City’s name.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Investments (Continued)**

Interest Rate Risk – In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than nine months. As of September 30, 2016, the weighted average maturity of the City's investment portfolio was 124.52 days.

Credit Risk – In compliance with the City's Investment Policy, as of September 30, 2016, the City minimized credit risk losses due to default of a security issuer or backer, by; limiting investments to the safest types of securities; limiting Certificates of Deposit that are insured by the Federal Deposit Insurance Corporation (FDIC); limiting the City's investments to obligations issued, guaranteed, insured by or backed by the full faith and credit of the United States or its agencies and instrumentalities; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and diversifying the investment portfolio so that potential losses on individual securities were minimized.

TexPool has been established for governmental entities in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. Finally, TexPool is rated AAAM by Standard & Poor's. The City's fair value position is stated at the value of the position upon withdrawal.

TexSTAR has been established for governmental entities pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR's governing body consists of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. The Board holds legal title to all money, investments, and assets and has the authority to employ personnel, contract for services, and engage in other administrative activities necessary or convenient to accomplish the objectives of TexSTAR. TexSTAR is rated AAAM by Standard & Poor's. The City's fair value position is stated at the value of the position upon withdrawal.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. DEPOSITS AND INVESTMENTS (Continued)**

**Investments (Continued)**

Texas CLASS has been established for governmental entities pursuant to the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Texas CLASS is supervised by a Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian and the Program Administrator. The Board administers the affairs of the Trust and enters into contracts and agreements on behalf of the Trust in order to effectuate the terms of the Trust Agreement. It also selects the consultants for Texas CLASS, including the Program Administrator and the Custodian. Texas CLASS is rated AAAM by Standard & Poor's. The City's fair value position is stated at the value of the position upon withdrawal.

Concentration Risk – The City's investment in investment pools is divided among three different pools.

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

	Primary Government	Discretely Presented Component Units	Total Reporting Entity
Cash and investments (from above):			
Cash on hand	\$ 14,987	\$ -	\$ 14,987
Carrying amount of deposits	78,776,053	27,243,288	106,019,341
Carrying amount of investments	<u>51,659,153</u>	<u>6,880,922</u>	<u>58,540,075</u>
Total	<u>\$ 130,450,193</u>	<u>\$ 34,124,210</u>	<u>\$ 164,574,403</u>
Statement of Net Position:			
Cash	\$ 14,987	\$ 2,379,447	\$ 2,394,434
Investments	108,942,542	20,329,562	129,272,104
Restricted cash and investments	<u>21,492,664</u>	<u>11,415,201</u>	<u>32,907,865</u>
Total	<u>\$ 130,450,193</u>	<u>\$ 34,124,210</u>	<u>\$ 164,574,403</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**B. PROPERTY TAXES AND RECEIVABLES**

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and business personal property located in the City. The assessed value at January 1, 2015, upon which the fiscal year 2016 levy was based, was \$ 3,444,650,472. This amount is the net taxable value adjusted for frozen taxable value. The amount of the levy attributable to frozen taxes was \$ 2,048,325. The total levy assessed was \$ 23,742,734. The total taxable value before the adjustment for frozen taxable value was \$ 3,840,746,157.

The tax assessment of October 1, 2015 set a tax levy at \$ 0.6298 per \$ 100 of assessed valuation at 100% of assumed market value. The City may levy a tax of up to \$ 1.20 per \$ 100 of assessed valuation.

Taxes are due by January 31 following the October 1 levy date, at which time a lien attaches to the property.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. At September 30, 2016, delinquent property taxes receivable are \$ 431,909, net of an allowance for doubtful accounts of \$ 265,399.

Legislation was passed in 1979 and amended in 1981 by the Texas Legislature which affects the method of property assessment and tax collection in the City. This legislation, with certain exceptions, exempts intangible personal property and household goods.

In addition, this legislation creates a Property Tax Code and provides, among other things, for the establishment of county-wide appraisal districts and for a State Property Tax Board which commenced operations in January 1980. Since 1982, the appraisal of property within the City has been the responsibility of the Tax Appraisal District of Bell County. The Appraisal District is required under the Property Tax Code to assess all property within the appraisal district on the basis of 100 percent of its appraised value and is prohibited from applying any assessment ratios. The value of property within the Appraisal District must be reviewed at least every five years. The City may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on property within the City limits. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements and revaluation, exceeds the rate of the previous year by more than eight percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent above the rate of the previous year.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2016 was as follows:

	Balance October 1, 2015	Additions Net of CIP Reclassifications	Transfers/ Retirements	Balance September 30, 2016
<b>Primary government:</b>				
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 17,909,330	\$ 2,398,997	\$ -	\$ 20,308,327
Construction in progress	14,077,352	20,451,928	(15,481,902)	19,047,378
Total capital assets not being depreciated	31,986,682	22,850,925	(15,481,902)	39,355,705
Capital assets being depreciated				
Buildings	78,036,147	200,503	-	78,236,650
Infrastructure	134,340,096	17,367,888	(272,194)	151,435,790
Furniture & equipment	22,985,302	2,187,705	-	25,173,007
Machinery & equipment	30,361,653	4,394,084	(880,809)	33,874,928
Total capital assets being depreciated	265,723,198	24,150,180	(1,153,003)	288,720,375
Less accumulated depreciation for:				
Buildings	(32,926,483)	(1,928,513)	-	(34,854,996)
Infrastructure	(84,151,242)	(4,329,895)	10,207	(88,470,930)
Furniture & equipment	(16,710,663)	(1,403,897)	-	(18,114,560)
Machinery & equipment	(20,410,859)	(2,507,937)	878,212	(22,040,584)
Total accumulated depreciation	(154,199,247)	(10,170,242)	888,419	(163,481,070)
Total capital assets being depreciated, net	111,523,951	13,979,938	(264,584)	125,239,305
Governmental Activities capital assets, net	\$ 143,510,633	\$ 36,830,863	\$ (15,746,486)	\$ 164,595,010



**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. CAPITAL ASSETS (Continued)**

	Balance October 1, 2015	Additions	Transfers/ Retirements	Balance September 30, 2016
Business-type Activities:				
Capital assets not being depreciated				
Land	\$ 1,940,240	\$ 212,798	\$ -	\$ 2,153,038
Construction in progress	15,334,058	10,483,445	(9,921,530)	15,895,973
Total capital assets not being depreciated	17,274,298	10,696,243	(9,921,530)	18,049,011
Capital assets being depreciated				
Buildings	47,894,343	31,942	-	47,926,285
Infrastructure	168,418,380	11,605,418	-	180,023,798
Furniture & equipment	1,803,564	-	-	1,803,564
Machinery & equipment	7,717,452	316,449	(174,770)	7,859,131
Total capital assets being depreciated	225,833,739	11,953,809	(174,770)	237,612,778
Less accumulated depreciation for:				
Buildings	(27,276,447)	(985,229)	-	(28,261,676)
Infrastructure	(68,082,350)	(4,645,392)	-	(72,727,742)
Furniture & equipment	(1,475,346)	(114,053)	-	(1,589,399)
Machinery & equipment	(4,434,418)	(653,832)	149,709	(4,938,541)
Total accumulated depreciation	(101,268,561)	(6,398,506)	149,709	(107,517,358)
Total capital assets being depreciated, net	124,565,178	5,555,303	(25,061)	130,095,420
Business-type Activities capital assets, net	\$ 141,839,476	\$ 16,251,546	\$ (9,946,591)	\$ 148,144,431

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

Governmental activities:	
General government	\$ 885,900
Public safety	2,330,021
Highways and streets	2,944,341
Sanitation	979,859
Health and welfare	80,209
Culture and leisure services	1,778,758
Airport	1,171,154
Total depreciation expense - Governmental Activities	<u>\$ 10,170,242</u>
Business-type activities:	
Water and sewer	\$ 6,398,506
Total depreciation expense - Business-type Activities	<u>\$ 6,398,506</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. CAPITAL ASSETS (Continued)**

The City has active construction projects as of September 30, 2016. Total accumulated commitments for ongoing capital projects are composed of the following:

Capital Projects Fund	\$ 4,284,798
Pass-Through Financing Project	902,071
Water and Sewer Fund	3,531,966
Special Revenue Fund-Hotel/Motel	1,370
Total	<u>\$ 8,720,205</u>

	Balance October 1, 2015	Additions	Transfers/ Retirements	Balance September 30, 2016
<b>Discretely presented component units:</b>				
Reinvestment Zone No 1:				
Capital assets not being depreciated				
Land	\$ 9,626,472	\$ 2,496,826	\$ (121,342)	\$ 12,001,956
Construction in progress	16,385,128	10,214,451	(13,637,554)	12,962,025
Total capital assets not being depreciated	26,011,600	12,711,277	(13,758,896)	24,963,981
Capital assets being depreciated				
Buildings	763,035	-	-	763,035
Infrastructure	56,978,511	13,714,116	-	70,692,627
Machinery & equipment	42,559	-	-	42,559
Total capital assets being depreciated	57,784,105	13,714,116	-	71,498,221
Less accumulated depreciation for:				
Buildings	(212,266)	(21,933)	-	(234,199)
Infrastructure	(19,263,676)	(2,705,305)	-	(21,968,981)
Machinery & equipment	(22,224)	(2,837)	-	(25,061)
Total accumulated depreciation	(19,498,166)	(2,730,075)	-	(22,228,241)
Total capital assets being depreciated, net	38,285,939	10,984,041	-	49,269,980
Reinvestment Zone No.1 capital assets, net	<u>\$ 64,297,539</u>	<u>\$ 23,695,318</u>	<u>\$ (13,758,896)</u>	<u>\$ 74,233,961</u>
Temple Economic Development Corporation:				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 72,788	\$ -	\$ 72,788
Total capital assets not being depreciated	-	72,788	-	72,788
Capital assets being depreciated				
Buildings & improvements	461,331	-	-	461,331
Office equipment	177,956	-	-	177,956
Total capital assets being depreciated	639,287	-	-	639,287
Less accumulated depreciation for:				
Buildings & improvements	(95,686)	(11,829)	-	(107,515)
Office equipment	(138,636)	(6,876)	-	(145,512)
Total accumulated depreciation	(234,322)	(18,705)	-	(253,027)
Total capital assets being depreciated, net	404,965	(18,705)	-	386,260
Temple Economic Development Corp. capital assets, net	<u>\$ 404,965</u>	<u>\$ 54,083</u>	<u>\$ -</u>	<u>\$ 459,048</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables represent advances to special revenue funds to be repaid with future grant revenues and future operating revenues. Interfund receivables also represent advances to capital projects fund to be repaid with future bond proceeds. At September 30, 2016, there were no individual interfund receivable and payable balances to report.

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at September 30, 2016, in the Statement of Net Position were as follows:

	Property (Net of Allowance)	Other (Net of Allowance)	Other Governments	Total Receivables
General Fund	\$ 212,012	\$ 2,974,059	\$ 84,509	\$ 3,270,580
Debt Service Fund	219,897	-	11,732,169	11,952,066
Nonmajor Governmental Funds	-	242,152	400,266	642,418
Water & Sewer Fund	-	1,762,887	-	1,762,887
Total	<u>\$ 431,909</u>	<u>\$ 4,979,098</u>	<u>\$ 12,216,944</u>	<u>\$ 17,627,951</u>

Payables at September 30, 2016, in the Statement of Net Position were as follows:

	Vouchers & Contracts	Retainages	Accrued Payroll	Deposits	Total Payables
General Fund	\$ 2,939,659	\$ 4,986	\$ 1,318,957	\$ 47,351	\$ 4,310,953
Debt Service Fund	384	-	-	-	384
Capital Projects Fund	1,210,962	552,330	3,641	-	1,766,933
Pass-Through Financing Project	-	398,173	-	-	398,173
Nonmajor Governmental Funds	236,670	3,165	45,656	62,447	347,938
Water and Sewer Fund	1,658,920	366,163	122,424	711,585	2,859,092
Total	<u>\$ 6,046,595</u>	<u>\$ 1,324,817</u>	<u>\$ 1,490,678</u>	<u>\$ 821,383</u>	<u>\$ 9,683,473</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**F. DEFERRED AMOUNT ON REFUNDING**

The amounts reported for deferred amount of refunding balances of the City for the year ended September 30, 2016:

	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016
<u>Governmental Activities</u>				
General obligation bonds	\$ 3,004,465	\$ 758,800	\$ 336,689	\$ 3,426,576
Total governmental activities	3,004,465	758,800	336,689	3,426,576
<u>Business-Type Activities</u>				
General obligation bonds	3,061,405	-	320,857	2,740,548
Total business-type activities	3,061,405	-	320,857	2,740,548
<u>Component Units</u>				
Reinvestment Zone No. 1	297,909	-	51,409	246,500
Total component units	297,909	-	51,409	246,500
Total government	\$ 6,363,779	\$ 758,800	\$ 708,955	\$ 6,413,624

**G. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

The amounts reported for deferred outflows/inflows of resources related to pensions of the City for the year ended September 30, 2016:

	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016
<b>Deferred Outflows of Resources related to pensions</b>				
Contributions subsequent to the measurement date				
Texas Municipal Retirement System	\$ 3,702,834	\$ 3,715,181	\$ (3,702,834)	\$ 3,715,181
Firemen's Pension	1,222,757	1,217,974	(1,222,757)	1,217,974
Total contributions subsequent to measurement date	\$ 4,925,591	\$ 4,933,155	\$ (4,925,591)	\$ 4,933,155
Differences between projected and actual investment earnings				
Texas Municipal Retirement System	\$ 1,381,047	\$ 9,739,472	(2,293,156)	\$ 8,827,363
Firemen's Pension	464,851	4,483,118	(1,012,837)	3,935,132
Total differences between projected and actual investment earnings	\$ 1,845,898	\$ 14,222,590	\$ (3,305,993)	\$ 12,762,495
<b>Deferred Inflows of Resources related to pensions</b>				
Differences between actual assumptions and actual experience - Texas Municipal Retirement System	\$ (1,446,271)	\$ 535,459	\$ 304,825	\$ (605,987)

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**H. UNEARNED REVENUE**

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

	Deferred	Unearned	Total
Governmental Activities			
General Fund:			
Delinquent property taxes	\$ 184,426	\$ -	\$ 184,426
Street escrow	-	192,439	192,439
Parks escrow	-	262,918	262,918
Police escrow	-	124,654	124,654
Child safety fees	-	6,430	6,430
Animal shelter	-	20	20
Electric franchise	-	1,464,092	1,464,092
Gas franchise	-	233,322	233,322
Other	-	10,048	10,048
Total General Fund	<u>184,426</u>	<u>2,293,923</u>	<u>2,478,349</u>
Debt Service Fund:			
Delinquent property taxes	208,697	-	208,697
Pass-through toll agreement	<u>11,732,169</u>	<u>-</u>	<u>11,732,169</u>
Total Debt Service Fund	<u>11,940,866</u>	<u>-</u>	<u>11,940,866</u>
Nonmajor governmental funds:			
Grant draw downs prior to meeting all eligibility requirements	<u>-</u>	<u>16,976</u>	<u>16,976</u>
Total Governmental Funds	<u>\$ 12,125,292</u>	<u>\$2,310,899</u>	<u>\$14,436,191</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. LONG-TERM DEBT**

The following is a summary of long-term debt transactions, including current portion of the City for the year ended September 30, 2016:

	Balance October 1, 2015	Additions	Retirements	Balance September 30, 2016	Due within one year
<u>Governmental Activities</u>					
General obligation bonds	\$ 75,420,000	\$ 9,500,000	\$ 14,620,000	\$ 70,300,000	\$ 4,035,000
Certificates of obligation	36,650,000	18,285,000	1,575,000	53,360,000	2,920,000
Contractual obligations	4,415,000	1,950,000	665,000	5,700,000	1,175,000
Revenue bonds	465,000	-	465,000	-	-
Pass-through agreement revenue & limited tax bonds	24,700,000	-	120,000	24,580,000	895,000
Notes payable	195,819	-	48,105	147,714	50,096
Plus deferred amount:					
Issuance premium	9,737,348	4,158,590	1,014,970	12,880,968	897,649
Issuance discount	(1,141,857)	(176,238)	(134,565)	(1,183,530)	(84,892)
Compensated absences	7,385,954	993,658	541,938	7,837,674	646,256
Net pension liability - TMRS	20,058,313	8,678,200	-	28,736,513	-
Net pension liability - FP	10,979,773	4,849,729	-	15,829,502	-
OPEB liability	2,364,333	145,553	-	2,509,886	-
Total governmental activities	191,229,683	48,384,492	18,915,448	220,698,727	10,534,109
<u>Business-Type Activities</u>					
General obligation bonds	39,000,000	-	2,240,000	36,760,000	2,270,000
Revenue bonds	52,855,000	-	2,475,000	50,380,000	2,380,000
Plus deferred amount:					
Issuance premium	6,190,592	-	530,949	5,659,643	530,949
Issuance discount	(579,197)	-	(71,978)	(507,219)	(71,978)
Compensated absences	441,690	40,972	80,557	402,105	48,253
Net pension liability - TMRS	2,735,225	1,142,101	-	3,877,326	-
OPEB liability	619,389	57,905	-	677,294	-
Total business-type activities	101,262,699	1,240,978	5,254,528	97,249,149	5,157,224
<u>Component Units</u>					
Reinvestment Zone No. 1	48,262,720	-	2,908,555	45,354,165	4,108,555
Temple Economic Development Corp.	212,144	-	52,627	159,517	61,012
Total component units	48,474,864	-	2,961,182	45,513,682	4,169,567
Total government	\$ 340,967,246	\$ 49,625,470	\$ 27,131,158	\$ 363,461,558	\$ 19,860,900

The General Fund, Hotel/Motel Fund, Federal/State Grant Fund and the Drainage Fund are responsible for liquidating the liability for compensated absences, the net pension liability for employees employed in the corresponding governmental funds. The General Fund has been responsible for liquidating the net OPEB liability for all employees in the corresponding governmental funds.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. LONG-TERM DEBT (Continued)**

Long-term debt at September 30, 2016 is comprised of the following:

	Governmental Activities	Business - type Activities
General obligation bonds:		
\$ 9,660,000 2008 bonds due in annual installments of \$ 50,000 to \$ 845,000 through 2028; interest at 3.50% to 5.25%	\$ 495,000	\$ -
\$ 13,995,000 2009 bonds due in annual installments of \$ 190,000 to \$ 1,130,000 through 2029; interest at 2.50% to 4.25%	1,290,000	-
\$ 3,950,000 2009 refunding bonds due in annual installments of \$ 395,000 to \$ 625,000 through 2017; interest at 2.00% to 3.00%	490,000	-
\$ 24,120,000 2011 refunding bonds due in annual installments of \$ 245,000 to \$ 3,250,000 through 2023; interest at 2.00% to 4.00%	8,230,000	9,740,000
\$ 3,045,000 2011A refunding bonds due in annual installments of \$ 40,000 to \$ 785,000 through 2017; interest at 2.00% to 4.255%	785,000	-
\$ 24,895,000 2012 refunding bonds due in annual installments of \$ 10,000 to \$ 3,820,000 through 2026; interest at 2.00% to 5.00%	6,100,000	17,315,000
\$ 21,360,000 2014 refunding bonds due in annual installments of \$ 535,000 to \$ 3,460,000 through 2026; interest at 2.00% to 5.00%	11,865,000	5,060,000
\$ 36,780,000 2015 refunding & improvement bonds due in annual installments of \$ 590,000 to \$ 4,480,000 through 2035; interest at 2.00% to 5.00%	31,545,000	4,645,000
\$ 9,500,000 2016 refunding bonds due in annual installments of \$ 705,000 to \$ 1,090,000 through 2029; interest at 2.00% to 5.00%	9,500,000	-
	<u>70,300,000</u>	<u>36,760,000</u>
Certificates of obligation:		
\$ 13,520,000 2008 certificates due in annual installments of \$ 35,000 to \$ 1,155,000 through 2028; interest at 3.0% to 5.25%	690,000	-
\$ 9,420,000 2012 certificates due in annual installments of \$ 400,000 to \$ 685,000 through 2033; interest at 2.00% to 3.00%	9,020,000	-
\$ 4,645,000 2012 taxable certificates due in annual installments of \$ 50,000 to \$ 410,000 through 2032; interest at 1.50% to 3.50%	4,595,000	-
\$ 21,230,000 2014 certificates due in annual installments of \$ 255,000 to \$ 1,815,000 through 2034; interest at 1.00% to 3.00%	20,770,000	-
\$ 18,285,000 2016 certificates due in annual installments of \$ 295,000 to \$ 1,520,000 through 2036; interest at 2.00% to 5.00%	18,285,000	-
	<u>53,360,000</u>	<u>-</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. LONG-TERM DEBT (Continued)**

	Governmental Activities	Business - type Activities
Contractual obligations:		
\$ 5,710,000 2013 limited tax notes due in annual installments of \$ 645,000 to \$ 970,000 through 2020; interest at 1.00% to 2.00%	\$ 3,750,000	\$ -
\$ 1,950,000 2016 limited tax notes due in annual installments of \$ 265,000 to \$ 295,000 through 2023; interest at 1.96%	1,950,000	-
	<u>5,700,000</u>	<u>-</u>
Revenue bonds:		
\$ 15,030,000 2008 bonds due in annual installments of \$ 445,000 to \$ 1,125,000 through 2028; interest at 3.50% to 5.25%	-	675,000
\$ 17,210,000 2010 bonds due in annual installments of \$ 550,000 to \$ 1,925,000 through 2030; interest at 2.25% to 3.75%	-	14,355,000
\$ 12,990,000 2014 bonds due in annual installments of \$ 90,000 to \$ 790,000 through 2044; interest at 0.45% to 5.05%	-	12,640,000
\$ 23,685,000 2015 bonds due in annual installments of \$ 830,000 to \$ 1,755,000 through 2035; interest at 2.00% to 5.00%	-	22,710,000
	<u>-</u>	<u>50,380,000</u>
Pass-through agreement revenue & limited tax bonds:		
\$ 24,700,000 2012 bonds due in annual installments of \$ 120,000 to \$ 2,310,000 through 2034; interest at 2.00% to 5.00%	24,580,000	-
	<u>24,580,000</u>	<u>-</u>
Notes payable:		
\$ 275,450 2014 capital lease due in monthly installments of \$ 3,665 to \$ 4,296 through 2017; interest at 4.20%	147,714	-
	<u>147,714</u>	<u>-</u>



**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. LONG-TERM DEBT (Continued)**

	Governmental Activities	Business - type Activities
Issuance premium	\$ 12,880,968	\$ 5,659,643
Issuance discount	(1,183,530)	(507,219)
Accrual for compensated absences	7,837,674	402,105
Accrual for net pension liability - TMRS	28,736,513	3,877,326
Accrual for net pension liability - FP	15,829,502	-
Accrual for OPEB liability	2,509,886	677,294
	<u>66,611,013</u>	<u>10,109,149</u>
Total primary government debt	<u>220,698,727</u>	<u>97,249,149</u>
Component Units:		
Reinvestment Zone No 1:		
\$ 10,875,000 2009 general obligation bonds due in annual installments of \$ 100,000 to \$ 1,440,000 through 2019, interest at 2.00% to 3.125%; guaranteed by the City of Temple	4,220,000	-
\$ 10,405,000 2011A general obligation bonds due in annual installments of \$ 145,000 to \$ 2,405,000 through 2022, interest at 2.00% to 5.00%; guaranteed by the City of Temple	8,670,000	-
\$ 480,000 2012 general obligation bonds due in annual installments of \$ 10,000 to \$ 75,000 through 2022, interest at 2.00% to 5.00%; guaranteed by the City of Temple	405,000	-
\$ 25,260,000 2013 certificates of obligation due in annual installments of \$ 1,110,000 to \$ 2,010,000 through 2033, interest at 2.00% to 4.125%; guaranteed by the City of Temple	25,260,000	-
\$ 10,365,000 2008 taxable revenue bonds due in annual installments of \$ 215,000 to \$ 1,180,000 through 2022, interest at 5.29%; guaranteed by the City of Temple	6,240,000	-
Issuance premium	1,107,533	-
Issuance discount	(548,368)	-
Temple Economic Development Corporation:		
\$ 252,946 note due in five annual principal payments through January 2019, interest at 2.25% with monthly interest paid by an individual	149,094	-
Accrual for compensated absences	10,423	-
Total component units debt	<u>45,513,682</u>	<u>-</u>
Total debt - reporting entity	<u>\$ 266,212,409</u>	<u>\$ 97,249,149</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. LONG-TERM DEBT (Continued)**

The annual requirements to amortize debt outstanding as of September 30, 2016, are shown on the following schedules. Due to the nature of the obligation for compensated absences, annual requirements to amortize such obligations are not determinable and have not been included in the following summary.

General Obligation Bonds

Year Ending September 30,	Governmental Activities		Business-type Activities		Component Units		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2017	\$ 4,035,000	\$ 2,846,200	\$ 2,270,000	\$ 1,432,500	\$ 2,000,000	\$ 498,750	\$ 13,082,450
2018	4,785,000	2,704,050	3,035,000	1,364,400	2,045,000	431,700	14,365,150
2019	4,970,000	2,553,900	3,130,000	1,273,350	2,110,000	368,600	14,405,850
2020	5,085,000	2,402,950	3,235,000	1,171,300	2,275,000	302,850	14,472,100
2021	5,310,000	2,214,250	3,355,000	1,041,900	2,385,000	189,800	14,495,950
2022-2026	24,745,000	7,879,400	19,565,000	2,789,200	2,480,000	93,700	57,552,300
2027-2031	14,255,000	3,250,700	2,170,000	131,000	-	-	19,806,700
2032-2035	7,115,000	911,000	-	-	-	-	8,026,000
Total	<u>\$ 70,300,000</u>	<u>\$ 24,762,450</u>	<u>\$ 36,760,000</u>	<u>\$ 9,203,650</u>	<u>\$ 13,295,000</u>	<u>\$ 1,885,400</u>	<u>\$156,206,500</u>

Certificates of Obligations

Year Ending September 30,	Governmental Activities		Component Units		Total
	Principal	Interest	Principal	Interest	
2017	\$ 2,920,000	\$ 1,769,814	\$ 1,110,000	\$ 924,894	\$ 6,724,708
2018	1,215,000	1,698,489	1,145,000	902,694	4,961,183
2019	1,330,000	1,671,939	1,180,000	868,344	5,050,283
2020	1,485,000	1,640,814	1,215,000	832,944	5,173,758
2021	1,560,000	1,609,064	1,250,000	796,494	5,215,558
2022-2026	12,985,000	7,251,616	6,945,000	3,233,306	30,414,922
2027-2031	17,895,000	4,654,426	8,480,000	1,845,162	32,874,588
2032-2036	13,970,000	1,336,150	3,935,000	242,824	19,483,974
Total	<u>\$ 53,360,000</u>	<u>\$ 21,632,312</u>	<u>\$ 25,260,000</u>	<u>\$ 9,646,662</u>	<u>\$109,898,974</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. LONG-TERM DEBT (Continued)**

Contractual Obligations

Year Ending September 30,	Governmental Activities		Total
	Principal	Interest	
2017	\$ 1,175,000	\$ 107,438	\$ 1,282,438
2018	1,190,000	87,229	1,277,229
2019	1,215,000	63,486	1,278,486
2020	1,250,000	39,196	1,289,196
2021	285,000	14,259	299,259
2022-2023	585,000	11,515	596,515
Total	<u>\$ 5,700,000</u>	<u>\$ 323,123</u>	<u>\$ 6,023,123</u>

Pass-Through Toll Agreement Revenue & Limited Tax Bonds

Year Ending September 30,	Governmental Activities		Total
	Principal	Interest	
2017	\$ 895,000	\$ 1,137,475	\$ 2,032,475
2018	925,000	1,110,625	2,035,625
2019	950,000	1,082,875	2,032,875
2020	990,000	1,044,875	2,034,875
2021	1,030,000	1,005,275	2,035,275
2022-2026	5,905,000	4,258,625	10,163,625
2027-2031	8,350,000	2,468,875	10,818,875
2032-2034	5,535,000	562,500	6,097,500
Total	<u>\$ 24,580,000</u>	<u>\$ 12,671,125</u>	<u>\$ 37,251,125</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. LONG-TERM DEBT (Continued)**

Revenue Bonds

Year Ending September 30,	Business-type Activities		Component Units		Total
	Principal	Interest	Principal	Interest	
2017	\$ 2,380,000	\$ 2,061,599	\$ 910,000	\$ 330,096	\$ 5,681,695
2018	1,745,000	1,987,954	960,000	281,958	4,974,912
2019	1,795,000	1,939,269	1,010,000	231,174	4,975,443
2020	1,855,000	1,893,319	1,060,000	177,744	4,986,063
2021	1,905,000	1,842,977	1,120,000	121,670	4,989,647
2022-2026	10,650,000	8,171,745	1,180,000	62,420	20,064,165
2027-2031	15,755,000	5,509,988	-	-	21,264,988
2032-2036	8,950,000	2,531,663	-	-	11,481,663
2037-2041	3,090,000	1,052,925	-	-	4,142,925
2042-2044	2,255,000	231,541	-	-	2,486,541
Total	<u>\$ 50,380,000</u>	<u>\$ 27,222,980</u>	<u>\$ 6,240,000</u>	<u>\$ 1,205,062</u>	<u>\$ 85,048,042</u>

Notes Payable

Year Ending September 30,	Governmental Activities		Component Units Activities		Total
	Principal	Interest	Principal	Interest	
2017	\$ 50,096	\$ 5,074	\$ 61,012	\$ -	\$ 116,182
2018	97,618	948	49,253	-	147,819
2019	-	-	49,252	-	49,252
Total	<u>\$ 147,714</u>	<u>\$ 6,022</u>	<u>\$ 159,517</u>	<u>\$ -</u>	<u>\$ 313,253</u>

(1) General Obligation Bonds and Certificates of Obligation -

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

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.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. LONG-TERM DEBT (Continued)**

**(2) Revenue Bonds -**

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system.

The Revenue Bonds are collateralized by the revenue of the water and sewer system established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional Revenue Bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. The City is in compliance with all significant financial requirements as of September 30, 2016.

**(3) Taxable Revenue Bonds -**

Taxable Revenue Bonds constitute special obligations of the City and are payable from and secured by an irrevocable first lien on and pledge of the net revenues of the Airport, and said net revenues are further pledged irrevocably to the establishment and maintenance of the funds.

The Taxable Revenue Bonds, Series 2008, are collateralized by the tax increment generated by the Reinvestment Zone No.1 (a discretely presented component unit) by the First Supplemental Ordinance to the Master Ordinance Establishing the City of Temple, Texas Reinvestment Zone Number One Tax Increment Revenue Financing Program. The ordinance provides that the revenue of the Reinvestment Zone No. 1 be used to meet all financial obligations related to the bonds. The City is in compliance with all significant requirements as of September 30, 2016.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. LONG-TERM DEBT (Continued)**

**(4) 2016 Refunding/Issuances -**

On February 17, 2016, the City partially advance refunded the Series 2009 General Obligation Bonds. The par amount of the 2016 General Obligation Refunding bonds was \$ 9,500,000. Net proceeds of \$ 10,618,801 of general obligation refunding bonds (after payment of underwriting fees and other issuance costs) were deposited into an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt service payments for the refunded debt. As a result, the refunded bonds are considered defeased, and the debt for these bonds has been removed from the City's financial statements.

This advanced refunding will reduce the total debt service payments over the next 14 years by \$ 614,390 and will result in an economic gain (i.e. the difference between the present value of the debt service payments of the refunded debt and the refunding bonds) of \$ 518,451.

On February 17, 2016, the City issued \$ 18,285,000 of Combination Tax and Revenue Certificates of Obligation bonds. The interest rate of the bonds range from 2.0% to 5.0% and the maturity date of the bonds is August 1, 2036. These bonds were issued to construct, reconstruct, improve, extend, expand, upgrade and/or develop streets bridges, sidewalks, intersections, traffic signalization, and other traffic improvement projects as part of the third phase of the City's Transportation Capital Improvement Program.

On September 1, 2016, the City issued \$ 1,950,000 of Limited Tax Notes. The interest rate of the notes is 1.96% and the maturity date of the bonds is February 1, 2023. These notes were issued for the purchase of five commercial sanitation trucks, building security upgrades, and major building improvements.

In the debt service fund, a fund balance of \$ 724,003 is available to service general long-term debt.

The bond indentures require the establishment and maintenance of interest and sinking funds and reserve funds in varying amounts. Restricted cash on the accompanying combined balance sheet represents these amounts. The enterprise fund has restricted cash of \$ 20,788,214, of which \$ 1,639,298 will be used to pay accrued interest and current maturities of bond indentures, \$ 18,437,331 represents remaining bonds proceeds, and the remaining \$ 711,585 represents customer security deposits. In addition, there are restrictions concerning the maintenance of sufficient rates charged for services to users to generate enough funds for debt service requirements, the maintenance of accounting records and insurance as well as reporting the results of the City's operations to specified major bondholders. The City is in compliance with all significant requirements and restrictions contained in the bond indentures.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**J. INTERFUND TRANSFERS**

Interfund transfers during the year ended September 30, 2016 were as follows:

	Transfers In	Transfers Out
Major Funds:		
General	\$ -	\$ 1,592,057
Debt Service	941,270	-
Capital Projects	578,073	19,200
Nonmajor Governmental Funds:		
Special Revenue	91,914	-
Total	<u>\$ 1,611,257</u>	<u>\$ 1,611,257</u>

Transfers between major funds and other nonmajor governmental funds were primarily to support capital projects and operation of funds.

**IV. OTHER INFORMATION**

**A. COMMITMENTS AND CONTINGENCIES**

**Litigation**

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Attorney the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**Grants**

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

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**A. COMMITMENTS AND CONTINGENCIES (Continued)**

**Long-Term Agreements**

The City has the following long-term agreements which represent significant commitments:

**Operation of Doshier Farm and Temple-Belton Wastewater Treatment Plants** – Two different commercial entities have provided operations and maintenance of the Doshier Farm and Temple-Belton Wastewater Plants (WWTP), twenty-nine (29) lift stations (serving the Doshier Farm WWTP and the Temple-Belton WWTP), and the City's industrial pretreatment program since October 1, 1994. In September 2003, the City added the operations and maintenance of the reuse system that delivers treated wastewater effluent to irrigate City owned ball fields and the service the Panda Power Plant.

On August 7, 2014, the City entered into an agreement with Brazos River Authority (BRA) to provide the operations listed above for the period October 1, 2014 through September 30, 2019. Upon mutual agreement of the parties, the agreement may be extended for two additional 5 year periods.

The City retains ownership of the Doshier Farm WWTP and the City's 75% share of the Temple-Belton WWTP and all associated equipment. The City of Belton owns the remaining 25%. The City also retains all relevant permits in its name.

The City's major responsibility is paying the contractor the agreed annual compensation in monthly installments due on the first of each month. The base fee for the third year (2017) of the agreement is \$ 1,200,470 for the Temple-Belton WWTP, \$ 1,089,159 for the Doshier Farm WWTP and Lift Stations, and \$ 151,659 for the City's industrial pretreatment program. On or before May 1st of each year, BRA will provide the City with an annual budget which will include an estimate of all operation and maintenance expenses plus a management fee of 3% for the Doshier WWTP, Temple-Belton WWTP, and the lift stations. The budget will be calculated based on the estimated amount of wastewater to be delivered to the plants in the next fiscal year. The City must approve the proposed budget by July 15th of each year. Operation and maintenance expenses and the maintenance fee for the Temple-Belton WWTP will be allocated based upon the annual flow percentages of each City. Any capital expenses for the Temple-Belton WWTP (costs of capital improvements) will be allocated to the Cities based on ownership - 75% to Temple and 25% to Belton. Payments to BRA will be made monthly and will equal 1/12 of the approved annual budget.

**Landfill Operations** - On March 16, 2011, the City renegotiated its agreement with the commercial entity to operate the City's solid waste landfill. Under the terms of the new agreement, the contractor pays the City \$ 659,587 annually (\$ 54,965.60 per month). In addition, the contractor pays a fee for each ton of solid waste disposed at the landfill, regardless of the source or point of origin of the waste, with a guaranteed minimum surcharge equivalent to 200,000 tons per year. The fee per ton is calculated as follows on waste disposed at the landfill each year:

\$ 2.78/ton up to 200,000 tons  
\$ 3.46/ton over 200,000 tons

The new agreement is for a period of thirty years, or the life of the landfill, if less and may be extended by mutual agreement of the parties for additional ten (10) year period. Under the terms of the agreement,



**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**A. COMMITMENTS AND CONTINGENCIES (Continued)**

**Long-Term Agreements (Continued)**

**Landfill Operations (Continued)**

the contractor is responsible for all costs of operating the landfill, including the costs of closure, post-closure care cost and compliance with federal and state requirements.

**Lease and Operating Agreement - Public Library** - Effective September 7, 1995, the City entered into a ninety-nine (99) year lease and operating agreement with the Foundation of the Temple Public Library to use the E. Rhodes and Leona B. Carpenter Plaza for the location of the public library.

Under the lease agreement, the City will pay no rent or deposit in consideration of its operation of the public library and management of the commercial office spaces on the third floor. As part of the agreement, the City funded \$ 500,000 as its share of the cost of renovating the building for the library and applied the funds from a \$ 300,000 grant to the purchase of an automation system.

**Pass-Through Toll Agreement**

On September 16, 2010, City Council authorized a pass through financing agreement with the Texas Department of Transportation (Department) for improvements to Northwest Loop 363. On September 30, 2010, the Texas Transportation commission passed Minute Order 112305, authorizing the Department to enter a pass-through toll agreement with the City for the construction of the Loop 363 north frontage road, from the BNSF railroad overpass to FM 2305, and construction of interchanges at Wendland Road and SH 36/SH 53.

As of September 30, 2016, the total cost of this project was \$ 44.9 million of which the Department reimbursed the City \$ 20 million during fiscal years 2012 – 2014. The City issued pass-through agreement revenue and limited tax bonds on May 24, 2012 totaling \$ 24.7 million to fund its share of the cost.

On February 18, 2015, this project was substantially complete and was inspected and accepted as complete by the Department. At this time, the City became eligible to receive annual toll reimbursements from the state at each anniversary date of its completion. The agreement states that under no circumstance will the annual payment be less than \$ 752,500 over 20 years or more than \$ 1,505,000 over 10 years. The maximum amount of the toll agreement reimbursement is \$ 16,555,000.

In February 2016, on the first anniversary of the project's completion, the City received its first reimbursement totaling \$ 1,339,427. Based on this initial reimbursement, as well as, original projections based on state traffic counts on the loop, the City anticipates collecting the full \$ 16,555,000 over a period of approximately eleven to twelve years.

Effective February 2015, the City recorded the total anticipated receivable, net of implied interest at 4.783%, for a net receivable of \$ 12,013,000. Based on the first payment received, the anticipated collection period was revised, and as of September 30, 2016, the net receivable is \$ 11,732,169.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**A. RISK MANAGEMENT**

The City is a member of the Texas Municipal League's Intergovernmental Risk Pool ("Pool"). The Pool was created for the purpose of providing coverage against risks which are inherent in operating a political subdivision. The City pays annual premiums to the Pool for liability, property and workers' compensation coverage. The City's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide through commercial companies reinsurance contracts. The Pool agrees to handle all liability, property and workers' compensation claims and provide any defense as is necessary. The Pool makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the Pool. The City also carries commercial insurance on all other risks of loss including employee health and accident insurance.

The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the past three years.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**B. TAX ABATEMENTS**

**(1) Property Tax**

The City has entered into contractual agreements with property owners (or lessee's) in which the City has agreed to reduce the amount of ad valorem taxes payable on certain improvements constructed after the date the agreement was reached in accordance with Chapter 312 of the State of Texas Tax Code. The property owner, in return for the abatement, contractually agreed to construct and maintain certain identifiable improvements within a definite period or repay the abated taxes if the improvements are not maintained. The following is a list of property owners (or lessee's) with which the City has entered into tax abatement agreements.

Date of Abatement Agreement	Effective Tax Year	Firm	2016 Abated Value	Term of Abatement	Abatement Percentage	First Yr of Abatement
07/06	Jan-07	McLane Group, LP	\$ 1,115,317	10 years	10% to 100%	FY 2008
02/09	Jan-11	H.E. Butt Grocery	47,595,339	10 years	100%	FY 2012
09/10	Jan-11	Akzo Nobel Paints LLC - Liquid Nails Division	2,689,536	5 years	50%	FY 2012
01/11	Jan-12	Fikes Wholesale, Inc.	3,644,489	5 years	100%	FY 2013
05/11	Jan-15	Panda Temple Power, LLC	198,860,950	10 years	50%	FY 2016
06/11	Jan-12	LJT Texas Realty, Inc.	765,802	5 years	50%	FY 2013
06/11	Jan-12	Reynolds Consumer Products, Inc. {Pactiv Corporation}	1,757,157	5 years	80%	FY 2013
01/12	Jan-13	Sparetime Entertainment, LLC	3,560,459	5 years	100%	FY 2014
10/12	Jan-15	Don-Nan Pump & Supply Company	517,470	5 years	50%	FY 2016
12/12	Jan-16	Panda Temple Power II, LLC	-	10 years	12% to 65%	FY 2017
05/13	Jan-16	Buc-ee's, LTD	-	10 years	50%	FY 2017
02/14	TBD	Thomas Biodiesel, LLC	-	10 years	50% to 100%	TBD
03/14	TBD	Wilsonart LLC	-	10 years	20% to 80%	TBD
12/14	Jan-16	DanHill Fulfillment Center	-	5 years	50%	FY 2017
12/14	TBD	Block 015 Doering, LLC	-	10 years	50% to 100%	TBD
12/14	TBD	Block 015 Arcadia, LLC	-	10 years	50% to 100%	TBD
10/15	TBD	Bush's Chicken United	-	5 years	45%	TBD
10/15	TBD	Temple TX Staturoy Trust & Performance Food Groups	-	5 years	100%	TBD
02/16	TBD	LSB Broadcasting	-	10 years	100%	TBD
			<u>\$ 260,506,519</u>			

During fiscal year 2016, the total amount of abated property value was \$ 260,506,519. Based on the city tax rate of \$ 0.6298 per \$ 100 of value, the foregone tax levy due to abatement agreements was \$ 1,640,670.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**C. TAX ABATEMENTS (Continued)**

**(2) Sales Tax**

The City has entered into a Chapter 380 Economic Development Agreement with Buc-ee's, LTD. The City's participation in the agreement is authorized under Chapter 380 of the Texas Local Government Code, and under City Ordinance Number 2011-4504, Section III, B. This agreement provided an incentive to Buc-ee's, LTD in amount not to exceed 75% of the sales tax collected by Buc-ee's, LTD during each calendar year of the agreement. The term of the agreement is 10 years beginning January 1 of the year following the date the travel center opened to the public. The travel center opened in 2015; therefore, the agreement began January 1, 2016 and will expire December 31, 2025. Under the terms of the agreement, the total amount of the incentive for fiscal year 2016 was \$ 223,306.

**D. EMPLOYEE BENEFITS**

**(1) Retirement Plans**

The City participates in two retirement plans. The Texas Municipal Retirement System covered 666 employees as of December 31, 2015. The Temple Firefighter's Relief and Retirement Fund covered 119 employees as of September 30, 2015.

**The Texas Municipal Retirement System**

**Plan Description**

The City participates as one of 866 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](http://www.tmrs.com).

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

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**The Texas Municipal Retirement System (Continued)**

**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 actuarially equivalent 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.

Beginning in 1992, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1992, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating, Transfers
Annuity Increase to retirees	70% of CPI Repeating

The City does not participate in Social Security.

***Employees Covered by Benefit Terms –***

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	360
Inactive employees entitled to but not yet receiving benefits	344
Active employees	<u>666</u>
	<u>1,370</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**The Texas Municipal Retirement System (Continued)**

**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 consulting 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 Temple were required to contribute 7% of their annual gross earnings during the fiscal year. For fiscal year 2016, the City made required contributions of 16.73% for the months in 2015 and required contributions of 15.85% for the months in 2016. The City's contributions for the year ended September 30, 2016, were \$ 4,870,468, and were equal to the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%

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 were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the system adopted the

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**The Texas Municipal Retirement System (Continued)**

**Net Pension Liability (Continued)**

***Actuarial Assumptions (Continued) –***

Entry Age Normal actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits as applicable.

The long-term expected rate of return on pension plan investments is 6.75%. 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic equity	17.5%	4.80%
International equity	17.5%	6.05%
Core fixed income	10.0%	1.50%
Non-core fixed income	20.0%	3.50%
Real return	10.0%	1.75%
Real estate	10.0%	5.25%
Absolute return	10.0%	4.25%
Private equity	5.0%	8.50%
Total	<u>100.0%</u>	

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**The Texas Municipal Retirement System (Continued)**

**Net Pension Liability (Continued)**

***Discount Rate –***

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% 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 plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

***Changes in the Net Pension Liability -***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2014	\$ 164,924,797	\$ 142,131,259	\$ 22,793,538
Changes for the year:			
Service cost	4,778,653	-	4,778,653
Interest	11,472,372	-	11,472,372
Change of benefit terms	-	-	-
Difference between expected and actual experience	467,238	-	467,238
Changes of assumptions	-	-	-
Contributions - employer	-	4,857,267	(4,857,267)
Contributions - employee	-	2,033,251	(2,033,251)
Net investment income	-	209,717	(209,717)
Benefit payments, including refunds employee contributions	(6,846,202)	(6,846,202)	-
Administrative expense	-	(127,743)	127,743
Other changes	68,221	(6,309)	74,530
Net changes	9,940,282	119,981	9,820,301
Balance at December 31, 2015	<u>\$ 174,865,079</u>	<u>\$ 142,251,240</u>	<u>\$ 32,613,839</u>



**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**The Texas Municipal Retirement System (Continued)**

**Net Pension Liability (Continued)**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate –***

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

	<u>1% Decrease in</u> <u>Discount Rate</u> (5.75%)	<u>Current</u> <u>Discount Rate</u> (6.75%)	<u>1% Increase in</u> <u>Discount Rate</u> (7.75%)
City's net pension liability	\$ 57,163,497	\$ 32,613,839	\$ 12,483,138

***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.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2016, the City recognized pension expense of \$ 6,390,969.

At September 30, 2016, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>
Differences between actual assumptions and actual experience	\$ -	\$ 605,987
Changes in actuarial assumptions used	-	-
Differences between projected and actual investment earnings	8,827,363	-
Contributions subsequent to the measurement date	3,715,181	-
Total	<u>\$ 12,542,544</u>	<u>\$ 605,987</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**The Texas Municipal Retirement System (Continued)**

**Net Pension Liability (Continued)**

***Pension Plan Fiduciary Net Position (Continued) –***

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to Pensions (Continued)**

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$ 3,715,181 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2016 (i.e. recognized in the City's financial statements September 30, 2017). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31	
2016	\$ 1,988,331
2017	1,988,331
2018	2,256,007
2019	1,988,707
Total	<u>\$8,221,376</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**Temple Firefighters' Relief and Retirement Fund**

**Plan Description**

The City contributes to the retirement plan for firefighters in the Temple Fire Department known as the Temple Firefighter's Relief and Retirement Fund (the Fund). The Fund is a single employer, contributory, defined benefit plan. The benefit provisions of the Fund are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. The plan is administered by the Board of Trustees of the Temple Firefighter's Relief and Retirement Fund. The City does not have access to nor can it utilize assets within the retirement plan trust. The Fund issues a stand-alone report pursuant to GASB Statement No. 67, which may be obtained by writing the Temple Firefighter's Relief and Retirement Fund at 3615 S. 31<sup>st</sup> Street, Temple, Texas 76504. See that report for all information about the plan fiduciary net position.

**Benefits Provided**

Firefighters in the Temple Fire Department are covered by the Temple Firefighter's Relief and Retirement Fund which provides service retirement, death, disability, and withdrawal benefits. These benefits fully vest after 20 years of credited service. Firefighters may retire at age 50 with 20 years of service. A partially vested benefit is provided for firefighters who terminate employment with at least 10 but less than 20 years of service. If a terminated firefighter has a partially vested benefit, he may retire starting on the date he would have both completed 20 years of service if he had remained a Temple firefighter and attained age 50. As of the September 30, 2015 actuarial valuation date, the plan effective April 1, 2015 provided a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 65.75% of Highest Five Year Average Monthly Salary plus \$98.00 per month for each year of service in excess of 20.

A retiring firefighter who is at least age 53 with at least 23 years of service has the option to elect the Deferred Retirement Option Plan (DROP) which will provide a lump sum benefit and a reduced monthly benefit. The reduced monthly benefit is based on the service and Highest Five Year Average Monthly Salary as if he had terminated employment on his selected DROP benefit calculation date, which is no earlier than the later of the date he meets the age 53 and 23 years of service requirements and the date two years prior to the date he actually retires. Upon retirement, the member will receive, in addition to his monthly retirement benefit, a lump sum equal to the sum of (1) the amount of monthly contributions the member has made to the Fund after the DROP benefit calculation date plus (2) the total of the monthly retirement benefits the member would have received between the DROP benefit calculation date and the date he retired under the plan. There are no account balances. The lump sum is calculated at the time of retirement and distributed as soon as administratively possible.

There is no provision for automatic postretirement benefit increases. The Fund has the authority to provide, and has periodically in the past provided, ad hoc postretirement benefit increases.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**Temple Firefighters' Relief and Retirement Fund (Continued)**

**Benefits Provided (Continued)**

***Members Covered by the Fund –***

In the September 30, 2015 actuarial valuation, the following numbers of members were covered by the Fund:

Retirees and beneficiaries currently receiving benefits	67
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>119</u>
	<u>187</u>

**Funding Policy**

The contribution provisions of the Fund are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the City.

The funding policy of the Temple Firefighter's Relief and Retirement Fund requires contributions equal to 15% of pay by the firefighters, the rate elected by the firefighters according to TLFFRA. The City currently contributes according to a city ordinance either the same percentage of payroll that the City contributes to the Texas Municipal Retirement System for other employees or the firefighter contribution rate (15% of payroll) if lesser. The City has also agreed to contribute an additional 0.24% of payroll. The actuarial valuation includes the assumption that the City contribution rate will be 15.24% over the UAAL amortization period. The costs of administering the plan are paid from the Fund assets.

Ultimately, the funding policy also depends upon the total return of the Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the Board of Trustees. The Board selects and employs investment managers with the advice of their investment consultant who is completely independent of the investment managers. For the year ending September 30, 2015, the money-weighted rate of return on pension plan investments was -3.44%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

While the contribution requirements are not actuarially determined, state law requires that each change in plan benefits adopted by the Fund must first be approved by an eligible actuary, certifying that the contribution commitment by the firefighters and the assumed city contribution rate together provide an adequate contribution arrangement. Using the entry age actuarial cost method, the plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's unfunded actuarial accrued liability (UAAL). The number of years needed to amortize the plan's UAAL is actuarially determined using an open, level percentage of payroll method.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**Temple Firefighters' Relief and Retirement Fund (Continued)**

**Net Pension Liability**

The City's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by a special study based on the actuarial valuation as of September 30, 2014 and rolled forward to September 30, 2015.

Total pension liability	\$ 53,217,119
Plan fiduciary net position	<u>(37,387,617)</u>
City's net pension liability	<u><u>\$ 15,829,502</u></u>

Plan fiduciary net position as a percentage of the total pension liability	70.3%
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***Actuarial Assumptions –***

The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.75%
Salary increases	3.75%, plus promotion, step and longevity increases that vary by service
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables for males and for females (sex distinct) projected to 2024 by scale AA.

The long-term expected rate of return on pension plan investments is reviewed for each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (currently resulting in 4.6%) and by adding expected inflation (3.75%). In addition, the final 8.00% assumption was selected by "rounding down" and thereby reflects a reduction of 0.35% for adverse deviation. The target allocation and expected arithmetic net real rates of return for each major asset class are summarized in the following table:

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**Temple Firefighters' Relief and Retirement Fund (Continued)**

**Net Pension Liability (Continued)**

***Actuarial Assumptions (Continued) –***

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Large Cap Domestic Equity	20.0%	5.90%
Small/Mid Cap Domestic Equity	10.0%	6.00%
International Equity	24.0%	6.30%
Real Estate	5.0%	3.90%
Commodities	7.5%	3.70%
Private Equity	5.0%	7.60%
Hedge Fund	5.0%	2.70%
Fixed Income	22.5%	1.40%
Cash	1.0%	0.10%
Total	<u>100.0%</u>	
Weighted Average		4.60%

***Discount Rate –***

The discount rate used to measure the total pension liability was 8%. No projection of cash flows was used to determine the discount rate because the September 30, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in twenty three years. That UAAL was based on an actuarial value of assets that was \$ 576,913 less than the plan fiduciary net position as of September 30, 2014. Because of the twenty three year amortization period of the UAAL with the lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments of 8% was applied to all periods of projected benefit payments as the discount rate to determine the total pension liability.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**Temple Firefighters' Relief and Retirement Fund (Continued)**

**Net Pension Liability (Continued)**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate –***

The following presents the net pension liability of the City of Temple, calculated using the discount rate of 8.0%, 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 (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	1% Decrease in <u>Discount Rate</u> (7.0%)	Current <u>Discount Rate</u> (8.0%)	1% Increase in <u>Discount Rate</u> (9.0%)
City's net pension liability	\$ 21,690,667	\$ 15,829,502	\$ 10,851,027

***Pension Plan Fiduciary Net Position –***

The plan fiduciary net position reported above is the same as reported by the Fund. Detailed information about the plan fiduciary net position is available in the Fund's separately issued audited financial statements, which are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Investments are reported at fair value, the price that would be recognized to sell an asset in an orderly transaction between market participants at the measurement date.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**Temple Firefighters' Relief and Retirement Fund (Continued)**

**Net Pension Liability (Continued)**

***Changes in the Net Pension Liability –***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at September 30, 2014	\$ 50,613,335	\$ 39,633,562	\$ 10,979,773
Changes for the year:			
Service cost	1,339,217	-	1,339,217
Interest	4,062,023	-	4,062,023
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions - employer	-	1,222,221	(1,222,221)
Contributions - employee	-	1,205,751	(1,205,751)
Net investment income		(1,348,337)	1,348,337
Benefit payments, including refunds of employee contributions	(3,240,391)	(3,240,391)	-
Administrative expense	-	(85,189)	85,189
Changes in benefit terms	442,935	-	442,935
Net changes	2,603,784	(2,245,945)	4,849,729
Balance at September 30, 2015	<u>\$ 53,217,119</u>	<u>\$ 37,387,617</u>	<u>\$ 15,829,502</u>



**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**Temple Firefighters' Relief and Retirement Fund (Continued)**

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

For the year ended September 30, 2016, the City's GASB 68 pension expense was \$ 2,601,669.

***Components of Pension Expense for the Fiscal Year Ended September 30, 2016 –***

Service cost	\$ 1,339,217
Interest	4,062,023
Firefighter contributions	(1,205,751)
Projected earnings on pension plan investments	(3,134,781)
Amortization of differences between projected and actual earnings on plan investments	1,012,837
Amortization of changes of assumptions	-
Amortization of differences between expected and actual experience	-
Pension plan administrative expenses	85,189
Changes in benefit terms	442,935
Total pension expense	<u>\$ 2,601,669</u>

At September 30, 2016, 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 actual assumptions and actual experience	\$ -	\$ -
Changes in actuarial assumptions used	-	-
Differences between projected and actual investment earnings	3,935,132	-
Contributions subsequent to the measurement date	1,217,974	-
Total	<u>\$ 5,153,106</u>	<u>\$ -</u>

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(1) Retirement Plans (Continued)**

**Temple Firefighters' Relief and Retirement Fund (Continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

***Deferred Outflows of Resources and Deferred Inflows of Resources to be Recognized in Pension Expense in Future Years –***

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended September 30	
2017	\$1,012,837
2018	1,012,837
2019	1,012,836
2020	<u>896,622</u>
Total	<u><u>\$3,935,132</u></u>

The total of the contributions by the City to the Fund contributed subsequent to the measurement date of the net pension liability September 30, 2015, through September 30, 2016 is a deferred outflow of resources that will be recognized as a reduction in the net pension liability in the fiscal year ending September 30, 2017.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(2) Supplemental Death Benefits Fund**

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

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

**Contributions**

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

The City's contributions to the TMRS SBDF for the fiscal years ended 2016, 2015, and 2014 were \$ 21,242, \$ 20,607, and \$ 18,649, respectively, which equaled the required contributions each year.

A summary of the annual required contributions is as follows:

**Texas Municipal Retirement System - Supplemental Death Benefits Fund**

Plan Year Ended	Total Annual Contribution as a Percentage of Payroll	Required Annual Contribution as a Percentage of Payroll	Annual Required Contribution (ARC)	Percentage of Required Contribution Contributed
9/30/2014	0.07%	0.07%	\$ 18,649	100%
9/30/2015	0.07%	0.07%	20,607	100%
9/30/2016	0.07%	0.07%	21,242	100%

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**D. EMPLOYEE BENEFITS (Continued)**

**(3) Deferred Compensation Fund**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by one trustee; the International City Management Association Retirement Corporation (ICMA-RC). In 1998, the City implemented the requirements of GASB Statement No. 32, "Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans". In accordance with this statement and recent tax law changes, the City has amended their trust agreement which establishes that all assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. Due to the implementation of these changes, the City does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees' contributions to the trustee. Accordingly, the City has not presented the assets and income from the plan in these Financial Statements. Deferred compensation investments are held by an outside trustee. Plan investments are chosen by the individual (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these.

The plan, available to all permanent City employees, permits them to defer until future years up to 100% of annual gross earnings not to exceed \$ 17,500. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**E. OTHER POST- EMPLOYMENT BENEFITS**

Plan Description

In addition to providing pension benefits, the City provided certain other post-employment benefits to its retirees. Other post-employment benefits include health and dental insurances for the retiree and the retiree's family. The benefits described below represent the benefits currently in place and projected to be in place in the future. However, the projected future benefits do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. These benefits are part of a single-employer benefit OPEB plan. The plan does not issue a publicly available financial report.

Opportunity to Purchase Health and/or Dental Insurance

An employee leaving the employment of the City, who is eligible to receive retirement benefits from a municipal retirement plan, is entitled to purchase continued health and/or dental benefits for the employee and the employee's dependents (if covered by the City's plan at the time of separation) from the City unless the employee is eligible, or becomes eligible at a later date, for group health and/or dental benefits through another employer. To avail themselves of this opportunity to purchase health and/or dental benefits through the City, the employee must notify the City of his or her intent to continue to purchase health and/or dental benefit coverage no later than the date on which the person leaves employment with the City. The City will make coverage available to eligible retirees under the health care and/or dental coverage plan provided by the City to its employees or through a substitute Medicare Supplement Plan for over age 65 retirees for health insurance. A retired employee who elects to continue health and/or dental benefit coverage under this section prior to retirement, and who

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**E. OTHER POST- EMPLOYMENT BENEFITS (Continued)**

subsequently enters employment with another employer who offers group health and/or benefits to its employees (regardless of whether or not the retired employee elects such coverage), is no longer eligible for coverage under this policy. A retired employee who elects to continue health and/or dental benefit coverage under this section prior to retirement, and who subsequently elects to discontinue such coverage, is no longer eligible for coverage under this policy. A retired employee who elects to continue coverage for any of the retired employee's dependents, and who then subsequently elects to discontinue such coverage for any of his dependents, abandons his right to obtain future coverage for the dependent for whom coverage was discontinued.

Contribution by City Towards Cost of Health and/or Dental Benefits for Certain Employees

Employees who retire prior to May 1, 2007:

- a. The City will pay an amount to be determined each fiscal year by the City offered actuarially calculated, non-blended, standard option health and/or dental insurance premium toward the City offered plan selected by a retired employee, who:
  1. was hired by the City prior to February 1, 2002;
  2. is not eligible to receive Medicare benefits;
  3. had not less than 10 years of continuous service with the City at the time of his or her retirement;
  4. notifies the City of his or her intent to continue health benefit and/or dental coverage with the City no later than the date on which he or she retires; and
  5. is eligible and elects to receive a monthly retirement annuity from the Texas Municipal Retirement System (TMRS) or the Temple Firefighter's Relief and Pension Fund commencing within 60 days of his or her retirement from the City.
- b. The City will pay an amount to be determined each fiscal year of the City offered actuarially calculated, non-blended, standard option health and/or dental insurance premium toward the City offered plan selected by a retired employee, who:
  1. was hired by the City after January 31, 2002;
  2. is not eligible to receive Medicare benefits;
  3. had not less than 25 years of continuous service with the City at the time of his or her retirement;
  4. notifies the City of his or her intent to continue health and/or dental benefit coverage with the City no later than the date on which he or she retires; and
  5. is eligible and elects to receive a monthly retirement annuity from the Texas Municipal Retirement System (TMRS) or the Temple Firefighter's Relief and Pension Fund commencing within 60 days of his or her retirement from the City.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**E. OTHER POST- EMPLOYMENT BENEFITS (Continued)**

Contribution by City Towards Cost of Health and/or Dental Benefits for Certain Employees  
(Continued)

Employees who retire on or after May 1, 2007:

- a. The City will pay an amount to be determined each fiscal year of the City offered actuarially calculated, non-blended, standard option health and/or dental insurance premium of retired employees who:
  1. had not less than 25 years of continuous service with the City of Temple at the time of his or her retirement;
  2. is not eligible to receive Medicare benefits;
  3. notifies the City of his or her intent to continue health and/or dental benefit coverage with the City no later than the date on which he or she retires; and
  4. is eligible and elects to receive a monthly retirement annuity from the Texas Municipal Retirement System (TMRS) or the Temple Firefighters' Relief and Pension Fund commencing within 60 days of his or her retirement from the City.
- b. Employees who retire with less than 25 years of continuous service with the City of Temple will be required to pay 100% of the actuarially calculated, non-blended rate for retirees.
- c. Employees who leave the employment of the City with retirement eligibility, but less than 25 years of continuous service at the City of Temple, may purchase health and/or dental benefit coverage for themselves or their dependents through COBRA continuation, subject to the terms contained herein, but are responsible for 100% of the cost of such coverage.

Provisions Regarding Medicare for Retirees Over the Age of 65

- a. An individual who retires from the City of Temple, and who informed the City not later than their date of retirement, upon attaining age 65 is no longer eligible for benefits under the City-sponsored plan for employees. Upon attaining age 65, such retiree is eligible to enroll in the Medicare Supplement Plan adopted by the City as a substitute for coverage under the Plan offered to employees. If a retiree attains age 65, and had coverage for a dependent that has not attained age 65, the dependent will be eligible to continue coverage, at 100% the retiree's cost, under the City Plan for employees until attaining age 65. The dependent, upon attaining age 65, will be eligible to enroll in the substitute Medicare Supplement adopted by the City at 100% the retiree's cost. The City will pay an amount to be determined each fiscal year for retirees selecting one of the City adopted substitute Medicare Supplement Plans not to exceed 50% of the City adopted standard option substitute Medicare Supplement for retirees who had at least 25 years of continuous service with the City of Temple.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**E. OTHER POST-EMPLOYMENT BENEFITS (Continued)**

Provisions Regarding Medicare for Retirees Over the Age of 65 (Continued)

- b. A retiree who retired from the City prior to 1998, is over 68 years old, and who is not eligible to receive Medicare benefits, will not be required to enroll in the City-adopted substitute Medicare Supplement program. The City will continue to pay an amount to be determined each fiscal year of the actuarially calculated, non-blended, standard option premium of health insurance for these retirees.
- c. The retiree will be responsible for 100% of the premium for any elected dependent coverage.
- d. To retain health and/or dental insurance benefits through the City, the retiree must pay the premium for the retiree coverage and any dependent coverage within 45 days of the date on which any premium is due. The City reserves the right to withdraw the eligibility to purchase health and/or dental insurance benefits through the City if a retiree fails to make a premium payment as required.

Dependents not on the employee's health and/or dental insurance at the time of the employee's retirement cannot be added at a later date. Once a covered individual (including the retiree) elects to drop coverage, or coverage is dropped due to lack of payment, they are no longer eligible to be enrolled in the City's health plan or substitute Medicare Supplement plan.

The City is under no obligation, statutory or otherwise to offer other post-employment benefits or pay any portion of the cost of other post-employment benefits to any retirees. Allocation of city funds to pay other post-employment benefits or to make other post-employment benefits available is determined on an annual basis by the City Council as part of the budget approval process.

Expenditures for other post-employment benefits are recognized on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as payroll expenditures within the Human Resources Department. The cost of providing these benefits for the year ended September 30, 2015 for one hundred ten (110) retirees was \$ 147,138.

In the fiscal year 2009, the City implemented GASB Statement No. 45. The following liability is recognized in the government-wide financial statements as of September 30, 2015.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets held in an irrevocable trust is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

**IV. OTHER INFORMATION (Continued)**

**E. OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Annual Other Post-Employment (OPEB) Cost and Net OPEB Obligation**

The annual OPEB cost associated with the City's retiree benefits for the fiscal year ended September 30, 2016, is as follows.

	Governmental	Proprietary	Total
Annual required contribution	\$ 353,049	\$ 57,473	\$ 410,522
Interest on prior year net OPEB obligation	102,640	16,709	119,349
Adjustment to ARC	(99,989)	(16,277)	(116,266)
Annual OPEB cost	355,700	57,905	413,605
Contributions made	(210,147)	-	(210,147)
Estimated increase in net OPEB obligation	145,553	57,905	203,458
Net OPEB obligation - beginning of year	2,364,333	619,389	2,983,722
Estimated net OPEB obligation - end of year	<u>\$ 2,509,886</u>	<u>\$ 677,294</u>	<u>\$ 3,187,180</u>

**Schedule of Employer Contributions**

**Other Post-Employment Benefits**

Plan Year Ended	Assumed Annual Contribution	Annual OPEB Benefit Cost (ABC)	Percentage of Required Contribution Contributed	Net OPEB Obligation
9/30/2014	\$ 259,760	\$ 480,198	54%	\$ 2,748,399
9/30/2015	259,760	495,083	52%	2,983,722
9/30/2016	210,147	413,605	51%	3,187,180

**Schedule of Funding Progress**

**Other Post-Employment Benefits**

Actuarial Valuation Date	Actuarial Value for Assets	Actuarial Accrued Liability (AAL) Unit Credit	Percentage Funded (1)/(2)	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	UAAL as a Percentage of Payroll (4)/(5)
9/30/2012	\$ -	\$ 7,406,228	0.0%	\$ 7,406,228	\$ 32,051,174	23.1%
9/30/2014	-	5,727,264	0.0%	5,727,264	33,950,142	16.9%
9/30/2016	-	5,058,970	0.0%	5,058,970	38,346,970	13.2%



**CITY OF TEMPLE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**September 30, 2016**

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**IV. OTHER INFORMATION (Continued)**

**E. OTHER POST-EMPLOYMENT BENEFITS (Continued)**

**Annual Other Post-Employment (OPEB) Cost and Net OPEB Obligation (Continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method and significant assumptions underlying the actuarial calculation are as follows:

**Summary of Actuarial Valuations**

Actuarial Valuation Date	9/30/2012	9/30/2014	9/30/2016
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level as a percentage employee payroll	Level as a percentage employee payroll	Level as a percentage employee payroll
Amortization Period	30 years, open	30 years, open	30 years, open
Asset Valuation Method	Market Value, if any	Market Value, if any	Market Value, if any
Investment Rate of Return	4.50%	4.50%	4.00%
Inflation Rate	3.00%	3.00%	2.50%
Payroll Growth	3.00%	3.00%	3.00%
Health Care Cost Trend Rate	Initial rate of 8.5% declining to an ultimate rate of 4.50% after 8 years	Initial rate of 7.5% declining to an ultimate rate of 4.50% after 12 years	Initial rate of 7.5% declining to an ultimate rate of 4.25% after 15 years

**APPENDIX C**

**FORM OF BOND COUNSEL'S OPINION**

*[An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.]*

**CITY OF TEMPLE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2017  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$35,995,000\***

**AS BOND COUNSEL FOR THE CITY OF TEMPLE, TEXAS** (the "City") of the certificates described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the date specified in the text of the Certificates, until maturity or redemption, at the rates and payable on the dates specified in the text of the Certificates and in the ordinance of the City adopted on October 19, 2017, authorizing the issuance of the Certificates (the "Ordinance").

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and laws of the State of Texas, certified copies of the proceedings of the City, and other documents authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate Numbered R-1).

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that said Certificates have been authorized, issued and delivered in accordance with law; and that said Certificates, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, the Certificates constitute a valid and legally binding obligation of the City; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by and payable from a limited pledge of the net revenues of the City's utility system, being the combined water and sewer system (the "System"), after payment of all operation and maintenance expenses or collections thereof, and all debt service, reserve and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the City's System, with such amount not exceeding \$10,000, constituting "Surplus Revenues," all as provided in the Ordinance.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity

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\*Preliminary, subject to change.



bonds" and that, accordingly, interest on the Certificates will not be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance by the City with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

**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 (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Certificates, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Certificates is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose.



We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of the City and the assessed valuation of taxable property within the City and the sufficiency of the revenues pledged by the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,