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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION

The City of Celina is located in north central Collin and Denton Counties, thirty-five miles north of Dallas and fifteen miles south of the City of McKinney. Access to the City is provided by State Highway 289 and Farm Road 455. The City covers approximately 1.7 square miles. The City's location as part of the growing Dallas-Fort Worth Metroplex has resulted in rapid growth over the last several years. The City's 2010 census figure was 6,028. The City's current population estimate is 14,515.

ECONOMY

Major employers in the City are:

<u>Employer</u>	<u>Type of Business</u>	<u>Employees</u>
Celina ISD	Education	329
City of Celina	Government	124
Celina Ready-Mix Concrete	Cement Manufacturing	69
Brookshire	Retail Grocery	67
Fini Enterprises Inc.	Chemical Manufacturing	68
Independent Bank	Banking	18
Dickerson Construction	Construction	23

Source: City Officials.

EDUCATION

The City is served by the Celina Independent School District (the "District"). The District is comprised of six campuses, 1 primary school for grades pre-kindergarten through kindergarten, 2 elementary schools for grades first through fifth, 1 sixth grade center, 1 junior high school for grades seventh through eighth and 1 high school for grades ninth through twelfth. All campuses offer enriched curricula with special programs for gifted/talented students as well as students achieving below grade level, and all are equipped with computers and full cafeteria service. The District has 360 employees, 180 of whom are classroom teachers. The District's 2017-2018 active enrollment was 2,586 students.

RESIDENTIAL AND COMMERCIAL BUILDING CONSTRUCTION

<u>Fiscal Year</u> <u>Ended 9-30</u>	<u>Residential</u>		<u>Commercial</u>		<u>Total</u>	
	<u>Number of Permits</u>	<u>Property Value \$ Amount</u>	<u>Number of Permits</u>	<u>Property Value \$ Amount</u>	<u>Number of Permits</u>	<u>Property Value \$ Amount</u>
2014	346	\$ 122,602,573	3	\$ 3,685,234	349	\$ 126,287,807
2015	448	158,745,528	0	-	448	158,745,528
2016	562	233,428,383	3	184,736	565	233,613,119
2017	908	383,239,478	6	412,161	914	383,651,639
2018 ⁽¹⁾	775	322,339,721	3	229,630	778	322,569,351

Source: City Staff.

(1) As of May 31, 2018.

HISTORICAL EMPLOYMENT (AVERAGE ANNUAL) ⁽¹⁾

Collin County

	<u>Average Annual</u>				
	<u>2018⁽¹⁾</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Civilian Labor Force	540,245	527,317	512,119	488,234	474,119
Total Employed	522,105	509,347	494,019	470,529	452,567
Total Unemployed	18,140	17,970	18,100	17,705	21,552
Unemployment Rate	3.4%	3.4%	3.5%	3.6%	4.5%

(1) Source: Texas Workforce Commission.

(2) Data through May, 2018.

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APPENDIX B

EXCERPTS FROM THE

CITY OF CELINA, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the City of Celina, Texas Annual Financial Report for the Year Ended September 30, 2017, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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Independent Auditor's Report

To the City Council
City of Celina, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Celina, Texas ("City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Celina, Texas as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, and schedule of contributions on pages 4 through 18, and pages 64 through 65, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Celina, Texas basic financial statements. The introductory section, combining and individual non-major fund financial statements and schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Respectfully submitted,

Scott, Singleton, Fincher and Company, PC

Scott, Singleton, Fincher and Company, PC
Certified Public Accountants
Greenville, Texas
March 23, 2018

REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The City of Celina presents the City's comprehensive annual financial report. This overview is an analysis of the financial activities of the City for the fiscal year ended September 30, 2017. 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 position reported in the Statement of Net Position is \$46,859,066. Of this amount \$32,112,542 is invested in capital assets or restricted for debt service and capital projects, and the balance of \$14,746,524 is available as unrestricted net position.
- Government-wide net position increased by \$6,674,149 during 2017.
- The City's fund financial statements reported changes in equity as follows:

General Fund – \$566,380 decrease
Water & Sewer Fund - \$2,438,847 increase
Debt Service Fund - \$467,819 increase

USING THIS ANNUAL REPORT:

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position 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. Governmental funds reflect the *flow of current financial resources*. 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 Position 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 Position 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 position and the changes in it. The City's net position (the difference between assets and liabilities) provides one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net position 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 Position 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 funds and proprietary funds 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 Position 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.

CAPITAL ASSET AND DEBT ADMINISTRATION:

Capital Assets – the City's investment in capital assets reported in governmental activities and business-type activities was \$35,568,437 and \$37,693,768, respectively. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. The change in the City's investment in capital assets for the current fiscal year was \$1,834,935 and \$7,264,944 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 \$62,919,803 in bonds and capital leases outstanding – an increase of \$7,427,988. Additional information on long-term liabilities can be found in note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES:

The City of Celina continues to see strong population and economic growth. From 2010 to the projected population for 2018, the City of Celina has experienced a population growth of almost 17% over the past nine years. The leading driver of the City's population growth is a strong local housing market. The City issued 903 building permits, compared to 573 permits last year that represent an increase of 330 permits or 57.59%. Accordingly, permit fee collections have increased by \$1,597,410 or 68.42% for the same period. For the fiscal year 2016-2017, the City collected \$3,932,234 in permit fees compared with \$2,334,824 for the same period last year. The increase in building permits and fees is a result of a strategic plan that was put in place in 2011. Although cities have various tools at their disposal to generate growth, the City of Celina, pursuant to the Public Improvement District Act, Texas Local Government Code, Chapter 372, as amended (the "PID Act"), has used this tool with greater frequency and entered into a negotiation with several developers that were interested in developing large housing developments in the southern border of the City. The PID strategy necessitates a continual partnership between the City, the developer and subsequent home owners. Celina uses the PID to fund and maintain public infrastructure through assessments levied against each individual lot or parcel ultimately making the developer or home owner responsible for payment. In 2014, the City created the first PID and issued its first Special Assessment Bonds for the district. As of September 30, 2017 the City of Celina has created seven PIDs with a total bond principal outstanding of \$99,130,000. In addition to the PID strategy, the City has developed a Tax Increment Reinvestment Zone ("TIRZ"), that will assist with funding of infrastructure that is situated outside of PID boundaries and is a responsibility of the city.

The City is not obligated in any manner for this special assessment debt, but merely acts as the developer's agent in handling the debt service transactions by collecting any special assessment collections and forwarding them to the Trustee for payment to the bond holders.

The City understands that diversification of Celina's economy is a key to financial stability. The City of Celina's portion of sales tax collection increased from \$733,881 in FY 2016 to \$958,350 in FY 2017. This amounts to an increase of \$224,469 or 30.59%. The increase follows the trend through the state. The reduction in unemployment in conjunction with the sales tax collection from internet purchases has contributed to the increase. The opening of new retail shops and restaurants played a role in the increase of sales tax revenue as well. Management anticipates a moderate increase through FY 2018.

Total assessed property value for the City of Celina increased from \$660,868,270 in FY 2016 to \$872,961,920 in FY 2017. With the exception of FY 2011, the City of Celina has enjoyed an increase in its property values since FY 2001. This increase is a result of new construction in housing developments 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 the last decade. By introducing progressive strategies and policies such as PIDs and TIRZ, the City of Celina will expedite and sustain this growth for a foreseeable future.

Fiscal Year	Assessed Value	% Change
2008	\$ 418,824,688	
2009	\$ 463,326,983	10.63%
2010	\$ 464,198,797	0.19%
2011	\$ 454,064,487	-2.18%
2012	\$ 461,631,888	1.67%
2013	\$ 482,230,390	4.46%
2014	\$ 508,695,836	5.49%
2015	\$ 554,892,312	9.08%
2016	\$ 660,868,270	19.10%
2017	\$ 872,961,920	32.09%

Water

The City of Celina is currently experiencing a tremendous growth in its housing market. During FY 2017 the city has issued an average of 75 new water meters per month. This increase, coupled with climate changes, resulted in a water sales revenue increase of \$1,082,572 or 26.73% over FY 2016.

A review of the history of the City's water sales over the past several years indicates a healthy trend. Although the challenge at hand is complex, the city adopted several policies to ensure both the availability and affordability of water for its residents. The City uses a combination of well water and purchased water from Upper Trinity Regional Water District. The governing body is negotiating with a second provider in the region to increase its water source in response to future growth.

Fiscal Year	Water Sales	% Change
2007	\$ 1,298,932	
2008	\$ 1,598,567	23.07%
2009	\$ 1,602,364	0.24%
2010	\$ 1,944,348	21.34%
2011	\$ 2,549,933	31.15%
2012	\$ 2,548,942	-0.04%
2013	\$ 2,772,632	8.78%
2014	\$ 2,780,983	0.30%
2015	\$ 3,489,083	25.46%
2016	\$ 4,049,673	16.07%
2017	\$ 5,132,245	26.73%

Wastewater

Since the use of wastewater is parallel to water usage, increases in sewer sales revenue will follow water sales revenue trends. Total sewer revenue for FY 2017 increased by \$529,892 or 29.45% over FY 2016. Based on the number of new water meters installed monthly, sewer sales revenues will continue to increase. Unprecedented growth puts enormous pressure on the City's infrastructures in general and wastewater in particular. Despite increases in revenue, a number of challenges remain to fund projects necessary to service population growth. The City of Celina currently owns and operates its water reclamation system and is a member of a regional facility. The City has invested in the construction of phase I of this regional plant that will allow it to use an assigned capacity. Celina needs to expand its owned and operated plant and participate in a phase II expansion of the regional plant. The City has completed its Capital Improvement Plan (CIP) for the next five years and is working to secure funding for these projects for FY 2018.

Fiscal Year	Sewer Sales	% Change
2007	\$ 485,948	
2008	\$ 546,556	12.47%
2009	\$ 572,299	4.71%
2010	\$ 774,022	35.25%
2011	\$ 946,269	22.25%
2012	\$ 994,332	5.08%
2013	\$ 1,060,773	6.68%
2014	\$ 1,160,403	9.39%
2015	\$ 1,409,070	21.43%
2016	\$ 1,799,254	27.69%
2017	\$ 2,329,146	29.45%

The property tax rate for fiscal year 2017 remains unchanged at \$0.645 per \$100 of assessed value. Water and sewer rates remain unchanged. The City is currently conducting a rate study which will take into account the City's water and wastewater rates and if they are sufficient to cover necessary upgrades and additions to the City's water and sewer infrastructure.

Budget Highlights for FY 2018 Include:

- A balanced budget that provides for a financially sound city while maintaining high quality of services
- Property tax that remains unchanged at the current rate of \$0.645 per \$100 taxable value
- Water and sewer rates will experience a modest increase as the City concludes a water and wastewater rate study by the end of FY 2018
- Increase in the number of FTEs to 125 which includes 3 new police officers, 1 new firefighter and 8 new employees in Public Works, with the rest of the City's departments adding or eliminating positions to better serve the public and increase efficiency
- Upgrading the City's accounting system to improve accounting controls and provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits require estimates and judgments by management. All internal control evaluations occur within the above framework
- The City of Celina commissioned a compensation rate and classification study for the FY 2018 and is planning to implement the recommendations that have been provided by the study
- The creation of three new departments: Information Technology (IT), Geographic Information System (GIS) and Facilities Maintenance
- Increased and sustained funding for equipment, facilities and infrastructure improvements

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Celina, Texas for its comprehensive annual financial report for the fiscal year ended September 30, 2016. This was the first year that the City has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City of Celina also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning October 1, 2016. To qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide and a communications device.

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. Questions concerning this report or need for additional information, including financial information for the City's two component units, should be addressed to Jason Laumer, City Manager, or Jay Toutouchian, Director of Finance, by phone at (972) 382-2682 or by e-mail at jlaumer@celina-tx.gov or jtoutouchian@celina-tx.gov.

**CITY OF CELINA, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION**

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	\$ 26,496,615	\$ 20,375,508	\$ 22,276,646	\$ 20,881,007	\$ 48,773,261	\$ 41,256,515
Capital assets, net	35,568,437	33,733,502	37,693,768	30,428,824	73,262,205	64,162,326
Total Assets	62,065,052	54,109,010	59,970,414	51,309,831	122,035,466	105,418,841
Deferred Outflows of Resources						
Deferred outflows of resources	480,335	488,575	68,329	69,438	548,664	558,013
Total Deferred Outflows of Resources	480,335	488,575	68,329	69,438	548,664	558,013
Liabilities						
Other liabilities	5,598,924	5,371,246	6,967,266	4,604,645	12,566,190	9,975,891
Long-term debt	26,284,924	22,828,040	36,813,467	32,959,219	63,098,391	55,787,259
Total Liabilities	31,883,848	28,199,286	43,780,733	37,563,864	75,664,581	65,763,150
Deferred Inflows of Resources						
Deferred inflows of resources	53,135	25,197	7,348	3,590	60,483	28,787
Total Deferred Inflows of Resources	53,135	25,197	7,348	3,590	60,483	28,787
Net Position						
Net investment in capital assets	13,184,763	13,138,978	13,079,265	12,078,113	26,264,028	25,217,091
Restricted for debt service	1,374,295	901,524			1,374,295	901,524
Restricted for capital projects	4,474,219	4,438,649			4,474,219	4,438,649
Unrestricted	11,575,127	7,893,951	3,171,397	1,733,702	14,746,524	9,627,653
Total Net Position	\$ 30,608,404	\$ 26,373,102	\$ 16,250,662	\$ 13,811,815	\$ 46,859,066	\$ 40,184,917

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program revenues:						
Charges for services	\$ 6,391,343	\$ 4,265,112	\$ 13,590,654	\$ 10,057,113	\$ 19,981,997	\$ 14,322,225
Operating grants/contributions	356,258	368,784			356,258	368,784
Capital grants/contributions	1,011,625	2,578,809	-	800,100	1,011,625	3,378,909
General revenues:						
Ad valorem taxes	5,362,919	4,458,401			5,362,919	4,458,401
Sales taxes	958,350	733,881			958,350	733,881
Franchise Taxes	370,949	429,102			370,949	429,102
Other	985,322	671,241	151,666	114,067	1,136,988	785,308
Total revenues	15,436,766	13,505,330	13,742,320	10,971,280	29,179,086	24,476,610
Expenses:						
Administration	2,550,349	1,592,794			2,550,349	1,592,794
Judicial	155,521	102,803			155,521	102,803
Fire and emergency services	2,414,778	1,957,077			2,414,778	1,957,077
Development services	887,990	683,599			887,990	683,599
Public works	1,104,523	1,080,661			1,104,523	1,080,661
Police department	1,877,574	1,532,829			1,877,574	1,532,829
Parks and recreation	1,263,538	1,084,077			1,263,538	1,084,077
Library	169,326	152,664			169,326	152,664
Infrastructure	353,119	211,300			353,119	211,300
Main street project	55,176	65,279			55,176	65,279
Bond issuance costs	74,569		89,126	514,633	163,695	514,633
Interest and fiscal charges	787,001	710,249			787,001	710,249
Water, Sewer and Sanitation Services			10,722,347	7,993,863	10,722,347	7,993,863
Total Expenses	11,693,464	9,173,332	10,811,473	8,508,496	22,504,937	17,681,828
Excess (deficiency) before transfers	3,743,302	4,331,998	2,930,847	2,462,784	6,674,149	6,794,782
Transfers	492,000	2,346,769	(492,000)	(2,346,769)	-	-
Change in Net Position	4,235,302	6,678,767	2,438,847	116,015	6,674,149	6,794,782
Net Position - October 1	26,373,102	19,694,335	13,811,815	13,695,800	40,184,917	33,390,135
Net Position - September 30	\$ 30,608,404	\$ 26,373,102	\$ 16,250,662	\$ 13,811,815	\$ 46,859,066	\$ 40,184,917

**CITY OF CELINA, TEXAS
COMPARATIVE BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017 and 2016**

	General Fund	Debt Service Fund	Street Construction Fund	Parkland Fees Fund	Facilities Improvement Fund	Other Governmental Funds	Total Governmental Funds	
							2017	2016
Assets								
Cash and cash equivalents	\$ 7,531,454	\$ 1,369,496	\$ -	\$ -	\$ -	\$ 170,856	\$ 9,071,806	\$ 9,136,808
Investment in Texpool	2,397						2,397	2,382
Cash and cash equivalents - restricted			6,189,975	4,449,577	808,594	5,402,155	16,850,301	10,615,734
Sales taxes receivable	166,159						166,159	146,963
Property taxes receivable, net	25,999	4,952					30,951	38,721
EMS receivable	30,586						30,586	97,300
Other receivables	120,429						120,429	179,085
Prepaid items	3,013						3,013	2,230
Due from component units	159,354						159,354	49,994
Due from other funds	879						879	-
Total Assets	\$ 8,040,270	\$ 1,374,448	\$ 6,189,975	\$ 4,449,577	\$ 808,594	\$ 5,573,011	\$ 26,435,875	\$ 20,269,217
Liabilities								
Accounts payable	324,401		57,345	18,000		83,455	483,201	442,819
Accrued salaries and benefits	309,092	153					309,245	227,873
Due to other funds						879	879	-
Escrowed funds	763,970						763,970	997,028
Unearned revenue	51,003		235,133	3,424,052			3,710,188	3,440,880
Total Liabilities	1,448,466	153	292,478	3,442,052	-	84,334	5,267,483	5,108,600
Deferred Inflows of Resources								
Unavailable property taxes receivable	25,949	4,952					30,901	42,870
Total Deferred Inflows of Resources	25,949	4,952	-	-	-	-	30,901	42,870
Fund Balances								
Nonspendable:								
Prepays	3,013						3,013	2,230
Restricted for:								
Capital improvements			5,897,497	1,007,525	808,594	5,320,335	13,033,951	7,083,988
Debt service		1,369,343					1,369,343	901,524
Assigned for use in specific funds						168,342	168,342	-
Unassigned	6,562,842						6,562,842	7,130,005
Total Fund Balances	6,565,855	1,369,343	5,897,497	1,007,525	808,594	5,488,677	21,137,491	15,117,747
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 8,040,270	\$ 1,374,448	\$ 6,189,975	\$ 4,449,577	\$ 808,594	\$ 5,573,011	\$ 26,435,875	\$ 20,269,217

CITY OF CELINA, TEXAS
Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Years Ending September 30, 2017 and 2016

	General Fund	Debt Service Fund	Street Construction Fund	Parkland Fees Fund	Facilities Improvement Fund	Other Governmental Funds	Total Governmental Funds	
							2017	2016
REVENUES:								
Ad valorem taxes	\$ 3,486,892	\$ 1,887,996	\$ -	\$ -	\$ -	\$ -	\$ 5,374,888	\$ 4,453,862
Franchise taxes	370,949						370,949	429,102
Sales tax	958,350						958,350	733,881
Permits and inspection fees	3,959,914						3,959,914	2,357,289
Component unit contributions		200,000					200,000	200,000
Development fees	1,245,943						1,245,943	509,870
Developer park contributions				1,011,625			1,011,625	2,008,809
Fire department, EMS, and police revenues	817,691						817,691	910,360
Fines	209,806						209,806	283,758
Special events and donations	179,417					70,797	250,214	373,421
Park fees and donations	166,403						166,403	206,773
Other income	88,480	154,688				265,143	508,311	397,657
Interest	58,199	13,073	46,234	30,095	4,648	30,828	183,077	111,776
Federal, state and local grants						1,570	1,570	518,784
Total Revenues	11,542,044	2,255,757	46,234	1,041,720	4,648	368,338	15,258,741	13,495,342
EXPENDITURES:								
Administration	2,411,180				22,000		2,433,180	1,458,673
Judicial	153,213						153,213	99,803
Fire and emergency services	2,040,917					490	2,041,407	1,731,896
Development services	868,862						868,862	675,267
Public works	832,539				30,436	80,920	943,895	1,023,572
Police department	1,682,946					5,148	1,688,094	1,414,488
Parks and recreation	729,343			230,000			959,343	819,539
Library	165,768						165,768	153,752
Main street project						55,176	55,176	65,279
Capital outlay	175,927		1,827,998		348,227	1,304,566	3,656,718	8,542,536
Debt Service:								
Principal retirement		1,005,685					1,005,685	841,124
Interest and fiscal charges		782,253					782,253	724,025
Bond issuance cost	74,569						74,569	-
Total Expenditures	9,135,264	1,787,938	1,827,998	230,000	400,663	1,446,300	14,828,163	17,549,954
Excess (Deficiency) of Revenues Over Expenditures	2,406,780	467,819	(1,781,764)	811,720	(396,015)	(1,077,962)	430,578	(4,054,612)
OTHER FINANCING SOURCES (USES):								
Proceeds from sale of capital assets	39,165					595,432	634,597	41,825
Issuance of bonds	74,569		2,420,000		658,000	1,310,000	4,462,569	4,510,000
Transfers in (out)	(3,086,894)					3,578,894	492,000	2,346,769
Net Other Financing Sources (Uses)	(2,973,160)	-	2,420,000	-	658,000	5,484,326	5,589,166	6,898,594
Net change in fund balances	(566,380)	467,819	638,236	811,720	261,985	4,406,364	6,019,744	2,843,982
Fund balance, October 1	7,132,235	901,524	5,259,261	195,805,00	546,609	1,082,313	15,117,747	12,273,765
Fund balance, September 30	\$ 6,565,855	\$ 1,369,343	\$ 5,897,497	\$ 1,007,525	\$ 808,594	\$ 5,488,677	\$ 21,137,491	\$ 15,117,747

CITY OF CELINA, TEXAS
COMPARATIVE STATEMENTS OF FUND NET POSITION
PROPRIETARY FUND
September 30, 2017 and 2016

	2017	2016
	Enterprise Fund	Enterprise Fund
	Water & Sewer	Water & Sewer
	Activities	Activities
Assets		
Cash and cash equivalents	\$ 7,303,543	\$ 2,850,035
Cash and cash equivalents - restricted for capital projects	830,443	1,272,139
Investment in TexPool	3,202	3,183
Accounts receivable, net	1,148,818	957,564
Prepaid UTRWD facilities charges	393,023	393,023
Total current assets	9,679,029	5,475,944
Noncurrent Assets:		
Cash and cash equivalents - restricted for capital projects	12,198,964	14,608,508
Prepaid UTRWD facilities charges	393,023	786,047
Net pension asset	5,630	10,507
Capital Assets:		
Non-depreciable land	1,328,043	304,115
Non-depreciable construction in progress	19,284,479	12,923,618
Depreciable capital assets, net	17,081,246	17,201,091
Capital Assets, net	37,693,768	30,428,824
Total noncurrent assets	50,291,385	45,833,886
Deferred outflows of resources:		
Deferred outflows - related to pensions	68,329	69,439
Total deferred outflows of resources	68,329	69,439
Total assets and deferred outflows of resources	\$ 60,038,743	\$ 51,379,269
Liabilities		
Accounts payable	715,066	403,116
Accounts payable for capital projects	830,443	1,272,139
Accrued expenses	61,679	42,412
Bonds payable - current	1,744,829	1,251,277
Infrastructure advance from CISD - current	113,953	106,270
Leases payable - current	-	18,704
Accrued interest payable	105,278	107,240
Meter deposits payable	454,695	403,003
Unearned revenue	4,800,105	2,250,762
Escrow deposits	-	125,973
Total current liabilities	8,826,048	5,980,896
Infrastructure advance from CISD - long-term	64,635	189,174
Bonds payable - long-term	34,890,050	31,393,794
Total non-current liabilities	34,954,685	31,582,968
Total liabilities	43,780,733	37,563,864
Deferred inflows of resources:		
Deferred inflows - related to pensions	7,348	3,590
Total deferred inflows of resources	7,348	3,590
Net Position		
Net investment in capital assets	13,079,265	12,078,113
Restricted for capital projects, net of related debt (\$12,198,964 each, 2017) (\$15,880,647 each, 2016)	-	-
Unrestricted	3,171,397	1,733,702
Total Net Position	\$ 16,250,662	\$ 13,811,815

CITY OF CELINA, TEXAS
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Water sales	\$ 5,132,245	\$ 4,049,673
Sewer sales	2,329,146	1,799,254
Garbage fees	539,881	462,390
Penalties	122,432	97,765
Tap and reconnect fees	1,680,010	1,094,505
Impact fees	2,244,287	1,366,400
Other revenues	1,542,653	1,187,126
Total Operating Revenues	<u>13,590,654</u>	<u>10,057,113</u>
Operating Expenses:		
Salaries and benefits	888,559	740,428
Garbage fees	483,403	415,983
Materials and supplies	767,419	472,414
Postage	38,723	34,827
Repairs and facility maintenance	300,479	284,682
General insurance	15,420	14,420
Utilities and telephone	293,716	296,418
Water purchases and related fees	2,970,312	1,943,073
UTRWD facilities charges	393,023	663,271
Impact fees expense	2,286,900	1,366,400
Depreciation & amortization	890,200	702,950
Bond issuance costs	89,126	514,633
Other expense	455,302	313,102
Total Operating Expenses	<u>9,872,582</u>	<u>7,762,601</u>
Operating Income	<u>\$ 3,718,072</u>	<u>\$ 2,294,512</u>

(Continued)

CITY OF CELINA, TEXAS
Comparative Statements of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Non-operating revenues (expenses):		
Interest income	\$ 151,666	\$ 114,067
Interest and fiscal charges	(938,891)	(745,895)
Total non-operating Revenues (Expenses)	<u>(787,225)</u>	<u>(631,828)</u>
Income before contributions and transfers	2,930,847	1,662,684
Capital contribution	-	800,100
Transfers out to other funds	<u>(492,000)</u>	<u>(2,346,769)</u>
Change in net position	2,438,847	116,015
Net position, October 1	13,811,815	13,695,800
Net position, September 30	<u>\$ 16,250,662</u>	<u>\$ 13,811,815</u>

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE FINANCIAL STATEMENTS

CITY OF CELINA, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government			Component
	Governmental	Business-type	Total	Units
Assets	Activities	Activities		
Cash and cash equivalents	\$ 9,071,806	\$ 7,303,543	\$ 16,375,349	\$ 1,170,380
Investment in Texpool	2,397	3,202	5,599	
Property taxes receivable, net	25,999		25,999	
Sales taxes receivable	166,159		166,159	166,159
Accounts receivable, net	30,586	1,148,818	1,179,404	
Other receivables	140,193		140,193	
Due from component units	159,354		159,354	
Prepaid items	3,013	786,046	789,059	
Net pension asset	41,855	5,630	47,485	
Restricted assets:				
Cash and cash equivalents	16,850,301	13,029,407	29,879,708	
Property taxes receivable, net	4,952		4,952	
Capital assets:				
Land	3,627,345	1,328,043	4,955,388	
Construction in progress	292,982	19,284,479	19,577,461	484,660
Capital assets, net	31,648,110	17,081,246	48,729,356	
Total Assets	62,065,052	59,970,414	122,035,466	1,821,199
Deferred outflows of resources:				
Deferred outflows - related to pensions	480,335	68,329	548,664	
Total Assets and deferred outflows of resources	62,545,387	60,038,743	122,584,130	1,821,199
Liabilities				
Accounts payable	483,201	715,066	1,198,267	
Accrued salaries and benefits	565,621	61,679	627,300	
Unearned revenue	3,710,188	4,800,105	8,510,293	
Meter deposits payable		454,695	454,695	
Escrow deposits	763,970	-	763,970	
Due to primary government				159,354
Payable from restricted assets:				
Accounts payable for capital projects		830,443	830,443	
Accrued interest	75,944	105,278	181,222	
Long-term liabilities:				
Due within one year:				
Bonds payable	1,465,920	1,744,829	3,210,749	
Infrastructure advance from CISD		113,953	113,953	
Due in more than one year:				
Note Payable				978,061
Bonds payable	24,819,004	34,890,050	59,709,054	
Infrastructure advance from CISD		64,635	64,635	
Total Liabilities	31,883,848	43,780,733	75,664,581	1,137,415
Deferred inflows of resources:				
Deferred inflows - related to pensions	53,135	7,348	60,483	
Total deferred inflows of resources	53,135	7,348	60,483	-
Net Position				
Net investment in capital assets	13,184,763	13,079,265	26,264,028	
Restricted for debt service	1,374,295		1,374,295	
Restricted for capital projects (\$8,375,469) net of related debt (\$3,901,250)	4,474,219		4,474,219	
Restricted for capital projects (\$12,198,964) net of related debt (\$12,198,964)		-		
Unrestricted	11,575,127	3,171,397	14,746,524	683,784
Total Net Position	\$ 30,608,404	\$ 16,250,662	\$ 46,859,066	\$ 683,784

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

**CITY OF CELINA, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Aggregate Component Units
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Primary Government	
Governmental activities:								
Administration	\$ 2,624,918	\$ -	\$ -	\$ -	\$ (2,624,918)		\$ (2,624,918)	\$ -
Judicial	155,521				(155,521)		(155,521)	
Fire and emergency services	2,414,778	817,691			(1,597,087)		(1,597,087)	
Development services	887,990	1,245,943			357,953		357,953	
Public works	1,104,523	3,959,914			2,855,391		2,855,391	
Police department	1,877,574	201,392	1,570		(1,674,612)		(1,674,612)	
Parks and recreation	1,263,538	166,403		1,011,625	(85,510)		(85,510)	
Library	169,326				(169,326)		(169,326)	
Infrastructure	353,119				(353,119)		(353,119)	
Main street project	55,176				(55,176)		(55,176)	
Economic development					-		-	(835,440)
Community development								(200,000)
Interest and fiscal charges	787,001		354,688		(432,313)		(432,313)	
Total governmental activities	11,693,464	6,391,343	356,258	1,011,625	(3,934,238)		(3,934,238)	(1,035,440)
Business-type activities:								
Water and sewer services	10,811,473	13,590,654				2,779,181	2,779,181	
Total business-type activities	10,811,473	13,590,654	-	-	-	2,779,181	2,779,181	
Total all activities	\$ 22,504,937	\$ 19,981,997	\$ 356,258	\$ 1,011,625	\$ (3,934,238)	\$ 2,779,181	\$ (1,155,057)	\$ (1,035,440)
General revenues:								
Ad valorem taxes					5,362,919		5,362,919	
Sales taxes					958,350		958,350	953,996
Franchise taxes					370,949		370,949	
Miscellaneous					802,245		802,245	
Unrestricted investment earnings					183,077	151,666	334,743	6,893
Transfers					492,000	(492,000)	-	
Total general revenues and transfers					8,169,540	(340,334)	7,829,206	960,889
Change in net position					4,235,302	2,438,847	6,674,149	(74,551)
Net Position-beginning of year					26,373,102	13,811,815	40,184,917	758,335
Net Position-end of year					\$ 30,608,404	\$ 16,250,662	\$ 46,859,066	\$ 683,784

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

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

**CITY OF CELINA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2017**

	General Fund	Debt Service Fund	Street Construction Fund	Parkland Fees Fund	Facilities Improvement Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>							
Cash and cash equivalents	\$ 7,531,454	\$ 1,369,496	\$ -	\$ -	\$ -	\$ 170,856	\$ 9,071,806
Investment in Texpool	2,397						2,397
Cash and cash equivalents - restricted			6,189,975	4,449,577	808,594	5,402,155	16,850,301
Sales taxes receivable	166,159						166,159
Property taxes receivable, net	25,999	4,952					30,951
EMS receivable, net	30,586						30,586
Other receivables	120,429						120,429
Prepaid items	3,013						3,013
Due from component units	159,354						159,354
Due from other funds	879						879
Total Assets	\$ 8,040,270	\$ 1,374,448	\$ 6,189,975	\$ 4,449,577	\$ 808,594	\$ 5,573,011	\$ 26,435,875
<u>Liabilities</u>							
Accounts payable	324,401		57,345	18,000		83,455	483,201
Accrued salaries and benefits	309,092	153					309,245
Due to other funds						879	879
Escrowed funds	763,970						763,970
Unearned revenue	51,003		235,133	3,424,052			3,710,188
Total Liabilities	1,448,466	153	292,478	3,442,052	-	84,334	5,267,483
<u>Deferred Inflows of Resources</u>							
Unavailable property taxes receivable	25,949	4,952					30,901
Total Deferred Inflows of Resources	25,949	4,952	-	-	-	-	30,901
<u>Fund Balances</u>							
Nonspendable:							
Prepays	3,013						3,013
Restricted for:							
Capital Projects			5,897,497	1,007,525	808,594	5,320,335	13,033,951
Debt Service		1,369,343					1,369,343
Assigned for use in specific funds						168,342	168,342
Unassigned	6,562,842						6,562,842
Total Fund Balances	6,565,855	1,369,343	5,897,497	1,007,525	808,594	5,488,677	21,137,491
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 8,040,270	\$ 1,374,448	\$ 6,189,975	\$ 4,449,577	\$ 808,594	\$ 5,573,011	\$ 26,435,875

CITY OF CELINA, TEXAS
Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
Year Ended September 30, 2017

Amounts presented for governmental activities in the statement of net position are different because:	\$ 21,137,491
Capital assets reported in the statement of net position are not financial resources and are not reported in the fund balance sheet.	35,568,437
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 \$30,901 and fines receivable of \$19,764.	50,665
Net pension assets \$41,855 the related deferred outflows of resources \$480,335, the related deferred inflows of resources (\$53,135) are not available to pay current-period expenditures and therefore are not recorded in the funds.	469,055
Interest due on long-term debt is recorded as accrued interest payable in the statement of net position but does not become a liability on the fund statements until the date due.	(75,944)
Long-term liabilities are reported in the statement of net position but they are not due and payable in the current period and therefore are not reported as liabilities in the fund balance sheet.	<u>(26,541,300)</u>
Net Position of Governmental Activities	<u>\$ 30,608,404</u>

CITY OF CELINA, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2017

	General Fund	Debt Service Fund	Street Construction Fund	Parkland Fees Fund	Facilities Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:							
Ad valorem taxes	\$ 3,486,892	\$ 1,887,996	\$ -	\$ -	\$ -	\$ -	\$ 5,374,888
Franchise taxes	370,949						370,949
Sales tax	958,350						958,350
Permits and inspection fees	3,959,914						3,959,914
Component unit contributions		200,000					200,000
Development fees	1,245,943						1,245,943
Developer park contributions				1,011,625			1,011,625
Fire department, EMS, and police revenues	817,691						817,691
Fines	209,806						209,806
Special events and donations	179,417					70,797	250,214
Park fees and donations	166,403						166,403
Other income	88,480	154,688				265,143	508,311
Interest	58,199	13,073	46,234	30,095	4,648	30,828	183,077
Federal, state & local grants						1,570	1,570
Total Revenues	11,542,044	2,255,757	46,234	1,041,720	4,648	368,338	15,258,741
Expenditures:							
Current:							
Administration	2,411,180				22,000		2,433,180
Judicial	153,213						153,213
Fire and emergency services	2,040,917					490	2,041,407
Development services	868,862						868,862
Public works	832,539				30,436	80,920	943,895
Police department	1,682,946					5,148	1,688,094
Parks and recreation	729,343			230,000			959,343
Library	165,768						165,768
Main street project						55,176	55,176
Capital Outlay	175,927		1,827,998		348,227	1,304,566	3,656,718
Debt Service:							
Principal		1,005,685					1,005,685
Interest and fiscal charges		782,253					782,253
Bond issuance cost	74,569						74,569
Total Expenditures	9,135,264	1,787,938	1,827,998	230,000	400,663	1,446,300	14,828,163
Excess (Deficiency) of Revenues Over Expenditures	2,406,780	467,819	(1,781,764)	811,720	(396,015)	(1,077,962)	430,578
Other Financing Sources (Uses):							
Proceeds from sale of assets	39,165					595,432	634,597
Issuance of bonds	74,569		2,420,000		658,000	1,310,000	4,462,569
Transfers in (out)	(3,086,894)					3,578,894	492,000
Net Other Financing Sources (Uses)	(2,973,160)	-	2,420,000	-	658,000	5,484,326	5,589,166
Net change in fund balances	(566,380)	467,819	638,236	811,720	261,985	4,406,364	6,019,744
Fund balance, October 1	7,132,235	901,524	5,259,261	195,805	546,609	1,082,313	15,117,747
Fund balance, September 30	\$ 6,565,855	\$ 1,369,343	\$ 5,897,497	\$ 1,007,525	\$ 808,594	\$ 5,488,677	\$ 21,137,491

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, 2017

Net change in fund balances - total governmental funds	\$ 6,019,744
Amounts reported for governmental activities in the statement of net position 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 capital outlay of \$3,656,718 exceeded depreciation expense of \$(1,385,594).	2,271,124
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 position differs from the change in fund balance by the net book value of the assets disposed.	(436,189)
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 position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt retired for the year \$982,511, less new bonds issued (\$4,390,000) and deferred bond credits (\$72,569).	(3,480,058)
Changes in the liabilities for compensated absences do not require the use of current resources and therefore are not recorded in the funds.	(64,926)
Changes in long term amounts for net pension assets (\$36,258), the related deferred outflows of resources related to pensions (\$8,240), and the related deferred inflows of resources related to pensions (\$27,938) are not recorded in the funds.	(72,436)
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 deferred inflows from ad valorem taxes of (\$11,969) and the change in fines receivable (\$8,414) and EMS receivables \$(-0-).	(20,383)
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 premiums, \$23,174; and the increase in accrued interest on debt (\$4,748).	18,426
Change in net position - governmental activities	<u>\$ 4,235,302</u>

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

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CITY OF CELINA, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Ad valorem taxes	\$ 3,438,028	\$ 3,486,870	\$ 3,486,892	\$ 22
Franchise taxes	314,161	365,300	370,949	5,649
Sales tax	639,757	939,150	958,350	19,200
Permits and inspection fees	2,556,500	3,959,955	3,959,914	(41)
Development fees	125,000	1,245,940	1,245,943	3
Fire department and EMS revenues	259,200	817,638	817,691	53
Fines	309,185	203,280	209,806	6,526
Special events and donations	234,308	179,406	179,417	11
Park fees	171,000	166,440	166,403	(37)
Other income	40,137	52,632	88,480	35,848
Interest	45,500	58,200	58,199	(1)
Total Revenues	8,132,776	11,474,811	11,542,044	67,233
EXPENDITURES:				
Administration	2,388,009	2,411,218	2,411,180	38
Judicial	156,748	153,267	153,213	54
Fire and emergency services	2,059,979	2,032,168	2,040,917	(8,749)
Development services	1,149,608	869,200	868,862	338
Public works	851,546	806,001	832,539	(26,538)
Police department	1,786,966	1,687,532	1,682,946	4,586
Parks and recreation	821,568	729,513	729,343	170
Library	177,857	165,787	165,768	19
Capital outlay	198,290	175,935	175,927	8
Debt service:				
Bond issuance cost	-	-	74,569	(74,569)
Total Expenditures	9,590,571	9,030,621	9,135,264	(104,643)
Excess (deficiency) of revenues over (under) expenditures	(1,457,795)	2,444,190	2,406,780	(37,410)
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	-	39,150	39,165	15
Issuance of bonds	-	-	74,569	74,569
Transfers in (out)	1,458,000	(17,000)	(3,086,894)	(3,069,894)
Total Other Financing Sources (Uses)	1,458,000	22,150	(2,973,160)	(2,995,310)
Net change in fund balance	205	2,466,340	(566,380)	(3,032,720)
Fund balance, October 1	7,132,235	7,132,235	7,132,235	-
Fund balance, September 30	\$ 7,132,440	\$ 9,598,575	\$ 6,565,855	\$ (3,032,720)

SCHEDULE NOTES:

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles.

PROPRIETARY FUND FINANCIAL STATEMENTS

**CITY OF CELINA, TEXAS
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2017**

	<u>Enterprise Fund Water & Sewer Activities</u>
Assets	
Cash and cash equivalents	\$ 7,303,543
Cash and cash equivalents - restricted for capital projects	830,443
Investment in TexPool	3,202
Accounts receivable, net	1,148,818
Prepaid UTRWD facilities charges	393,023
Total current assets	<u>9,679,029</u>
Noncurrent Assets:	
Cash and cash equivalents - restricted for capital projects	12,198,964
Prepaid UTRWD facilities charges	393,023
Net pension asset	5,630
Capital Assets:	
Non-depreciable land	1,328,043
Non-depreciable construction in progress	19,284,479
Depreciable capital assets, net	17,081,246
Capital Assets, net	<u>37,693,768</u>
Total noncurrent assets	<u>50,291,385</u>
Deferred outflows of resources:	
Deferred outflows - related to pensions	68,329
Total deferred outflows of resources	<u>68,329</u>
Total assets and deferred outflows of resources	<u>\$ 60,038,743</u>
Liabilities	
Accounts payable	715,066
Accounts payable for capital projects	830,443
Accrued salaries and benefits	61,679
Bonds payable - current	1,744,829
Infrastructure advance from CISD - current	113,953
Accrued interest payable	105,278
Meter deposits payable	454,695
Unearned revenue	4,800,105
Total current liabilities	<u>8,826,048</u>
Infrastructure advance from CISD - long-term	64,635
Bonds payable - long-term	34,890,050
Total non-current liabilities	<u>34,954,685</u>
Total liabilities	<u>43,780,733</u>
Deferred inflows of resources:	
Deferred inflows - related to pensions	7,348
Total deferred inflows of resources	<u>7,348</u>
Net Position	
Net investment in capital assets	13,079,265
Restricted for capital projects (\$12,198,964), net of related debt (\$12,198,964)	-
Unrestricted	3,171,397
Total Net Position	<u>\$ 16,250,662</u>

City of Celina, Texas
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended September 30, 2017

	<u>Enterprise Fund</u> <u>Water & Sewer</u> <u>Activities</u>
Operating revenues:	
Water sales	\$ 5,132,245
Sewer sales	2,329,146
Garbage fees	539,881
Penalties	122,432
Tap and reconnect fees	1,680,010
Impact fees	2,244,287
Other revenues	1,542,653
Total Operating Revenues	<u>13,590,654</u>
Operating expenses:	
Salaries and benefits	888,559
Garbage fees	483,403
Materials and supplies	767,419
Postage	38,723
Repairs and facility maintenance	300,479
General insurance	15,420
Utilities and telephone	293,716
Water purchases and related fees	2,970,312
UTRWD facilities charges	393,023
Impact fees expense	2,286,900
Depreciation & amortization	890,200
Bond issuance costs	89,126
Other expense	455,302
Total Operating Expenses	<u>9,872,582</u>
Operating Income	<u>\$ 3,718,072</u>
Non-operating revenues (expenses):	
Interest income	\$ 151,666
Interest and fiscal charges	(938,891)
Total non-operating revenues (expenses)	<u>(787,225)</u>
Income (loss) before contributions and transfers	2,930,847
Transfers in (out)	(492,000)
Change in net position	2,438,847
Net position, October 1	<u>13,811,815</u>
Net position, September 30	<u>\$ 16,250,662</u>

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

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CITY OF CELINA, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2017

	<u>Enterprise Fund</u> <u>Water & Sewer</u> <u>Activities</u>
Cash flows from operating activities:	
Cash received from customers and users	\$ 15,948,743
Cash paid to suppliers	(7,830,545)
Cash paid to employees	(859,547)
Net cash provided (used) by operating activities	<u>7,258,651</u>
Cash flows from noncapital financing activities:	
Change in customer deposits	51,692
Transfers to other funds	(492,000)
Net cash provided (used) by noncapital financing activities	<u>(440,308)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(8,155,144)
Change in escrow deposits	(125,973)
Bond proceeds	5,241,085
Principal payments - bonds payable	(1,032,490)
Principal payments - other obligations	(116,856)
Principal payments - capital leases	(18,704)
Interest paid on bonds payable and other long-term obligations	(1,159,640)
Net cash provided (used) by capital and related financing activities	<u>(5,367,722)</u>
Cash flows from investing activities:	
Net redemptions (purchases) of investments	(19)
Investment income	151,666
Net cash provided (used) by investing activities	<u>151,647</u>
Net increase (decrease) in cash and cash equivalents	1,602,268
Cash and cash equivalents, October 1	<u>18,730,682</u>
Cash and cash equivalents, September 30	<u><u>\$ 20,332,950</u></u>

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

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CITY OF CELINA, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2017

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	\$ 3,718,072
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and amortization	890,200
(Increase) decrease in accounts receivable (net)	(191,254)
(Increase) decrease in prepaid expenses	393,024
(Increase) decrease in net pension asset	4,877
(Increase) decrease in deferred outflows of resources	1,110
Increase (decrease) in accounts payable	(129,746)
Increase (decrease) in accrued expenses	19,267
Increase (decrease) in unearned revenues	2,549,343
Increase (decrease) in deferred inflows of resources	<u>3,758</u>
Total Adjustments	<u>3,540,579</u>
Net cash provided by operating activities	<u>\$ 7,258,651</u>

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

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**FIDUCIARY FUND
FINANCIAL STATEMENTS**

**CITY OF CELINA, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
SEPTEMBER 30, 2017**

Assets	
Cash and cash equivalents	\$ 90
Total current assets	90
 Total assets	 \$ 90
Liabilities	
Due to tax collection agency	90
Total current liabilities	90
 Total liabilities	 \$ 90

NOTES TO FINANCIAL STATEMENTS

City of Celina, Texas
Notes to Financial Statements
September 30, 2017

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 remaining notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ending September 30, 2017.

(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 by 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 as amended by GASB Statement 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. 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, 2017:

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. The City has the ability to impose its will on CEDC and the potential for financial benefit or burden from CEDC's operations. 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. The City has the ability to impose its will on CCDC and the potential for financial benefit or burden from CCDC's operations. 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 position 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 proprietary 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.

1. Introduction and Summary of Significant Accounting Policies - continued

The government-wide statements are prepared 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 measurement 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 are prepared 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.

Street Construction Fund – accounts for the financing and acquisition of major capital street projects. Fund resources are provided primarily through bond sales and interest earnings.

1. Introduction and Summary of Significant Accounting Policies - continued

Parkland Fees Fund – accounts for the financing and acquisition of major capital park projects. Fund resources are provided primarily through developer park contributions and grants.

Facilities Improvement Fund – accounts for the financing and acquisition of major capital facilities improvement projects. Fund resources are provided primarily through bond sales and interest earnings.

Additionally, the City maintains the following non-major governmental funds:

Fire Improvement Fund – accounts for the financing and acquisition of capital fire improvement projects. Fund resources are provided primarily through bond sales and interest earnings.

Roadway Impact Fees Fund – accounts for the receipt and expenditure of roadway fees paid to the City.

Capital Equipment Replacement Fund – accounts for the financing and acquisition of capital public safety projects. Fund resources are provided primarily through fire and police fees.

Park Construction Fund – accounts for the financing and acquisition of capital park projects. Fund resources are provided primarily through bond sales and interest earnings.

Main Street Fund – accounts for the receipt and expenditure of main street project funds. Fund resources are provided primarily through special events and donations.

Grants Fund – accounts for the receipt and expenditure of grants funds. Fund resources are provided primarily through grants.

Law Enforcement Fund – accounts for the receipt and expenditure of law enforcement funds. Fund resources are provided primarily through police seizures.

Contributions/Donations Fund – accounts for the receipt and expenditure of contributions and donations. Fund resources are provided primarily through contributions and donations.

Court Security Fund – accounts for the receipt and expenditure of court security funds. Fund resources are provided primarily through court security fees.

Court Technology Fund – accounts for the receipt and expenditure of court technology funds. Fund resources are provided primarily through court technology fees.

Capital Acquisition Fund – accounts for the financing and acquisition of capital projects. Fund resources are provided primarily through bond sales and interest earnings.

The following are non-budgeted funds: Grants Fund, Law Enforcement Fund, Contributions/Donations Fund, Court Security Fund, Court Technology Fund, and Capital Acquisition Fund as those are new funds for the city.

I. Introduction and Summary of Significant Accounting Policies - continued

Proprietary Funds

The City reports the following major Proprietary fund:

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

The City reports the following fiduciary fund:

Agency Fund – accounts for property taxes collected as agent for the obligors of Tax Increment Reinvestment Zone (TIRZ) bonds. These funds are then transferred to the bond paying agent on behalf of the obligors. This fund is purely custodial (assets equal liabilities) and does not involve the measurement of the results of operations.

(E) Assets, Liabilities and Net Position 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 stated at fair value within the fair value hierarchy established by generally accepted accounting principles.

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.

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

Deferred Inflows and Outflows of Resources

Deferred inflows of resources represent the acquisition of resources that apply to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows of resources represent a consumption of resources that applies to a future period and so will not be recognized as an outflow of resources (expense) until that time.

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 reported at acquisition value. 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 Bond Credits, and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums are capitalized and amortized over the terms of the respective bonds using a method that approximates the straight-line 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.

Pensions

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

1. Introduction and Summary of Significant Accounting Policies – continued

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 accrued salaries and benefits.

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.

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 are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council's delegation of this responsibility to City management through the budgetary process.

Unassigned - all other spendable amounts in the general fund. The General Fund is the only fund that reports a positive unassigned fund balance amount.

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.

1. Introduction and Summary of Significant Accounting Policies – continued

(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.

(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. Line-item transfers within a department are not subject to final review by the City Council. 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 General Fund budget and actual included in the basic financial statements 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.

Investments

Investments, when applicable, are stated at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At year-end, the City had no investments subject to the fair value hierarchy established by generally accepted accounting principles. For investments in local government pools, the reported value of the pool is the same as the fair value of the pool shares.

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 5,599	37 days
Total Investments	<u>\$ 5,599</u>	

TexPool is a public funds investment pool overseen by the Texas State Comptroller of Public Accounts acting by and through its full service provider, Federated Investors 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. 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 in compliance with the Public Funds Investment Act (PFIA). City investment policy and the PFIA 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, 2017, the City did not own any types of securities other than those permitted by the City investment policy or the Public Funds Investment Act.

3. Deposits and Investments – continued

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. City policy further 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. 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

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 Unearned Revenue

Proprietary Fund Receivables, Uncollectible Accounts and Unearned Revenue

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The Proprietary 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 Proprietary Fund receivables and the related allowance for uncollectible accounts:

Accounts receivable, gross	\$1,215,655
Less: allowance for uncollectible accounts	(66,837)
Net accounts receivable	<u>\$1,148,818</u>

The City has recorded unearned revenue of \$4,800,105 water and sewer impact fees and sewer capacity fees that have been collected, but are awaiting expenditure for the designated purpose.

Property Taxes Receivable, Unearned Revenues, and the 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.

4. **Receivables, Uncollectible Accounts, and Unearned Revenue – continued**

The property tax rate for the year ended September 30, 2017 was .645 per \$100 of the assessed valuation on taxable property. Following is a summary of the overall tax rate as levied by fund:

Maintenance and operations-General Fund	.4233
Debt Service Fund	<u>.2217</u>
Total tax rate	<u>.6450</u>

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 inflows of resources.

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.

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.

4. Receivables, Uncollectible Accounts, and Unearned Revenue – continued

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 unearned revenue.

5. Capital Assets

The following tables provide 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>
Governmental Activities:				
Nondepreciable capital assets:				
Land	\$ 3,646,797	\$ 416,737	\$ 436,189	\$ 3,627,345
Construction in progress	<u>3,299,139</u>	<u>292,982</u>	<u>3,299,139</u>	<u>292,982</u>
Total nondepreciable capital assets	6,945,936	709,719	3,735,328	3,920,327
Depreciable capital assets:				
Buildings and improvements	6,153,429	744,010		6,897,439
Parks	12,240,281			12,240,281
Road infrastructure	12,697,523	2,908,076		15,605,599
Furniture and equipment	1,629,224	897,426	23,896	2,502,754
Vehicles	<u>1,574,702</u>	<u>1,696,626</u>	<u>174,798</u>	<u>3,096,530</u>
Total depreciable capital assets	34,295,159	6,246,138	198,694	40,342,603
Total capital assets	41,241,095	6,955,857	3,934,022	44,262,930
Less: accumulated depreciation				
Buildings and improvements	338,047	177,488		515,535
Parks	1,791,035	245,515		2,036,550
Road infrastructure	3,735,149	353,119		4,088,268
Furniture and equipment	771,387	266,434	23,896	1,013,925
Vehicles	<u>871,975</u>	<u>343,038</u>	<u>174,798</u>	<u>1,040,215</u>
Total accumulated depreciation	7,507,593	1,385,594	198,694	8,694,493
Capital assets, net	<u>\$ 33,733,502</u>	<u>\$ 5,570,263</u>	<u>\$ 3,735,328</u>	<u>\$ 35,568,437</u>

5. Capital Assets – continued

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Business-Type Activities:				
Nondepreciable capital assets:				
Land	\$ 304,115	\$ 1,023,928	\$ -	\$ 1,328,043
Construction in progress	12,923,619	6,360,860		19,284,479
Total nondepreciable capital assets	13,227,734	7,384,788	-	20,612,522
Depreciable capital assets:				
Buildings and improvements	43,769			43,769
Water & sewer infrastructure	23,304,974		566,056	22,738,918
Vehicles	274,850	770,356		1,045,206
Equipment	1,393,328			1,393,328
Total depreciable capital assets	25,016,921	770,356	566,056	25,221,221
Total capital assets	38,244,655	8,155,144	566,056	45,833,743
Less: accumulated depreciation				
Buildings and improvements	25,714	1,094		26,808
Water & sewer infrastructure	7,474,580	691,764	542,280	7,624,064
Vehicles	134,601	83,413		218,014
Equipment	180,936	113,929	23,776	271,089
Total accumulated depreciation	7,815,831	890,200	566,056	8,139,975
Capital assets, net	<u>\$ 30,428,824</u>	<u>\$ 7,264,944</u>	<u>\$ -</u>	<u>\$ 37,693,768</u>
Component Units:				
Nondepreciable capital assets:				
Construction in progress	\$ -	\$ 484,660	\$ -	\$ 484,660
Total nondepreciable capital assets	-	484,660	-	484,660
Capital assets, net	<u>\$ -</u>	<u>\$ 484,660</u>	<u>\$ -</u>	<u>\$ 484,660</u>

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

Administration	\$ 83,976
Fire and emergency services	331,526
Road infrastructure	353,119
Public works	146,530
Parks	298,794
Police department	159,066
Development services	12,209
Court	374
Total	<u>\$1,385,594</u>

Depreciation expense recorded in business-type activities and the Proprietary Fund was \$890,200.

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 \$787,001 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 Proprietary (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.

Interest expense for business-type activities and the Proprietary (water and sewer) Fund was \$938,891 for the year.

The following pages contain a summary of changes in bonds payable and capital lease obligations for the year:

6. Long-Term Obligations – continued

<i>Governmental Activities:</i>	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>	<u>Due in One Year</u>
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2004, 4.625%-5.0%, 2004-2029	\$ 1,097,025	\$ -	\$ 3,452	\$ 1,093,573	\$ 2,890
General Obligation Refunding Bonds Series 2007, 4.0%-4.25%, 2008-2021	374,490		79,059	295,431	83,220
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2011, 3.0%-4.125%, 2012-2031	1,250,000		60,000	1,190,000	65,000
General Obligation Refunding Bonds Series 2012, 2.0%-3.0%, 2013-2023	95,000		15,000	80,000	10,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2012, 2.0%-4.0%, 2013-2032	3,395,000		155,000	3,240,000	155,000
General Obligation Refunding Bonds Series 2013, 2.0%-3.5%, 2015-2027	3,780,000		275,000	3,505,000	330,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2013, 2.0%-4.0%, 2015-2033	5,225,000		40,000	5,185,000	125,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2014, 2.0%-4.0%, 2015-2034	2,850,000		140,000	2,710,000	130,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2015, 2.0%-5.0%, 2015-2035	2,170,000		80,000	2,090,000	80,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2016, 2.0%-4.0%, 2016-2036	2,250,000		135,000	2,115,000	165,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2017, 2.25%-3.25%, 2018-2037		4,390,000		4,390,000	290,000
Unamortized Bond Premiums	341,525	72,569	23,174	390,920	29,810
Capital Lease Obligations	-	-	-	-	-
Total Governmental Activities	<u>\$22,828,040</u>	<u>\$ 4,462,569</u>	<u>\$ 1,005,685</u>	<u>\$26,284,924</u>	<u>\$ 1,465,920</u>

6. Long-Term Obligations – continued

<i>Business-type Activities:</i>	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>	<u>Due in One Year</u>
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2004, 4.625%-5.0%, 2004-2029	\$ 277,975		\$ 16,550	\$ 261,425	\$ 17,110
General Obligation Refunding Bonds Series 2007, 4.0%-4.25%, 2008-2021	975,510		205,940	769,570	216,780
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2007, 2.60%-3.60%, 2009-2028	705,000		210,000	495,000	215,000
General Obligation Refunding Bonds Series 2012, 2.0%-3.0%, 2013-2023	2,990,000		400,000	2,590,000	405,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2012, 2.0%-4.0%, 2013-2032	605,000		30,000	575,000	30,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2014, 2.0%-4.0%, 2015-2034	2,310,000		10,000	2,300,000	15,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2014A, 2.65%, 2017-2024	1,645,000		20,000	1,625,000	95,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2015, 2.0%-5.0%, 2015-2035	13,020,000		140,000	12,880,000	275,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2016, 2.0%-4.0%, 2016-2036	7,485,000		-	7,485,000	70,000
Tax and Waterworks and Sewer System Revenue Certificates of Obligation Series 2017, 2.25%-3.25%, 2018-2037	-	5,110,000	-	5,110,000	180,000
Unamortized Bond Premiums	2,631,586	131,085	218,787	2,543,884	225,939
Capital Lease Obligations	18,704		18,704	-	-
Total Business-type Activities	<u>\$32,663,775</u>	<u>\$ 5,241,085</u>	<u>\$ 1,269,981</u>	<u>\$36,634,879</u>	<u>\$ 1,744,829</u>

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.

6. Long-Term Obligations - continued

Debt Service Requirements to Maturity

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

<u>Governmental Activities</u>			
Year ending September 30	Bond principal	Bond interest	Total Required
2018	\$ 1,436,110	\$ 908,017	\$ 2,344,127
2019	1,398,333	873,676	2,272,009
2020	1,438,320	836,726	2,275,046
2021	1,479,738	796,923	2,276,661
2022	1,474,804	752,172	2,226,976
2023-2027	7,680,275	2,963,628	10,643,903
2028-2032	7,941,424	1,489,301	9,430,725
2033-2037	3,045,000	233,950	3,278,950
Totals	<u>\$ 25,894,004</u>	<u>\$ 8,854,393</u>	<u>\$ 34,748,397</u>

<u>Business-type Activities</u>			
Year ending September 30	Bond principal	Bond interest	Total Required
2018	\$ 1,518,890	\$ 1,257,279	\$ 2,776,169
2019	1,566,667	1,218,527	2,785,194
2020	1,626,680	1,170,011	2,796,691
2021	1,670,262	1,119,497	2,789,759
2022	1,730,196	1,065,793	2,795,989
2023-2027	8,634,725	4,381,391	13,016,116
2028-2032	9,653,575	2,663,737	12,317,312
2033-2037	7,690,000	692,731	8,382,731
Totals	<u>\$ 34,090,995</u>	<u>\$ 13,568,966</u>	<u>\$ 47,659,961</u>

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Governmental Activities:</i>					
Compensated absences	\$ 191,450	\$ 256,376	\$ 191,450	\$ 256,376	\$ 256,376

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<i>Business-type Activities:</i>					
Obligation due to Celina ISD	\$ 295,444	\$ -	\$ 116,856	\$ 178,588	\$ 113,953

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 \$120,000 of gross billings for annual water use will be credited to this obligation over each of the next two years.

6. Long-Term Obligations - continued

Special Assessment Revenue Bonds

In 2014, the City issued Special Assessment Revenue Bonds, Series 2014 (Creeks of Legacy Public Improvement District Phase #1 Project) in the amount of \$8,750,000 and Special Assessment Revenue Bonds, Series 2014 (Creeks of Legacy Public Improvement District Phases #2-3 Major Improvement Project) in the amount of \$6,575,000. In 2015, the City issued Special Assessment Revenue Bonds, Series 2015 (The Lakes at Mustang Ranch Public Improvement District Phase #1 Project) in the amount of \$9,000,000 and Special Assessment Revenue Bonds, Series 2015 (The Lakes at Mustang Ranch Public Improvement District Phases #2-9 Major Improvement Project) in the amount of \$13,150,000. In 2015, the City issued Special Assessment Revenue Bonds, Series 2015 (Wells South Public Improvement District Neighborhood Improvement Area #1 Project) in the amount of \$5,790,000 and Special Assessment Revenue Bonds, Series 2015 (Wells South Public Improvement District Major Improvement Area Project) in the amount of \$8,040,000. In 2015, the City issued Special Assessment Revenue Bonds, Series 2015 (Sutton Fields II Public Improvement District Neighborhood Improvement Area #1 Project) in the amount of \$11,560,000 and Special Assessment Revenue Bonds, Series 2015 (Sutton Fields II Public Improvement District Major Improvement Areas #2-5 Major Improvement Project) in the amount of \$16,825,000. In 2016, the City issued Special Assessment Revenue Bonds, Series 2016 (Glen Crossing Public Improvement District Phase #1 Project) in the amount of \$3,550,000, Special Assessment Revenue Bonds, Series 2016 (Wells North Public Improvement District Major Improvement Area Project) in the amount of \$3,235,000, and Special Assessment Revenue Bonds, Series 2016 (Wells North Public Improvement District Neighborhood Improvement Area #1 Project) in the amount of \$6,425,000. In 2017, the City issued Special Assessment Revenue Bonds, Series 2017 (Ownsby Farms Public Improvement District Phase #1 Project) in the amount of \$4,465,000 and Special Assessment Revenue Bonds, Series 2017 (Ownsby Farms Public Improvement District Phases #2 Major Improvement Project) in the amount of \$1,765,000. Total bond principal outstanding for these issues is \$99,130,000 at year-end.

Proceeds of the bonds were deposited into trust accounts with U.S. Bank N.A. (U.S. Bank) for the purpose of funding improvements in the projects described above. U.S. Bank serves as trustee, for the benefit of the bond holders, for these funds as well as any and all other property or money of every name and nature, which is, from time to time hereafter by delivery or in writing of any kind, conveyed, pledged, assigned or transferred to the trustee.

The City is not obligated in any manner for this special assessment debt, but merely acts as the property owner's agent in handling the debt service transactions by collecting any special assessment tax collections and forwarding them to the bondholders. These collections have begun. Assessment collections for all of the City's Special Assessment Revenue Bonds are on time and complete at year-end.

7. Component Unit Debt Obligations

CEDC has the following debt obligations:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Component Units:					
Note Payable	\$ -	\$ 978,061	\$ -	\$ 978,061	\$ -

In February 2017, CEDC entered into a note payable agreement with Independent Bank not to exceed the principal amount of \$1,700,000 with a fixed rate of interest equal to 3.75% to provide funds for engineering and other predevelopment costs related to the Gigabit City project. Interest only payments are due monthly with 10% principal reductions in month 24 and month 36. The remaining principal balance is due in four years. The note payable is secured by the sales and use taxes that will be levied and collected by the City of Celina, Collin County, Texas pursuant to the Development Corporation Act, Chapter 501, 502, and 504 of the Texas Local Government Code. At September 30, 2017, CEDC had drawn \$978,061 of the note payable. Based on the year end note payable balance, following is the estimated annual debt service requirements to maturity for the note payable:

<u>Year ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Required</u>
2018	\$ -	\$ 36,677	\$ 36,677
2019	97,806	34,538	132,344
2020	88,025	31,084	119,109
2021	792,230	12,379	804,609
Totals	<u>\$ 978,061</u>	<u>\$ 114,678</u>	<u>\$ 1,092,739</u>

8. Defined Benefit Pension Plans

Plan Description

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

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

8. Defined Benefit Pension Plans - continued

Benefits Provided

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

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

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

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	42
Active employees	<u>91</u>
	<u>137</u>

Contributions

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

Employees for the City of Celina, Texas were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City of Celina, Texas were 5.32% and 6.51% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$324,728, and were equal to the required contributions.

8. Defined Benefit Pension Plans – continued

Net Pension Liability

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

Actuarial assumptions:

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the table on the following page:

8. Defined Benefit Pension Plans – continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2015	\$ 4,133,894	\$ 4,222,514	\$ (88,620)
Changes for the year:			
Service cost	634,724		634,724
Interest	297,354		297,354
Change of benefit terms	-		-
Difference between expected and actual experience	(42,188)		(42,188)
Changes of assumptions			-
Contributions - employer		241,159	(241,159)
Contributions - employee		325,261	(325,261)
Net investment income		285,732	(285,732)
Benefit payments, including refunds of employee contributions	(92,022)	(92,022)	-
Administrative expense		(3,223)	3,223
Other changes		(174)	174
Net changes	\$ 797,868	\$ 756,733	\$ 41,135
Balance at 12/31/2016	\$ 4,931,762	\$ 4,979,247	\$ (47,485)

8. Defined Benefit Pension Plans – continued

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

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

	1 % Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 842,335	\$ (47,485)	\$ (759,328)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the City recognized pension expense of \$400,868.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 6,221	\$ 59,913
Changes in actuarial assumptions	115,430	
Difference between projected and actual investment earnings (net of current year amortization)	172,822	570
Contributions subsequent to the measurement date	254,191	
Total	\$ 548,664	\$ 60,483

\$254,191 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2017	\$ 75,674
2018	75,673
2019	67,165
2020	14,793
2021	7,017
Thereafter	(6,332)
Total	<u>\$233,990</u>

9. 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>
General Fund	\$ 160,233	\$ -0-
Main Street Fund		879
Component units		<u>159,354</u>
	<u>\$ 160,233</u>	<u>\$ 160,233</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, transferring bond proceeds between funds, 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. The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 492,000	\$ 3,578,894
Capital Equipment Replacement Fund	509,046	
Main Street Fund	14,568	
Grants Fund	8,940	
Law Enforcement Fund	12,225	
Court Security Fund	59,404	
Court Technology Fund	58,606	
Capital Acquisition Fund	2,916,105	
Proprietary Fund		<u>492,000</u>
	<u>\$ 4,070,894</u>	<u>\$ 4,070,894</u>

The transfer out from the Proprietary Fund provided the General Fund with supplementary revenue for the year. There were one time transfers in the amount of \$3,069,848 from the General Fund to establish new funds. In addition to the above transfers, the component units contributed \$200,000 to the debt service fund in order to supplement debt service payments for the year.

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, 2017 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. 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.

12. Operating Leases

The City has entered into lease agreements for copier machines. Following is a summary of the annual minimum lease requirements under these agreements:

<u>Year ending 9/30</u>	<u>Annual lease requirement</u>
2018	\$ 16,944
2019	14,345
2020	<u>5,589</u>
Total required	<u>\$ 36,878</u>

Lease expense for the year ending September 30, 2017 was \$42,052.

13. UTRWD Facilities Charges

The City has entered into a Participating Member Contract with Upper Trinity Regional Water District (UTRWD) for the use of sewer capacity in the Northeast Regional Water Reclamation System (Doe Branch Plant). Following is a summary of these contractual agreements:

- 1) In return for the utilization of 600,000 gallons of capacity in the Northeast Regional Water Reclamation System (Doe Branch Plant) the City will pay annual facilities charges to UTRWD ranging from \$550,209 to \$837,728 beginning in FY 2016 and continuing through FY 2038.
- 2) In return for the utilization of Doe Branch Interceptor Project in the Northeast Regional Water Reclamation System (Doe Branch Plant) the City will pay annual facilities charges to UTRWD in the amount of \$347,496 over five years beginning in FY 2017 and ending in FY 2022.
- 3) In return for the utilization of 65,000 gallons of capacity in the Northeast Regional Water Reclamation System (Doe Branch Plant) the City paid UTRWD \$1,310,078 during FY 2016. This payment represented the facilities charges for the use of this capacity through FY 2019. These costs are being amortized by the City over the period ending in FY 2019.

Following is a summary of the City's contractual requirements for future payments under the agreements with UTRWD by year for the first five years and in total thereafter:

<u>Year ending 9/30</u>	<u>Annual requirement</u>
2018	\$ 1,182,363
2019	1,186,333
2020	1,184,229
2021	1,185,062
2022	837,728
Thereafter	<u>12,618,925</u>
Total required	<u>\$18,194,640</u>

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. Post-Employment Benefits

The City participates in the cost sharing multiple employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12 month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$7,190, \$5,833, and \$4,405, respectively, which equaled the required contributions each year.

APPENDIX C

FORM OF BOND COUNSEL'S OPINIONS

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Norton Rose Fulbright US LLP
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IN REGARD to the authorization and issuance of the "City of Celina, Texas, General Obligation Refunding Bonds, Series 2018," dated August 1, 2018, in the principal amount of \$5,785,000 (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, the defeasance and discharge of the City's outstanding obligations being refunded by 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 an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the dates, 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 relating to the issuance of the Bonds, including the Ordinance and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications 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 (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, 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 contained in such documents and certifications.

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. The outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a fund with the paying agent for the obligations being refunded and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the certification of the paying agent for the

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Celina Response to Staff 3-7

obligations being refunded as to the sufficiency of cash deposited with the paying agent for the obligations being refunded for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

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

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.



[Closing Date]

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IN REGARD to the authorization and issuance of the "City of Celina, Texas, Tax and Revenue Certificates of Obligation, Series 2018," dated August 1, 2018, in the principal amount of \$50,890,000 (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"), unless redeemed prior to maturity in accordance with the terms stated on the Certificates. The Certificates accrue interest from the dates, 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 relating to the issuance of the Certificates, including the Ordinance and an examination of the initial Certificate executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications 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 (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Certificates, 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 contained in such documents and certifications.

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

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "City of Celina, Texas, Tax and Waterworks and Sewer System (Limited Pledge)
Revenue Certificates of Obligation, Series 2018"

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

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.

Financial Advisory Services
Provided By





September 13, 2018

RE: \$5,785,000 CITY OF CELINA, TEXAS GENERAL OBLIGATION REFUNDING BONDS, SERIES 2018 AND \$50,890,000 CITY OF CELINA, TEXAS TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018.

Enclosed is an addendum for the above referenced Official Statement which reflects an addition to the section "OTHER INFORMATION – Initial Purchaser" on page 43.

Please replace pages 43 and 44 in their entirety with the enclosed addendum to the copies of the Official Statement in your possession and forward copies to the parties to whom you have previously sent copies of such Official Statement.

The various legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISOR

Hilltop Securities Inc., is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the City for the investment of certificate proceeds or other funds of the City upon the request of the City.

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

INITIAL PURCHASER

After requesting competitive bids for the Bonds, the City accepted the bid of Morgan Stanley & Co., LLC (the "Purchaser" or "Initial Bond Purchaser") to purchase the Bonds at the interest rates shown on page 2 of the Official Statement at a price of par plus a cash premium of \$320,286.50. The Initial Bonds Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Bond Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Bond Purchaser.

After requesting competitive bids for the Certificates, the City accepted the bid of Morgan Stanley & Co., LLC (the "Purchaser" or "Initial Certificate Purchaser") to purchase the Certificates at the interest rates shown on page 4 of the Official Statement at a price of par plus a cash premium of \$3,409,357.88. The Initial Certificate Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Certificate Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yields at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Certificate Purchaser.

Morgan Stanley & Co. LLC., an underwriter of the Bonds, has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

CERTIFICATION OF THE OFFICIAL STATEMENT

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

The Ordinances approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Obligations by the Purchasers.

ATTEST:

VICKI FAULKNER
City Secretary
City of Celina, Texas

SEAN TERRY
Mayor
City of Celina, Texas

CERTIFICATE OF CITY SECRETARY

THE STATE OF TEXAS

§

COUNTIES OF COLLIN AND DENTON

§

§

CITY OF CELINA

§

§

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

1. On the 14th day of August, 2018, 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:

SEAN TERRY)	MAYOR
CHAD ANDERSON)	MAYOR PRO TEM
BILL WEBBER)	
WAYNE NABORS)	
ANDY HOPKINS)	COUNCIL MEMBERS
CARMEN ROBERTS)	
MINDY KOEHNE)	

and all of said council members were present at said meeting, except the following: none.
Among other business considered at said meeting, the attached ordinance entitled:

"ORDINANCE NO. 2018-43

AN ORDINANCE authorizing the issuance of "CITY OF CELINA, TEXAS, TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018"; 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 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:

6 voted "For"

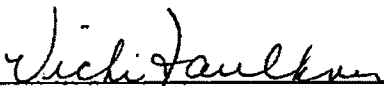
0 voted "Against"

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 14th day of August, 2018.



City Secretary,
City of Celina, Texas



ORDINANCE NO. 2018-43

AN ORDINANCE authorizing the issuance of "CITY OF CELINA, TEXAS, TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018"; 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 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 \$55,000,000 for the purpose of paying contractual obligations to be incurred for (i) improving and extending the City's combined Waterworks and Sewer System, including the acquisition of land and rights-of-way therefor, (ii) acquiring land for a future City Hall site, (iii) constructing, equipping and improving City Hall and additional municipal buildings, and the acquisition of land therefor (iv) constructing and improving parking facilities for municipal facilities, including the acquisition of sites therefor, (v) constructing street improvements, including drainage, landscaping, curbs, gutters, sidewalks, entryways, pedestrian pathways, signage and traffic signalization and the acquisition of land and rights-of-way therefor, (vi) constructing, equipping and improving fire-fighting facilities and (vii) professional services rendered in connection with such projects and the financing thereof; has been duly published in the *Celina Record*, a newspaper hereby found and determined to be of general circulation in the City of Celina, Texas, on May 11, 2018 and May 18, 2018, 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 \$50,890,000 to be designated and bear the title "CITY OF CELINA, TEXAS, TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018" (hereinafter referred to as the "Certificates"), for the purpose of paying contractual obligations to be incurred for (i) improving and extending the City's combined Waterworks and Sewer System, including the acquisition of land and rights-of-way therefor, (ii) acquiring land for a future City Hall site, (iii) constructing, equipping and improving City Hall and additional municipal buildings, and the acquisition of land therefor (iv) constructing and

improving parking facilities for municipal facilities, including the acquisition of sites therefor, (v) constructing street improvements, including drainage, landscaping, curbs, gutters, sidewalks, entryways, pedestrian pathways, signage and traffic signalization and the acquisition of land and rights-of-way therefor, (vi) constructing, equipping and improving fire-fighting facilities and (vii) 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 Texas 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 August 1, 2018 (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 (%)</u>
2019	125,000	5.000
2020	1,680,000	5.000
2021	1,700,000	5.000
2022	1,795,000	5.000
2023	1,890,000	5.000
2024	2,105,000	5.000
2025	2,205,000	5.000
2026	2,320,000	5.000
2027	2,435,000	5.000
2028	2,555,000	5.000
2029	2,685,000	5.000
2030	2,820,000	4.000
2031	2,935,000	3.000
2032	3,020,000	4.000
2033	3,140,000	3.250
2034	3,240,000	4.000
2035	3,375,000	3.375
2036	3,485,000	4.000
2037	3,625,000	3.500
2038	3,755,000	3.500

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, 2019 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 U.S. Bank National Association, 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 or Mayor Pro Tem 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 St. Paul, Minnesota, 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, 2029 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, 2028, 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) 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.

(c) 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.

(d) 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 or Mayor Pro Tem 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 Texas 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 2018

Certificate Date:	Interest Rate:	Stated Maturity:	CUSIP No.:
August 1, 2018	_____ %	September 1, 20__	_____

Registered Owner:

Principal Amount: _____ DOLLARS

The City of Celina (hereinafter referred to as the "City"), a body corporate and municipal corporation in the Counties of Collin and Denton, 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

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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, 2019, 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 \$50,890,000 (herein referred to as the "Certificates") for the purpose of paying contractual obligations to be incurred for (i) improving and extending the City's combined Waterworks and Sewer System, including the acquisition of land and rights-of-way therefor, (ii) acquiring land for a future City Hall site, (iii) constructing, equipping and improving City Hall and additional municipal buildings, and the acquisition of land therefor (iv) constructing and improving parking facilities for municipal facilities, including the acquisition of sites therefor, (v) constructing street improvements, including drainage, landscaping, curbs, gutters, sidewalks, entryways, pedestrian pathways, signage and traffic signalization and the acquisition of land and rights-of-way therefor, (vi) constructing, equipping and improving fire fighting facilities and (vii) 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 Texas 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 and after September 1, 2029 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,

2028 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 aforesated. 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][Mayor Pro Tem]

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 St. Paul, Minnesota, is the "Designated Payment/Transfer Office" for this Certificate.

U.S. BANK NATIONAL ASSOCIATION,
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
\$50,890,000

UNITED STATES OF AMERICA
STATE OF TEXAS
CITY OF CELINA, TEXAS
TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATE OF OBLIGATION
SERIES 2018

Certificate Date: August 1, 2018

Registered Owner: MORGAN STANLEY & CO., LLC

Principal Amount: FIFTY MILLION EIGHT HUNDRED NINETY THOUSAND DOLLARS

The City of Celina (hereinafter referred to as the "City"), a body corporate and municipal corporation in the Counties of Collin and Denton, 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:

<u>YEAR OF</u> <u>MATURITY</u>	<u>PRINCIPAL</u> <u>INSTALLMENTS (\$)</u>	<u>INTEREST</u> <u>RATE (%)</u>
-----------------------------------	--	------------------------------------

(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, 2019, 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 U.S. Bank National Association, Dallas, Texas (the "Paying Agent/Registrar"), upon its presentation and surrender at its designated offices, initially in St. Paul, Minnesota, 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 \$50,890,000 "CITY OF CELINA, TEXAS, TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018" 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 2004", dated October 1, 2004; and

(2) "City of Celina, Texas, Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2007", dated September 1, 2007.

(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 2018 TAX AND REVENUE CERTIFICATE OF OBLIGATION FUND" (the "Certificate 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, Director of Finance 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" (Texas 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.

The City has sufficient current funds available and such funds are hereby appropriated to make the payments to become due on the Certificates on March 1, 2019 and September 1, 2019, and the Mayor, Mayor Pro Tem, City Manager, Director of Finance and City Secretary of the City, individually or jointly, are hereby authorized and directed to transfer and deposit in the Certificate Fund such amount of current funds which will be sufficient to pay the amounts to become due on the Certificates on March 1, 2019 and September 1, 2019.

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 Texas Government Code, Chapter 1208, as amended ("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 the Texas Business and Commerce Code, Chapter 9, 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 the Texas Business and Commerce Code, Chapter 9, 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 Texas Government Code, Chapter 1502, as amended, and Texas Local Government Code, Subchapter C of Chapter 271, as amended.

(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