

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

The City of Celina presents the City's financial statements. This overview is an analysis of the financial activities of the City for the fiscal year ended September 30, 2011. This discussion should be read in conjunction with the financial statements and related notes. Comparative data is also presented for government-wide and fund financial statements at the end of this section.

FINANCIAL HIGHLIGHTS:

- Government-wide net assets reported in the Statement of Net Assets are \$16,898,644. Of this amount \$15,483,397 is invested in capital assets or restricted for debt service and capital projects, and the balance of \$1,415,247 is in unrestricted net assets.
- Government-wide net assets increased by \$997,235 during 2011.
- Each of the City's fund financial statements reported changes in equity as follows:
 - General Fund – \$402,196 increase
 - Water & Sewer Fund - \$818,882 increase
 - Debt Service Fund - \$120,133 decrease

USING THIS ANNUAL REPORT:

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and the appropriations from the State. Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

REPORTING THE CITY AS A WHOLE-GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Statement of Net Assets and the Statement of Activities

Government-wide financial statements provide an analysis of the City's overall financial condition and operations. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Assets includes all the City's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions and 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current year or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and the changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City has two kinds of activities:

Governmental Activities – Most of the City's services are reported here, including, administration, judicial, fire and emergency services, public works, police, parks and recreation, infrastructure and the main street project. Property taxes and state and federal grants finance most of these activities.

Business-type Activities – The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system operations and sanitation services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. The City's administration establishes funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary use different accounting approaches.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules found at the bottom of each of the governmental fund financial statements.

Proprietary Funds – The Proprietary/Enterprise fund is used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

Net assets serve as one useful indicator of a government's financial position. In the case of the City, the combined net assets exceeded liabilities by \$16,898,644 and \$15,901,319 at the close of FY 2011 and FY 2010, respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:

The combined net assets of the City's activities increased from \$15,901,319 to \$16,898,644 or \$997,325 during 2011. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$1,415,247.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

As the City completed the year, its governmental funds \$1,740,454 and proprietary fund \$6,873,536 reported combined fund balance and net assets of \$8,613,990, a \$1,100,945 increase from last year.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets – the City's investment in capital assets reported in governmental activities and business-type activities was \$16,262,773 and \$14,017,796. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. The change in the City's net investment in capital assets for the current fiscal year was \$839,015 and (\$226,738) in each of the respective activities. Additional information on capital asset activity can be found in note 5 to the financial statements.

Long-term Debt – at year-end the City had \$17,533,781 in bonds and capital leases outstanding – an increase of \$274,729. Additional information on long-term liabilities can be found in note 6 to the financial statements.

BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:

Looking back at 2011 the City of Celina saw a tremendous amount of celebrations and improvements. Construction was completed on the Downtown Square and our citizens helped us celebrate the 100th anniversary of the Square On October 15th. McDonalds and Quik Lube and Tune are among several of our newest businesses. New homes are again adorning the horizon. Texas Health Association will be moving into lease spaces in Celina in the summer of 2012. Recently Celina enjoyed a balloon festival that attracted thousands of patrons to our community to enjoy food, fun and festivities.

The future of Celina looks great and with the support of our citizens we will accomplish amazing goals. This year we will begin the journey to effectively address and solve structural and public challenges. We will creatively solve the development issues that face us in the near future. Financial challenges will constantly create avenues for us to improve through necessity. Our local economy continues to show slow but steady improvement. Monthly sales tax receipts have increased in the last four months and we forecast that this should continue throughout 2012.

The focus for this organization is to be creative while also being accountable and transparent about our actions. We must be open to new opportunities as they are presented to us and be able to respond to requests by gathering facts and focusing on what is best for our community.

We will cultivate diverse ideas by bringing in experts from outside our normal realm. Ideas that we wish to pursue will be analyzed by our development team and examined from several viewpoints to ensure that we are all on the right path. We will constantly be searching for contacts that have experience in developing communities, while making comparisons to other communities to ensure that the best developments are created here in Celina.

This is a very exciting time in the history of Celina with some significant transportation projects in the near future that will increase our economic development opportunities. Preston Road will be widened to four lanes from FM 1461 to FM 455 within the next year. With the completion of this project TXDOT will then continue the widening of Preston Road through Celina to the High School. These projects will enable our city to grow and meet our current and future transportation needs. Additional transportation projects are in the planning stages including an Outer Loop that could allow you to travel easier through Celina from the Dallas North Toll way to State Highway 75.

In 2012 our City leaders will continue with a conservative fiscal policy by closely monitoring expenditures while maintaining the ability to provide great customer service to our citizens. Our employees are constantly investigating areas to save money and obtain funding for new projects from outside sources such as grants and energy cost saving programs. 2012 will be an exciting time for growth in Celina.

The City of Celina continued to enjoy constant but moderate growth in fiscal year 2010-2011. The City has issued 75 building permits for the fiscal year 2011. In comparison with 52 permits issued last fiscal year, the number of building permits increased by 44 percentage points. Accordingly, permit fee collections have increased by \$44,412 or 21.5 percentage points for the same period. For the fiscal year 2010-2011, the City collected \$250,939 in permit fees compared with \$206,427 for the same period last year. The City of Celina possesses a vast amount of land that makes it attractive to housing developers. The increase in building permits and fees can be contributed to the improvement in housing construction for the region as well as the state.

The City of Celina's portion of sales tax collection increased from \$271,670 in FY 2009-2010 to \$290,835 in FY 2010-2011 (figures do not include CEDC or CCDC collections). The City is experiencing a 7 percentage points or \$19,165 increase in sales tax collections in FY 2010-2011. The increase follows the trend all through the state. The cost of fuel has forced the population to travel less and shop more, closer to their homes. Opening of a few retail shops and restaurants have played a role in the increase of sales tax revenue as well. Management anticipates that this increase will continue through FY 2011-2012 more aggressively. Total assessed value of the properties for the City of Celina increased from \$454,151,622 in FY 2010 to \$461,631,888 FY 2011. This increase represents a recovery from declining property values and is a sign that economy stabilizing in this region. The City of Celina almost completely recovers from last year's drop in property values. The increase resulted from new constructions and annexation of new parcels of land. Reviewing the history of the City's assessed property values provides evidence of the City's measurable growth in last decade.

| Years | Assessed Value | % Change | |
|-------|----------------|----------|--|
| 2002 | 87,908,272.00 | | |
| 2003 | 114,041,371.00 | 30% | |
| 2004 | 143,297,951.00 | 26% | |
| 2005 | 183,200,000.00 | 28% | |
| 2006 | 224,412,066.00 | 23% | |
| 2007 | 284,847,298.00 | 27% | |
| 2008 | 418,824,688.00 | 47% | |
| 2009 | 463,330,201.00 | 9% | |
| 2010 | 454,151,622.00 | -2% | |
| 2011 | 461,631,888.00 | 1.6% | |

Total water sales increased from \$1,944,348 in FY 2010 to \$2,549,933 in FY 2010-2011. The increase of \$605,585 or 31 percentage points partly is the result of the second rate increase that was implemented in the month of April 2011. However, a review of the history of the City's water sales over past few years indicates a healthy average increase of 20 percentage points in water sales. History of water sales is illustrated below:

| Years | Water Sales | % Change |
|-------|--------------|----------|
| 2002 | 502,048.00 | |
| 2003 | 707,367.00 | 41% |
| 2004 | 818,403.00 | 16% |
| 2005 | 1,157,066.00 | 41% |
| 2006 | 1,871,163.00 | 62% |
| 2007 | 1,298,932.00 | (30%) |
| 2008 | 1,598,567.00 | 23% |
| 2009 | 1,602,364.00 | 0.24% |
| 2010 | 1,944,348.00 | 21% |
| 2011 | 2,549,933.00 | 31% |

Total sewer sales increased from \$774,022 in FY 2010 to \$946,269 in FY 2010-2011. The increase of \$172,247 or 22 percentage points entirely is the result of increase in sale since the second utility rate increase in April 2011 excluded the Sewer. A review of the history of the City's sewer sales over past few years indicates a healthy average increase of 14 percentage points in sewer sales. History of sewer sales is illustrated below:

| Years | Sewer Sales | % Change |
|-------|-------------|----------|
| 2002 | 268,979.00 | |
| 2003 | 309,581.00 | 15% |
| 2004 | 341,976.00 | 10% |
| 2005 | 403,498.00 | 18% |
| 2006 | 509,798.00 | 26% |
| 2007 | 485,948.00 | (5%) |
| 2008 | 546,556.00 | 13% |
| 2009 | 572,299.00 | 4.7% |
| 2010 | 774,022.00 | 35% |
| 2011 | 946,269.00 | 22% |

CONTACTING THE CITY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a 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, please do not hesitate to contact Mike Foreman, City Manager, or Jay Toutounchian, Director of Finance, by phone at (972) 382-2682 or by E-mail at mforeman@celina-tx.gov or jtoutounchian@celina-tx.gov.

CITY OF CELINA, TEXAS
COMPARATIVE STATEMENTS OF NET ASSETS

| | Governmental Activities | | Business-type Activities | | Total | |
|--|--------------------------------|---------------------|---------------------------------|---------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| ASSETS | | | | | | |
| Current and other assets | \$ 3,341,978 | \$ 2,444,572 | \$ 2,737,158 | \$ 2,282,699 | \$ 6,079,136 | \$ 4,727,271 |
| Capital assets, net | 16,262,773 | 15,423,758 | 14,017,796 | 14,244,534 | 30,280,569 | 29,668,292 |
| Total Assets | 19,604,751 | 17,868,330 | 16,754,954 | 16,527,233 | 36,359,705 | 34,395,563 |
| LIABILITIES | | | | | | |
| Other liabilities | 1,285,561 | 763,641 | 641,719 | 471,551 | 1,927,280 | 1,235,192 |
| Long-term debt | 8,294,082 | 7,258,024 | 9,239,699 | 10,001,028 | 17,533,781 | 17,259,052 |
| Total Liabilities | 9,579,643 | 8,021,665 | 9,881,418 | 10,472,579 | 19,461,061 | 18,494,244 |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 7,968,691 | 8,165,734 | 6,830,370 | 6,289,011 | 14,799,061 | 14,454,745 |
| Restricted for debt service | 469,988 | 624,480 | - | - | 469,988 | 624,480 |
| Restricted for capital projects | 214,348 | | | | 214,348 | - |
| Unrestricted | 1,372,081 | 1,056,451 | 43,166 | (234,357) | 1,415,247 | 822,094 |
| Total Net Assets | \$ 10,025,108 | \$ 9,846,665 | \$ 6,873,536 | \$ 6,054,654 | \$ 16,898,644 | \$ 15,901,319 |

**CITY OF CELINA, TEXAS
COMPARATIVE STATEMENTS OF ACTIVITIES**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|--------------------------------|---------------------|---------------------------------|---------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Program revenues: | | | | | | |
| Charges for services | \$ 733,947 | \$ 566,637 | \$ 4,190,142 | \$ 3,360,517 | \$ 4,924,089 | \$ 3,927,154 |
| Operating grants/contributions | 295,140 | 283,849 | | | 295,140 | 283,849 |
| Capital grants/contributions | 391,623 | 144,460 | | | 391,623 | 144,460 |
| General revenues: | | | | | | |
| Ad valorem taxes | 2,967,206 | 3,015,298 | | | 2,967,206 | 3,015,298 |
| Sales taxes | 290,835 | 271,670 | | | 290,835 | 271,670 |
| Franchise Taxes | 355,576 | 253,500 | | | 355,576 | 253,500 |
| Other | 264,332 | 225,174 | 10,075 | 8,144 | 274,407 | 233,318 |
| Total revenues | 5,298,659 | 4,760,588 | 4,200,217 | 3,368,661 | 9,498,876 | 8,129,249 |
| Expenses: | | | | | | |
| Administration | 993,291 | 896,155 | | | 993,291 | 896,155 |
| Judicial | 70,205 | 70,102 | | | 70,205 | 70,102 |
| Fire and emergency services | 1,169,196 | 1,068,864 | | | 1,169,196 | 1,068,864 |
| Development services | 363,133 | 329,794 | | | 363,133 | 329,794 |
| Public works | 369,952 | 397,095 | | | 369,952 | 397,095 |
| Police department | 938,031 | 892,283 | | | 938,031 | 892,283 |
| Parks and recreation | 362,409 | 406,446 | | | 362,409 | 406,446 |
| Library | 126,482 | 129,637 | | | 126,482 | - |
| Infrastructure | 418,484 | 208,373 | | | 418,484 | 208,373 |
| Main street project | 57,880 | 60,868 | | | 57,880 | 60,868 |
| Interest and fiscal charges | 326,153 | 336,386 | | | 326,153 | 336,386 |
| Water, Sewer and Sanitation Services | | | 3,306,335 | 3,425,151 | 3,306,335 | 3,425,151 |
| Total Expenses | 5,195,216 | 4,796,003 | 3,306,335 | 3,425,151 | 8,501,551 | 8,221,154 |
| Excess (deficiency) before transfers | 103,443 | (35,415) | 893,882 | (56,490) | 997,325 | (91,905) |
| Transfers | 75,000 | 325,000 | (75,000) | (325,000) | - | - |
| Change in Net Assets | 178,443 | 289,585 | 818,882 | (381,490) | 997,325 | (91,905) |
| Net assets - October 1 | 9,846,665 | 9,557,080 | 6,054,654 | 6,436,144 | 15,901,319 | 15,993,224 |
| Net assets - September 30 | \$ 10,025,108 | \$ 9,846,665 | \$ 6,873,536 | \$ 6,054,654 | \$ 16,898,644 | \$ 15,901,319 |

**CITY OF CELINA, TEXAS
COMPARATIVE BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011 and 2010**

| | | | Total | |
|---|---------------------|-------------------|---------------------------|---------------------|
| | | Debt | Governmental Funds | |
| | General | Service | 2011 | 2010 |
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 736,084 | \$ 493,895 | \$ 1,229,979 | \$ 1,131,576 |
| Cash and cash equivalents - restricted | 983,006 | | 983,006 | 332,943 |
| Investment in Texpool | 2,370 | | 2,370 | 2,367 |
| Sales taxes receivable | 58,001 | | 58,001 | 50,468 |
| Property taxes receivable, net | 48,202 | 9,182 | 57,384 | 65,319 |
| EMS receivable | 296,870 | | 296,870 | 203,457 |
| Other receivables | 57,781 | | 57,781 | 21,904 |
| Due from other funds | 400,000 | | 400,000 | 400,000 |
| Due from component units | 27,530 | | 27,530 | 25,533 |
| Total Assets | \$ 2,609,844 | \$ 503,077 | \$ 3,112,921 | \$ 2,233,567 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | 72,659 | | 72,659 | 78,655 |
| Accrued salaries and benefits | 47,958 | | 47,958 | 38,394 |
| Other accrued liabilities | 46,150 | 153 | 46,303 | 42,699 |
| Due to other funds | | 20,278 | 20,278 | 20,278 |
| Due to component units | 79,326 | | 79,326 | - |
| Deferred revenue | 328,104 | 9,181 | 337,285 | 262,207 |
| Payable from restricted assets: | | | | |
| Accounts payable | 252,338 | | 252,338 | 8,934 |
| Deferred revenue | 516,320 | | 516,320 | 324,009 |
| Total Liabilities | 1,342,855 | 29,612 | 1,372,467 | 775,176 |
| <u>FUND BALANCES</u> | | | | |
| Restricted for: | | | | |
| Capital improvements | 214,348 | | 214,348 | |
| Debt service | | 473,465 | 473,465 | 593,598 |
| Unassigned | 1,052,641 | | 1,052,641 | 864,793 |
| Total Fund Balances | 1,266,989 | 473,465 | 1,740,454 | 1,458,391 |
| Total Liabilities and Fund Balances | \$ 2,609,844 | \$ 503,077 | \$ 3,112,921 | \$ 2,233,567 |

CITY OF CELINA, TEXAS
Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Years Ended September 30, 2011 and 2010

| | General Fund | Debt Service Fund | Total Governmental Funds 2011 | 2010 |
|--|---------------------|-------------------------|-------------------------------------|---------------------|
| REVENUES: | | | | |
| Ad valorem taxes | \$ 2,692,510 | \$ 282,632 | \$ 2,975,142 | \$ 3,015,507 |
| Franchise taxes | 355,576 | | 355,576 | 253,500 |
| Sales tax | 290,835 | | 290,835 | 271,670 |
| Permits and inspection fees | 257,605 | | 257,605 | 172,173 |
| Component units contributions | | 165,000 | 165,000 | 165,000 |
| Development fees | 16,286 | | 16,286 | 45,894 |
| Fire department and FMS fees | 262,435 | | 262,435 | 180,203 |
| Fines | 95,016 | | 95,016 | 93,867 |
| Other income | 82,758 | | 82,758 | 40,999 |
| Collin County road contributions | 236,623 | | 236,623 | 144,460 |
| Donations and fund raising events | 155,935 | | 155,935 | 134,565 |
| Interest | 13,775 | 2,799 | 16,574 | 19,175 |
| Park fees | 18,907 | | 18,907 | 24,786 |
| Federal and state grants | 294,205 | | 294,205 | 149,284 |
| Total Revenues | 4,772,466 | 450,431 | 5,222,897 | 4,711,083 |
| EXPENDITURES: | | | | |
| Administration | 979,059 | | 979,059 | 880,101 |
| Judicial | 70,205 | | 70,205 | 70,102 |
| Fire and emergency services | 1,140,328 | | 1,140,328 | 1,049,716 |
| Development services | 363,133 | | 363,133 | 329,794 |
| Public works | 568,890 | | 568,890 | 392,527 |
| Police department | 913,898 | | 913,898 | 865,304 |
| Parks and recreation | 176,313 | | 176,313 | 222,959 |
| Library | 126,482 | | 126,482 | 129,637 |
| Main street project | 57,880 | | 57,880 | 60,868 |
| Capital outlay | 1,464,171 | | 1,464,171 | 474,465 |
| Debt Service: | | | | |
| Principal retirement | | 257,590 | 257,590 | 251,798 |
| Interest and fiscal charges | | 312,974 | 312,974 | 331,881 |
| Total Expenditures | 5,860,359 | 570,564 | 6,430,923 | 5,059,152 |
| Excess (Deficiency) of Revenues Over Expenditures | (1,087,893) | (120,133) | (1,208,026) | (348,069) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Issuance of capital leases | - | | - | 174,797 |
| Proceeds from sale of capital assets | 48,381 | | 48,381 | 73,283 |
| Proceeds from issuance of bonds | 1,400,000 | | 1,400,000 | - |
| Bond issuance costs | (33,292) | | (33,292) | - |
| Operating transfers in (out) | 75,000 | | 75,000 | 325,000 |
| Net Other Financing Sources (Uses) | 1,490,089 | - | 1,490,089 | 573,080 |
| Net change in fund balances | 402,196 | (120,133) | 282,063 | 225,011 |
| Fund balance, October 1 | 864,793 | 593,598 | 1,458,391 | 1,233,380 |
| Fund balance, September 30 | <u>\$ 1,266,989</u> | <u>\$ 473,465</u> | <u>\$ 1,740,454</u> | <u>\$ 1,458,391</u> |

CITY OF CELINA, TEXAS
COMPARATIVE STATEMENTS OF FUND NET ASSETS
PROPRIETARY FUND
September 30, 2011 and 2010

| | 2011 | 2010 |
|---|--------------------------|--------------------------|
| | Enterprise Fund | Enterprise Fund |
| | Water & Sewer | Water & Sewer |
| | Activities | Activities |
| ASSETS | | |
| Cash and cash equivalents | \$ 90,042 | \$ (204,279) |
| Investment in TexPool | 3,166 | 3,162 |
| Investment in TexPool, restricted for capital projects | 2,052,273 | 2,045,505 |
| Accounts receivable, net | 637,600 | 458,243 |
| Due from other funds | 20,278 | 20,278 |
| Total current assets | 2,803,359 | 2,322,909 |
| Capital Assets: | | |
| Land | 154,115 | 154,115 |
| Buildings | 43,769 | 43,769 |
| Water & sewer infrastructure | 18,651,555 | 18,353,581 |
| Vehicles | 113,689 | 116,689 |
| Equipment | 323,768 | 324,268 |
| Less accumulated depreciation | (5,269,100) | (4,747,888) |
| Capital Assets, net | 14,017,796 | 14,244,534 |
| Bond issuance costs | 333,799 | 359,790 |
| Total assets | \$ 17,154,954 | \$ 16,927,233 |
| LIABILITIES | | |
| Accounts payable | 217,202 | 169,282 |
| Accrued salaries and benefits | 38,514 | 25,950 |
| Bonds payable - current | 659,938 | 652,408 |
| Infrastructure advance from CISD - current | 109,171 | 91,198 |
| Accrued interest payable | 27,528 | 29,456 |
| Meter deposits payable | 145,715 | 125,563 |
| Deferred revenue | 212,760 | 121,300 |
| Due to other funds | 400,000 | 400,000 |
| Total current liabilities | 1,810,828 | 1,615,157 |
| Infrastructure advance from CISD - long-term | 783,535 | 910,427 |
| Bonds payable - long-term | 7,687,055 | 8,346,995 |
| Total non-current liabilities | 8,470,590 | 9,257,422 |
| Total liabilities | 10,281,418 | 10,872,579 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 6,830,370 | 6,289,011 |
| Restricted for capital projects, net of related debt (\$2,052,273 each, 2011) (\$2,045,505 each, 2010) | - | - |
| Unrestricted | 43,166 | (234,357) |
| Total Net Assets | \$ 6,873,536 | \$ 6,054,654 |

CITY OF CELINA, TEXAS
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
Years Ended September 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|----------------------------------|----------------------------|--------------------------|
| OPERATING REVENUES: | | |
| Water sales | \$ 2,549,933 | \$ 1,944,348 |
| Sewer sales | 946,269 | 774,022 |
| Garbage fees | 308,022 | 310,997 |
| Penalties | 70,218 | 55,372 |
| Tap and reconnect fees | 107,470 | 78,931 |
| Impact fees | 143,829 | 127,007 |
| Other revenues | 64,401 | 69,840 |
| Total Operating Revenues | <u>4,190,142</u> | <u>3,360,517</u> |
| OPERATING EXPENSES: | | |
| Salaries and benefits | 328,438 | 335,575 |
| Garbage fees | 307,009 | 297,545 |
| Licenses and permits | 6,993 | 6,452 |
| Materials and supplies | 106,768 | 111,855 |
| Engineering | 5,737 | 31,745 |
| Postage | 21,089 | 19,022 |
| Repairs and facility maintenance | 119,667 | 112,768 |
| General insurance | 5,449 | 15,588 |
| Vehicle expense | 34,739 | 19,863 |
| Utilities and telephone | 243,239 | 256,066 |
| Chemicals | 23,785 | 17,652 |
| Water purchases and related fees | 1,134,597 | 1,063,361 |
| Bad debt provision | 611 | 3,523 |
| Depreciation & amortization | 529,712 | 533,064 |
| Other expense | 28,664 | 34,458 |
| Total Operating Expenses | <u>2,896,497</u> | <u>2,858,537</u> |
| Operating Income | <u>\$ 1,293,645</u> | <u>\$ 501,980</u> |

(Continued)

CITY OF CELINA, TEXAS
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
Years Ended September 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|--------------------------------|--------------------------------|
| NONOPERATING REVENUES (EXPENSES): | | |
| Interest income | \$ 9,245 | \$ 8,144 |
| Gain on sale of fixed assets | 830 | |
| Interest and fiscal charges | (409,838) | (566,614) |
| Total Nonoperating Revenues (Expenses) | <u>(399,763)</u> | <u>(558,470)</u> |
| Income (loss) before contributions and transfers | 893,882 | (56,490) |
| Transfers out to other funds | <u>(75,000)</u> | <u>(325,000)</u> |
| Change in net assets | 818,882 | (381,490) |
| Total net assets, October 1 | <u>6,054,654</u> | <u>6,436,144</u> |
| Total net assets, September 30 | <u><u>\$ 6,873,536</u></u> | <u><u>\$ 6,054,654</u></u> |

BASIC FINANCIAL STATEMENTS

**CITY OF CELINA, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

| | Primary Government | | | |
|---|----------------------------|-----------------------------|----------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 736,084 | \$ 90,042 | \$ 826,126 | \$ 221,404 |
| Investment in Texpool | 2,370 | 3,166 | 5,536 | |
| Bank certificates of deposit | | | | 69,137 |
| Property taxes receivable, net | 48,202 | | 48,202 | |
| Sales taxes receivable | 58,001 | | 58,001 | 58,000 |
| Fines receivable, net | 7,407 | | 7,407 | |
| Accounts receivable, net | 296,870 | 637,600 | 934,470 | |
| Other receivables | 57,781 | | 57,781 | |
| Due from component units | 27,530 | | 27,530 | |
| Due from primary government | | | | 79,326 |
| Internal balances | 379,722 | (379,722) | | |
| Bond issuance costs | 241,928 | 333,799 | 575,727 | |
| Restricted assets: | | | | |
| Cash and cash equivalents | 1,476,901 | | 1,476,901 | |
| Property taxes receivable, net | 9,182 | | 9,182 | |
| Investment in Texpool restricted for capital projects | | 2,052,273 | 2,052,273 | |
| Capital assets: | | | | |
| Land | 459,931 | 154,114 | 614,045 | |
| Construction in progress | 1,327,170 | 887,045 | 2,214,215 | |
| Capital assets, net | 14,475,672 | 12,976,637 | 27,452,309 | |
| Total Assets | 19,604,751 | 16,754,954 | 36,359,705 | 427,867 |
| LIABILITIES | | | | |
| Accounts payable | 72,659 | 217,202 | 289,861 | |
| Accrued salaries and benefits | 144,803 | 38,514 | 183,317 | |
| Other accrued expenses | 46,303 | | 46,303 | |
| Due to component units | 79,326 | | 79,326 | |
| Deferred revenue | 8,606 | 212,760 | 221,366 | |
| Meter deposits payable | | 145,715 | 145,715 | |
| Deferred bond credits | 132,117 | | 132,117 | |
| Due to primary government | | | | 27,530 |
| Payable from restricted assets: | | | | |
| Accounts payable | 252,338 | | 252,338 | |
| Deferred revenue | 516,320 | | 516,320 | |
| Accrued interest | 33,089 | 27,528 | 60,617 | |
| Long-term liabilities: | | | | |
| Due within one year: | | | | |
| Bonds payable | 295,062 | 659,938 | 955,000 | |
| Capital leases | 111,212 | | 111,212 | |
| Infrastructure advance from CISD | | 109,171 | 109,171 | |
| Due in more than one year: | | | | |
| Bonds payable | 7,842,951 | 7,687,055 | 15,530,006 | |
| Capital leases | 44,857 | | 44,857 | |
| Infrastructure advance from CISD | | 783,535 | 783,535 | |
| Total Liabilities | 9,579,643 | 9,881,418 | 19,461,061 | 27,530 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 7,968,691 | 6,830,370 | 14,799,061 | |
| Restricted for debt service | 469,988 | | 469,988 | |
| Restricted for capital projects | 214,348 | | 214,348 | |
| Restricted for capital projects (\$2,052,273) net of related debt (\$2,052,273) | | - | | |
| Unrestricted | 1,372,081 | 43,166 | 1,415,247 | 400,337 |
| Total Net Assets | \$ 10,025,108 | \$ 6,873,536 | \$ 16,898,644 | \$ 400,337 |

CITY OF CELINA, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2011

Celina Response to Staff 3-7

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Units |
|---|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------------------|---------------------|
| | | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total Primary Government | |
| Governmental activities: | | | | | | | | |
| Administration | \$ 993,291 | \$ - | \$ - | \$ - | \$ (993,291) | | \$ (993,291) | \$ - |
| Judicial | 70,205 | | | | (70,205) | | (70,205) | |
| Fire and emergency services | 1,169,196 | 346,133 | 220,973 | 155,000 | (447,090) | | (447,090) | |
| Development services | 363,133 | 16,286 | | | (346,847) | | (346,847) | |
| Public works | 369,952 | 257,605 | | | (112,347) | | (112,347) | |
| Police department | 938,031 | 95,016 | 1,177 | | (841,838) | | (841,838) | |
| Parks and recreation | 362,409 | 18,907 | | | (343,502) | | (343,502) | |
| Library | 126,482 | | 22,690 | | (103,792) | | (103,792) | |
| Infrastructure | 418,484 | | | 236,623 | (181,861) | | (181,861) | |
| Main street project | 57,880 | | 50,300 | | (7,580) | | (7,580) | |
| Economic development | | | | | | | | (115,709) |
| Interest and fiscal charges | 326,153 | | | | (326,153) | | (326,153) | |
| Total governmental activities | 5,195,216 | 733,947 | 295,140 | 391,623 | (3,774,506) | | (3,774,506) | (115,709) |
| Business-type activities: | | | | | | | | |
| Water and sewer services | 3,306,335 | 4,190,142 | | | | 883,807 | 883,807 | |
| Total business-type activities | 3,306,335 | 4,190,142 | - | - | - | 883,807 | 883,807 | |
| Total all activities | \$ 8,501,551 | \$ 4,924,089 | \$ 295,140 | \$ 391,623 | \$ (3,774,506) | \$ 883,807 | \$ (2,890,699) | \$ (115,709) |
| General revenues: | | | | | | | | |
| Ad valorem taxes | | | | | 2,967,206 | | 2,967,206 | |
| Sales taxes | | | | | 290,835 | | 290,835 | 290,835 |
| Franchise taxes | | | | | 355,576 | | 355,576 | |
| Miscellaneous income and contributions | | | | | 82,758 | 830 | 83,588 | 4,964 |
| Unrestricted investment earnings | | | | | 16,574 | 9,245 | 25,819 | 1,235 |
| Intergovernmental transfers | | | | | 165,000 | | 165,000 | (165,000) |
| Transfers | | | | | 75,000 | (75,000) | - | |
| Total general revenues and transfers | | | | | 3,952,949 | (64,925) | 3,888,024 | 132,034 |
| Change in net assets | | | | | 178,443 | 818,882 | 997,325 | 16,325 |
| Net assets-beginning of year | | | | | 9,846,665 | 6,054,654 | 15,901,319 | 384,012 |
| Net assets-end of year | | | | | \$ 10,025,108 | \$ 6,873,536 | \$ 16,898,644 | \$ 400,337 |

The accompanying notes are an integral part of these financial statements

**CITY OF CELINA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

| | General | Debt Service | Total Governmental Funds |
|--|---------------------|-------------------|--------------------------------|
| <u>ASSETS</u> | | | |
| Pooled cash and cash equivalents | \$ 736,084 | \$ 493,895 | \$ 1,229,979 |
| Cash and cash equivalents - restricted | 983,006 | | 983,006 |
| Investment in Tcxpool | 2,370 | | 2,370 |
| Sales taxes receivable | 58,001 | | 58,001 |
| Property taxes receivable, net | 48,202 | 9,182 | 57,384 |
| EMS receivable, net | 296,870 | | 296,870 |
| Other receivables | 57,781 | | 57,781 |
| Due from other funds | 400,000 | | 400,000 |
| Due from component units | 27,530 | | 27,530 |
| Total Assets | \$ 2,609,844 | \$ 503,077 | \$ 3,112,921 |

LIABILITIES AND FUND BALANCES

| | | | |
|--|------------------|---------------|------------------|
| <u>LIABILITIES</u> | | | |
| Accounts payable | 72,659 | | 72,659 |
| Accrued salaries and benefits | 47,958 | | 47,958 |
| Other accrued liabilities | 46,150 | 153 | 46,303 |
| Due to other funds | | 20,278 | 20,278 |
| Due to component units | 79,326 | | 79,326 |
| Deferred revenue | 328,104 | 9,181 | 337,285 |
| Payable from restricted assets: | | | |
| Accounts payable | 252,338 | | 252,338 |
| Deferred revenue | 516,320 | | 516,320 |
| | 1,342,855 | 29,612 | 1,372,467 |

FUND BALANCES

| | | | |
|--|---------------------|-------------------|---------------------|
| Restricted for: | | | |
| Capital Projects | 214,348 | | 214,348 |
| Debt Service | | 473,465 | 473,465 |
| Unassigned | 1,052,641 | | 1,052,641 |
| Total Fund Balances | 1,266,989 | 473,465 | 1,740,454 |
| Total Liabilities and Fund Balances | \$ 2,609,844 | \$ 503,077 | \$ 3,112,921 |

Governmental fund balances as presented above: 1,740,454

Amounts presented for governmental activities in the statement of net assets are different because:

Capital assets reported in the statement of net assets are not financial resources and are not reported in the fund balance sheet. 16,262,773

Other long-term assets (receivables) are not available to pay current-period expenditures and therefore are deferred in the funds. These include deferred property taxes of \$57,383, EMS and fines receivable of \$271,296, and \$7,407 and prepaid bond issuance cost \$241,928. 578,014

Interest due on long-term debt is recorded as accrued interest payable in the statement of net assets but do not become a liability on the fund statements until the date due. (33,089)

Long-term liabilities are reported in the statement of net assets but they are not due and payable in the current period and therefore are not reported as liabilities in the fund balance sheet. (8,523,044)

\$ 10,025,108

CITY OF CELINA, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2011

| | General Fund | Debt Service Fund | Total Governmental Funds |
|--|---------------------|-------------------------|--------------------------------|
| REVENUES: | | | |
| Ad valorem taxes | \$ 2,692,510 | \$ 282,632 | \$ 2,975,142 |
| Franchise taxes | 355,576 | | 355,576 |
| Sales tax | 290,835 | | 290,835 |
| Permits and inspection fees | 257,605 | | 257,605 |
| Component units contributions | | 165,000 | 165,000 |
| Development fees | 16,286 | | 16,286 |
| Fire department and EMS revenues | 262,435 | | 262,435 |
| Fines | 95,016 | | 95,016 |
| Other income | 82,758 | | 82,758 |
| Collin County road contribution | 236,623 | | 236,623 |
| Donations | 155,935 | | 155,935 |
| Interest | 13,775 | 2,799 | 16,574 |
| Park fees | 18,907 | | 18,907 |
| Federal and state grants | 294,205 | | 294,205 |
| Total Revenues | 4,772,466 | 450,431 | 5,222,897 |
| EXPENDITURES: | | | |
| Current: | | | |
| Administration | 979,059 | | 979,059 |
| Judicial | 70,205 | | 70,205 |
| Fire and emergency services | 1,140,328 | | 1,140,328 |
| Development services | 363,133 | | 363,133 |
| Public works | 568,890 | | 568,890 |
| Police department | 913,898 | | 913,898 |
| Parks and recreation | 176,313 | | 176,313 |
| Library | 126,482 | | 126,482 |
| Main street project | 57,880 | | 57,880 |
| Capital Outlay | 1,464,171 | | 1,464,171 |
| Debt Service: | | | |
| Principal | | 257,590 | 257,590 |
| Interest and fiscal charges | | 312,974 | 312,974 |
| Total Expenditures | 5,860,359 | 570,564 | 6,430,923 |
| Excess (Deficiency) of Revenues Over Expenditures | (1,087,893) | (120,133) | (1,208,026) |
| OTHER FINANCING SOURCES (USES): | | | |
| Proceeds from sale of assets | 48,381 | | 48,381 |
| Proceeds from issuance of bonds | 1,400,000 | | 1,400,000 |
| Bond issuance costs | (33,292) | | (33,292) |
| Operating transfers in (out) | 75,000 | | 75,000 |
| Net Other Financing Sources (Uses) | 1,490,089 | - | 1,490,089 |
| Net change in fund balances | 402,196 | (120,133) | 282,063 |
| Fund balance, October 1 | 864,793 | 593,598 | 1,458,391 |
| Fund balance, September 30 | \$ 1,266,989 | \$ 473,465 | \$ 1,740,454 |

The accompanying notes are an integral part of these financial statements.

CITY OF CELINA, TEXAS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2011

| | |
|--|--------------------------|
| Net change in fund balances - total governmental funds | \$ 282,063 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Governmental funds report capital outlays as expenditures, while in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense of \$(568,920) exceeded capital outlay of \$1,464,171. | 895,251 |
| In the statement of activities, the gain on the disposal of assets is reported, but in the governmental funds, proceeds from the sale increase current financial resources. The change in net assets differs from the change in fund balance by the net book value of the assets disposed. | (56,236) |
| Proceeds from the issuance of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of debt retired for the year \$363,942 less bonds issued (\$1,400,000). | (1,036,058) |
| Changes in the liability for compensated absences do not require the use of current resources and therefore are not recorded in the funds. | (2,452) |
| Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. This includes the change in unavailable deferred ad valorem taxes of \$(7,936) court fines receivable, and EMS receivables \$83,698. | 75,762 |
| Bond issuance costs represent expenditures of available resources in the fund statements but are capitalized and amortized over the life of the bonds in the statement of activities. | 33,292 |
| Some expenses in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the amortization of bond issuance costs \$15,240; the amortization of bond premiums, \$(8,902); and the increase in accrued interest on debt of \$6,841. | (13,179) |
| Change in net assets of governmental activities | <u>\$ 178,443</u> |

The accompanying notes are an integral part of these financial statements.

**CITY OF CELINA, TEXAS
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2011**

| | <u>Enterprise Fund Water & Sewer Activities</u> |
|--|---|
| ASSETS | |
| Cash and cash equivalents | \$ 90,042 |
| Investment in TexPool | 3,166 |
| Investment in TexPool restricted for capital projects | 2,052,273 |
| Accounts receivable, net | 637,600 |
| Due from other funds | 20,278 |
| Total current assets | <u>2,803,359</u> |
| Capital Assets: | |
| Land | 154,115 |
| Buildings | 43,769 |
| Water & sewer infrastructure | 18,651,555 |
| Vehicles | 113,689 |
| Equipment | 323,768 |
| Less accumulated depreciation | (5,269,100) |
| Capital Assets, net | <u>14,017,796</u> |
| Bond issuance costs | 333,799 |
| Total assets | <u>\$ 17,154,954</u> |
| LIABILITIES | |
| Accounts payable | 217,202 |
| Accrued salaries and benefits | 38,514 |
| Bonds payable - current | 659,938 |
| Infrastructure advance from CISD - current | 109,171 |
| Accrued interest payable | 27,528 |
| Meter deposits payable | 145,715 |
| Deferred revenue | 212,760 |
| Due to other funds | 400,000 |
| Total current liabilities | <u>1,810,828</u> |
| Infrastructure advance from CISD - long-term | 783,535 |
| Bonds payable - long-term | 7,687,055 |
| Total non-current liabilities | <u>8,470,590</u> |
| Total liabilities | <u>10,281,418</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 6,830,370 |
| Restricted for capital projects (\$2,052,273), net of related debt (\$2,052,273) | - |
| Unrestricted | 43,166 |
| Total Net Assets | <u>\$ 6,873,536</u> |

The accompanying notes are an integral part of these financial statements.

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CITY OF CELINA, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
Year Ended September 30, 2011

| | <u>Enterprise Fund</u> <u>Water & Sewer</u> <u>Activities</u> |
|----------------------------------|--|
| OPERATING REVENUES: | |
| Water sales | \$ 2,549,933 |
| Sewer sales | 946,269 |
| Garbage fees | 308,022 |
| Penalties | 70,218 |
| Tap and reconnect fees | 107,470 |
| Impact fees | 143,829 |
| Other revenues | 64,401 |
| Total Operating Revenues | <u>4,190,142</u> |
| OPERATING EXPENSES: | |
| Salaries and benefits | 328,438 |
| Garbage fees | 307,009 |
| Licenses and permits | 6,993 |
| Materials and supplies | 106,768 |
| Engineering | 5,737 |
| Postage | 21,089 |
| Repairs and facility maintenance | 119,667 |
| General insurance | 5,449 |
| Vehicle expense | 34,739 |
| Utilities and telephone | 243,239 |
| Chemicals | 23,785 |
| Water purchases and related fees | 1,134,597 |
| Bad debt provision | 611 |
| Depreciation & amortization | 529,712 |
| Other expense | 28,664 |
| Total Operating Expenses | <u>2,896,497</u> |
| Operating Income | <u>\$ 1,293,645</u> |

(Continued)

CITY OF CELINA, TEXAS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
Year Ended September 30, 2011

| | <u>Enterprise Fund</u> <u>Water & Sewer</u> <u>Activities</u> |
|---|---|
| NONOPERATING REVENUES (EXPENSES): | |
| Interest income | \$ 9,245 |
| Sale of fixed assets | 830 |
| Interest and fiscal charges | <u>(409,838)</u> |
| Total Nonoperating Revenues (Expenses) | <u>(399,763)</u> |
| Income (loss) before contributions and transfers | 893,882 |
| Operating Transfers in (out) | <u>(75,000)</u> |
| Change in net assets | 818,882 |
| Total net assets, October 1 | <u>6,054,654</u> |
| Total net assets, September 30 | <u><u>\$ 6,873,536</u></u> |

The accompanying notes are an integral part of these financial statements.

CITY OF CELINA, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2011

| | <u>Enterprise Fund</u> <u>Water & Sewer</u> <u>Activities</u> |
|--|---|
| Cash flows from operating activities: | |
| Cash received from customers and users | \$ 4,117,394 |
| Cash paid to suppliers | (2,005,577) |
| Cash paid to employees | (315,874) |
| Net cash provided (used) by operating activities | <u>1,795,943</u> |
| Cash flows from noncapital financing activities: | |
| Change in customer deposits | 20,152 |
| Operating transfers (to) from other funds | (75,000) |
| Advances (to) from other funds | - |
| Net cash provided (used) for noncapital financing activities | <u>(54,848)</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (302,974) |
| Proceeds from disposals of capital assets | 830 |
| Principal payments - bonds payable | (652,410) |
| Principal payments - other obligations | (108,919) |
| Interest paid on bonds payable and other long-term obligations | (385,774) |
| Net cash provided (used) by capital and related financing activities | <u>(1,449,247)</u> |
| Cash flows from investing activities: | |
| Net redemptions (purchases) of investments | (6,772) |
| Investment income | 9,245 |
| Net cash provided (used) by investing activities | <u>2,473</u> |
| Net increase (decrease) in cash and cash equivalents | 294,321 |
| Cash and cash equivalents, October 1 | <u>(204,279)</u> |
| Cash and cash equivalents, September 30 | <u>\$ 90,042</u> |

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF CELINA, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2011

Reconciliation of Net Income to Net Cash Provided (Used)
by Operating Activities

| | <u>Enterprise Fund</u> <u>Water & Sewer</u> <u>Activities</u> |
|---|---|
| Operating income (loss) | \$ 1,293,645 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | |
| Depreciation and amortization | 529,712 |
| (Increase) decrease in accounts receivable (net) | (179,357) |
| Increase (decrease) in accounts payable and accrued expense | 60,484 |
| Increase (decrease) in deferred revenues | <u>91,459</u> |
| Total Adjustments | <u>502,298</u> |
| Net cash provided by operating activities | <u><u>\$ 1,795,943</u></u> |

The accompanying notes are an integral part of these financial statements.

City of Celina, Texas
Notes to Financial Statements
September 30, 2011

1. Introduction and Summary of Significant Accounting Policies

The financial statements of the City of Celina, Texas and its component units, Celina Economic Development Corporation and Celina Community Development Corporation, collectively identified as the "City" have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ending September 30, 2011.

(A) Reporting Entity and Related Organizations

The City is a municipal corporation governed by an elected mayor and six member City Council. The City provides general administration, public works, police and judicial, and fire and emergency services to its residents. The Council hires a City Manager for day to day operations.

The City Council has the authority to make decisions, appoint administrators and managers, significantly influence operations; and has the primary accountability for fiscal matters. The City is not included in any other governmental "reporting entity" as defined in Section 2100, codification of Governmental Accounting and Financial Reporting Standards.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GASB Statements No. 14 and 39. These statements define the reporting entity as the primary government and those component units for which the primary government is financially accountable. In addition, component units may be included in the reporting entity based on the nature and significance of the relationship with the primary government, or based on being closely related or financially integrated with the primary government. Based on these criteria, the City has the following component units at September 30, 2011:

Discretely Presented Component Units:

Celina Economic Development Corporation (CEDC) - CEDC serves all citizens of the government and is governed by a board appointed by the City Council. The City Council may remove the CEDC board for cause. CEDC is a nonprofit corporation governed by Section 4A of the Texas Development Corporation Act of 1979 and organized for the public purpose of aiding, promoting and furthering economic development within the City of Celina, Texas.

1. Introduction and Summary of Significant Accounting Policies - continued

Celina Community Development Corporation (CCDC) - CCDC serves all citizens of the government and is governed by a board appointed by the City Council. The City Council may remove the CCDC board for cause. CCDC is a nonprofit corporation governed by Section 4B of the Texas Development Corporation Act of 1979 and organized for the public purpose of the promotion and development of industrial and manufacturing enterprises to promote and encourage employment and the public welfare of the City of Celina, Texas.

Neither CEDC nor CCDC prepare separate financial statements.

(B) Government-Wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and enterprise funds are reported in separate columns with composite columns for non-major funds.

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

1. Introduction and Summary of Significant Accounting Policies - continued

The government-wide statements report using the *economic resources measurement focus* and the *accrual basis of accounting* generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these 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 tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond and capital lease principal and interest which are reported as expenditures in the year due.

Major revenues sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, grant revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for water and sewer sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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

(D) Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund - reports as the primary operating fund of the City. This fund is used to account for all financial resources not reported in other funds.

Debt Service Fund - accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. The City annually levies ad valorem taxes restricted for the retirement of general obligation bonds, capital leases, and interest. This fund reports all such ad valorem taxes collected.

1. Introduction and Summary of Significant Accounting Policies - continued

Proprietary Funds

The City reports the following major enterprise fund:

Water and Sewer Fund - accounts for the operating activities of the City's water and sewer utilities services.

(E) Assets, Liabilities and Net Assets or Equity

Cash and Investments

The City maintains cash and investment pools which are shared by the various governmental funds. In addition, non-pooled cash and investments are separately held and reflected in the respective individual funds. These pooled and non-pooled cash and investment pools are displayed on its respective balance sheet as "cash and cash equivalents" and "investment in TexPool."

Investments are reported at fair value determined as follows. Short-term, highly liquid investments are reported at cost, which approximates fair value. Cash deposits are reported at the carrying amount which reasonably estimates fair value.

Bank certificates of deposit are carried at cost which approximates fair value.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Inventories and Prepaids

Inventories consisting of expendable supplies held for consumption in governmental funds are reported using the expenditure method. Under this method, amounts paid for these items are reported as expenditures when purchased. Inventories, when material, are recorded at cost stated on a first-in, first-out basis in the government-wide financial statements.

Prepaids record payments to vendors that benefit future reporting periods and are reported on the consumption basis at cost. Prepaids are similarly reported in government-wide and fund financial statements.

1. Introduction and Summary of Significant Accounting Policies - continued

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, or if historical cost is not available, they are stated at estimated historical cost. These assets are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|---------------------------------------|---------|
| Buildings | 40 |
| Road infrastructure | 15 - 50 |
| Water & sewer infrastructure & rights | 20 - 40 |
| Vehicles | 5 |
| Furniture, machinery, and equipment | 5 |

The City has not capitalized any interest costs in the carrying value of capital assets.

Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The City implemented GASB Statement 54 standards for the classification of fund balances in the governmental funds. The fund balances of governmental funds are defined as follows:

Non-spendable - amounts that cannot be spent either because they are in non-spendable form, such as inventory or prepaid items or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

1. Introduction and Summary of Significant Accounting Policies – continued

Committed - amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through a formal resolution of the City Council.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes that have been established by the City Council.

Unassigned - all other spendable amounts in the general fund.

The City Council delegates the responsibility to assign funds to the City Manager, Director of Finance, or other designee as determined by the Council.

When expenditures are incurred for which both restricted and unrestricted fund balance is available the City considers restricted funds to have been spent first. Similarly, committed funds are considered to have been spent first when there is a choice for the use of less restricted funds, then assigned and then unassigned funds.

Compensated Absences

Full-time employees earn vacation leave for each month of work performed. Progressive accrual of vacation leave is based on the number of years the individual is employed by the City. After completion of a probationary period of employment, accrued vacation leave is paid upon termination of employment. Full-time employees also earn sick leave time. Unused sick leave is not paid upon termination of employment.

Compensated absences are reported as accrued in the government-wide, proprietary and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees. These are included in wages and benefits payable.

(F) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a participant in the Texas Municipal League (TML) Employees Health Insurance Fund, Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The agreement provides that the trust established by TML will be self-sustaining through member premiums. The City pays annual premiums to TML for worker's compensation, general and auto liability, property damage, employee dishonesty, public officials liability, and law enforcement professional liability coverage. The City does not anticipate any material additional insurance cost assessments as a result of participation in this risk management pool. There were no reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage during any of the past three fiscal years.

1. Introduction and Summary of Significant Accounting Policies – continued

(G) Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

2. Stewardship, Compliance, and Accountability

Budgetary Information

The City Manager submits an annual budget to the City Council in accordance with the laws of the State of Texas and the city charter. The budget is presented to the City Council for review, budget workshops are held with the various City department officials, and public hearings are held to address priorities and the allocation of resources. Generally in August, the City Council adopts the annual fiscal year budgets for all City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's approved budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services and related fringe benefits, supplies, other services and charges, capital outlay, transfers, and debt service. Expenditures may not exceed appropriations at the department level. Within this control level, management may transfer appropriations between line items. Budget revisions and line item transfers are subject to final review by the City Council. Revisions to the budget were made throughout the year.

The budgets for the operating funds are prepared on the cash and expenditure basis. Revenues are budgeted in the year receipt is expected; and expenditures, which do not include encumbrances, are budgeted in the year that the liability is to be incurred. The Debt Service Fund budget is prepared to provide funding for general obligation debt service when liabilities are due for payment. The budget and actual required supplementary information is presented on these bases. Unexpended appropriations for annually budgeted funds lapse at fiscal year-end.

3. Deposits and Investments

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be fully secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation (FDIC) insurance. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health. Collateral agreements must be approved prior to deposit of funds. The City Council approves authorized depository institutions based on the recommendations of City management.

Deposits of City of Celina, Texas (primary government) and its component units, CEDC and CCDC, are fully insured or collateralized with securities held by the City or component unit, its agent, or by the pledging financial institution's trust department or agent in the name of the City or component unit, respectively.

3. Deposits and Investments - continued

Investments

During the year ended September 30, 2011 the City invested only in Texas Local Government Investment Pool ("TexPool"). TexPool, a public funds investment pool created by the Treasurer of the State of Texas acting by and through the Texas Treasury Safekeeping Trust Company, is empowered to invest funds and act as custodian of investments purchased with local investment funds. Authorized investments of TexPool include obligations of the United States of America or its agencies, direct obligations of the State of Texas or its agencies, certificates of deposit and repurchase agreements. At September 30, 2011, the carrying amount of City's investments in TexPool approximate its fair value. At September 30, 2011, the carrying amount and fair value of the City's investment in TexPool was \$2,057,809. TexPool is rated for credit risk as AAAM.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the Treasurer (in his absence the City Manager). Investing is performed in accordance with investment policies adopted by the City Council complying with state statutes. City investment policy and state statute generally permit the City to invest in FDIC insured or fully collateralized certificates of deposit, fully collateralized repurchase agreements, public funds investment pools, obligations of the United States of America or its agencies, direct obligations of the State of Texas, and obligations of agencies, counties, cities and other political subdivisions of Texas having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent. During the year ended September 30, 2011, the City did not own any types of securities other than those permitted by statute.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. City policy generally requires investment maturities to correspond to anticipated cash flow needs. In addition, investment maturities shall not exceed the following limits:

- Operating funds - 30 days
- Capital project funds - corresponding draw schedules
- Debt service funds - corresponding payment dates, not to exceed (6) six months
- Bond reserve funds - (5) five years

City policy states that volatile investment instruments shall be avoided and that nonmarketable instruments with maturities beyond one month shall not exceed 30 percent of the portfolio.

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. City policy requires that the risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types to eliminate the risk of loss from over-concentration of assets in a specific issuer, or a specific class of securities.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City's policy on safekeeping and custody requires that investments shall be secured through safekeeping agreements. All investment funds shall be placed directly with qualified financial institutions selected through the City's banking procurement process. All transactions shall be executed on a delivery versus payment basis.

4. Receivables, Uncollectible Accounts, and Deferred Revenue

Enterprise Fund Receivables, Uncollectible Accounts and Deferred Revenue

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The Enterprise Fund reports accounts receivable net of an allowance for uncollectible accounts and revenues net of uncollectible amounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days. Following is the detail of the Enterprise Fund receivables and the related allowance for uncollectible accounts:

| | |
|--|------------------|
| Accounts receivable, gross | \$637,600 |
| Less: allowance for uncollectible accounts | <u>-0-</u> |
| Net accounts receivable | <u>\$637,600</u> |

The City reports deferred revenue of \$212,760 for water and sewer impact fees that have been collected, but are awaiting expenditure for the designated purpose.

Property Taxes Receivable, Deferred Revenue, and Property Tax Calendar

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real property located within the City. Appraised values are established by the Collin County Central Appraisal District at 100% of market value. As of January 1, 2010, all real property was assessed at a net taxable value of \$454,151,622.

The property tax rate for the year ended September 30, 2011 was .645 per \$100 of the assessed valuation on taxable property. Following is a summary of the overall tax rate as levied by fund type:

| | |
|---|--------------|
| Maintenance and operations-General Fund | .5849 |
| Debt Service Fund | <u>.0601</u> |
| Total tax rate | <u>.6450</u> |

The property tax levy for the year ending September 30, 2011 was \$2,909,009. Collections of the current year property tax levy were \$2,898,438 or 99% of the current year tax levied.

In the governmental fund financial statements, property taxes are recorded as receivables in each of the respective funds on the tax levy date with appropriate allowances for estimated uncollectible amounts. At fiscal year-end, property tax receivables represent delinquent taxes. If delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City with a 10% allowance for estimated uncollectible amounts regardless of when cash is received. Over time substantially all property taxes are collected.

The City's full year property tax calendar is as follows:

October 1-Full year tax levy assessed for the current fiscal year-taxes are due and payable.

January 1-Tax lien is attached to property to secure the payment of taxes, and penalty and interest as applicable.

February 1-Penalty and interest charges begin to accrue on unpaid past due taxes.

July 1-Taxes become delinquent and are subject to attorney fees incurred for collection

4. **Receivables, Uncollectible Accounts, and Deferred Revenue - continued**

Allowance for Uncollectible Taxes

The City records an allowance for uncollectible property taxes in order to estimate the amount of taxes that will ultimately prove to be uncollectible. Management has determined that an allowance in the amount of ten percent (10%) of the property taxes receivable in each of the applicable fund types should be adequate to provide for uncollectible property taxes. No provisions are made for uncollectible sales tax receivables, or grants receivable as management estimates that these amounts will be fully collectible.

Fines and Court Costs Receivable and Related Allowances

In the governmental fund financial statements, fines and court costs are recognized as revenue on the cash basis.

In the government-wide financial statements, the City records fines and court costs receivable net of amounts estimated to be uncollectible and net of any amounts that would be due to other governmental entities as a result of collection. Management has determined the estimate of uncollectible fines and court costs through an analysis of actual amounts collected subsequent to year end. Amounts due to other governmental entities have been determined based on distribution requirements of the State of Texas.

Grants Receivable

Grants receivable were collected within 60 days of the end of the fiscal year, accordingly, no allowance for uncollectible amounts has been recorded. These amounts are recorded similarly in both the governmental fund statements and the government-wide financial statements. Grant revenues are recorded as earned when eligibility requirements are met. Grant revenues received prior to meeting grant eligibility requirements are recorded as deferred revenue.

5. Capital Assets

The following table provides a summary of changes in capital assets, including assets recorded under capital leases:

| | <u>Beginning</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending</u> |
|--|---------------------|---------------------|------------------|----------------------|
| <i>Governmental Activities:</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 459,931 | \$ -0- | \$ -0- | \$ 459,931 |
| Construction in progress | <u>144,460</u> | <u>1,182,710</u> | <u>-0-</u> | <u>1,327,170</u> |
| Total capital assets not being depreciated | <u>604,391</u> | <u>1,182,710</u> | <u>-0-</u> | <u>1,787,101</u> |
| Capital assets being depreciated: | | | | |
| Buildings & Improvements | 128,908 | | | 128,908 |
| Parks | 6,076,593 | | | 6,076,593 |
| Road Infrastructure | 11,069,312 | | | 11,069,312 |
| Vehicles | 804,244 | 65,201 | | 770,357 |
| Furniture & Equipment | <u>705,156</u> | <u>216,260</u> | <u>181,457</u> | <u>839,047</u> |
| Total capital assets | <u>18,784,213</u> | <u>281,461</u> | <u>181,457</u> | <u>18,884,217</u> |
| Total accumulated depreciation | <u>3,964,846</u> | <u>568,920</u> | <u>125,221</u> | <u>4,408,545</u> |
| Governmental Activities | | | | |
| Capital Assets, net | <u>\$15,423,758</u> | <u>\$ 895,251</u> | <u>\$ 56,236</u> | <u>\$ 16,262,773</u> |
| <i>Business-Type Activities:</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land and easements | \$ 154,114 | \$ | \$ | \$ 154,114 |
| Construction in progress | <u>887,045</u> | <u>205,534</u> | | <u>1,092,579</u> |
| Total capital assets not being depreciated | <u>1,041,159</u> | <u>205,534</u> | <u>-0-</u> | <u>1,246,693</u> |
| Other capital assets being depreciated: | | | | |
| Buildings | 43,769 | | | 43,769 |
| Water & sewer infrastructure | 17,466,536 | 92,440 | | 17,558,976 |
| Vehicles | 116,689 | 5,000 | 8,000 | 113,689 |
| Equipment | <u>324,268</u> | | <u>500</u> | <u>323,768</u> |
| Total capital assets | <u>18,992,421</u> | <u>302,974</u> | <u>8,500</u> | <u>19,286,895</u> |
| Less: accumulated depreciation | <u>4,747,887</u> | <u>529,712</u> | <u>8,500</u> | <u>5,269,099</u> |
| Business-type Activities | | | | |
| Capital Assets, net | <u>\$14,244,534</u> | <u>\$ (226,738)</u> | <u>\$ -0-</u> | <u>\$ 14,017,796</u> |

5. Capital Assets - continued

Depreciation expense for governmental activities was charged to functions of the City as follows:

| | |
|-----------------------------|-------------------|
| Administration | \$ 13,415 |
| Fire and emergency services | 92,945 |
| Road infrastructure | 208,484 |
| Public works | 4,568 |
| Parks | 186,096 |
| Police department | <u>63,412</u> |
| Total | <u>\$ 568,920</u> |

Depreciation expense recorded in business-type activities and the Enterprise Fund was \$529,712.

The gross amount of assets included in the equipment category above which were recorded under capital lease obligations is \$491,783. Accumulated amortization of these assets is \$341,539. Amortization expense is included in depreciation expense.

6. Long-Term Obligations

Long-term Obligations Supporting Governmental Activities

Certificates of obligation bonds issued by the City are backed by the full faith and credit of the City. These bonds are to be repaid with property taxes levied for debt service and recorded in the Debt Service Fund. The City's borrowing capacity is restrained by maintaining the City's debt at a responsible level. Other debt issued to support governmental activities are capital lease obligations which are primarily paid from the General Fund.

Interest expense for governmental activities was \$326,153 and is reported as a separate line item in the statement of activities.

Business-type Activities - Revenue Bonds

Revenue bonds consist of debt issued to support activities of the Enterprise (water and sewer) Fund. In addition to being backed by the full faith and credit of the City, revenue bonds are secured by a lien on and a pledge of the surplus revenues of the water and sewer system. Other debt issued to support business-type activities are capital lease obligations which are secured by the equipment purchased with the capital lease proceeds.

Interest expense for business-type activities and the Enterprise (water and sewer) Fund was \$409,838 for the year.

The following page contains is a summary of changes in bonds payable and capital lease obligations for the year:

6. Long-Term Obligations - continued

Following is a summary of changes in bonds payable and capital lease obligations for the year:

| | Balance 10/01/10 | Issued | Retired | Balance 9/30/11 | Due Within One Year |
|--|---------------------|---------------------|---------------------|---------------------|---------------------------|
| <i>Governmental Activities:</i> | | | | | |
| Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2011, 3.0%-4.125%, 2012-2031 | \$ -0- | \$ 1,400,000 | \$ | \$ 1,400,000 | \$ 10,000 |
| Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation Series 2004, 4.625%-5.00%, 2004-2029 | 6,092,875 | | 207,658 | 5,885,217 | 217,099 |
| Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation Series 2001, 5.25%-5.55%, 2003-2021 | 106,590 | | | 106,590 | -0- |
| General Obligation Refunding Bonds Series 2007, 4.00%-4.25%, 2008-2021 | 796,138 | | 49,932 | 746,206 | 67,963 |
| Capital lease obligations | <u>262,421</u> | | <u>106,352</u> | <u>156,069</u> | <u>111,212</u> |
| Total Governmental Activities | <u>\$ 7,258,024</u> | <u>\$ 1,400,000</u> | <u>\$ 363,942</u> | <u>\$ 8,294,082</u> | <u>\$ 406,274</u> |
| <i>Business-type Activities:</i> | | | | | |
| Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation Series 2001, 5.25%-5.55%, 2003-2021 | 233,410 | | | 233,410 | -0- |
| Tax and Waterworks and Sewer System Revenue Refunding bonds Series 2001, 4.625%-5.25%, 2003-2015 | 120,000 | | 70,000 | 50,000 | 15,000 |
| Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2003, 3.0%-4.50%, 2003-2023 | 4,375,000 | | 265,000 | 4,110,000 | 275,000 |
| Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation Series 2004, 4.625 %-5.00%, 2004-2029 | 362,126 | | 12,342 | 349,784 | 12,901 |
| General Obligation Refunding Bonds Series 2007, 4.00%-4.25%, 2008-2021 | 2,073,867 | | 130,068 | 1,943,799 | 177,037 |
| Tax & Waterworks and Sewer System Surplus Revenue Certificates of Obligation Series 2007, 2.60%-3.60%, 2009-2028 | <u>1,835,000</u> | <u>-0-</u> | <u>175,000</u> | <u>1,660,000</u> | <u>180,000</u> |
| Total Business-type Activities | <u>\$ 8,999,403</u> | <u>\$ -0-</u> | <u>\$ 652,410</u> | <u>\$ 8,346,993</u> | <u>\$ 659,938</u> |
| Total Primary Government Long-term Debt | <u>\$16,257,427</u> | <u>\$ 1,400,000</u> | <u>\$ 1,016,352</u> | <u>\$16,641,075</u> | <u>\$1,066,212</u> |

6. Long-Term Obligations - continued

The City's general obligation bonds are guaranteed by the full faith and credit of the City. The bond issues are approved by the voters and repaid with property taxes recorded in the Debt Service Fund. Current requirements for principal and interest of these obligations are accounted for in the Debt Service Fund.

Capital lease agreements represent general obligations of the City, and are secured by the equipment acquired by the capital lease proceeds. Current requirements for principal and interest of capital lease obligations are accounted for in the appropriate fund for which the liability was incurred.

Compensated absences are paid from the fund responsible for the employee's compensation with significant liabilities payable from the General Fund.

Debt Service Requirements to Maturity

The annual debt service requirements to maturity for bonded debt and capital lease obligations are as follows at year-end:

| Fiscal Year Ending September 30, | <i>Governmental Activities</i> | | | | | |
|--|--------------------------------|---------------------|------------------------------|-----------------|---------------------|---------------------|
| | Bonds Payable | | Capital Lease Obligations | | Total | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 295,062 | \$ 375,600 | \$ 111,212 | \$ 6,887 | \$ 406,274 | \$ 382,487 |
| 2013 | 336,995 | 340,007 | 44,857 | 1,803 | 381,852 | 341,810 |
| 2014 | 350,595 | 324,213 | | | 350,595 | 324,213 |
| 2015 | 369,275 | 307,858 | | | 369,275 | 307,858 |
| 2016 | 387,397 | 290,571 | | | 387,397 | 290,571 |
| 2017-2021 | 2,307,120 | 1,187,412 | | | 2,307,120 | 1,187,412 |
| 2022-2026 | 2,260,064 | 716,019 | | | 2,260,064 | 716,019 |
| 2027-2031 | 1,831,505 | 188,481 | | | 1,831,505 | 188,481 |
| Totals | <u>\$ 8,138,013</u> | <u>\$ 3,730,161</u> | <u>\$ 156,069</u> | <u>\$ 8,690</u> | <u>\$ 8,294,082</u> | <u>\$ 3,738,851</u> |

| Fiscal Year Ending September 30, | <i>Business-type Activities</i> | | | | | |
|--|---------------------------------|--------------------|------------------------------|---------------|---------------------|--------------------|
| | Bonds Payable | | Capital Lease Obligations | | Total | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 659,938 | \$ 330,299 | | | \$ 659,938 | \$ 330,299 |
| 2013 | 688,005 | 306,895 | | | 688,005 | 306,895 |
| 2014 | 709,405 | 281,935 | | | 709,405 | 281,935 |
| 2015 | 725,724 | 255,663 | | | 725,724 | 255,663 |
| 2016 | 767,603 | 228,363 | | | 767,603 | 228,363 |
| 2017-2021 | 3,777,887 | 681,045 | | | 3,777,887 | 681,045 |
| 2022-2026 | 939,936 | 89,771 | | | 939,936 | 89,771 |
| 2027-2031 | 78,495 | 7,287 | | | 78,495 | 7,287 |
| Totals | <u>\$ 8,346,993</u> | <u>\$2,181,258</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 8,346,993</u> | <u>\$2,181,258</u> |

6. Long-Term Obligations - continued

In addition to the bonds and capital leases above, the City also has the following long-term obligations:

| | Balance 10/01/10 | Increase | Decrease | Balance 9/30/11 | Due Within One Year |
|---------------------------------|---------------------|----------|----------|--------------------|------------------------|
| <i>Governmental Activities:</i> | | | | | |
| Compensated absences | \$ 94,393 | \$ 2,452 | \$ -0- | \$ 96,845 | \$ 96,845 |

It is anticipated that the liability for compensated absences described above will be paid from the General Fund when due.

| | Balance 10/01/10 | Increase | Decrease | Balance 9/30/11 | Due Within One Year |
|----------------------------------|---------------------|----------|------------|--------------------|------------------------|
| <i>Business-type Activities:</i> | | | | | |
| Obligation due to Celina ISD | \$ 1,001,625 | \$ | \$ 108,919 | \$ 892,706 | \$109,171 |

The obligation due to Celina ISD is a result of the school district funding the cost for the installation of a new water line that provides service to school facilities. The obligation is non-interest bearing however, the City has discounted the debt to estimated present value using the assumption of a 5.5% annual interest rate. The agreement with Celina ISD is that the City will not bill the school for water use until such time as the cumulative billings are equal to the cost of installing the water line. At the current rate of water use by Celina ISD, City management estimates approximately \$156,000 of gross billings for annual water use will be credited to this obligation over each of the next ten years.

7. Defeased Debt

During a prior year, the City issued refunding bonds of \$3,120,000 (par value) with interest rates ranging from 4.0% to 4.25% to advance refund term bonds with interest rates ranging from 4.7% to 5.9%, and a par value of \$2,955,000. The net proceeds from the issuance of the refunding bonds was used to purchase U. S. Government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments as the term bonds mature. The advance refunding met the requirements for an in-substance debt defeasance and the term bonds were removed from the City's government-wide financial statements. At September 30, 2011 \$2,227,000 of defeased bonds were outstanding.

8. Retirement Plan

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

8. Retirement Plan - continued

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

| | |
|---|------------|
| Employee deposit rate | 7.0% |
| Matching ratio (city to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/20 |
| Updated service credit | 0% |
| Annuity increase (to retirees) | 0% of CPI |

Contributions

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

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation (asset) and three year trend information for the City are as follows:

Three Year Trend Information

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Contributions Made</u> | <u>Net Pension Obligation</u> |
|-----------------------------------|--|-------------------------------|-----------------------------------|
| 09/30/09 | \$ 114,291 | \$114,291 | -0- |
| 09/30/10 | \$ 110,371 | \$110,371 | -0- |
| 09/30/11 | \$ 127,984 | \$127,984 | -0- |

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information for the three most recent actuarial valuations, as of December 31 are as follows:

8. Retirement Plan - continued

Annual Pension Cost

| Valuation Date | <u>12/31/2008</u> | <u>12/31/2009</u> | <u>12/31/2010</u> |
|---|---------------------------|---------------------------|---------------------------|
| Actuarial Cost Method - Projected Unit Credit | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization Method | Level percent of payroll | Level percent of payroll | Level percent of payroll |
| GASB 25 Equivalent Single Amortization Period | 24 years closed period | 28 years closed period | 30 years closed period |
| Amortization period for New Gains/Losses | 25 years | 25 years | 25 years |
| Asset Valuation Method | Amortized cost | 10-year smoothed Market | 10- year smoothed Market |
| Actuarial assumptions: | | | |
| Investment rate of return* | 7.5% | 7.5% | 7.5% |
| Projected salary increases* | Varies by age and service | Varies by age and service | Varies by age and service |
| *Includes inflation at | 3.0% | 3.0% | 3.0% |
| Cost-of-Living adjustments | 0.0% | 0.0% | 0.0% |

Funding Status and Funding Progress – In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four year period of January 1, 2006 through December 31, 2009). For a complete description of the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funding status as of December 31, 2010, under the two separate actuarial valuations, and the schedule of funding progress for each of the last three years follows:

Analysis of Funding Progress (in Thousands of Dollars)

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability | Unfunded (Over-funded) Accrued Liability | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------|-----------------------------|--|--------------|-----------------|---|
| 12/31/08 | \$1,418 | \$1,385 | (33) | 102% | \$1,821 | (1.8)% |
| 12/31/09 | \$1,658 | \$1,709 | 51 | 97% | \$2,147 | 2.4% |
| 12/31/10* | \$1,973 | \$1,995 | 22 | 98% | \$2,313 | 0.9% |
| 12/31/10** | \$2,056 | \$2,065 | 9 | 99% | \$2,313 | 0.4% |

* Actuarial valuation performed under the original fund structure

** Actuarial valuation performed under the new fund structure

8. Retirement Plan - continued

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

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

9. Litigation

From time to time, the City is involved in litigation in the ordinary course of business. City management considers the likelihood of any material liability resulting from this litigation to be remote.

10. Contingencies

The City participates in various state and federal grant programs and contracts which are subject to financial and compliance audits by the grantors or their representatives. Audits of these programs for the year ended September 30, 2011 have not been conducted. Accordingly, the City's compliance with applicable grant and contract requirements will be established at some future date. The City expects that costs disallowed by these various awarding agencies, if any, would be minimal.

11. Balances and Transfers/Payments Within the Reporting Entity

Receivables and Payables

Generally, outstanding balances between funds reported as "due to/from other funds" in the governmental fund financial statements include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

The following schedule reports receivables and payables within the reporting entity at year-end:

| | <u>Receivable</u> | <u>Payable</u> |
|-------------------|-------------------|----------------|
| Debt Service Fund | \$ | \$ 20,278 |
| Enterprise Fund | 20,278 | 400,000 |
| General Fund | 427,530 | |
| Component units | | 27,530 |

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

11. Balances and Transfers/Payments Within the Reporting Entity – continued:

The government-wide statement of activities eliminates transfers reported within governmental activities. The following schedule reports transfers and payments within the reporting entity:

| <u>Fund</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------|---------------------|----------------------|
| General Fund | \$ 75,000 | \$ |
| Enterprise Fund | | 75,000 |

The above transfer provided the General Fund with supplementary revenue for the year.

12. Service Area Acquisition

The City has entered into an agreement with Marilee Special Utility District formerly known as Gunter Rural Water Supply Corporation (GRWSC) whereby the City would acquire the rights to provide water and/or sewer services to certain areas within GRWSC jurisdiction. The City compensates GRWSC for the right to provide these services. The City capitalized the cost of acquiring these rights and amortizes these costs over a period of 40 years. These costs are included in the cost of water and sewer infrastructure on the statements of net assets.

13. Operating Lease

The City has entered into a ten year operating lease agreement for administration offices and a senior center. Terms of the lease agreement call for monthly payments of \$10,154 beginning on October 1, 2008 and continuing through September 30, 2013. Beginning October 1, 2013 and continuing through September 30, 2018 the monthly rental payments are \$11,541. Following is a summary of the annual minimum lease requirements under this agreement:

| <u>Year ending 9/30</u> | <u>Annual lease requirement</u> |
|-------------------------|---------------------------------|
| 2012 | \$ 138,389 |
| 2013 | 132,337 |
| 2014 | 146,964 |
| 2015 | 139,198 |
| 2016 | 138,492 |
| 2017 | 138,492 |
| 2018 | <u>138,492</u> |
| Total required | <u>\$ 972,364</u> |

Building rental expense for the year ending September 30, 2011 was \$133,886.

14. Economic Dependence

City operations are funded by taxes and revenues provided by the residents of the City of Celina, Texas. Accordingly, the City is economically dependent on the property values and local economy of City of Celina, Texas and the surrounding area.

15. Subsequent Events

Management has considered the need to disclose subsequent events as of February 9, 2012 which is the date the financial statements were available for review. No events have occurred through that date that would require additional disclosure.

APPENDIX C

**FORM OF BOND COUNSEL'S OPINION
(THE BONDS)**

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[Closing Date]

IN REGARD to the authorization and issuance of the "City of Celina, Texas, General Obligation Refunding Bonds, Series 2012," dated June 1, 2012, in the principal amount of \$4,110,000 (the "Bonds"), we have examined into their issuance by the City of Celina, Texas (the "City") solely to express legal opinions as to the validity of the Bonds, and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on September 1 in each of the years specified in the ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), without right of prior redemption. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings of the City in connection with the issuance of the Bonds, including the Ordinance, (ii) certifications and opinions of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and to certain other facts within the knowledge and control of the City, and (iii) such other documentation, including an examination of the Bond executed and delivered initially by the City (which we found to be in due form and properly executed), and such matters of law as we deem relevant to the matters discussed below. In such examinations, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies and the accuracy of the statements and information contained in such certificates.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the City, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance

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relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

APPENDIX D

**FORM OF BOND COUNSEL'S OPINION
(THE CERTIFICATES)**

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[Closing Date]

IN REGARD to the authorization and issuance of the "City of Celina, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2012," dated June 1, 2012, in the principal amount of \$4,675,000 (the "Certificates"), we have examined into their issuance by the City of Celina, Texas (the "City") solely to express legal opinions as to the validity of the Certificates and the exclusion of the interest on the Certificates from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Certificates, or the sufficiency of the security for or the value or marketability of the Certificates.

THE CERTIFICATES are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Certificates mature on September 1 in each of the years specified in the ordinance adopted by the City Council of the City authorizing the issuance of the Certificates (the "Ordinance"), without right of prior redemption. The Certificates accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings of the City in connection with the issuance of the Certificates, including the Ordinance, (ii) certifications and opinions of officers of the City relating to the expected use and investment of proceeds of the sale of the Certificates and certain other funds of the City and to certain other facts within the knowledge and control of the City, and (iii) such other documentation, including an examination of the Certificate executed and delivered initially by the City (which we found to be in due form and properly executed), and such matters of law as we deem relevant to the matters discussed below. In such examinations, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies and the accuracy of the statements and information contained in such certificates.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Certificates have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and are additionally payable from and secured by a limited pledge of the Net Revenues (as defined in the Ordinance) of the City's Waterworks and Sewer System in the manner and to the extent provided in the Ordinance, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Certificates for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Certificates owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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CERTIFICATE OF CITY SECRETARY

THE STATE OF TEXAS

§

COUNTY OF COLLIN

§

§

CITY OF CELINA

§

§

I, the undersigned, City Secretary of the City of Celina, Texas, DO HEREBY CERTIFY as follows:

1. On the 15th day of May, 2012, a regular meeting of the City Council (the "Council") of the City of Celina, Texas (the "City") was held at a meeting place within the City; the duly constituted members of the Council being as follows:

JIM LEWIS

MAYOR

LARRY BERG

)

MAYOR PRO TEM

WAYNE NABORS

)

DEWEY ISHAM.

)

CARMEN ROBERTS

)

COUNCIL MEMBERS

BILL WEBBER

)

SEAN TERRY

)

and all of said council members were present at said meeting, except the following: Bill Webber. Among other business considered at said meeting, the attached ordinance entitled:

"AN ORDINANCE authorizing the issuance of "CITY OF CELINA, TEXAS, TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2012"; specifying the terms and features of said certificates; providing for the payment of said certificates of obligation by the levy of an ad valorem tax upon all taxable property within the City and a limited pledge of the net revenues derived from the operation of the City's combined waterworks and sewer system; providing the terms and conditions of such certificates of obligation and resolving other matters incident and relating to the issuance, payment, security, sale and delivery of said certificates of obligation, including the approval and execution of a Paying Agent/Registrar Agreement and a Purchase Agreement and the approval and distribution of a Preliminary Official Statement and an Official Statement pertaining thereto; and providing an effective date."

was introduced and submitted to the Council for passage and adoption. After presentation and due consideration of the ordinance and, upon a motion made and seconded, the ordinance was duly passed and adopted by the Council to be effective immediately, in accordance with the provisions of Texas Government Code, Section 1201.028, as amended, by the following vote:

5 voted "For"

0 voted "Against"

0 abstained

all as shown in the official minutes of the Council for the meeting held on the aforesaid date.

2. The attached ordinance is a true and correct copy of the original on file in the official records of the City; the duly qualified and acting members of the Council of said City on the date of the aforesaid meeting are those persons shown above and, according to the records of my office, advance notice of the time, place and purpose of the meeting was given to each member of the Council; and that said meeting, and the deliberation of the aforesaid public business, was open to the public and written notice of said meeting, including the subject of the above entitled ordinance, was posted and given in advance thereof in compliance with the provisions of Texas Government Code, Chapter 551, as amended.

IN WITNESS WHEREOF, I have hereunto signed my name officially and affixed the seal of said City, this the 15th day of May, 2012.



Michelle Faulkner
City Secretary,
City of Celina, Texas

ORDINANCE NO. 2012-12

AN ORDINANCE authorizing the issuance of "CITY OF CELINA, TEXAS, TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2012"; specifying the terms and features of said certificates; providing for the payment of said certificates of obligation by the levy of an ad valorem tax upon all taxable property within the City and a limited pledge of the net revenues derived from the operation of the City's combined waterworks and sewer system; providing the terms and conditions of such certificates of obligation and resolving other matters incident and relating to the issuance, payment, security, sale and delivery of said certificates of obligation, including the approval and execution of a Paying Agent/Registrar Agreement and a Purchase Agreement and the approval and distribution of a Preliminary Official Statement and an Official Statement pertaining thereto; and providing an effective date.

WHEREAS, notice of the City Council's intention to issue certificates of obligation in the maximum principal amount of \$8,210,000 for the purpose of paying contractual obligations to be incurred for (i) the acquisition and equipping of a City Hall building, including the acquisition of land therefor, (ii) the acquisition and equipping of a building to house City offices and community events, including the acquisition of land therefor, (iii) the acquisition of equipment and vehicles for the fire department, (iv) constructing street improvements and (v) professional services rendered in connection with such projects and the financing thereof; has been duly published in the *McKinney Courier-Gazette*, a newspaper hereby found and determined to be of general circulation in the City of Celina, Texas, on March 18, 2012 and March 25, 2012, the date of the first publication of such notice being not less than thirty-one (31) days prior to the tentative date stated therein for the passage of the ordinance authorizing the issuance of such certificates; and

WHEREAS, no petition protesting the issuance of the certificates of obligation and bearing valid petition signatures of at least 5% of the qualified electors of the City, has been presented to or filed with the Mayor, City Secretary or any other official of the City on or prior to the date of the passage of this ordinance; and

WHEREAS, the Council hereby finds and determines that the certificates of obligation described in the aforesaid notice should be issued and sold at this time in the amount and manner as hereinafter provided; now, therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF CELINA, TEXAS:

SECTION 1: Authorization - Designation - Principal Amount - Purpose. Certificates of obligation of the City shall be and are hereby authorized to be issued in the aggregate principal amount of \$4,675,000, to be designated and bear the title "CITY OF CELINA, TEXAS, TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2012" (hereinafter referred to as the "Certificates"), for the purpose of paying contractual obligations to be incurred for (i) the acquisition and equipping of a City Hall building, including the acquisition of land therefor,

(ii) the acquisition and equipping of a building to house City offices and community events, including the acquisition of land therefor, (iii) the acquisition of equipment and vehicles for the fire department, (iv) constructing street improvements and (v) professional services rendered in connection with such projects and the financing thereof, pursuant to authority conferred by and in conformity with the Constitution and laws of the State of Texas, including V.T.C.A., Local Government Code, Subchapter C of Chapter 271, as amended.

SECTION 2: Fully Registered Obligations - Authorized Denominations - Stated Maturities - Certificate Date. The Certificates are issuable in fully registered form only; shall be dated June 1, 2012 (the "Certificate Date") and shall be in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity) and the Certificates shall become due and payable on September 1 in each of the years and in principal amounts (the "Stated Maturities") and bear interest at the per annum rate(s) in accordance with the following schedule:

| <u>Year of Stated Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate(s)</u> |
|------------------------------------|-----------------------------|-----------------------------|
| 2013 | \$ 140,000 | 2.000% |
| 2014 | 175,000 | 2.000% |
| 2015 | 180,000 | 2.000% |
| 2016 | 180,000 | 2.000% |
| 2017 | 185,000 | 2.000% |
| 2018 | 185,000 | 2.000% |
| **** | ***** | ***** |
| 2020 | 385,000 | 3.000% |
| **** | ***** | ***** |
| 2022 | 460,000 | 3.000% |
| **** | ***** | ***** |
| 2024 | 485,000 | 3.000% |
| **** | ***** | ***** |
| 2026 | 520,000 | 3.500% |
| **** | ***** | ***** |
| 2028 | 545,000 | 3.500% |
| **** | ***** | ***** |
| 2030 | 600,000 | 4.000% |
| **** | ***** | ***** |
| 2032 | 635,000 | 4.000% |

The Certificates shall bear interest on the unpaid principal amounts from the date of delivery to the initial purchaser at the rates per annum shown above in this Section (calculated on the basis of a 360-day year of twelve 30-day months), and such interest shall be payable on March 1 and September 1 of each year, commencing March 1, 2013, until maturity or prior redemption.

SECTION 3: Terms of Payment Paying Agent/Registrar. The principal of, premium, if any, and the interest on the Certificates, due and payable by reason of maturity, redemption, or otherwise, shall be payable only to the registered owners or holders of the Certificates (hereinafter called the "Holders") appearing on the registration and transfer books maintained by

the Paying Agent/Registrar, and the payment thereof shall be in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, and shall be without exchange or collection charges to the Holders.

The selection and appointment of The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, to serve as Paying Agent/Registrar for the Certificates is hereby approved and confirmed. Books and records relating to the registration, payment, transfer and exchange of the Certificates (the "Security Register") shall at all times be kept and maintained on behalf of the City by the Paying Agent/Registrar, as provided herein and in accordance with the terms and provisions of a "Paying Agent/Registrar Agreement", substantially in the form attached hereto as **Exhibit A**, and such reasonable rules and regulations as the Paying Agent/Registrar and the City may prescribe. The Mayor and City Secretary are hereby authorized to execute and deliver such Paying Agent/Registrar Agreement in connection with the delivery of the Certificates. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are paid and discharged, and any successor Paying Agent/Registrar shall be a commercial bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. 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 Holder by United States Mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of and premium, if any, on the Certificates, shall be payable at the Stated Maturities or the redemption thereof only upon presentation and surrender of the Certificates to the Paying Agent/Registrar at its designated offices, initially in East Syracuse, New York, or, with respect to a successor Paying Agent/Registrar, at the designated offices of such successor (the "Designated Payment/Transfer Office"). Interest on the Certificates shall be paid to the Holders whose names appear in the Security Register at the close of business on the Record Date (the fifteenth day of the month next preceding each interest payment date) and shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the Holder recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Holder. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of a nonpayment of interest on a scheduled payment date, and for thirty (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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first class postage prepaid, to the address of each Holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

SECTION 4: Redemption.

(a) Optional Redemption. The Certificates maturing on and after September 1, 2018 shall be subject to redemption prior to maturity, at the option of the City, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if in part by lot by the Paying Agent/Registrar), on September 1, 2017, or on any date thereafter, at the redemption price of par plus accrued interest to the date of redemption.

At least forty five (45) days prior to an optional redemption date for the Certificates (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the City shall notify the Paying Agent/Registrar of the decision to redeem Certificates, the principal amount of each Stated Maturity to be redeemed, and the date of redemption therefor.

(b) Mandatory Redemption. The Certificates having Stated Maturities of September 1 in each of the years 2020, 2022, 2024, 2026, 2028, 2030 and 2032 (collectively, the "Term Certificates") shall be subject to mandatory redemption in part prior to maturity at the redemption price of par and accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

| Term Certificates due September 1, 2020 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2019 | \$190,000 |
| September 1, 2020* | \$195,000 |

| Term Certificates due September 1, 2022 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2021 | \$225,000 |
| September 1, 2022* | \$235,000 |

| Term Certificates due September 1, 2024 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2023 | \$235,000 |
| September 1, 2024* | \$250,000 |

| Term Certificates due September 1, 2026 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2025 | \$255,000 |
| September 1, 2026* | \$265,000 |

| Term Certificates due September 1, 2028 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2027 | \$265,000 |
| September 1, 2028* | \$280,000 |

| Term Certificates due September 1, 2030 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2029 | \$295,000 |
| September 1, 2030* | \$305,000 |

| Term Certificates due September 1, 2032 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2031 | \$310,000 |
| September 1, 2032* | \$325,000 |

* Stated maturity.

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Certificates, the Paying Agent/Registrar shall select by lot the numbers of the Term Certificates within the applicable Stated Maturity to be redeemed on the next following September 1 from

moneys set aside for that purpose in the Certificate Fund (as hereinafter defined). Any Term Certificate not selected for prior redemption shall be paid on the date of their Stated Maturity.

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

(c) Selection of Certificates for Redemption. If less than all Outstanding Certificates of the same Stated Maturity are to be redeemed on a redemption date, the Paying Agent/Registrar shall treat such Certificates as representing the number of Certificates Outstanding which is obtained by dividing the principal amount of such Certificates by \$5,000 and shall select the Certificates to be redeemed within such Stated Maturity by lot.

(d) Notice of Redemption. Not less than thirty (30) days prior to a redemption date for the Certificates, a notice of redemption shall be sent by United States mail, first class postage prepaid, in the name of the City and at the City's expense, to each Holder of a Certificate to be redeemed in whole or in part at the address of the Holder appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the Holder.

All notices of redemption shall (i) specify the date of redemption for the Certificates, (ii) identify the Certificates to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Certificates, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, provided moneys sufficient for the payment of such Certificate (or the principal amount thereof to be redeemed) at the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar and (v) specify that payment of the redemption price for the Certificates, or the principal amount thereof to be redeemed, shall be made at the Designated Payment/Transfer Office of the Paying Agent/Registrar only upon presentation and surrender of the Certificates. If a Certificate is subject by its terms to prior redemption and has been called for redemption and notice of redemption has been duly given as hereinabove provided, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable and interest thereon shall cease to accrue from and after the redemption date therefor.

(e) Conditional Notice of Redemption. With respect to any optional redemption of the Certificates, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth

in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Certificates and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

SECTION 5: Registration - Transfer - Exchange of Certificates - Predecessor Certificates. The Paying Agent/Registrar shall obtain, record, and maintain in the Security Register the name and address of each and every owner of the Certificates issued under and pursuant to the provisions of this Ordinance, or if appropriate, the nominee thereof. Any Certificate may be transferred or exchanged for Certificates of other authorized denominations by the Holder, in person or by his duly authorized agent, upon surrender of such Certificate to the Paying Agent/Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Upon surrender of any Certificate (other than the single Initial Certificate(s) authorized in Section 8 hereof) for transfer at the Designated Payment/Transfer Office of the Paying Agent/Registrar, the Paying Agent/Registrar shall register and deliver, in the name of the designated transferee or transferees, one or more new Certificates of authorized denominations and having the same Stated Maturity and of a like aggregate principal amount as the Certificate or Certificates surrendered for transfer.

At the option of the Holder, Certificates (other than the single Initial Certificate(s) authorized in Section 8 hereof) may be exchanged for other Certificates of authorized denominations and having the same Stated Maturity, bearing the same rate of interest and of like aggregate principal amount as the Certificates surrendered for exchange, upon surrender of the Certificates to be exchanged at the Designated Payment/Transfer Office of the Paying Agent/Registrar. Whenever any Certificates are surrendered for exchange, the Paying Agent/Registrar shall register and deliver new Certificates to the Holder requesting the exchange.

All Certificates issued in any transfer or exchange of Certificates shall be delivered to the Holders at the Designated Payment/Transfer Office of the Paying Agent/Registrar or sent by United States mail, first class postage prepaid, to the Holders, and, upon the registration and delivery thereof, the same shall be the valid obligations of the City, evidencing the same obligation to pay, and entitled to the same benefits under this Ordinance, as the Certificates surrendered in such transfer or exchange.

All transfers or exchanges of Certificates pursuant to this Section shall be made without expense or service charge to the Holder, except as otherwise herein provided, and except that the Paying Agent/Registrar shall require payment by the Holder requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange.

Certificates cancelled by reason of an exchange or transfer pursuant to the provisions hereof are hereby defined to be "Predecessor Certificates", evidencing all or a portion, as the case may be, of the same obligation to pay evidenced by the new Certificate or Certificates registered and delivered in the exchange or transfer therefor. Additionally, the term "Predecessor Certificates" shall include any mutilated, lost, destroyed or stolen Certificate for

which a replacement Certificate has been issued, registered and delivered in lieu thereof pursuant to the provisions of Section 20 hereof and such new replacement Certificate shall be deemed to evidence the same obligation as the mutilated, lost, destroyed or stolen Certificate.

Neither the City nor the Paying Agent/Registrar shall be required to issue or transfer to an assignee of a Holder any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for the redemption of such Certificate; provided, however, such limitation on transferability shall not be applicable to an exchange by the Holder of the unredeemed balance of a Certificate called for redemption in part.

SECTION 6: Book-Entry-Only Transfers and Transactions. Notwithstanding the provisions contained in Sections 3, 4 and 5 hereof relating to the payment, and transfer/exchange of the Certificates, the City hereby approves and authorizes the use of "Book-Entry-Only" securities clearance, settlement and transfer system provided by The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York ("DTC"), in accordance with the operational arrangements referenced in the Blanket Issuer Letter of Representations by and between the City and DTC (the "Depository Agreement").

Pursuant to the Depository Agreement and the rules of DTC, the Certificates shall be deposited with DTC who shall hold said Certificates for its participants (the "DTC Participants"). While the Certificates are held by DTC under the Depository Agreement, the Holder of the Certificates on the Security Register for all purposes, including payment and notices, shall be Cede & Co., as nominee of DTC, notwithstanding the ownership of each actual purchaser or owner of each Certificate (the "Beneficial Owners") being recorded in the records of DTC and DTC Participants.

In the event DTC determines to discontinue serving as securities depository for the Certificates or otherwise ceases to provide book-entry clearance and settlement of securities transactions in general or the City decides to discontinue use of the system of book-entry transfers through DTC, the City covenants and agrees with the Holders of the Certificates to cause Certificates to be printed in definitive form and issued and delivered to DTC Participants and Beneficial Owners, as the case may be. Thereafter, the Certificates in definitive form shall be assigned, transferred and exchanged on the Security Register maintained by the Paying Agent/Registrar and payment of such Certificates shall be made in accordance with the provisions of Sections 3, 4 and 5 hereof.

SECTION 7: Execution - Registration. The Certificates shall be executed on behalf of the City by the Mayor under its seal reproduced or impressed thereon and countersigned by the City Secretary. The signature of said officers on the Certificates may be manual or facsimile. Certificates bearing the manual or facsimile signatures of individuals who are or were the proper officers of the City on the Certificate Date shall be deemed to be duly executed on behalf of the City, notwithstanding that one or more of the individuals executing the same shall cease to be such officer at the time of delivery of the Certificates to the initial purchaser(s) and with respect to Certificates delivered in subsequent exchanges and transfers, all as authorized and provided in V.T.C.A., Government Code, Chapter 1201, as amended.

No Certificate shall be entitled to any right or benefit under this Ordinance, or be valid or obligatory for any purpose, unless there appears on such Certificate either a certificate of

registration substantially in the form provided in Section 9(c), manually executed by the Comptroller of Public Accounts of the State of Texas, or his duly authorized agent, or a certificate of registration substantially in the form provided in Section 9(d), manually executed by an authorized officer, employee or representative of the Paying Agent/Registrar, and either such certificate duly signed upon any Certificate shall be conclusive evidence, and the only evidence, that such Certificate has been duly certified, registered and delivered.

SECTION 8: Initial Certificate(s). The Certificates herein authorized shall be initially issued either (i) as a single fully registered certificate in the total principal amount stated in Section 1 hereof with principal installments to become due and payable as provided in Section 2 hereof and numbered T-1, or (ii) as multiple fully registered certificates with one certificate for each year of maturity in the applicable principal amount and denomination and to be numbered consecutively from T-1 and upward (hereinafter called the "Initial Certificate(s)") and, in either case, the Initial Certificate(s) shall be registered in the name of the initial purchaser(s) or the designee thereof. The Initial Certificate(s) shall be the Certificate(s) submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller of Public Accounts of the State of Texas and delivered to the initial purchaser(s). Any time after the delivery of the Initial Certificate(s), the Paying Agent/Registrar, pursuant to written instructions from the initial purchaser(s), or the designee thereof, shall cancel the Initial Certificate(s) delivered hereunder and exchange therefor definitive Certificates of authorized denominations, Stated Maturities, principal amounts and bearing applicable interest rates for transfer and delivery to the Holders named at the addresses identified therefor; all pursuant to and in accordance with such written instructions from the initial purchaser(s), or the designee thereof, and such other information and documentation as the Paying Agent/Registrar may reasonably require.

SECTION 9: Forms.

(a) Forms Generally. The Certificates, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Registration Certificate of Paying Agent/Registrar, and the form of Assignment to be printed on each of the Certificates, shall be substantially in the forms set forth in this Section with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Ordinance and may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including insurance legends in the event the Certificates, or any maturities thereof, are purchased with insurance and any reproduction of an opinion of counsel) thereon as may, consistently herewith, be established by the City or determined by the officers executing such Certificates as evidenced by their execution. Any portion of the text of any Certificates may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Certificate.

The definitive Certificates and the Initial Certificate(s) shall be printed, lithographed, engraved, typewritten, photocopied or otherwise reproduced in any other similar manner, all as determined by the officers executing such Certificates as evidenced by their execution.

(b) Form of Definitive Certificates.

REGISTERED
NO. _____

REGISTERED
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF CELINA, TEXAS,
TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATE OF OBLIGATION
SERIES 2012

Certificate Date: June 1, 2012 Interest Rate: _____% Stated Maturity: September 1, 20____ CUSIP No.: _____

Registered Owner:

Principal Amount: _____ DOLLARS

The City of Celina (hereinafter referred to as the "City"), a body corporate and municipal corporation in the County of Collin, State of Texas, for value received, acknowledges itself indebted to and hereby promises to pay to the Registered Owner named above, or the registered assigns thereof, on the Stated Maturity date specified above the Principal Amount hereinabove stated (or so much thereof as shall not have been paid upon prior redemption) and to pay interest on the unpaid principal amount hereof from the interest payment date next preceding the "Registration Date" of this Certificate appearing below (unless this Certificate bears a "Registration Date" as of an interest payment date, in which case it shall bear interest from such date, or unless the "Registration Date" of this Certificate is prior to the initial interest payment date in which case it shall bear interest from the date of delivery to the initial purchaser) at the per annum rate of interest specified above computed on the basis of a 360-day year of twelve 30-day months; such interest being payable on March 1 and September 1 in each year, commencing March 1, 2013, until maturity or prior redemption. Principal of this Certificate is payable at its Stated Maturity or on a redemption date to the registered owner hereof, upon presentation and surrender, at the Designated Payment/Transfer Office of the Paying Agent/Registrar executing the registration certificate appearing hereon, or its successor; provided, however, while this Certificate is registered to Cede & Co., the payment of principal upon a partial redemption of the principal amount hereof may be accomplished without presentation and surrender of this Certificate. Interest is payable to the registered owner of this Certificate (or one or more Predecessor Certificates, as defined in the Ordinance hereinafter referenced) whose name appears on the "Security Register" maintained by the Paying Agent/Registrar at the close of business on the "Record Date", which is the fifteenth day of the month next preceding each interest payment date, and interest shall be paid by the Paying Agent/Registrar by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Designated Payment/Transfer Office of the

Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. All payments of principal of, premium, if any, and interest on this Certificate shall be without exchange or collection charges to the owner hereof and in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

This Certificate is one of the series specified in its title issued in the aggregate principal amount of \$4,675,000 (herein referred to as the "Certificates") for the purpose of paying contractual obligations to be incurred for (i) the acquisition and equipping of a City Hall building, including the acquisition of land therefor, (ii) the acquisition and equipping of a building to house City offices and community events, including the acquisition of land therefor, (iii) the acquisition of equipment and vehicles for the fire department, (iv) constructing street improvements and (v) professional services rendered in connection with such projects and the financing thereof, under and in strict conformity with the Constitution and laws of the State of Texas, particularly V.T.C.A., Local Government Code, Subchapter C of Chapter 271, as amended, and pursuant to an Ordinance adopted by the City Council of the City (herein referred to as the "Ordinance").

The Certificates maturing on the dates hereinafter identified (the "Term Certificates") are subject to mandatory redemption prior to maturity with funds on deposit in the Certificate Fund established and maintained for the payment thereof in the Ordinance, and shall be redeemed in part prior to maturity at the price of par and accrued interest thereon to the mandatory redemption date on the respective dates and in principal amounts as follows:

| Term Certificates due September 1, 2020 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2019 | \$190,000 |
| September 1, 2020* | \$195,000 |

| Term Certificates due September 1, 2022 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2021 | \$225,000 |
| September 1, 2022* | \$235,000 |

| Term Certificates due September 1, 2024 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2023 | \$235,000 |
| September 1, 2024* | \$250,000 |

| Term Certificates due September 1, 2026 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2025 | \$255,000 |
| September 1, 2026* | \$265,000 |

| Term Certificates due September 1, 2028 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2027 | \$265,000 |
| September 1, 2028* | \$280,000 |

| Term Certificates due September 1, 2030 | |
|---|-------------------------|
| <u>Redemption Date</u> | <u>Principal Amount</u> |
| September 1, 2029 | \$295,000 |
| September 1, 2030* | \$305,000 |

Term Certificates due September 1, 2032

| <u>Redemption Date</u> | <u>Principal Amount</u> |
|------------------------|-------------------------|
| September 1, 2031 | \$310,000 |
| September 1, 2032* | \$325,000 |

* Stated maturity.

The particular Term Certificates of a stated maturity to be redeemed on each redemption date shall be chosen by lot by the Paying Agent/Registrar; provided, however, that the principal amount of Term Certificates for a Stated Maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the City, by the principal amount of Term Certificates of like Stated Maturity which, at least fifty (50) days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions appearing below and not theretofore credited against a mandatory redemption requirement.

The Certificates maturing on and after September 1, 2018 may be redeemed prior to their Stated Maturities, at the option of the City, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if in part by lot by the Paying Agent/Registrar), on September 1, 2017 or on any date thereafter, at the redemption price of par, together with accrued interest to the date of redemption.

At least thirty (30) days prior to a redemption date, the City shall cause a written notice of such redemption to be sent by United States Mail, first class postage prepaid, to the registered owners of each Certificate to be redeemed at the address shown on the Security Register and subject to the terms and provisions relating thereto contained in the Ordinance. If a Certificate (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon the redemption date such Certificate (or the portion of its principal sum to be redeemed) shall become due and payable, and, if moneys for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

In the event a portion of the principal amount of a Certificate is to be redeemed and the registered owner is someone other than Cede & Co., payment of the redemption price of such principal amount shall be made to the registered owner only upon presentation and surrender of such Certificate to the Designated Payment/Transfer Office of the Paying Agent/Registrar, and a new Certificate or Certificates of like maturity and interest rate in any authorized denominations provided by the Ordinance for the then unredeemed balance of the principal sum thereof will be issued to the registered owner, without charge. If a Certificate is selected for redemption, in whole or in part, the City and the Paying Agent/Registrar shall not be required to transfer such Certificate to an assignee of the registered owner within forty-five (45) days of the redemption date therefor; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the unredeemed balance of a Certificate redeemed in part.

With respect to any optional redemption of the Certificates, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Certificates and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

The Certificates are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the City and from a limited pledge of the Net Revenues of the City's combined Waterworks and Sewer System (the "System"), such pledge being limited to an amount of \$1,000 and being junior and subordinate to the lien on and pledge of such Net Revenues securing the payment of the Prior Lien Obligations (identified and defined in the Ordinance) now outstanding and hereafter issued by the City. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations without limitation as to principal amount but subject to any applicable terms, conditions or restrictions under law or otherwise, as well as the right to issue additional obligations payable from the same sources as the Certificates and, together with the Certificates, equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System.

Reference is hereby made to the Ordinance, a copy of which is on file in the Designated Payment/Transfer Office of the Paying Agent/Registrar, and to all the provisions of which the owner or holder of this Certificate by the acceptance hereof hereby assents, for definitions of terms; the description of and the nature and extent of the tax levied for the payment of the Certificates; the Net Revenues pledged to the payment of the principal of and interest on the Certificates; the nature and extent and manner of enforcement of the pledge; the terms and conditions relating to the transfer or exchange of this Certificate; the conditions upon which the Ordinance may be amended or supplemented with or without the consent of the Holders; the rights, duties, and obligations of the City and the Paying Agent/Registrar; the terms and provisions upon which the tax levy and the pledges, charges and covenants made therein may be discharged at or prior to the maturity of this Certificate, and this Certificate deemed to be no longer Outstanding thereunder; and for the other terms and provisions contained therein. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Ordinance.

This Certificate, subject to certain limitations contained in the Ordinance, may be transferred on the Security Register only upon its presentation and surrender at the Designated Payment/Transfer Office of the Paying Agent/Registrar, with the Assignment hereon duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by, the registered owner hereof, or his duly authorized agent. When a transfer on the Security Register occurs, one or more new fully registered Certificates of the same Stated Maturity, of authorized denominations, bearing the same rate of interest, and of the same aggregate principal amount will be issued by the Paying Agent/Registrar to the designated transferee or transferees.

The City and the Paying Agent/Registrar, and any agent of either, shall treat the registered owner whose name appears on the Security Register (i) on the Record Date as the owner entitled to payment of interest hereon, (ii) on the date of surrender of this Certificate as the owner entitled to payment of principal hereof at its Stated Maturity or upon its prior redemption, in whole or in part, and (iii) on any other date as the owner for all other purposes, and neither the City nor the Paying Agent/Registrar, or any agent of either, shall be affected by notice to the contrary. In the event of nonpayment of interest on a scheduled payment date and for thirty (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 (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first class postage prepaid, to the address of each Holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

It is hereby certified, recited, represented and declared that the City is a body corporate and political subdivision duly organized and legally existing under and by virtue of the Constitution and laws of the State of Texas; that the issuance of the Certificates is duly authorized by law; that all acts, conditions and things required to exist and be done precedent to and in the issuance of the Certificates to render the same lawful and valid obligations of the City have been properly done, have happened and have been performed in regular and due time, form and manner as required by the Constitution and laws of the State of Texas, and the Ordinance; that the Certificates do not exceed any Constitutional or statutory limitation; and that due provision has been made for the payment of the principal of and interest on the Certificates as aforestated. In case any provision in this Certificate shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. The terms and provisions of this Certificate and the Ordinance shall be construed in accordance with and shall be governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the City Council of the City has caused this Certificate to be duly executed under the official seal of the City as of the Certificate Date.

CITY OF CELINA, TEXAS

Mayor

COUNTERSIGNED:

City Secretary

(City Seal)

(c) Form of Registration Certificate of Comptroller of Public Accounts to appear on Initial Certificate(s) only.

REGISTRATION CERTIFICATE OF
THE COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER)
OF PUBLIC ACCOUNTS) REGISTER NO. _____
THE STATE OF TEXAS)

I HEREBY CERTIFY that this Certificate has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal of office this _____.

Comptroller of Public Accounts
of the State of Texas

(SEAL)

(d) Form of Certificate of Paying Agent/Registrar to appear on Definitive Certificates only.

REGISTRATION CERTIFICATE OF PAYING AGENT/REGISTRAR

This Certificate has been duly issued and registered under the provisions of the within mentioned Ordinance; the certificate or certificates of the above entitled and designated series originally delivered having been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts, as shown by the records of the Paying Agent/Registrar.

The designated office of the Paying Agent/Registrar located in East Syracuse, New York, is the "Designated Payment/Transfer Office" for this Certificate.

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., Dallas, Texas,
as Paying Agent/Registrar

Registration Date:

_____ By _____
Authorized Signature

(e) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto (Print or typewrite name, address, and zip code of transferee): _____

(Social Security or other identifying number _____) the within Certificate and all rights thereunder, and hereby irrevocably constitutes and appoints

attorney to transfer the within Certificate on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____

Signature guaranteed: _____

NOTICE: The signature on this assignment must correspond with the name of the registered owner as it appears on the face of the within Certificate in every particular.

(f) The Initial Certificate(s) shall be in the form set forth in paragraph (b) of this Section, except that the form of a single fully registered Initial Certificate shall be modified as follows:

Heading and first paragraph shall be modified to read as follows:

REGISTERED
NO. T-1

REGISTERED :
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF CELINA, TEXAS,
TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATE OF OBLIGATION
SERIES 2012

Certificate Date: June 1, 2012

Registered Owner: _____

Principal Amount: _____ DOLLARS

The City of Celina (hereinafter referred to as the "City"), a body corporate and municipal corporation in the County of Collin, State of Texas, for value received, acknowledges itself indebted to and hereby promises to pay to the Registered Owner named above, or the registered assigns thereof, the Principal Amount hereinabove stated on September 1 in each of the years and in principal installments in accordance with the following schedule:

YEAR OF
MATURITY

PRINCIPAL
INSTALLMENTS

INTEREST
RATE

(Information to be inserted from schedule in Section 2 hereof).

(or so much thereof as shall not have been redeemed prior to maturity) and to pay interest on the unpaid principal amounts hereof from the date of delivery to the initial purchaser at the per annum rate(s) of interest specified above computed on the basis of a 360-day year of twelve 30-day months; such interest being payable on March 1 and September 1 of each year, commencing March 1, 2013, until maturity or prior redemption. Principal installments of this Certificate are payable on the Stated Maturity dates or on a redemption date to the registered owner hereof by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"), upon its presentation and surrender at its designated offices, initially in East Syracuse, New York, or, with respect to a successor paying agent/registrar, at the designated office of such successor (the "Designated Payment/Transfer Office"). Interest is payable to the registered owner of this Certificate whose name appears on the "Security Register" maintained by the Paying Agent/Registrar at the close of business on the "Record Date", which is the fifteenth day of the month next preceding each interest payment date hereof and interest shall be paid by the Paying Agent/Registrar by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. All payments of principal of, premium, if any, and interest on this Certificate shall be without exchange or collection charges to the owner hereof and in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

SECTION 10: Definitions. For purposes of this Ordinance and for clarity with respect to the issuance of the Certificates herein authorized, and the levy of taxes and appropriation of Net Revenues therefor, the following words or terms, whenever the same appears herein without qualifying language, are defined to mean as follows:

(a) The term "Additional Obligations" shall mean tax and revenue obligations hereafter issued which by their terms are payable from ad valorem taxes and additionally payable from and secured by a parity lien on and pledge of the Net Revenues of the System of equal rank and dignity with the lien and pledge securing the payment of the Certificates.

(b) The term "Certificates" shall mean the \$4,675,000 "CITY OF CELINA, TEXAS, TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2012" authorized by this Ordinance.

(c) The term "Certificate Fund" shall mean the special Fund created and established under the provisions of Section 11 of this Ordinance.

(d) The term "Collection Date" shall mean, when reference is being made to the levy and collection of annual ad valorem taxes, the date the annual ad valorem taxes levied each year by the City become delinquent.

(e) The term "Fiscal Year" shall mean the annual financial accounting period used with respect to the operations of the System now ending on September 30th of each year; provided, however, the City Council may change, by ordinance duly passed, such annual financial accounting period to end on another date if such change is found and determined to be necessary for budgetary or other fiscal purposes.

(f) The term "Government Securities" shall mean (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iv) any other then authorized securities or obligations that may be used to defease obligations such as the Certificates under the then applicable laws of the State of Texas.

(g) The term "Gross Revenues" shall mean, with respect to the System and for any defined period, all income and revenues derived from the operation and ownership of the System, excluding, however, meter deposits, gifts, grants in aid of construction and similar kinds of receipts and moneys restricted as to use or expenditure.

(h) The term "Net Revenues" shall mean, with respect to the System and for any defined period, the Gross Revenues of the System after deducting the System's Operating and Maintenance Expenses.

(i) The term "Operating and Maintenance Expenses" shall mean, for any defined period, all current expenses and costs of operating and maintaining the System, including all salaries, labor, materials and repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the security of any Certificates or obligations payable from and secured by a lien on the Net Revenues of the System, shall be deducted in determining "Net Revenues". Depreciation and payments into and out of the funds maintained for the payment of the Prior Lien Obligations and similar funds maintained for the payment of obligations payable from and secured by a lien on and pledge of the Net Revenues shall never be considered as Operating and Maintenance Expenses.

(j) The term "Outstanding" when used in this Ordinance with respect to Certificates means, as of the date of determination, all Certificates theretofore issued and delivered under this Ordinance, except:

(1) those Certificates cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Certificates for which payment has been duly provided by the City in accordance with the provisions of Section 21 hereof; and

(3) those Certificates that have been mutilated, destroyed, lost, or stolen and replacement Certificates have been registered and delivered in lieu thereof as provided in Section 20 hereof.

(k) The term "Prior Lien Obligations" shall mean (A) all revenue bonds or other obligations hereafter issued, payable solely from and secured only by a lien on and pledge of the Net Revenues of the System, and (B) obligations now outstanding and hereafter issued which by the terms of this Ordinance and the ordinances authorizing their issuance have a prior right and claim on the Net Revenues of the System to the claim and right securing the payment of the Certificates, including, but not limited to, the outstanding

(1) "City of Celina, Texas, Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2001", dated July 1, 2001, originally issued in the principal amount of \$1,595,000 (to be refunded in full by the City's proposed General Obligation Refunding Bonds, Series 2012 being issued concurrently with the Certificates);

(2) "City of Celina, Texas, Tax and Waterworks and Sewer System Surplus Revenue Refunding Bonds, Series 2001", dated July 1, 2001, originally issued in the principal amount of \$440,000 (to be partially refunded by the City's proposed General Obligation Refunding Bonds, Series 2012 being issued concurrently with the Certificates);

(3) "City of Celina, Texas, Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2003", dated March 1, 2003, originally issued in the principal amount of \$5,680,000 (to be partially refunded by the City's proposed General Obligation Refunding Bonds, Series 2012 being issued concurrently with the Certificates);

(4) "City of Celina, Texas, Tax and Waterworks and Sewer System Surplus Revenue Certificates of Obligation, Series 2004", dated October 1, 2004, originally issued in the principal amount of \$7,055,000; and

(5) "City of Celina, Texas, Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2007" , dated September 1, 2007, originally issued in the principal amount of \$4,480,000.

(l) The term "System" shall mean all plants, properties and facilities owned, operated and maintained by the City for the supply, storage and distribution of treated water and the collection, treatment and disposal of water-carried wastes, together with all future improvements, extensions, enlargements and additions thereto and replacements thereof.

SECTION 11: Certificate Fund. For the purpose of paying the interest on and to provide a sinking fund for the payment, redemption and retirement of the Certificates, there shall be and is hereby created a special account or fund on the books and records of the City known as the "SPECIAL SERIES 2012 TAX AND REVENUE CERTIFICATE OF OBLIGATION FUND", and all moneys deposited to the credit of such Fund shall be kept and maintained in a special banking account at the City's depository bank. The Mayor, Mayor Pro Tem, City Manager, Finance Director and City Secretary, individually or collectively, of the City are hereby authorized and directed to make withdrawals from said Fund sufficient to pay the principal of and interest on the Certificates as the same become due and payable, and, shall cause to be transferred to the Paying Agent/Registrar from moneys on deposit in the Certificate Fund an amount sufficient to pay the amount of principal and/or interest falling due on the Certificates, such transfer of funds to the Paying Agent/Registrar to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar on or before the last business day next preceding each interest and principal payment date for the Certificates.

Pending the transfer of funds to the Paying Agent/Registrar, money in the Certificate Fund may, at the option of the City, be invested in obligations identified in, and in accordance with the provisions of the "Public Funds Investment Act" (V.T.C.A., Government Code, Chapter 2256, as amended) relating to the investment of "bond proceeds"; provided that all such investments shall be made in such a manner that the money required to be expended from said Fund will be available at the proper time or times. All interest and income derived from deposits and investments in said Certificate Fund shall be credited to, and any losses debited to, the said Certificate Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Certificates.

SECTION 12: Tax Levy. To provide for the payment of the "Debt Service Requirements" on the Certificates being (i) the interest on said Certificates and (ii) a sinking fund for their payment at maturity or redemption or a sinking fund of 2% (whichever amount shall be the greater), there shall be and there is hereby levied a sufficient tax on each one hundred dollars' valuation of taxable property in said City, within the limitations prescribed by law, adequate to pay such Debt Service Requirements while the Certificates remain Outstanding, full allowance being made for delinquencies and costs of collection; and said tax shall be assessed and collected each year and applied to the payment of the Debt Service Requirements, and the same shall not be diverted to any other purpose. The taxes so levied and collected shall be paid into the Certificate Fund. The City Council hereby declares its purpose and intent to provide and levy a tax legally and fully sufficient to pay the said Debt Service Requirements, it having been determined that the existing and available taxing authority of the City for such purpose is adequate to permit a legally sufficient tax in consideration of all other outstanding indebtedness.

The amount of taxes to be provided annually for the payment of the principal of and interest on the Certificates shall be determined and accomplished in the following manner:

(a) Prior to the date the City Council establishes the annual tax rate and passes an ordinance levying ad valorem taxes each year, the City Council shall determine:

(1) The amount on deposit in the Certificate Fund after (a) deducting therefrom the total amount of Debt Service Requirements to become due on Certificates prior to the Collection Date for the ad valorem taxes to be levied and (b) adding thereto the amount of the Net Revenues of the System, together with any other lawfully available revenues of the City, appropriated and allocated to pay such Debt Service Requirements prior to the Collection Date for the ad valorem taxes to be levied.

(2) The amount of Net Revenues of the System, together with any other lawfully available revenues of the City, appropriated and to be set aside for the payment of the Debt Service Requirements on the Certificates between the Collection Date for the taxes then to be levied and the Collection Date for the taxes to be levied during the next succeeding calendar year.

(3) The amount of Debt Service Requirements to become due and payable on the Certificates (or a sinking fund of 2% if greater than the amount due and payable on the Certificates) between the Collection Date for the taxes then to be levied and the Collection Date for the taxes to be levied during the next succeeding calendar year.

(b) The amount of taxes to be levied annually each year to pay the Debt Service Requirements on the Certificates shall be the amount established in paragraph (3) above less the sum total of the amounts established in paragraphs (1) and (2), after taking into consideration delinquencies and costs of collecting such annual taxes.

Any surplus proceeds from the sale of the Certificates not expended for authorized purposes shall be deposited in the Certificate Fund, and such amounts so deposited shall reduce the sums otherwise required to be deposited in said Fund from ad valorem taxes.

SECTION 13: Limited Pledge of Revenues. The City hereby covenants and agrees that, subject to the prior lien on and pledge of the Net Revenues of the System to the payment and security of Prior Lien Obligations, the Net Revenues of the System in an amount equal to \$1,000 are hereby irrevocably pledged to the payment of the principal of and interest on the Certificates, and the limited pledge of \$1,000 of the Net Revenues of the System herein made for the payment of the Certificates shall constitute a lien on the Net Revenues of the System (until such time as the City shall pay all of such \$1,000, after which time the pledge shall cease) in accordance with the terms and provisions hereof. Furthermore, such lien on and pledge of the Net Revenues securing the payment of the Certificates shall be valid and binding and fully perfected from and after the date of adoption of this Ordinance without physical delivery or transfer or transfer of control of the Net Revenues, the filing of this Ordinance or any other act; all as provided in Chapter 1208 of the Texas Government Code ("Chapter 1208").

Chapter 1208 applies to the issuance of the Certificates and the pledge of the Net Revenues of the System granted by the City under this Section 13, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Certificates are

Outstanding such that the pledge of the Net Revenues of the System granted by the City under this Section 13 is to be subject to the filing requirements of Chapter 9 of the Texas Business and Commerce Code, as amended, then in order to preserve to the registered owners of the Certificates the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9 of the Texas Business and Commerce Code, as amended, and enable a filing to perfect the security interest in said pledge to occur.

SECTION 14: System Fund. The City covenants and agrees that all Gross Revenues (excluding earnings from the investment of money held in any special funds or accounts created for the payment and security of the Prior Lien Obligations) shall be deposited as collected into a fund maintained at an official depository of the City and known on the books of the City as the "System Fund" (hereinafter called the "System Fund"). All moneys deposited to the credit of the System Fund shall be allocated, dedicated and disbursed to the extent required for the following purposes and in the order of priority shown, to wit:

First: To the payment of all necessary and reasonable Operating and Maintenance Expenses of the System as defined herein or required by statute to be a first charge on and claim against the revenues thereof.

Second: To the payment of all amounts required to be deposited in the special Funds created and established for the payment, security and benefit of Prior Lien Obligations in accordance with the terms and provisions of the ordinances authorizing the issuance of Prior Lien Obligations.

Third: To the payment, equally and ratably, of the amounts pledged to the payment of the Certificates and Additional Obligations, if any.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

SECTION 15: Deposits to Certificate Fund. Subject to the provisions of Section 13 hereof, the City hereby covenants and agrees to cause to be deposited in the Certificate Fund from the pledged Net Revenues of the System in the System Fund, the amount of Net Revenues of the System pledged to the payment of the Certificates.

The City covenants and agrees that the amount of pledged Net Revenues of the System (\$1,000), together with other lawfully available revenues appropriated by the City for payment of the debt service requirements on the Certificates and ad valorem taxes levied, collected, and deposited in the Certificate Fund for and on behalf of the Certificates, will be an amount equal to one hundred percent (100%) of the amount required to fully pay the interest and principal due and payable on the Certificates. In addition, any surplus proceeds from the sale of the Certificates not expended for authorized purposes shall be deposited in the Certificate Fund, and such amounts so deposited shall reduce the sums otherwise required to be deposited in said Fund from ad valorem taxes and the Net Revenues of the System.

SECTION 16: Security of Funds. All moneys on deposit in the Funds for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and moneys on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

SECTION 17: Special Covenants. The City hereby further covenants as follows:

(a) It has the lawful power to pledge the Net Revenues of the System to the payment of the Certificates in the manner herein contemplated and has lawfully exercised such power under the Constitution and laws of the State of Texas, including said power existing under V.T.C.A., Government Code, Sections 1502.56 and 1502.58 and V.T.C.A., Local Government Code, Sections 271.041, et seq.

(b) Other than for the payment of the Prior Lien Obligations and the Certificates, the Net Revenues of the System have not in any manner been pledged to the payment of any debt or obligation of the City or of the System.

SECTION 18: Issuance of Prior Lien Obligations and Additional Parity Obligations. The City hereby expressly reserves the right to hereafter issue Prior Lien Obligations, without limitation as to principal amount but subject to any terms, conditions or restrictions applicable thereto under law or otherwise, payable, in whole or in part, from the Net Revenues (without impairment of the obligation of contract with the Holders of the Certificates) upon such terms and conditions as the City Council may determine. Additionally, the City reserves the right to issue obligations payable, in whole or in part, from the Net Revenues of the System and, to the extent provided, secured by a lien on and pledge of the Net Revenues of equal rank and dignity with the lien and pledge securing the payment of the Certificates.

SECTION 19: Application of Prior Lien Obligations Covenants and Agreements. It is the intention of this governing body and accordingly hereby recognized and stipulated that the provisions, agreements and covenants contained herein bearing upon the management and operations of the System, and the administering and application of revenues derived from the operation thereof, shall to the extent possible be harmonized with like provisions, agreements and covenants contained in the ordinances authorizing the issuance of the Prior Lien Obligations, and to the extent of any irreconcilable conflict between the provisions contained herein and in the ordinances authorizing the issuance of the Prior Lien Obligations, the provisions, agreements and covenants contained therein shall prevail to the extent of such conflict and be applicable to this Ordinance but in all respects subject to the priority of rights and benefits, if any, conferred thereby to the holders of the Prior Lien Obligations.

SECTION 20: Mutilated - Destroyed - Lost and Stolen Certificates. In case any Certificate shall be mutilated, or destroyed, lost or stolen, the Paying Agent/Registrar may execute and deliver a replacement Certificate of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Certificate, or in lieu of and in substitution for such destroyed, lost or stolen Certificate, only upon the approval of the City and after (i) the filing by the Holder thereof with the Paying Agent/Registrar of evidence satisfactory to the Paying Agent/Registrar of the destruction, loss or theft of such Certificate, and of the authenticity of the ownership thereof

and (ii) the furnishing to the Paying Agent/Registrar of indemnification in an amount satisfactory to hold the City and the Paying Agent/Registrar harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Certificate shall be borne by the Holder of the Certificate mutilated, or destroyed, lost or stolen.

Every replacement Certificate issued pursuant to this Section shall be a valid and binding obligation, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other Outstanding Certificates; notwithstanding the enforceability of payment by anyone of the destroyed, lost, or stolen Certificates.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Certificates.

SECTION 21: Satisfaction of Obligation of City. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Certificates, at the times and in the manner stipulated in this Ordinance, then the pledge of taxes levied under this Ordinance and the Net Revenues of the System (to the extent such pledge of Net Revenues shall not have been discharged or terminated by prior payment of principal of or interest on the Certificates) and all covenants, agreements, and other obligations of the City to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

Certificates or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Certificates or the principal amount(s) thereof at maturity or the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to pay when due the principal of and interest on such Certificates, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The City covenants that no deposit of moneys or Government Securities will be made under this Section and no use made of any such deposit which would cause the Certificates to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto.

Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Certificates, or any principal amount(s) thereof, or interest thereon with respect to which such moneys have been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Certificates and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date, of the Certificates such moneys were deposited

and are held in trust to pay shall upon the request of the City be remitted to the City against a written receipt therefor. Notwithstanding the above and foregoing, any remittance of funds from the Paying Agent/Registrar to the City shall be subject to any applicable unclaimed property laws of the State of Texas.

SECTION 22: Ordinance a Contract - Amendments. This Ordinance shall constitute a contract with the Holders from time to time, be binding on the City, and shall not be amended or repealed by the City while any Certificates remain Outstanding except as permitted in this Section and in Section 36 hereof. The City may, without the consent of or notice to any Holders, from time to time and at any time, amend this Ordinance in any manner not detrimental to the interests of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the consent of Holders holding a majority in aggregate principal amount of the Certificates then Outstanding, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Holders of Outstanding Certificates, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Certificates, reduce the principal amount thereof, the redemption price or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, or (3) reduce the aggregate principal amount of Certificates required to be held by Holders for consent to any such amendment, addition, or rescission.

SECTION 23: Covenants to Maintain Tax-Exempt Status.

(a) Definitions. When used in this Section, the following terms have the following meanings:

“*Closing Date*” means the date on which the Certificates are first authenticated and delivered to the initial purchasers against payment therefor.

“*Code*” means the Internal Revenue Code of 1986, as amended by all legislation, if any, effective on or before the Closing Date.

“*Computation Date*” has the meaning set forth in Section 1.148 1(b) of the Regulations.

“*Gross Proceeds*” means any proceeds as defined in Section 1.148 1(b) of the Regulations, and any replacement proceeds as defined in Section 1.148 1(c) of the Regulations, of the Certificates.

“*Investment*” has the meaning set forth in Section 1.148-1(b) of the Regulations.

“*Nonpurpose Investment*” means any investment property, as defined in Section 148(b) of the Code, in which Gross Proceeds of the Certificates are invested and which is not acquired to carry out the governmental purposes of the Certificates.

“*Rebate Amount*” has the meaning set forth in Section 1.148 1(b) of the Regulations.

"Regulations" means any proposed, temporary, or final Income Tax Regulations issued pursuant to Sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1954, which are applicable to the Certificates. Any reference to any specific Regulation shall also mean, as appropriate, any proposed, temporary or final Income Tax Regulation designed to supplement, amend or replace the specific Regulation referenced.

"Yield" of (1) any Investment has the meaning set forth in Section 1.148-5 of the Regulations and (2) the Certificates has the meaning set forth in Section 1.148-4 of the Regulations.

(b) Not to Cause Interest to Become Taxable. The City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which if made or omitted, respectively, would cause the interest on any Certificate to become includable in the gross income, as defined in Section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the City receives a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Certificate, the City shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as permitted by Section 141 of the Code and the Regulations and rulings thereunder, the City shall at all times prior to the last Stated Maturity of Certificates:

(1) exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Certificates, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Certificates or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the City or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(d) No Private Loan. Except to the extent permitted by Section 141 of the Code and the Regulations and rulings thereunder, the City shall not use Gross Proceeds of the Certificates to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is

sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take or pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except to the extent permitted by Section 148 of the Code and the Regulations and rulings thereunder, the City shall not at any time prior to the final Stated Maturity of the Certificates directly or indirectly invest Gross Proceeds in any Investment (or use Gross Proceeds to replace money so invested), if as a result of such investment the Yield from the Closing Date of all Investments acquired with Gross Proceeds (or with money replaced thereby), whether then held or previously disposed of, exceeds the Yield of the Certificates.

(f) Not Federally Guaranteed. Except to the extent permitted by Section 149(b) of the Code and the Regulations and rulings thereunder, the City shall not take or omit to take any action which would cause the Certificates to be federally guaranteed within the meaning of Section 149(b) of the Code and the Regulations and rulings thereunder.

(g) Information Report. The City shall timely file the information required by Section 149(e) of the Code with the Secretary of the Treasury on Form 8038 G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in Section 148(f) of the Code and the Regulations and rulings thereunder:

(1) The City shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last outstanding Certificate is discharged. However, to the extent permitted by law, the City may commingle Gross Proceeds of the Certificates with other money of the City, provided that the City separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the City shall calculate the Rebate Amount in accordance with rules set forth in Section 148(f) of the Code and the Regulations and rulings thereunder. The City shall maintain such calculations with its official transcript of proceedings relating to the issuance of the Certificates until six years after the final Computation Date.

(3) As additional consideration for the purchase of the Certificates by the Purchasers and the loan of the money represented thereby and in order to induce such purchase by measures designed to insure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, the City shall pay to the United States from the construction fund,

the general fund, or other appropriate fund or, if permitted by applicable Texas statute, regulation or opinion of the Attorney General of the State of Texas, the Certificate Fund, the amount that when added to the future value of previous rebate payments made for the Certificates equals (i) in the case of a Final Computation Date as defined in Section 1.148-3(e)(2) of the Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder.

(4) The City shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3), and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under Section 1.148 3(h) of the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by Section 148 of the Code and the Regulations and rulings thereunder, the City shall not, at any time prior to the earlier of the Stated Maturity or final payment of the Certificates, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Certificates not been relevant to either party.

(j) Elections. The City hereby directs and authorizes the Mayor, Mayor Pro Tem, City Manager, Finance Director and City Secretary, individually or collectively, to make elections permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Certificates, in the Certificate as to Tax Exemption or similar or other appropriate certificate, form or document.

(k) Qualified Tax-Exempt Obligations. In accordance with the provisions of paragraph (3) of subsection (b) of Section 265 of the Code, the City hereby designates the Certificates to be "qualified tax-exempt obligations" in that the Certificates are not "private activity bonds" as defined in the Code and the reasonably anticipated amount of "qualified tax-exempt obligations" to be issued by the City (including all subordinate entities of the City) for the calendar year 2012 will not exceed \$10,000,000.

SECTION 24: Sale of Certificates – Execution of Purchase Agreement – Official Statement Approval. The Certificates authorized by this Ordinance have been and are hereby sold to Southwest Securities, Inc. (herein referred to as the "Purchasers") in accordance with the Purchase Agreement dated May 15, 2012 (the "Purchase Agreement"), attached hereto as **Exhibit B** and incorporated herein by reference as a part of this Ordinance for all purposes. The

Mayor or Mayor Pro Tem is hereby authorized and directed to execute the Purchase Agreement for and on behalf of the City and as the act and deed of this City Council, and in regard to the approval and execution of the Purchase Agreement, the City Council hereby finds, determines and declares that the terms of the sale are in the best interests of the City and the representations, warranties and agreements of the City contained therein are true and correct in all material respects and shall be honored and performed by the City. The Initial Certificate(s) shall be registered in the name of the Purchasers.

The use of the Preliminary Official Statement by the Purchasers in connection with the public offering and sale of the Certificates is hereby ratified, confirmed and approved in all respects. The final Official Statement, which reflects the terms of sale (together with such changes approved by the Mayor, Mayor Pro Tem, City Manager, Finance Director and City Secretary, any one or more of said officials), shall be and is hereby in all respects approved and the Purchasers are hereby authorized to use and distribute said final Official Statement, dated May 15, 2012, in the reoffering, sale and delivery of the Certificates to the public. The Mayor or Mayor Pro Tem and City Secretary are further authorized to deliver for and on behalf of the City copies of said Official Statement in final form as may be required by the Purchasers, and such final Official Statement in the form and content authorized to be delivered by said officials shall be deemed to be approved by the City Council and constitute the Official Statement authorized for distribution and use by the Purchasers.

SECTION 25: Proceeds of Sale. The proceeds of sale of the Certificates, excluding premium in the amount of \$1,604.27 and amounts to pay costs of issuance, shall be deposited in a construction fund maintained at a depository bank of the City. Pending expenditure for authorized projects and purposes, such proceeds of sale may be invested in authorized investments in accordance with the provisions of V.T.C.A., Government Code, Chapter 2256, as amended, including guaranteed investment contracts permitted by V.T.C.A., Section 2256.015 et seq., and the City's investment policies and guidelines, and any investment earnings realized may be expended for such authorized projects and purposes or deposited in the Certificate Fund as shall be determined by the City Council. Premium in the above amount, as well as all surplus proceeds of sale of the Certificates, including investment earnings, remaining after completion of all authorized projects or purposes shall be deposited to the credit of the Certificate Fund.

SECTION 26: Control and Custody of Certificates. The Mayor of the City shall be and is hereby authorized to take and have charge of all necessary orders and records pending the sale of the Certificates, the investigation by the Attorney General of the State of Texas, including the printing and supply of definitive Certificates; and shall take and have charge and control of the Initial Certificate(s) pending the approval thereof by the Attorney General, the registration thereof by the Comptroller of Public Accounts and the delivery thereof to the Purchasers.

SECTION 27: Notices to Holders Waiver. Wherever this Ordinance provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States Mail, first class postage prepaid, to the address of each Holder appearing in the Security Register at the close of business on the business day next preceding the mailing of such notice.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the

sufficiency of such notice with respect to all other Certificates. Where this Ordinance provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 28: Cancellation. All Certificates surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly cancelled by it and, if surrendered to the City, shall be delivered to the Paying Agent/Registrar and, if not already cancelled, shall be promptly cancelled by the Paying Agent/Registrar. The City may at any time deliver to the Paying Agent/Registrar for cancellation any Certificates previously certified or registered and delivered which the City may have acquired in any manner whatsoever, and all Certificates so delivered shall be promptly cancelled by the Paying Agent/Registrar. All cancelled Certificates held by the Paying Agent/Registrar shall be returned to the City.

SECTION 29: Bond Counsel's Opinion. The Purchasers' obligation to accept delivery of the Certificates is subject to being furnished a final opinion of Fulbright & Jaworski L.L.P., Dallas, Texas, approving the Certificates as to their validity, said opinion to be dated and delivered as of the date of delivery and payment for the Certificates. An executed counterpart of said opinion shall accompany the global certificates deposited with DTC or a reproduction thereof shall be printed on the definitive Certificates in the event the book-entry-only system shall be discontinued.

SECTION 30: CUSIP Numbers. CUSIP numbers may be printed or typed on the definitive Certificates. It is expressly provided, however, that the presence or absence of CUSIP numbers on the definitive Certificates shall be of no significance or effect as regards the legality thereof and neither the City nor attorneys approving the Certificates as to legality are to be held responsible for CUSIP numbers incorrectly printed or typed on the definitive Certificates.

SECTION 31: Benefits of Ordinance. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the City, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, and this Ordinance and all its provisions is intended to be and shall be for the sole and exclusive benefit of the City, the Paying Agent/Registrar and the Holders.

SECTION 32: Inconsistent Provisions. All ordinances, orders or resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Ordinance are hereby repealed to the extent of such conflict, and the provisions of this Ordinance shall be and remain controlling as to the matters contained herein.

SECTION 33: Governing Law. This Ordinance shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

SECTION 34: Effect of Headings. The Section headings herein are for convenience of reference only and shall not affect the construction hereof.

SECTION 35: Construction of Terms. If appropriate in the context of this Ordinance, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

SECTION 36: Continuing Disclosure Undertaking.

(a) Definitions. As used in this Section, the following terms have the meanings ascribed to such terms below:

“MSRB” means the Municipal Securities Rulemaking Board.

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

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

(b) Annual Reports. The City shall provide annually to the MSRB (1) within six months after the end of each fiscal year, beginning in or after 2012, financial information and operating data with respect to the City of the general type described in **Exhibit C** hereto, and (2) if not provided as part of such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements so provided shall be prepared in accordance with the accounting principles described in **Exhibit C** hereto, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided.

If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Web site or filed with the SEC.

(c) Notice of Certain Events. The City shall provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner and not more than 10 business days after occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of

- Proposed Issuance (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
- (7) Modifications to rights of holders of the Certificates, if material;
 - (8) Certificate calls, if material, and tender offers;
 - (9) Defeasances;
 - (10) Release, substitution, or sale of property securing repayment of the Certificates, if material;
 - (11) Rating changes;
 - (12) Bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below;
 - (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For these purposes, any event described in the immediately preceding subsection (c)12 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 shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with subsection (b) of this Section by the time required by such Section.

(d) Filings with the MSRB. All financial information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Section shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

(e) Limitations, Disclaimers and Amendments. The City shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the City remains an "obligated person" with respect to the Certificates within the meaning of the Rule, except that the City in any event will give the notice required by subsection (c) of this Section of any Certificate calls and defeasance that cause the City to be no longer such an "obligated person."

The provisions of this Section are for the sole benefit of the Holders and beneficial owners of the Certificates; and, nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section. Except as expressly provided within this Section, the City does not undertake to provide any other information, whether or not it may be relevant or material to a complete presentation of the City's financial results, condition, or prospects; nor does the City undertake to update any information provided in accordance with this Section or otherwise. Furthermore, the City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Certificates at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY CERTIFICATE OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations under this Section shall constitute a breach of or default under this Ordinance for purposes of any other provision of this Ordinance.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

Notwithstanding anything herein to the contrary, the provisions of this Section may be amended by the City from time to time to adapt to changed circumstances resulting 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, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Certificates in the primary offering of the Certificates 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 (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the Outstanding Certificates consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Certificates. The provisions of this Section may also be amended from time to time or repealed by the City if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but only if and to the extent that reservation of the City's right to do so would not prevent underwriters of the initial public offering of the Certificates from lawfully purchasing or selling Certificates in such offering. If the City so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided pursuant to subsection (b) of this Section an explanation, in narrative form, of the reasons for the

amendment and of the impact of any change in the type of financial information or operating data so provided.

SECTION 37: Severability. If any provision of this Ordinance or the application thereof to any circumstance shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, and the City Council hereby declares that this Ordinance would have been enacted without such invalid provision.

SECTION 38: Further Procedures. Any one or more of the Mayor, Mayor Pro Tem, City Manager, Finance Director and City Secretary are hereby expressly authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and on behalf of the City all agreements, instruments, certificates or other documents, whether mentioned herein or not, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance and the issuance of the Certificates. In addition, prior to the initial delivery of the Certificates, the Mayor, Mayor Pro Tem, City Manager, Finance Director and City Secretary or Bond Counsel to the City are each hereby authorized and directed to approve any changes or corrections to this Ordinance or to any of the documents authorized and approved by this Ordinance: (i) in order to cure any ambiguity, formal defect or omission in the Ordinance or such other document; or (ii) as requested by the Attorney General of the State of Texas or his representative to obtain the approval of the Certificates by the Attorney General and if such officer or counsel determines that such changes are consistent with the intent and purpose of the Ordinance, which determination shall be final. In the event that any officer of the City whose signature shall appear on any document shall cease to be such officer before the delivery of such document, such signature nevertheless shall be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

SECTION 39: Incorporation of Findings and Determinations. The findings and determinations of the City Council contained in the preamble hereof are hereby incorporated by reference and made a part of this Ordinance for all purposes as if the same were restated in full in this Section.

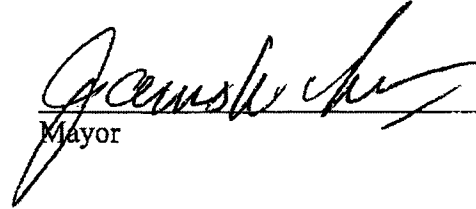
SECTION 40: Public Meeting. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given, all as required by V.T.C.A., Government Code, Chapter 551, as amended.

SECTION 41: Effective Date. This Ordinance shall take effect and be in full force from and after its adoption on the date shown below in accordance with V.T.C.A., Government Code, Section 1201.028, as amended.

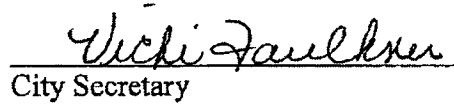
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PASSED AND ADOPTED, this May 15, 2012.

CITY OF CELINA, TEXAS


Mayor

ATTEST:


City Secretary

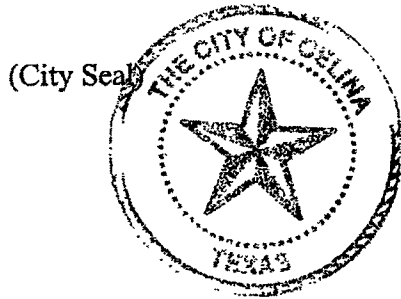


EXHIBIT A
PAYING AGENT/REGISTRAR AGREEMENT

PAYING AGENT/REGISTRAR AGREEMENT

THIS AGREEMENT is entered into as of May 15, 2012 (this "Agreement"), by and between The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, a banking association duly organized and existing under the laws of the United States of America (the "Bank") and the City of Celina, Texas (the "Issuer"),

RECITALS

WHEREAS, the Issuer has duly authorized and provided for the issuance of its "City of Celina, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2012" (the "Securities"), dated June 1, 2012, and such Securities are scheduled to be delivered to the initial purchasers thereof on or about June 14, 2012; and

WHEREAS, the Issuer has selected the Bank to serve as Paying Agent/Registrar in connection with the payment of the principal of, premium, if any, and interest on said Securities and with respect to the registration, transfer and exchange thereof by the registered owners thereof; and

WHEREAS, the Bank has agreed to serve in such capacities for and on behalf of the Issuer and has full power and authority to perform and serve as Paying Agent/Registrar for the Securities;

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE ONE

APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

Section 1.01 Appointment. The Issuer hereby appoints the Bank to serve as Paying Agent with respect to the Securities, and, as Paying Agent for the Securities, the Bank shall be responsible for paying on behalf of the Issuer the principal, premium (if any), and interest on the Securities as the same become due and payable to the registered owners thereof; all in accordance with this Agreement and the "Authorizing Document" (hereinafter defined). The Issuer hereby appoints the Bank as Registrar with respect to the Securities and, as Registrar for the Securities, the Bank shall keep and maintain for and on behalf of the Issuer books and records as to the ownership of said Securities and with respect to the transfer and exchange thereof as provided herein and in the Authorizing Document.

The Bank hereby accepts its appointment, and agrees to serve as the Paying Agent and Registrar for the Securities.

Section 1.02 Compensation. As compensation for the Bank's services as Paying Agent/Registrar, the Issuer hereby agrees to pay the Bank the fees and amounts set forth in Annex A attached hereto.

In addition, the Issuer agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements and advances incurred or made by the Bank in accordance with any of

the provisions hereof (including the reasonable compensation and the expenses and disbursements of its agents and counsel).

ARTICLE TWO DEFINITIONS

Section 2.01 Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

“Acceleration Date” on any Security means the date on and after which the principal or any or all installments of interest, or both, are due and payable on any Security which has become accelerated pursuant to the terms of the Security.

“Authorizing Document” means the resolution, order, or ordinance of the governing body of the Issuer pursuant to which the Securities are issued, as the same may be amended or modified, including any pricing certificate related thereto, certified by the secretary or any other officer of the Issuer and delivered to the Bank.

“Bank Office” means the designated office of the Bank at the address shown in Section 3.01 hereof. The Bank will notify the Issuer in writing of any change in location of the Bank Office.

“Financial Advisor” means First Southwest Company.

“Holder” and “Security Holder” each means the Person in whose name a Security is registered in the Security Register.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government.

“Predecessor Securities” of any particular Security means every previous Security evidencing all or a portion of the same obligation as that evidenced by such particular Security (and, for the purposes of this definition, any mutilated, lost, destroyed, or stolen Security for which a replacement Security has been registered and delivered in lieu thereof pursuant to Section 4.06 hereof and the Authorizing Document).

“Redemption Date”, when used with respect to any Security to be redeemed, means the date fixed for such redemption pursuant to the terms of the Authorizing Document.

“Responsible Officer”, when used with respect to the Bank, means the Chairman or Vice-Chairman of the Board of Directors, the Chairman or Vice-Chairman of the Executive Committee of the Board of Directors, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Cashier, any Assistant Cashier, any Trust Officer or

Assistant Trust Officer, or any other officer of the Bank customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Security Register" means a register maintained by the Bank on behalf of the Issuer providing for the registration and transfers of Securities.

"Stated Maturity" means the date specified in the Authorizing Document the principal of a Security is scheduled to be due and payable.

Section 2.02 Other Definitions. The terms "Bank," "Issuer," and "Securities (Security)" have the meanings assigned to them in the recital paragraphs of this Agreement.

The term "Paying Agent/Registrar" refers to the Bank in the performance of the duties and functions of this Agreement.

ARTICLE THREE PAYING AGENT

Section 3.01 Duties of Paying Agent. As Paying Agent, the Bank shall pay, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, on behalf of the Issuer the principal of each Security at its Stated Maturity, Redemption Date or Acceleration Date, to the Holder upon surrender of the Security to the Bank at the following address:

| <u>First Class/Registered/Certified</u> | <u>Express Delivery/Courier</u> | <u>By Hand Only</u> |
|---|--|--|
| The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust P.O. Box 396 East Syracuse, NY 13057 | The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust 111 Sanders Creek Pkwy. East Syracuse, NY 13057 | The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust Corporate Trust Window 101 Barclay Street, 1st Floor East New York, NY 10286 |

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the interest on each Security when due, by computing the amount of interest to be paid each Holder and making payment thereof to the Holders of the Securities (or their Predecessor Securities) on the Record Date (as defined in the Authorizing Document). All payments of principal and/or interest on the Securities to the registered owners shall be accomplished (1) by the issuance of checks, payable to the registered owners, drawn on the paying agent account provided in Section 5.05 hereof, sent by United States mail, first class postage prepaid, to the address appearing on the Security Register or (2) by such other method, acceptable to the Bank, requested in writing by the Holder at the Holder's risk and expense.

Section 3.02 Payment Dates. The Issuer hereby instructs the Bank to pay the principal of and interest on the Securities on the dates specified in the Authorizing Document.

ARTICLE FOUR REGISTRAR

Section 4.01 Security Register - Transfers and Exchanges. The Bank agrees to keep and maintain for and on behalf of the Issuer at the Bank Office books and records (herein sometimes referred to as the "Security Register") for recording the names and addresses of the Holders of the Securities, the transfer, exchange and replacement of the Securities and the payment of the principal of and interest on the Securities to the Holders and containing such other information as may be reasonably required by the Issuer and subject to such reasonable regulations as the Issuer and the Bank may prescribe. All transfers, exchanges and replacements of Securities shall be noted in the Security Register.

Every Security surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, the signature on which has been guaranteed by an officer of a federal or state bank or a member of the National Association of Securities Dealers, such written instrument to be in a form satisfactory to the Bank and duly executed by the Holder thereof or his agent duly authorized in writing.

The Bank may request any supporting documentation it feels necessary to effect a re-registration, transfer or exchange of the Securities.

To the extent possible and under reasonable circumstances, the Bank agrees that, in relation to an exchange or transfer of Securities, the exchange or transfer by the Holders thereof will be completed and new Securities delivered to the Holder or the assignee of the Holder in not more than three (3) business days after the receipt of the Securities to be cancelled in an exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Holder, or his duly authorized agent, in form and manner satisfactory to the Paying Agent/Registrar.

Section 4.02 Securities. The Issuer shall provide additional Securities when needed to facilitate transfers or exchanges thereof. The Bank covenants that such additional Securities, if and when provided, will be kept in safekeeping pending their use and reasonable care will be exercised by the Bank in maintaining such Securities in safekeeping, which shall be not less than the care maintained by the Bank for debt securities of other governments or corporations for which it serves as registrar, or that is maintained for its own securities.

Section 4.03 Form of Security Register. The Bank, as Registrar, will maintain the Security Register relating to the registration, payment, transfer and exchange of the Securities in accordance with the Bank's general practices and procedures in effect from time to time. The Bank shall not be obligated to maintain such Security Register in any form other than those which the Bank has currently available and currently utilizes at the time.

The Security Register may be maintained in written form or in any other form capable of being converted into written form within a reasonable time.

Section 4.04 List of Security Holders. The Bank will provide the Issuer at any time requested by the Issuer, upon payment of the required fee, a copy of the information contained in the Security Register. The Issuer may also inspect the information contained in the Security

Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

The Bank will not release or disclose the contents of the Security Register to any person other than to, or at the written request of, an authorized officer or employee of the Issuer, except upon receipt of a court order or as otherwise required by law. Upon receipt of a court order and prior to the release or disclosure of the contents of the Security Register, the Bank will notify the Issuer so that the Issuer may contest the court order or such release or disclosure of the contents of the Security Register.

Section 4.05 Return of Cancelled Securities. The Bank will, at such reasonable intervals as it determines, surrender to the Issuer, all Securities in lieu of which or in exchange for which other Securities have been issued, or which have been paid.

Section 4.06 Mutilated, Destroyed, Lost or Stolen Securities. The Issuer hereby instructs the Bank, subject to the provisions of the Authorizing Document, to deliver and issue Securities in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities as long as the same does not result in an overissuance.

In case any Security shall be mutilated, destroyed, lost or stolen, the Bank may execute and deliver a replacement Security of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Security, or in lieu of and in substitution for such mutilated, destroyed, lost or stolen Security, only upon the approval of the Issuer and after (i) the filing by the Holder thereof with the Bank of evidence satisfactory to the Bank of the destruction, loss or theft of such Security, and of the authenticity of the ownership thereof and (ii) the furnishing to the Bank of indemnification in an amount satisfactory to hold the Issuer and the Bank harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Security shall be borne by the Holder of the Security mutilated, destroyed, lost or stolen.

Section 4.07 Transaction Information to Issuer. The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Securities it has paid pursuant to Section 3.01, Securities it has delivered upon the transfer or exchange of any Securities pursuant to Section 4.01, and Securities it has delivered in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities pursuant to Section 4.06.

ARTICLE FIVE THE BANK

Section 5.01 Duties of Bank. The Bank undertakes to perform the duties set forth herein and agrees to use reasonable care in the performance thereof.

Section 5.02 Reliance on Documents, Etc.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank.

(b) The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Bank was negligent in ascertaining the pertinent facts.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Securities, but is protected in acting upon receipt of Securities containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Holder or an agent of the Holder. The Bank shall not be bound to make any investigation into the facts or matters stated in a resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security or other paper or document supplied by the Issuer.

(e) The Bank may consult with counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

(g) The Bank is also authorized to transfer funds relating to the closing and initial delivery of the Securities in the manner disclosed in the closing memorandum or letter as prepared by the Issuer, the Financial Advisor or other agent. The Bank may act on a facsimile or e-mail transmission of the closing memorandum or letter acknowledged by the Issuer, the Issuer's financial advisor or other agent as the final closing memorandum or letter. The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions.

Section 5.03 Recitals of Issuer. The recitals contained herein with respect to the Issuer and in the Securities shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

The Bank shall in no event be liable to the Issuer, any Holder or Holders of any Security, or any other Person for any amount due on any Security from its own funds.

Section 5.04 May Hold Securities. The Bank, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar, or any other agent.

Section 5.05 Moneys Held by Bank - Paying Agent Account/Collateralization. A paying agent account shall at all times be kept and maintained by the Bank for the receipt, safekeeping, and disbursement of moneys received from the Issuer under this Agreement for the payment of the Securities, and money deposited to the credit of such account until paid to the Holders of the Securities shall be continuously collateralized by securities or obligations which qualify and are eligible under both the laws of the State of Texas and the laws of the United States of America to secure and be pledged as collateral for paying agent accounts to the extent such money is not insured by the Federal Deposit Insurance Corporation. Payments made from such paying agent account shall be made by check drawn on such account unless the owner of the Securities shall, at its own expense and risk, request an alternative method of payment.

Subject to the applicable unclaimed property laws of the State of Texas, any money deposited with the Bank for the payment of the principal of, premium (if any), or interest on any Security and remaining unclaimed for three years after final maturity of the Security has become due and payable will be held by the Bank and disposed of only in accordance with Title 6 of the Texas Property Code, as amended. The Bank shall have no liability by virtue of actions taken in compliance with this provision.

The Bank is not obligated to pay interest on any money received by it under this Agreement.

This Agreement relates solely to money deposited for the purposes described herein, and the parties agree that the Bank may serve as depository for other funds of the Issuer, act as trustee under indentures authorizing other bond transactions of the Issuer, or act in any other capacity not in conflict with its duties hereunder.

Section 5.06 Indemnification. To the extent permitted by law, the Issuer agrees to indemnify the Bank for, and hold it harmless against, any loss, liability, or expense incurred without negligence or bad faith on its part, arising out of or in connection with its acceptance or administration of its duties hereunder, including the cost and expense against any claim or liability in connection with the exercise or performance of any of its powers or duties under this Agreement.

Section 5.07 Interpleader. The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demand, or controversy over its person as well as funds on deposit, in either a Federal or State District Court located in the state and county where the administrative office of the Issuer is located, and agree that service of process by certified or registered mail, return receipt requested, to the address referred to in Section 6.03 of this Agreement shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction in the State of Texas to determine the rights of any Person claiming any interest herein.

In the event the Bank becomes involved in litigation in connection with this Section, the Issuer, to the extent permitted by law, agrees to indemnify and save the Bank harmless from all loss, cost, damages, expenses, and attorney fees suffered or incurred by the Bank as a result. The obligations of the Bank under this Agreement shall be performable at the principal corporate office of the Bank in the City of Dallas, Texas.

Section 5.08 DTC Services. It is hereby represented and warranted that, in the event the Securities are otherwise qualified and accepted for "Depository Trust Company" services or equivalent depository trust services by other organizations, the Bank has the capability and, to the extent within its control, will comply with the "Operational Arrangements", which establishes requirements for securities to be eligible for such type depository trust services, including, but not limited to, requirements for the timeliness of payments and funds availability, transfer turnaround time, and notification of redemptions and calls.

ARTICLE SIX MISCELLANEOUS PROVISIONS

Section 6.01 Amendment. This Agreement may be amended only by an agreement in writing signed by both of the parties hereto.

Section 6.02 Assignment. This Agreement may not be assigned by either party without the prior written consent of the other.

Section 6.03 Notices. Any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown on the signature page hereof.

Section 6.04 Effect of Headings. The Article and Section headings herein are for convenience of reference only and shall not affect the construction hereof.

Section 6.05 Successors and Assigns. All covenants and agreements herein by the Issuer shall bind its successors and assigns, whether so expressed or not.

Section 6.06 Severability. In case any provision herein shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 6.07 Merger, Conversion, Consolidation, or Succession. Any corporation or association into which the Bank may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion, or consolidation to which the Bank shall be a party, or any corporation or association succeeding to all or substantially all of the corporate trust business of the Bank shall be the successor of the Bank as Paying Agent under this Agreement without the execution or filing of any paper or any further act on the part of either parties hereto.

Section 6.08 Benefits of Agreement. Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim hereunder.

Section 6.09 Entire Agreement. This Agreement and the Authorizing Document constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar and if any conflict exists between this Agreement and the Authorizing Document, the Authorizing Document shall govern.

Section 6.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

Section 6.11 Termination. This Agreement will terminate (i) on the date of final payment of the principal of and interest on the Securities to the Holders thereof or (ii) may be earlier terminated by either party upon sixty (60) days written notice; provided, however, an early termination of this Agreement by either party shall not be effective until (a) a successor Paying Agent/Registrar has been appointed by the Issuer and such appointment accepted and (b) notice has been given to the Holders of the Securities of the appointment of a successor Paying Agent/Registrar. However, if the Issuer fails to appoint a successor Paying Agent/Registrar within a reasonable time, the Bank may petition a court of competent jurisdiction within the State of Texas to appoint a successor. Furthermore, the Bank and the Issuer mutually agree that the effective date of an early termination of this Agreement shall not occur at any time which would disrupt, delay or otherwise adversely affect the payment of the Securities.

Upon an early termination of this Agreement, the Bank agrees to promptly transfer and deliver the Security Register (or a copy thereof), together with the other pertinent books and records relating to the Securities, to the successor Paying Agent/Registrar designated and appointed by the Issuer.

The provisions of Section 1.02 and of Article Five shall survive and remain in full force and effect following the termination of this Agreement.

Section 6.12 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Texas.

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