

MATURITY SCHEDULE

CUSIP Prefix: 151141 ⁽¹⁾

Principal Amount	Maturity Date	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 135,000	9/1/2013	2.000%	0.650%	MU9
130,000	9/1/2014	2.000%	0.750%	MV7
375,000	9/1/2015	2.000%	0.850%	MW5
385,000	9/1/2016	2.000%	1.050%	MX3
415,000	9/1/2017	2.000%	1.200%	MY1
415,000	9/1/2018	2.000%	1.400%	MZ8
460,000	9/1/2019	3.000%	1.650%	NA2
465,000	9/1/2020	3.000%	1.850%	NB0
485,000	9/1/2021	3.000%	2.100%	NC8
415,000	9/1/2022	3.000%	2.250%	ND6
430,000	9/1/2023	3.000%	2.400%	NE4

(Interest accrues from the date of delivery)

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data set forth herein is provided by CUSIP Global Services managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP services. Neither the City, the Financial Advisor nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

NO OPTIONAL REDEMPTION. . . The Bonds are not subject to optional redemption prior to maturity.

Dated May 15, 2012

Ratings:
Moody's: "A1"
(see "OTHER INFORMATION –
Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

THE CERTIFICATES HAVE BEEN DESIGNATED
AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$4,675,000
CITY OF CELINA, TEXAS
(Collin County)

**TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2012**

Dated Date: June 1, 2012

Due: September 1, as shown on page 4

Interest accrues from date of delivery

PAYMENT TERMS. . . Interest on the \$4,675,000 City of Celina, Texas Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2012 (the "Certificates") will accrue from the date of delivery (anticipated to be June 14, 2012), and will be payable March 1 and September 1 of each year commencing March 1, 2013, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE OBLIGATIONS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE OBLIGATIONS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the City's Home Rule Charter, the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the City of Celina, Texas (the "City"), payable from a combination of (i) the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of the Net Revenues from the operation of the City's Waterworks and Sewer System, as provided in the ordinance authorizing the Certificates (the "Certificate Ordinance") (see "THE OBLIGATIONS – Authority for Issuance of the Certificates").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) the acquisition and equipping of a City Hall building, including the acquisition of land therefor, (ii) the acquisition and equipping of a building to house City offices and community events, including the acquisition of land therefor, (iii) the acquisition of equipment and vehicles for the fire department, (iv) constructing street improvements and (v) professional services rendered in connection with such projects and the financing thereof.

CUSIP PREFIX: 151141⁽¹⁾
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 4

SEPARATE ISSUES . . . The Certificates are being offered by the City concurrently with the "City of Celina, Texas, General Obligation Refunding Bonds, Series 2012" (the "Bonds"), under a common Official Statement, and such Bonds and Certificates are hereinafter sometimes referred to collectively as the "Obligations." The Bonds and Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Bonds and Certificates share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for payment, the rights of the holders and other features.

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of Texas and the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, Dallas, Texas (see Appendix D, "Form of Bond Counsel's Opinion (THE CERTIFICATES)"). Certain legal matters will be passed upon for the Underwriter by Bracewell & Giuliani LLP, Dallas, TX, Counsel for the Underwriter.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on June 14, 2012.

SOUTHWEST SECURITIES

MATURITY SCHEDULE

CUSIP Prefix: 151141 ⁽¹⁾

Principal Amount	Maturity Date	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 140,000	9/1/2013	2.000%	0.650%	NF1
175,000	9/1/2014	2.000%	0.750%	NG9
180,000	9/1/2015	2.000%	0.850%	NH7
180,000	9/1/2016	2.000%	1.050%	NJ3
185,000	9/1/2017	2.000%	1.200%	NK0
185,000	9/1/2018	2.000%	1.400%	NL8

\$385,000 3.000% Term Certificates due September 1, 2020 at a Price of 105.536% to Yield 1.880%⁽²⁾ - CUSIP No. ⁽¹⁾NN4
 \$460,000 3.000% Term Certificates due September 1, 2022 at a Price of 103.518% to Yield 2.280%⁽²⁾ - CUSIP No. ⁽¹⁾NQ7
 \$485,000 3.000% Term Certificates due September 1, 2024 at a Price of 101.887% to Yield 2.610%⁽²⁾ - CUSIP No. ⁽¹⁾NS3
 \$520,000 3.500% Term Certificates due September 1, 2026 at a Price of 103.125% to Yield 2.850%⁽²⁾ - CUSIP No. ⁽¹⁾NU8
 \$545,000 3.500% Term Certificates due September 1, 2028 at a Price of 102.296% to Yield 3.020%⁽²⁾ - CUSIP No. ⁽¹⁾NW4
 \$600,000 4.000% Term Certificates due September 1, 2030 at a Price of 104.053% to Yield 3.150%⁽²⁾ - CUSIP No. ⁽¹⁾NY0
 \$635,000 4.000% Term Certificates due September 1, 2032 at a Price of 103.469% to Yield 3.270%⁽²⁾ - CUSIP No. ⁽¹⁾PA0

(Interest to accrue from the date of delivery.)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data set forth herein is provided by CUSIP Global Services managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP services. Neither the City, the Financial Advisor nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (2) Priced to the September 1, 2017 optional redemption date at par.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on or after September 1, 2018, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on September 1, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS -- Optional Redemption of the Certificates").

MANDATORY SINKING FUND REDEMPTION . . . The Certificates maturing on September 1 in the years 2020, 2022, 2024, 2026, 2028, 2030 and 2032 (the "Term Certificates") are subject to mandatory redemption in part prior to maturity at a price of par plus accrued interest to the redemption date as described under "THE OBLIGATIONS - Mandatory Sinking Fund Redemption for the Certificates."

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

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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

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

NONE THE CITY, THE UNDERWRITER, OR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY.

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

The agreements of the City and others related to the Obligations are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Obligations is to be construed as constituting an agreement with the purchasers of the Obligations. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OF COMPLETENESS OF SUCH INFORMATION.

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The cover pages hereof, this page, the schedule and the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

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

THE CITY..... The City of Celina, Texas (the "City") is a political subdivision of the State of Texas (the "State"), and is a home rule municipality located in Collin County, Texas. The City covers approximately 1.7 square miles (see "INTRODUCTION - Description of the City").

THE BONDS..... The Bonds are issued as \$4,110,000 General Obligation Refunding Bonds, Series 2012. The Bonds are issued as serial bonds maturing September 1 in the years 2013 through 2023, inclusive (see "THE OBLIGATIONS" – Description of the Obligations").

THE CERTIFICATES The Certificates are issued as \$4,675,000 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2012 (the "Certificates"). The Certificates are issued as serial certificates maturing September 1 in the years 2013 through 2018 inclusive, and as term certificates maturing September 1 in each of the years 2020, 2022, 2024, 2026, 2028, 2030 and 2032 (see "THE OBLIGATIONS - Description of the Obligations" "THE OBLIGATIONS - Mandatory Sinking Fund Redemption for the Certificates").

PAYMENT OF INTEREST ON THE BONDS Interest on the Bonds accrues from the date of delivery (anticipated to be June 14, 2012), and is payable September 1, 2012, and each March 1 and September 1 thereafter until maturity (see "THE OBLIGATIONS - Description of the Obligations").

PAYMENT OF INTEREST ON THE CERTIFICATES..... Interest on the Certificates accrues from the date of delivery (anticipated to be June 14, 2012), and is payable March 1 and September 1 of each year, commencing March 1, 2013, until maturity or prior redemption (see "THE OBLIGATIONS - Description of the Obligations").

AUTHORITY FOR ISSUANCE OF THE BONDS The Bonds are issued pursuant to the City's Home Rule Charter, the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance passed by City Council (the "Bond Ordinance") (see "THE OBLIGATIONS – Authority for Issuance of the Bonds").

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES..... The Certificates are issued pursuant to the City's Home Rule Charter, the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance passed by the City Council (the "Certificate Ordinance") (see "THE OBLIGATIONS - Authority for Issuance of the Certificates").

SECURITY FOR THE BONDS The Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the City (see "THE OBLIGATIONS - Security and Source of Payment of the Bonds").

SECURITY FOR THE CERTIFICATES The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, and (ii) a limited pledge (not to exceed \$1,000) of the Net Revenues from the operation of the City's Waterworks and Sewer System, as provided in the Certificate Ordinance (see "THE OBLIGATIONS – Security and Source of Payment of the Certificates").

QUALIFIED TAX-EXEMPT OBLIGATIONS The City has designated the Obligations as "Qualified Tax-Exempt Obligations" for financial institutions (See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions").

- NO OPTIONAL REDEMPTION FOR THE BONDS**..... The Bonds are not subject to redemption prior to maturity.
- OPTIONAL REDEMPTION FOR THE CERTIFICATES**..... The City reserves the right, at its option, to redeem Certificates having stated maturities on or after September 1, 2018, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on September 1, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – Optional Redemption of the Certificates").
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Obligations will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS", including the alternative minimum tax on corporations.
- USE OF PROCEEDS FOR THE BONDS**..... Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's outstanding debt to achieve a present value debt service savings, and (ii) pay costs of professional services including the costs of issuance of the Bonds. See "PLAN OF FINANCING – Purpose for the Bonds" and Schedule I herein.
- USE OF PROCEEDS FOR THE CERTIFICATES** Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) the acquisition and equipping of a City Hall building, including the acquisition of land therefor, (ii) the acquisition and equipping of a building to house City offices and community events, including the acquisition of land therefor, (iii) the acquisition of equipment and vehicles for the fire department, (iv) constructing street improvements and (v) professional services rendered in connection with such projects and the financing thereof.
- RATINGS FOR THE OBLIGATIONS** The Obligations have been rated "A1" by Moody's Investors Service, Inc. ("Moody's"). (see "OTHER INFORMATION – Ratings").
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Obligations will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Obligations may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations (see "THE OBLIGATIONS - Book-Entry-Only System")
- PAYMENT RECORD** The City has never defaulted in payment of its general obligation bonds since 1939 when all bonds were refunded at par with a reduction in interest rate. The City has never defaulted on its revenue bonds.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Taxable Assessed Valuation Per Capita	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2008	4,765	\$ 418,824,688	\$ 7,486,702	\$ 87,896	1.79%	\$ 1,571
2009	5,360	463,326,983	7,247,401	86,448	1.56%	1,352
2010	6,028	464,198,797	6,995,603	77,007	1.51%	1,161
2011	6,780	454,073,487	8,138,013	66,975	1.79%	1,200
2012	7,625	461,631,888	11,796,362 ⁽⁴⁾	60,539	2.56%	1,547

(1) Estimates based off of trends from the 2000 and 2010 U.S. Census Bureau data.

(2) As reported by the Collin Central Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Excludes self-supporting debt.

(4) Excludes the Refunded Obligations, includes Series 2012 Obligations.

For additional information regarding the City, please contact:

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 City of Celina
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 Celina, TX 75009
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 First Southwest Company
 325 North Saint Paul, Suite 800
 Dallas, Texas 75201
 (214) 953-4195

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>On Council Since</u>	<u>Term Expires May</u>
Jim Lewis	Mayor	2008	2014
Larry Berg	Council Member	2011	2013
Wayne Nabors	Council Member	2007	2015
Todd McCally	Council Member	2012	2015
Carmen Roberts	Council Member	2011	2014
Bill Webber	Council Member	2010	2014
Sean Terry	Council Member	2008	2013

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Years with the City</u>
Mike Foreman	City Manager	1 Year ⁽¹⁾
Jay Toutounchian	City Treasurer	7 Years
Vicki Faulkner	City Secretary	16 Years
Lance Vanzant	City Attorney	9 Years
Joseph Johnson	Director of Public Works	14 Years
Helen-Eve Liebman	Director of Planning and Development Service	1 Year

(1) Mr. Foreman has 28 years of experience in city government.

CONSULTANTS AND ADVISORS

Auditors	Scott, Singleton, Fincher and Company, P.C. Greenville, Texas
Bond Counsel	Fulbright & Jaworski L.L.P. Dallas, Texas
Financial Advisor.....	First Southwest Company Dallas, Texas

**OFFICIAL STATEMENT
RELATING TO
\$4,110,000
CITY OF CELINA, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012**

**\$4,675,000
CITY OF CELINA, TEXAS
TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2012**

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of the \$4,110,000 City of Celina, Texas, General Obligation Refunding Bonds, Series 2012 (the "Bonds") and the \$4,675,000 City of Celina, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2012 (the "Certificates", and together with the Bonds sometimes referred to collectively as the "Obligations"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the applicable ordinances to be adopted on the date of sale of the Obligations which will authorize the issuance of the respective Obligations (the "Certificate Ordinance" and the "Bond Ordinance", and sometimes referred to collectively as the "Ordinances"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Obligations and certain information regarding the City of Celina, Texas (the "City") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, Texas.

SEPARATE ISSUES. . . The Bonds and the Certificates are being offered concurrently by the City under a common Official Statement and are sometimes referred to collectively herein as the "Obligations". The Bonds and the Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and, while the Bonds and Certificates share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of holders, and other features.

DESCRIPTION OF THE CITY. . . The City is a political subdivision and is a home rule municipality of the State of Texas, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City adopted a Home Rule Charter on May 12, 2007. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers who are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administration officer. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 6,028, while the estimated 2012 population is 7,625. The City covers approximately 1.7 square miles.

PLAN OF FINANCING

PURPOSE FOR THE BONDS. . . Proceeds from the sale of the Bonds will be used to refund a portion of the City's outstanding debt (the "Refunded Obligations") to achieve a present value debt service savings and to pay costs of issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Obligations and their redemption date.

PURPOSE FOR THE CERTIFICATES. . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to be incurred for (i) the acquisition and equipping of a City Hall building, including the acquisition of land therefor, (ii) the acquisition and equipping of a building to house City offices and community events, including the acquisition of land therefor, (iii) the acquisition of equipment and vehicles for the fire department, (iv) constructing street improvements and (v) professional services rendered in connection with such projects and the financing thereof.

REFUNDED OBLIGATIONS ... A description, identification and redemption date of the Refunded Obligations appears in Schedule I attached hereto. The principal and interest due on the Refunded Obligations are to be paid on the Redemption Date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as the paying agent/registrant for the Refunded Obligations (the "Refunded Obligations Paying Agent") pursuant to a certain escrow agreement (the "Escrow Agreement"). The Bond Ordinance will provide that with respect to the Refunded Obligations, proceeds from the sale of the Bonds, will be irrevocably deposited with the Refunded Obligations Paying Agent in an amount which, together with lawfully available funds, if any, will be sufficient to accomplish the discharge and final payment of such Refunded Obligations on the Redemption Date. Such funds will be held uninvested by the Refunded Obligations Paying Agent in a special escrow fund (the "Escrow Fund") pending their disbursement to redeem the Refunded Obligations on the Redemption Date.

The Refunded Obligations Paying Agent will certify that the amount deposited to the Escrow Fund will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such funds deposited into the Escrow Fund will not be available to pay the Obligations.

By the deposit of the funds described above with the Refunded Obligations Paying Agent in accordance with the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations in accordance with State law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the certificate of the Refunded Obligations Paying Agent, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the funds held for such purpose and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from ad valorem taxes nor for the purposes of applying any limitation on the issuance of debt.

SOURCES AND USES OF BOND PROCEEDS . . . The proceeds from the sale of the Bonds, together with certain available funds from the City, are expected to be expended as follows:

SOURCES OF FUNDS:

Par Amount of Bonds	\$ 4,110,000.00
Premium	238,408.30
Transfer from Prior Issue Debt Service Funds	<u>45,567.13</u>
TOTAL SOURCES	<u>\$ 4,393,975.43</u>

USES OF FUNDS:

Deposit to Refunding Escrow Fund	\$ 4,295,220.51
Costs of Issuance	65,000.00
Total Underwriter's Discount	29,308.25
Deposit to Debt Service Account	<u>4,446.67</u>
TOTAL USES	<u>\$ 4,393,975.43</u>

SOURCES AND USES OF CERTIFICATE PROCEEDS . . . The proceeds from the sale of the Certificates are expected to be expended as follows:

SOURCES OF FUNDS:

Par Amount of Certificates	\$ 4,675,000.00
Premium	<u>155,420.15</u>
TOTAL SOURCES	<u>\$ 4,830,420.15</u>

USES OF FUNDS:

Deposit to Project Fund	\$ 4,740,614.00
Costs of Issuance	55,000.00
Total Underwriter's Discount	33,201.88
Deposit to Debt Service Account	<u>1,604.27</u>
TOTAL USES	<u>\$ 4,830,420.15</u>

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS. . . The Obligations are dated June 1, 2012 (the "Dated Date"), and mature on September 1 in each of the years and in the amounts shown on pages 2 and 4 hereof. Interest will accrue from the date of delivery of the Obligations (anticipated to be June 14, 2012), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable, with respect to the Bonds, on March 1 and September 1 of each year commencing September 1, 2012 until maturity, and, with respect to the Certificates, on March 1 and September 1 of each year commencing March 1, 2013 until maturity or prior redemption. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations (see "THE OBLIGATIONS - Book-Entry-Only System").

AUTHORITY FOR ISSUANCE OF THE BONDS. . . The Bonds are issued pursuant to the City's Home Rule Charter, the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance passed by City Council (the "Bond Ordinance").

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES. . . The Certificates are being issued pursuant to the City's Home Rule Charter, the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government, as amended, and an ordinance passed by City Council (the "Certificate Ordinance").

SECURITY AND SOURCE OF PAYMENT OF THE BONDS. . . All taxable property located within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on the Bonds, which tax must be levied within the limits prescribed by law.

SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES. . . The Certificates are payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and from a limited pledge of the Net Revenues (as defined in the Certificate Ordinance) of the City's combined Waterworks and Sewer System (the "System"), such pledge being limited to an amount not in excess of \$1,000 and, together with a parity pledge securing the payment of the previously issued certificates of obligation; identified in the Certificate Ordinance, being junior and subordinate to the lien on and pledge of such Net Revenues securing the payment of "Prior Lien Obligations" (identified and defined in the Certificate Ordinance) now outstanding and as may be issued hereafter by the City.

In the Certificate 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 are the Certificates and, together with the Certificates, equally and ratably secured by a parity lien on and pledge of the surplus Net Revenues of the System.

TAX RATE LIMITATION. . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and provides for a maximum ad valorem tax rate of \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of the \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance based on a 90% collection factor.

NO OPTIONAL REDEMPTION FOR THE BONDS. . . The Bonds are not subject to redemption prior to maturity.

OPTIONAL REDEMPTION FOR THE CERTIFICATES. . . The City reserves the right, at its option, to redeem Certificates having stated maturities on or after September 1, 2018, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on September 1, 2017, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of such Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION FOR THE CERTIFICATES. . . The Certificates maturing on September 1 in each of the years 2020, 2022, 2024, 2026, 2028, 2030 and 2032 (the "Term Certificates") are subject to mandatory sinking fund redemption in the amounts and at the price of par plus accrued interest to the redemption date on September 1 in the following years:

<u>Term Certificates Due September 1, 2020</u>		<u>Term Certificates Due September 1, 2022</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2019	\$190,000	September 1, 2021	\$225,000
September 1, 2020 (maturity)	\$195,000	September 1, 2022 (maturity)	\$235,000

<u>Term Certificates Due September 1, 2024</u>		<u>Term Certificates Due September 1, 2026</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2023	\$235,000	September 1, 2025	\$255,000
September 1, 2024 (maturity)	\$250,000	September 1, 2026 (maturity)	\$265,000

<u>Term Certificates Due September 1, 2028</u>		<u>Term Certificates Due September 1, 2030</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2027	\$265,000	September 1, 2029	\$295,000
September 1, 2028 (maturity)	\$280,000	September 1, 2030 (maturity)	\$305,000

<u>Term Certificates Due September 1, 2032</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2031	\$310,000
September 1, 2032 (maturity)	\$325,000

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Certificates, the Paying Agent/Registrar shall select by lot the numbers of the Term Certificates within the applicable Stated Maturity to be redeemed on the next following September 1 from moneys set aside for that purpose in the Interest and Sinking Fund (as defined in the Certificates Ordinance). Any Term Certificate not selected for prior redemption shall be paid on the date of their stated maturity.

The principal amount of Term Certificates of a stated maturity required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Certificates of the same maturity which, at least 50 days prior to a mandatory redemption date (1) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION. . . Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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.

DEFEASANCE . . . The Ordinances provide for the defeasance of the Obligations when the payment of the principal of and premium, if any, on the Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Obligations, certified by an independent public accounting firm of

national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money, together with monies deposited therewith, if any, to make such payment. The Ordinances provide that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated, on the date of their acquisition or purchase by the City, as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) 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 are rated, on the date of their acquisition or purchase by the City, as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (d) any other then authorized securities or obligations that may be used to defease obligations such as the Obligations under the then applicable laws of the State of Texas. Upon making such deposit in the manner described, such defeased obligations shall no longer be deemed outstanding obligations secured by the Ordinances, but will be payable only from the funds and Government Obligations deposited into escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt for any other purpose. If any of such Obligations are to be redeemed prior to their dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinances.

Upon such deposit as described above, such Obligations shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Obligations have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption, or take any other action amending the terms of the Obligations, are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

BOOK-ENTRY-ONLY SYSTEM. . . This section describes how ownership of the Obligations is to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and credited by DTC while the Obligations are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the Obligations in the aggregate principal amount of each such maturity and will be deposited with DTC.

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

Purchases of Obligations under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Obligations ("Beneficial Owner") is

in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Obligations are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive certificates representing their ownership interests in the Obligations, except in the event that use of the book-entry system described herein is discontinued.**

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, with respect to the Certificates, and principal and interest payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Obligations at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Obligations are required to be printed and delivered.

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

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

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Obligations are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Obligations, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the applicable Ordinance will be given only to DTC.

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

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

Principal of the Obligations will be payable to the registered owner at maturity or prior redemption upon presentation at the principal office of the Paying Agent/Registrar. Interest on the Obligations shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (see "THE OBLIGATIONS – Record Date for Interest Payment" herein), and such interest shall be paid (i) by check sent by United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar, or (ii) 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 Obligations shall be a Saturday, Sunday, legal holiday or day when banking institutions in the city where 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. So long as Cede & Co. is the registered owner of the Obligations, payments of principal and interest on the Obligations will be made as described in "THE OBLIGATIONS - Book-Entry-Only System" herein.

TRANSFER, EXCHANGE AND REGISTRATION. . . In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the registered owners of the Obligations and thereafter the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Obligations may be assigned by the execution of an assignment form on the respective Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Obligations issued in an exchange or transfer of Obligations will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Obligations to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer shall be in denominations of \$5,000 or integral multiples thereof for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. See "THE OBLIGATIONS - Book-Entry-Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Obligation.

RECORD DATE FOR INTEREST PAYMENT. . . The record date (the "Record Date") for the interest payable on the Obligations on any interest payment date means the close of business on the fifteenth (15th) day of the month next proceeding.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (the "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 (the "Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of an Obligation appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

MUTILATED, DESTROYED, LOST AND STOLEN OBLIGATIONS. . . If any Obligation is mutilated, destroyed, stolen or lost, a new Obligation in the same principal amount as the Obligation so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Obligation, such new Obligation will be delivered only upon surrender and cancellation of such mutilated Obligation. In the case of any Obligation issued in lieu of and substitution for any Obligation which has been destroyed, stolen or lost, such new Obligation will be delivered only (a) upon filing with the City and the Paying Agent/Registrar a certificate to the effect that such Obligation has been destroyed, stolen or lost and proof of ownership thereof, and (b) upon furnishing the Paying Agent/Registrar with indemnity satisfactory to hold the City and the Paying Agent/Registrar harmless. The person requesting the

authentication and delivery of a new Obligation must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

OBLIGATIONHOLDERS' REMEDIES. . . If the City defaults in the payment of principal, interest or redemption price on the Obligations when due, or if it fails to make payments into any fund or funds created in the Ordinances, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Ordinances, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Obligations if there is no other available remedy at law to compel performance of the Obligations or the Ordinances and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders of the Obligations upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Obligations may not be able to bring such a suit against the City for breach of the Obligations or the Ordinances covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Obligations. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Obligations of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS . . . The City may amend the Ordinances without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, formal defect, or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the respective Obligations then outstanding and affected thereby, amend, add to, or rescind any of the provisions of the respective Ordinances; except that, without the consent of the registered owners of all of the respective Obligations then outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Obligations, reduce the principal amount thereof, the redemption price, with respect to the Certificates, or the rate of interest thereon, or in any other way modify the terms of the payment of the principal of, premium, if any, or interest on the Obligations; (2) give any preference to any Obligation over any other Obligation, or (3) reduce the aggregate principal amount of the Obligations required to be held by the registered owners for consent to any such amendment, addition, or rescission.

TAX INFORMATION

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

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

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

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

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

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

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

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than maintenance, repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

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

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

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication.

Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." Section 11.253 of the Tax Code defines "goods-in-transit" as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. Section 11.253 of the Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following year. A taxpayer may receive only one of the freeport exemptions or one of the goods-in-transit exemptions, but not both, for items of personal property.

A city may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit's percentage level of participation. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

The City is authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditure, and (2) a rate for debt service.

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

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

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

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

PROPERTY ASSESSMENT AND TAX PAYMENT. . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Effective January 1, 2012, oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

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

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

(1) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

After July, penalty remains at 12%, and interest increases at the rate of one-percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to incur interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

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CITY APPLICATION OF TAX CODE . . . The City grants an exemption of \$5,000 to the market value of the residence homestead of persons 65 years of age or older and the disabled.

The City has not granted an additional exemption of 20% of the market value of residence homesteads.

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

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

The City does not tax "non-business" leased vehicles; and Collin County Tax Collector collects taxes for the City.

The City does not permit split payments of taxes, and discounts for early payment of taxes are not allowed.

The City does not tax Freeport property.

The City does not tax "goods-in-transit".

The City does not participate in a Tax Increment Reinvestment Zone.

The City has adopted a tax abatement policy, and reviews applications for abatements on a case by case basis and currently has no abatement agreements in effect.

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TABLE 1 – ASSESSED VALUATION AND EXEMPTION

2011/2012 Market Valuation Established by the Collin Central Appraisal District (excludes totally exempt property)	\$ 734,685,025
Less Exemptions/Reductions at 100% Market Value:	
Local Over 65/Disabled Homestead Exemption	8,572,863
Disabled/Deceased Veterans	1,445,990
Freeport Property	-
Agricultural Productivity Value Loss	262,087,016
Partial Exemptions	-
Charitable Property	-
10% Value Cap Loss	847,029
Other (Pollution Control / Low Income Housing)	100,239
	<u>273,053,137</u>
2011/2012 Taxable Assessed Valuation	<u>\$ 461,631,888</u>
General Obligation Debt Principal Outstanding (As of May 1, 2012)	
Tax and WW&SS Surplus Revenue Bonds, Series 2001 ⁽¹⁾	\$ 15,000
Tax and WW&SS Surplus Revenue Certificates of Obligation, Series 2003 ⁽¹⁾	275,000
Tax and WW&SS Surplus Revenue Certificates of Obligation, Series 2004	6,235,000
General Obligation Refunding Bonds, Series 2007	2,690,000
Tax and WW&SS Surplus Revenue Certificates of Obligation, Series 2007 (TWDB)	1,660,000
Tax and WW&SS Surplus (Ltd. Pldg.) Revenue Certificates of Obligation, Series 2011	1,400,000
General Obligation Refunding Bonds, Series 2012	4,110,000
Tax and Waterworks & Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2012	4,675,000
Total Gross General Obligation Debt Outstanding:	<u>\$ 21,060,000</u>
Less: Self-Supporting General Obligation Debt Principal ⁽²⁾	
Tax and WW&SS Surplus Revenue Bonds, Series 2001	\$ 15,000
Tax and WW&SS Surplus Revenue Certificates of Obligation, Series 2003	275,000
Tax and WW&SS Surplus Revenue Certificates of Obligation, Series 2004	349,784
General Obligation Refunding Bonds, Series 2007	1,943,794
Tax and WW&SS Surplus Revenue Certificates of Obligation, Series 2007 (TWDB)	1,660,000
General Obligation Refunding Bonds, Series 2012	4,005,000
Tax and Waterworks & Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2012	720,000
Total Self-Supporting General Obligation Debt Principal	<u>\$ 8,968,578</u>
Total Net General Obligation Debt Principal Outstanding:	<u>\$ 12,091,422</u>
General Obligation Interest and Sinking Fund Balance as September 30, 2011	\$ 236,372
Ratio of Gross General Obligation Debt Principal to 2011 Certified Net Taxable Assessed Valuation	4.56%
Ratio of Net General Obligation Debt Principal to 2011 Certified Net Taxable Assessed Valuation	2.62%
2011 Certified Net Taxable Assessed Valuation	\$ 461,631,888
2012 Population (Estimate)	7,625
Per Capita Certified Net Taxable Assessed Valuation	\$ 60,542
Per Capita Gross General Obligation Debt Principal	\$ 2,762
Per Capita Net General Obligation Debt Principal	\$ 1,586

(1) Excludes the refunded portion

(2) All or the portion noted of the debt service on these issues is currently paid from surplus Net Revenues of the System. See Table 10 – Computation of Self-Supporting Debt.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2012		2011		2010	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 356,797,179	48.56%	\$ 355,655,821	55.07%	\$ 354,177,320	54.80%
Real, Residential, Multi-Family	3,604,153	0.49%	4,234,792	0.66%	4,394,693	0.68%
Real, Vacant Lots/Tracts	20,166,031	2.74%	20,137,648	3.12%	20,886,310	3.23%
Real, Acreage (Land Only)	271,684,923	36.98%	190,992,338	29.57%	183,268,943	28.35%
Real, Farm and Ranch Improvements	6,455,316	0.88%	6,038,355	0.94%	6,155,047	0.95%
Real, Commercial	33,171,319	4.52%	33,647,732	5.21%	37,417,891	5.79%
Real, Industrial	10,150,525	1.38%	8,792,572	1.36%	8,381,969	1.30%
Real and Tangible Personal, Utilities	6,536,343	0.89%	3,751,102	0.58%	3,946,033	0.61%
Tangible Personal, Commercial	18,217,640	2.48%	15,144,971	2.35%	15,935,020	2.47%
Tangible Personal, Industrial	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Other	6,129	0.00%	7,260	0.00%	3,139	0.00%
Real Property, Inventory	7,895,467	1.07%	7,039,881	1.09%	11,268,439	1.74%
Special Inventory	-	0.00%	357,595	0.06%	506,650	0.08%
Total Appraised Value Before Exemptions	\$ 734,685,025	100.00%	\$ 645,800,067	100.00%	\$ 646,341,454	100.00%
Less: Total Exemptions/Reductions	273,053,137		191,726,580		182,142,657	
Taxable Assessed Value	\$ 461,631,888		\$ 454,073,487		\$ 464,198,797	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2009		2008	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 345,231,251	53.39%	\$ 304,161,553	54.04%
Real, Residential, Multi-Family	4,504,806	0.70%	2,804,940	0.50%
Real, Vacant Lots/Tracts	22,829,720	3.53%	22,796,468	4.05%
Real, Acreage (Land Only)	186,492,661	28.84%	153,621,013	27.29%
Real, Farm and Ranch Improvements	5,982,391	0.93%	5,805,029	1.03%
Real, Commercial	36,687,061	5.67%	32,972,162	5.86%
Real, Industrial	8,233,269	1.27%	8,104,724	1.44%
Real and Tangible Personal, Utilities	3,629,561	0.56%	3,916,124	0.70%
Tangible Personal, Commercial	13,228,290	2.05%	8,991,701	1.60%
Tangible Personal, Industrial	-	0.00%	-	0.00%
Tangible Personal, Other	7,388	0.00%	7,388	0.00%
Real Property, Inventory	19,119,853	2.96%	18,996,454	3.38%
Special Inventory	662,763	0.10%	662,100	0.12%
Total Appraised Value Before Exemptions	\$ 646,609,014	100.00%	\$ 562,839,656	100.00%
Less: Total Exemptions/Reductions	183,282,031		144,014,968	
Taxable Assessed Value	\$ 463,326,983		\$ 418,824,688	

Note: Valuations shown are certified taxable assessed values reported by the Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District update records.

TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Taxable Assessed Valuation Per Capita	Ratio of G.O.	
					Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2008	4,765	\$ 418,824,688	\$ 7,486,702	\$ 87,896	1.79%	\$ 1,571
2009	5,360	463,326,983	7,247,401	86,448	1.56%	1,352
2010	6,028	464,198,797	6,995,603	77,007	1.51%	1,161
2011	6,780	454,073,487	8,138,013	66,975	1.79%	1,200
2012	7,625	461,631,888	11,796,362 ⁽⁴⁾	60,539	2.56%	1,547

(1) Population estimated from trends in the 2000 and 2010 U.S. Census Bureau Data.

(2) As reported by the Appraisal District on the City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Excludes self-supporting debt. See Table 10 – Computation of Self-Supporting Debt.

(4) Excludes Refunded Obligations, includes the Series 2012 Obligations.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Collections	
					% Current Collections	% Total Collections
2008	\$ 0.6550	\$ 0.5071	\$ 0.1479	\$ 2,743,302	99.89%	101.36%
2009	0.6450	0.5415	0.1035	2,988,480	99.61%	103.12%
2010	0.6450	0.5274	0.1176	2,990,406	99.26%	102.76%
2011	0.6450	0.5849	0.0601	2,926,019	99.47%	102.73%
2012	0.6450	0.5652	0.0798	2,977,526	94.45% ⁽¹⁾	95.66% ⁽¹⁾

(1) Collections as of February 29, 2012.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2011/2012	
		Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Brookshire Grocery Company	Retail	\$ 4,895,663	1.06%
Fini Enterprises Inc.	Manufacturing	4,356,404	0.94%
TXI Operations LP	Utilities	4,052,335	0.88%
Prusak Family Limited Partnership	Individual	3,845,391	0.83%
289/Carter Ranch Retail Ltd.	Retail	3,660,793	0.79%
Celina Town Center	Government	3,604,284	0.78%
J Evans Family Ptrs - Prosper LLC	Storage Facility	3,423,738	0.74%
Celina Real Estate	Real Estate	3,040,410	0.66%
TXI Operations LP	Utilities	2,779,795	0.60%
Burlington Northern Santa Fe RR Co.	Rail Road	2,600,972	0.56%
		<u>\$ 36,259,785</u>	<u>7.29%</u>

GENERAL OBLIGATION DEBT LIMITATION. . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE OBLIGATIONS - Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY ⁽¹⁾

Net Principal and Interest Requirements for Fiscal Year 2012	\$	668,284
\$0.1477 Tax Rate at 98% Collection Produces	\$	668,284
Average Net Annual Principal and Interest Requirements, 2012-2032	\$	831,160
\$0.1837 Tax Rate at 98% Collection Produces	\$	831,160
Maximum Net Principal and Interest Requirements, 2019	\$	972,614
\$0.2150 Tax Rate at 98% Collection Produces	\$	972,614

(1) Estimated, subject to change. Excludes self-supporting debt. See Table 10 – Computation of Self-Supporting Debt.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

<u>Taxing Jurisdiction</u>	<u>Taxable Assessed Valuation ⁽¹⁾</u>	<u>2011/12 Tax Rate ⁽¹⁾</u>	<u>G.O. Debt 5/1/2012 ⁽¹⁾</u>	<u>Estimated Percent Applicable ⁽¹⁾</u>	<u>Overlapping G.O. Debt as of 5/1/2012</u>
City of Celina	\$ 461,631,888	\$ 0.6450	\$21,060,000 ⁽²⁾	100.00%	\$ 21,060,000
Celina ISD	653,407,294	1.6400	60,380,675	69.32%	41,855,884
Collin County	72,217,842,656	0.2400	361,530,000	0.64%	2,313,792
Collin County CCD	74,917,148,963	0.0863	42,830,000	0.64%	274,112
Prosper ISD	1,769,628,118	1.6700	237,034,318	3.87%	9,173,228
Total Direct and Overlapping Debt					\$ 65,503,788
Ratio of Direct and Overlapping Debt to City's Taxable Assessed Valuation					14.19%
Per Capital Overlapping GO Debt					\$ 8,591

(1) As reported by the Municipal Advisory Council of Texas.

(2) Excludes the Refunded Obligations, includes the Bonds and the Certificates.

DEBT INFORMATION

TABLE 8 –GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 30-Sep	Outstanding Debt Service ⁽¹⁾			The Bonds			The Certificates			Total General Obligation Debt Service	Less: Self- Supporting Debt Service ⁽²⁾	Net General Obligation Debt Service	% of Principal Retired
	Principal	Interest	Total D/S	Principal	Interest	Total D/S	Principal	Interest	Total D/S				
2012	\$ 955,000	\$ 616,508	\$ 1,571,508	\$ -	\$ 22,405	\$ 22,405	\$ -	\$ -	\$ -	\$ 1,593,913	\$ 925,630	\$ 668,284	
2013	720,000	468,121	1,188,121	135,000	104,750	239,750	140,000	179,018	319,018	1,746,890	806,300	940,589	
2014	750,000	438,629	1,188,629	130,000	102,050	232,050	175,000	144,675	319,675	1,740,354	800,989	939,365	
2015	775,000	407,851	1,182,851	375,000	99,450	474,450	180,000	141,175	321,175	1,978,476	1,032,822	945,655	
2016	815,000	375,871	1,190,871	385,000	91,950	476,950	180,000	137,575	317,575	1,985,396	1,044,977	940,419	27.14%
2017	850,000	342,849	1,192,849	415,000	84,250	499,250	185,000	133,975	318,975	2,011,074	1,039,539	971,535	
2018	885,000	310,761	1,195,761	415,000	75,950	490,950	185,000	130,275	315,275	2,001,986	1,036,625	965,362	
2019	885,000	277,763	1,162,763	460,000	67,650	527,650	190,000	126,575	316,575	2,006,988	1,034,373	972,614	
2020	750,000	244,080	994,080	465,000	53,850	518,850	195,000	120,875	315,875	1,828,805	859,254	969,551	
2021	610,000	213,795	823,795	485,000	39,900	524,900	225,000	115,025	340,025	1,688,720	726,961	961,759	61.32%
2022	435,000	188,745	623,745	415,000	25,350	440,350	235,000	108,275	343,275	1,407,370	520,234	887,136	
2023	455,000	170,415	625,415	430,000	12,900	442,900	235,000	101,225	336,225	1,404,540	521,707	882,833	
2024	470,000	150,875	620,875	-	-	-	250,000	94,175	344,175	965,050	77,673	887,377	
2025	495,000	130,480	625,480	-	-	-	255,000	86,675	341,675	967,155	81,771	885,384	
2026	515,000	108,800	623,800	-	-	-	265,000	77,750	342,750	966,550	80,178	886,372	82.48%
2027	540,000	85,544	625,544	-	-	-	265,000	68,475	333,475	959,019	78,797	880,222	
2028	565,000	61,163	626,163	-	-	-	280,000	59,200	339,200	965,363	77,364	887,998	
2029	590,000	35,656	625,656	-	-	-	295,000	49,400	344,400	970,056	81,160	888,896	
2030	105,000	8,869	113,869	-	-	-	305,000	37,600	342,600	456,469	50,600	405,869	
2031	110,000	4,538	114,538	-	-	-	310,000	25,400	335,400	449,938	48,800	401,138	98.46%
2032	-	-	-	-	-	-	325,000	13,000	338,000	338,000	52,000	286,000	100.00%
	<u>\$ 12,275,000</u>	<u>\$ 4,641,312</u>	<u>\$ 16,916,312</u>	<u>\$ 4,110,000</u>	<u>\$ 780,455</u>	<u>\$ 4,890,455</u>	<u>\$ 4,675,000</u>	<u>\$ 1,950,343</u>	<u>\$ 6,625,343</u>	<u>\$ 28,432,110</u>	<u>\$ 10,977,753</u>	<u>\$ 17,454,357</u>	

(1) Excludes the Refunded Obligations.

(2) Excludes a portion of the Refunded Obligations; includes a portion of the Bonds and the Certificates. See Table 10 - Computation of Self-Supporting Debt.

TABLE 9 – FUND BALANCES ⁽¹⁾

	As Of <u>5/1/2012</u>
General Fund Money Market Acct.	\$ 2,538,415
General Operating Fund	131,760
General Obligation Debt Service Fund	277,312
Capital Projects Fund	2,064,279
Water & Sewer Operating Fund	<u>749,617</u>
Total	<u>\$ 5,761,383</u>

(1) As reported by the City.

TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT

Fiscal Year Ended 9-30-11	
Net System Revenues Available	\$ 1,834,043
Less: Requirement for Fiscal Year ended 9-30-12 Revenue Bonds	<u>-</u>
Balance Available for Other Purposes	<u>\$ 1,834,043</u>
Requirement for Fiscal Year ended 9-30-12 General Obligation Debt Paid From System Revenues ⁽¹⁾	\$ 925,630
Percentage of General Obligation Debt Self-Supporting	100%

(1) The City considers the general obligation debt identified in "Table 8 – General Obligation Debt Service Requirements" to be self-supporting from the Net Revenues of the System. The transfers of such revenues to make debt service payments on such general obligation debt is discretionary and may be discontinued by the City, in whole or in part, at any time. In the event the City chooses to discontinue service on such general obligation debt, the City will be required to levy ad valorem taxes or to appropriate other lawfully available funds of the City in amounts sufficient to pay debt service on such general obligation debt.

TABLE 11 – AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Amount	
			Previously Issued	Unissued Balance
Fire	5/8/2010	\$ 2,475,000	\$ -	\$ 2,475,000
Information Technology	5/8/2010	685,000	-	685,000
Drainage Improvements	5/8/2010	3,100,000	-	3,100,000
Street	5/8/2010	2,000,000	-	2,000,000
Parks & Recreation	5/8/2010	1,375,000	-	1,375,000
Public Works	5/8/2010	400,000	-	400,000
		<u>\$ 10,035,000</u>	<u>\$ -</u>	<u>\$ 10,035,000</u>

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT. . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

TABLE 12 – OTHER OBLIGATIONS

Fiscal Year <u>Ending 9-30</u>	Annual Lease <u>Requirement ⁽¹⁾</u>
2012	\$ 121,848
2013	121,848
2014	138,492
2015	138,492
2016	138,492
2017	138,492
2018	138,492
Total Required	<u>\$ 936,156</u>

(1) Proceeds of the Certificates will be used to purchase equipment for the fire department that the City is currently leasing.

PENSION FUND. . . In addition to City employee participation in the U.S. Social Security Program, the City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined contribution plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The TMRS is a contributory, annuity-purchase type plan, which is covered by the State statute and is administered by six trustees appointed by the Governor of the State of Texas. The TMRS operates independently of its member cities.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the governing body of the Issuer, within the options available in the State statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the City Council. When an employee terminates and withdraws his contribution, the City's portion remains in the fund. Credit is allowed annually toward reducing the City's contribution rate to maintain a two-to-one matching balance.

The City's contributions for the fiscal year 2011 were based on a covered payroll for \$2,147,000. Both the City and the covered employees made the required contributions, with the City's contribution amounting to \$127,984.

In December 2007, the TMRS Board of Trustees approved changes in the actuarial assumptions and funding methodology for all TMRS plans. For more detailed information concerning the City's retirement plan for Fiscal Year 2011, see "APPENDIX B – EXCERPTS FROM THE CITY'S AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011" – Note 8.

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FINANCIAL INFORMATION

TABLE 13 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2011	2010	2009	2008	2007
Revenues:					
Ad Valorem Taxes	\$ 2,692,510	\$ 2,466,194	\$ 2,545,965	\$ 2,140,998	\$ 1,216,264
Franchise Taxes	355,576	253,501	222,257	213,333	193,642
Sales Taxes	290,835	271,670	249,661	284,026	277,445
Permits and Inspection Fees	257,605	172,173	94,524	169,678	329,013
Settlement Reimbursement	-	-	-	415,000	-
Fire Department and EMS Fees	262,435	180,203	224,373	157,133	-
Park Fees	18,907	24,786	18,135	17,983	14,330
Development Fees	16,286	45,894	12,533	118,616	27,853
Fines	95,016	93,866	109,891	133,407	249,884
Other Income	82,758	40,999	75,563	142,072	72,611
Collin County Road Contribution	236,623	144,460	-	-	-
Donations	155,935	134,565	150,211	37,342	56,082
Interest	13,775	14,471	22,177	30,455	33,109
Federal and State Grants	294,205	149,284	238,314	14,418	-
Total Revenues	\$ 4,772,466	\$ 3,992,066	\$ 3,963,604	\$ 3,874,461	\$ 2,470,233
Expenditures:					
Administration	\$ 979,059	\$ 880,101	\$ 956,157	\$ 1,101,213	\$ 1,378,017
Library	126,482	129,637	-	-	-
Judicial	70,205	70,102	73,299	69,664	63,303
Fire and Emergency Services	1,140,328	1,049,716	1,060,228	778,751	333,443
Development Services	363,133	329,794	381,151	291,431	-
Public Works	568,890	392,527	392,020	245,448	519,826
Police Department	913,898	865,304	780,835	594,680	605,315
Parks and Recreation	176,313	222,959	235,149	224,295	259,803
Main Street Project	57,880	60,868	47,976	142,224	48,048
Economic Development	-	-	-	-	-
Capital Outlay	1,464,171	474,465	213,594	274,290	151,301
Debt Service	-	-	-	162,219	146,009
Total Expenditures	\$ 5,860,359	\$ 4,475,473	\$ 4,140,409	\$ 3,884,215	\$ 3,505,065
Excess (deficit) of Revenues Over Expenditures	\$ (1,087,893)	\$ (483,407)	\$ (176,805)	\$ (9,754)	\$ (1,034,832)
Other Financing Sources (Uses):					
Operating Transfers In (Out)	\$ 75,000	\$ 325,000	\$ 300,000	\$ 300,000	\$ 482,230
Proceeds of Capital Leases	-	174,797	-	316,986	76,950
Proceeds from issuance of bonds	1,400,000	-	-	-	-
Bond issuance costs	(33,292)	-	-	-	-
Proceeds from Sale of Assets	48,381	73,283	2,801	18,798	-
Transfers for Debt Service	-	-	-	-	-
Total Other Financing Sources (Uses)	\$ 1,490,089	\$ 573,080	\$ 302,801	\$ 635,784	\$ 559,180
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	\$ 402,196	\$ 89,673	\$ 125,996	\$ 626,030	\$ (475,652)
Beginning Fund Balance	864,794	775,121	649,125	23,094	498,746
Ending Fund Balance	\$ 1,266,990	\$ 864,794	\$ 775,121	\$ 649,125	\$ 23,094

TABLE 14 – DEBT SERVICE FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2011	2010	2009	2008	2007
<u>Beginning Fund Balance</u>	\$ 593,598	\$ 458,260	\$ 671,693	\$ 450,108	\$ 237,131
<u>Revenues:</u>					
Current Tax Collections	\$ 282,632	\$ 549,313	\$ 496,260	\$ 631,676	\$ 807,903
Delinquent Tax Collections	-	-	-	-	-
Penalty and Interest	-	-	-	-	-
Fines	-	-	-	-	-
Donations / EDC Contributions	165,000	165,000	-	200,000	200,000
Interest	2,799	4,704	11,282	17,862	22,603
Total Revenues	\$ 450,431	\$ 719,017	\$ 507,542	\$ 849,538	\$ 1,030,506
<u>Expenditures:</u>					
Debt Service					
Principal Retirement	\$ 257,590	\$ 251,798	\$ 372,216	\$ 273,234	\$ 76,475
Interest & Fiscal Charges	312,974	331,881	348,759	350,837	363,662
Total Expenditures	\$ 570,564	\$ 583,679	\$ 720,975	\$ 624,071	\$ 440,137
Excess (deficit) of Revenues Over Expenditures	\$ (120,133)	\$ 135,338	\$ (213,433)	\$ 225,467	\$ 590,369
<u>Other Financing Sources (Uses):</u>					
Sale of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Lease Purchase Proceeds	-	-	-	-	-
Operating Transfer In (Out)	-	-	-	-	-
Issuance of refunding bonds	-	-	-	3,136,600	-
Payment to bond refunding agency	-	-	-	(3,039,597)	-
Bond issuance cost	-	-	-	(100,885)	-
Transfers out for debt service	-	-	-	-	(377,392)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ (3,882)	\$ (377,392)
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	\$ (120,133)	\$ 135,338	\$ (213,433)	\$ 221,585	\$ 212,977
Ending Fund Balance	\$ 473,465	\$ 593,598	\$ 458,260	\$ 671,693	\$ 450,108

TABLE 15 – WATER RATES (EFFECTIVE FEBRUARY 10, 2012)

<u>Residential Usage</u>	<u>Rates</u>
0 - 2,000 Gallons (Minimum)	
5/8 and 3/4 inch meters	\$ 22.25
1 inch meter	38.39
1 1/2 inch meter	77.87
2 inch meter	124.59
2,001 - 10,000 Gallons per 1K	\$ 4.96
10,001 - 20,000 Gallons per 1K	7.44
20,001 - 30,000 Gallons per 1K	8.68
30,001 Gallons and above per 1K	12.40

<u>Commercial Usage</u>	<u>Rates</u>
0 - 2,000 Gallons (Minimum)	
5/8 and 3/4 inch meters	\$ 27.81
1 inch meter	48.67
1 1/2 inch meter	97.34
2 inch meter	155.74
3 inch meter	233.60
4 inch meter	389.34
2,001 - 10,000 Gallons per 1K	\$ 4.96
10,001 - 20,000 Gallons per 1K	7.44
20,001 - 30,000 Gallons per 1K	8.68
30,001 Gallons and above per 1K	12.40

TABLE 16 – WASTE WATER RATES (EFFECTIVE FEBRUARY 10, 2012)

<u>Residential Usage</u>	<u>Rates</u>
0 - 2,000 Gallons (Minimum)	
5/8 and 3/4 inch meters	\$ 20.60
1 inch meter	38.63
1 1/2 inch meter	72.10
2 inch meter	123.60
2,001 - 10,000 Gallons per 1K	\$ 5.73
Usage fees cap at 14,000 Gallons	89.45
<u>Commercial Usage</u>	<u>Rates</u>
0 - 2,000 Gallons (Minimum)	
5/8 and 3/4 inch meters	\$ 25.75
1 inch meter	48.29
1 1/2 inch meter	90.13
2 inch meter	154.50
4 inch meter	386.25
2,001 Gallons and up per 1K	\$ 5.73

TABLE 17 – WATER AND WASTEWATER CUSTOMERS

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Number of Residential/Commercial Water Users with 3/4 inch meters	2,068	2,063	2,156	2,193	2,094
Number of Commercial Water Users with larger than 3/4 inch meters	330	329	145	137	49
Number of Residential/Commercial Sewer Users with 4 inch meters	1,663	1,583	1,581	1,553	1,447
Number of Commercial Users with larger than 4 inch meters	N/A	N/A	N/A	N/A	N/A

TABLE 18 – WATER AND WASTEWATER SYSTEM REVENUE AND EXPENDITURES

	Fiscal Year Ended September 30,				
	2011	2010	2009	2008	2007
Revenues					
Water Sales	\$ 2,549,933	\$ 1,944,348	\$ 1,602,364	\$ 1,598,567	\$ 1,298,932
Sewer Sales	946,269	774,022	572,299	546,556	485,948
Garbage Fees	308,022	310,997	251,982	222,962	203,811
Penalties	70,218	55,372	48,519	56,953	48,088
Tap and Reconnect Fees	107,470	78,931	34,675	57,652	125,960
Water and Sewer Impact Fees	143,829	127,007	634,483	453,976	-
Other Revenues	64,401	69,840	42,055	40,093	23,988
Total Revenues	\$ 4,190,142 ⁽¹⁾	\$ 3,360,517	\$ 3,186,377	\$ 2,976,759	\$ 2,186,727
Expenses					
Salaries	\$ 328,438	\$ 335,575	\$ 293,866	\$ 265,950	\$ 175,097
Payroll taxes & employee benefits	-	-	-	-	65,008
Garbage fees	307,009	297,545	232,632	198,115	178,064
Licenses and permits	6,993	6,452	3,531	5,704	3,581
Materials and supplies	106,768	111,855	62,976	48,407	67,752
Engineering	5,737	31,745	13,324	11,656	62,500
Postage	21,089	19,022	19,098	15,836	6,912
Repairs and facility maintenance	119,667	112,768	87,153	124,305	68,595
General insurance	5,449	15,588	14,578	14,699	2,780
Vehicle expense	34,739	19,863	10,964	20,380	13,133
Utilities and telephone	243,239	256,066	269,087	256,954	216,657
Chemicals	23,785	17,652	15,067	20,088	21,728
Water/Sewer testing /sludge removal	-	-	-	-	8,361
Water purchases and related fees	1,134,597	1,063,361	1,037,804	889,598	552,527
Capital outlay	-	5,256	6,802	162,750	4,050
Bad debt provision	611	3,523	34,404	-	14,127
Depreciation & amortization	529,712	533,064	523,028	495,908	446,942
Other expense	28,664	29,202	17,248	7,659	12,489
Total Expenses	\$ 2,896,497	\$ 2,858,537	\$ 2,641,562	\$ 2,538,009	\$ 1,920,303
Non-Operating Revenues (Expenses)					
Interest Income	\$ 9,245	\$ 8,144	\$ 50,849	\$ 163,711	\$ 149,189
Gain on sale of fixed assets	830	-	-	-	-
Interest and fiscal charges	(409,838)	(566,614)	(527,022)	(469,413)	(396,237)
Total Nonoperating Revenues (Expenses)	\$ (399,763)	\$ (558,470)	\$ (476,173)	\$ (305,702)	\$ (247,048)
Capital grants	\$ -	\$ -	\$ 350,000	\$ -	\$ 4,205
Transfers in for debt service	-	-	-	-	377,392
Operating Transfer In (Out)	(75,000)	(325,000)	(300,000)	(300,000)	(482,230)
Change in Net Assets	818,882	(381,490)	118,642	(166,952)	(81,257)
Total net assets, October 1	6,054,654	6,436,144	6,317,502	6,484,454	6,565,711
Total net assets, September 30	\$ 6,873,536	\$ 6,054,654	\$ 6,436,144	\$ 6,317,502	\$ 6,484,454

(1) The City increased its water and sewer rates in 2011 and 2012, and intends to increase its rates each year for 2013-2015.

TABLE 19 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Obligations. Additionally, the City's voters approved a sales and use tax of 1/2 of 1% for the Celina Economic Development Corporation (4A), effective October of 1995, and a sales and use tax of 1/2 of 1% for the Celina Community Development Corporation (4B), effective April of 2004. Collections and enforcements are effected through the offices of the State Comptroller of Public Accounts, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	1% Tax Collections ⁽²⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2008	\$ 559,252	\$ 279,626	10.19%	\$ 0.1335	\$205.68
2009	526,847	263,424	8.81%	0.1137	85.67
2010	526,607	263,304	8.80%	0.1134	87.36
2011	561,849	280,925	9.60%	0.1237	92.91
2012 ⁽³⁾	418,308	209,154	7.02%	0.0906	68.21

- (1) As reported by the Texas Comptroller of Public Accounts.
- (2) Figures refer only to the City's 1% tax collections and exclude the 1/2% additional collection for each of 4A and 4B economic and community development (1% total additional collections.)
- (3) Collections through May 2012.

FINANCIAL POLICIES

BASIS OF ACCOUNTING. . . All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

The more significant revenues which are treated as susceptible to accrual under the modified accrual basis are property taxes, intergovernmental revenues, charges for services, and interest. Other revenue sources are not considered measurable and available, and are not treated as susceptible to accrual.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

GENERAL FUND BALANCE . . . The City's goal is to maintain surplus and unencumbered funds equal to 15%-25% of expenditures in the General Fund. This allows the City to avoid interim borrowing pending tax receipts.

USE OF CERTIFICATE PROCEEDS . . . The City's policy is to use Certificate proceeds for capital expenditures related to the purposes specified in the Certificate Ordinance and for no other purpose. Such revenues are never to be used to fund City operations.

BUDGETARY PROCEDURES. . . The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year by the first of July. The City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15. The City Council then holds a public hearing on the budget. The Council shall then make any changes in the budget as it deems advisable and shall adopt a budget prior to September 30.

FUND INVESTMENTS. . . The City investment policy parallels State law which governs investment of public funds. The City generally restricts investments to direct obligations of the United States Government and to insured or collateralized bank certificates of deposits. Both state law and the City's investment policies are subject to change.

INVESTMENTS

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

LEGAL INVESTMENTS. . . Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit, (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit or share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") and (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and provided for by law for City deposits, or (ii) where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State of Texas that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1) above, (iii) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph. The City may also be eligible to invest its funds in additional investments authorized by the Public Funds Investment Act as the same may be amended from time to time.

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

Governmental bodies in the State are also authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is

placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

INVESTMENT POLICIES. . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under State law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio and requires an interpretation of subjective investment standards) and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the City's designated Investment Officer; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 20 - CURRENT INVESTMENTS

As of February 28, 2012 the City's investable funds were invested in the following categories:

<u>Type of Investments</u>	<u>Book Value</u>	
	<u>Amount</u>	<u>Percent</u>
Money Market Account	\$ 4,655,323	99.95%
TexPool	2,371	0.05%
	<u>\$ 4,657,694</u>	<u>100.00%</u>

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TAX MATTERS

TAX EXEMPTION . . .The delivery of the Obligations is subject to the opinion of Bond Counsel to the effect that interest on the Obligations for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Obligations owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such 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"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Obligations pertaining to the use, expenditure, and investment of the proceeds of the Obligations and will assume continuing compliance by the City with the provisions of the Ordinances subsequent to the issuance of the Obligations. The Ordinances contains covenants by the City with respect to, among other matters, the use of the proceeds of the Obligations and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Obligations are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Obligations to be includable in the gross income of the owners thereof from the date of the issuance of the Obligations.

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

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Obligations. Prospective purchasers of the Obligations should be aware that the ownership of tax-exempt obligations such as the Obligations 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, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to owners of the Obligations of the exclusion of interest on the Obligations from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Obligations. Prospective purchasers of the Obligations should consult with their own tax advisors with respect to any proposed or future changes in tax law.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN OBLIGATIONS . . . The initial public offering price of certain Bonds or Certificates (the "Discount Obligations") may be less than the amount payable on such Obligations at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Obligations of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Obligations described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method

over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Obligations should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Obligations for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Obligations. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Obligations may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds or Certificates (the "Premium Obligations") may be greater than the amount payable on such Obligations at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Obligations of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Obligations. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Obligations should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Obligations for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Obligations.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The City has designated the Obligations as "qualified tax-exempt obligations" and has certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Obligations will not be subject to the 100% disallowance of interest expense allocable to interest on the Obligations under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Obligations will be reduced by 20% pursuant to section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

In the respective Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"), which pursuant to SEC-approved amendments to SEC Rule 15c2-12 (the "Rule") that became effective beginning July 1, 2009, is now the sole nationally recognized municipal securities information repository ("NRMSIR"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system to make such continuing disclosure available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6, 8 through 14, 19 and 20 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2012.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's internet web site or filed with the SEC as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

NOTICE OF CERTAIN EVENTS... The City will also provide the following to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Obligations: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5702-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material. In addition, the City will provide to the MSRB, in a timely manner, notice of any failure by the City to provide the required annual financial information described above under "Annual Reports" and any notices of events in accordance with this section.

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

AVAILABILITY OF INFORMATION. . . The City has agreed to provide the foregoing financial and operating information only as described above. Investors may access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Obligations at any future date. The City disclaims any contractual or tort liability for

damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Obligations may seek a writ of mandamus to compel the City to comply with its agreement. The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the respective outstanding Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. If the City so amends its continuing disclosure agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS. . . . Due to an administrative oversight, the City did not make its 2009 Continuing Disclosure Filing, consisting of its 2009 Audited Financial Statements and Annual Financial Information and Operating Data, until December 22, 2010. The City also filed a Notice of Failure to File Disclosure on December 22, 2010. The City has now implemented additional procedures to ensure timely and complete filings of its 15c2-12 information in the future. Except as described in this paragraph, during the last five years, the City has complied in all material respects with its continuing disclosure agreements made in accordance with the Rule.

OTHER INFORMATION

RATINGS

The Obligations have been rated "A1" by Moody's Investors Services, Inc. ("Moody's"). The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or more of such rating companies, if in the judgment of any or more companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Obligations.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments and investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency (see "OTHER INFORMATION - Ratings" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to

the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

No representation is made that the Obligations will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Obligations for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Obligations for such purposes.

LEGAL MATTERS

The delivery of the Obligations is subject to the approval of the Attorney General of Texas to the effect that the Obligations are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the City, and the limited pledge of the Net Revenues provided in the Ordinances, and the approving legal opinions of Fulbright & Jaworski, L.L.P., Bond Counsel, to like effect and to the effect that the interest on the Obligations will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The forms of Bond Counsel's opinion are attached hereto as Appendix C and Appendix D. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent upon the sale and delivery of the Obligations. The legal opinions of Bond Counsel will accompany the Obligations deposited with DTC or will be printed on the definitive Obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Bracewell & Giuliani LLP, Dallas, TX, Counsel for the Underwriter. The legal fee of such firm is contingent upon the sale and delivery of the Obligations.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions "PLAN OF FINANCING" (except under the subcaptions "Sources and Uses of Bond Proceeds" and "Sources and Uses of Certificate Proceeds"), "THE OBLIGATIONS" (except under the subcaptions "Book-Entry-Only System," and "Obligationholders' Remedies"), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings") and the subcaptions "Legal Matters" (except for the last two sentences of the first paragraph thereof), "Registration and Qualification of Obligations for Sale" and "Legal Investments And Eligibility To Secure Public Funds In Texas," under the caption "OTHER INFORMATION" and such firm is of the opinion that the information relating to the Obligations and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Obligations, such information conforms to the Ordinances.

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

First Southwest Company 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. First Southwest Company, 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.

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

UNDERWRITING FOR THE BONDS

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$29,308.25. The Underwriter is obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

SCHEDULE OF REFUNDED BONDS

SCHEDULE I

TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2001

Original Dated Date	Maturity 1-Sep	Principal	Interest Rates	Principal	Call Date
		Amount Outstanding		Amount Refunded	
7/1/2001	2015	\$ 10,000.00	5.250%	\$ 10,000.00	6/18/12
	2016	20,000.00	5.375%	20,000.00	6/18/12
	2017	40,000.00	5.500%	40,000.00	6/18/12
	2018	40,000.00	5.500%	40,000.00	6/18/12
	2019	75,000.00	5.550%	75,000.00	6/18/12
	2020	75,000.00	5.550%	75,000.00	6/18/12
	2021	80,000.00	5.550%	80,000.00	6/18/12
			<u>\$ 340,000.00</u>		<u>\$ 340,000.00</u>

The Certificates will be redeemed on June 18, 2012 at a price of par plus accrued interest to the redemption date.

TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS REVENUE REFUNDING BONDS, SERIES 2001

Original Dated Date	Maturity 1-Sep	Principal	Interest Rates	Principal	Call Date
		Amount Outstanding		Amount Refunded	
7/1/2001	2013	\$ 15,000.00	5.000%	\$ 15,000.00	6/18/12
	2014	15,000.00	5.250%	15,000.00	6/18/12
	2015	5,000.00	5.250%	5,000.00	6/18/12
			<u>\$ 35,000.00</u>		<u>\$ 35,000.00</u>

The Bonds will be redeemed on June 18, 2012 at a price of par plus accrued interest to the redemption date.

SCHEDULE OF REFUNDED BONDS

SCHEDULE I Continued

TAX AND WATERWORKS AND SEWER SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2003

Original Dated Date	Maturity 1-Sep	Principal	Interest Rates	Principal	Call Date
		Amount Outstanding		Amount Refunded	
3/1/2003	2013	\$ 290,000.00	3.625%	\$ 290,000.00	9/1/12
	2014	295,000.00	3.750%	295,000.00	9/1/12
	2015	305,000.00	3.875%	305,000.00	9/1/12
	2016	320,000.00	3.875%	320,000.00	9/1/12
	2017	330,000.00	4.000%	330,000.00	9/1/12
	2018	345,000.00	4.100%	345,000.00	9/1/12
	2019	360,000.00	4.150%	360,000.00	9/1/12
	2020	370,000.00	4.250%	370,000.00	9/1/12
	2021	390,000.00	4.375%	390,000.00	9/1/12
	2022	405,000.00	4.500%	405,000.00	9/1/12
	2023	425,000.00	4.500%	425,000.00	9/1/12
		<u>\$ 3,835,000.00</u>		<u>\$ 3,835,000.00</u>	

The Certificates will be redeemed on September 1, 2012 at a price of par plus accrued interest to the redemption date.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION

The City of Celina is located in north central Collin County, 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 7,625.

ECONOMY

Major employers in the City are:

<u>Employer</u>	<u>Type of Business</u>	<u>Employees</u>
Celina ISD	Education	274
Brookshire	Retail Grocery	78
City of Celina	Government	44
Fini Enterprises Inc.	Chemical Manufacturing	40
Celina Ready-Mix Concrete	Cement Manufacturing	20
Independent Bank	Banking	20
Dickerson Construction	Construction	17

Source: Municipal Advisory Council of Texas.

EDUCATION

The City is served by the Celina Independent School District (the "District"). The District is comprised of four campuses, 1 elementary school for grades pre-kindergarten through second, 1 intermediate school for grades third through fifth, 1 middle school for grades sixth 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 274 employees, 153 of whom are classroom teachers. The District has a 2010-2011 estimated enrollment (as of August, 2011) of 1,945 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>
2008	43	\$ 14,239,875	0	\$ -	43	\$ 14,239,875
2009	24	6,362,990	0	-	24	6,362,990
2010	52	14,326,150	0	-	52	14,326,150
2011	77	24,040,307	2	1,367,500	79	25,407,807
2012 ⁽¹⁾	35	15,478,270	0	-	35	15,482,700

Source: City Staff.

(1) As of April 18, 2012.

HISTORICAL EMPLOYMENT (AVERAGE ANNUAL) ⁽¹⁾

Collin County

	Average Annual				
	2012 ⁽²⁾	2011	2010	2009	2008
Civilian Labor Force	438,384	435,101	421,754	414,881	405,055
Total Employed	410,531	404,549	390,106	384,794	386,421
Total Unemployed	27,853	30,552	31,648	30,087	18,634
Unemployment Rate	6.4%	7.0%	7.5%	7.3%	4.6%

(1) Source: Texas Workforce Commission.

(2) Data through March 2012.

APPENDIX B

EXCERPTS FROM THE
CITY OF CELINA, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2011

The information contained in this Appendix consists of excerpts from the City of Celina, Texas Annual Financial Report for the Year Ended September 30, 2011, 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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SCOTT, SINGLETON, FINCHER AND COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

4815-A KING STREET
TELEPHONE 903-455-4765
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GREENVILLE, TEXAS 75401

Kelley D. Fincher, CPA
Tommy L. Nelson, CPA

Members of:
American Institute of
Certified Public Accountants
Texas Society of
Certified Public Accountants

Independent Auditor's Report

To the City Council
City of Celina, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of City of Celina, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, and each major fund of the City of Celina, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 18 and pages 50 and 51, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Celina, Texas' financial statements as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary schedules 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

February 9, 2012

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

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

FINANCIAL HIGHLIGHTS:

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

USING THIS ANNUAL REPORT:

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

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

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

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

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:

Fund Financial Statements

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:

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

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

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

CAPITAL ASSET AND DEBT ADMINISTRATION:

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

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

BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:

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

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

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

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

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

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

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

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

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

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

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

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, please do not hesitate to contact Mike Foreman, City Manager, or Jay Toutouchian, Director of Finance, by phone at (972) 382-2682 or by E-mail at mforeman@celina-tx.gov or jtoutouchian@celina-tx.gov .

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

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

The accompanying notes are an integral part of these financial statements

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

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

LIABILITIES AND FUND BALANCES

LIABILITIES

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

FUND BALANCES

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

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

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

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

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

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

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

\$ 10,025,108

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

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

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

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

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

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

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

1. Introduction and Summary of Significant Accounting Policies

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

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

(A) Reporting Entity and Related Organizations

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

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

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

Discretely Presented Component Units:

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

1. Introduction and Summary of Significant Accounting Policies - continued

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

Neither CEDC nor CCDC prepare separate financial statements.

(B) Government-Wide and Fund Financial Statements

Government-wide financial statements

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

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

Fund financial statements

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

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

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

1. Introduction and Summary of Significant Accounting Policies - continued

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

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

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

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

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

(D) Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

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

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

1. Introduction and Summary of Significant Accounting Policies - continued

Proprietary Funds

The City reports the following major enterprise fund:

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

(E) Assets, Liabilities and Net Assets or Equity

Cash and Investments

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

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

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

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

Inventories and Prepaids

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

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

1. **Introduction and Summary of Significant Accounting Policies - continued**

Capital Assets, Depreciation, and Amortization

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

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

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

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

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

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

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

Fund Equity

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

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

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

1. Introduction and Summary of Significant Accounting Policies – continued

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

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

Unassigned - all other spendable amounts in the general fund.

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

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

Compensated Absences

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

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

(F) Risk Management

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

1. Introduction and Summary of Significant Accounting Policies – continued

(G) Estimates

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

2. Stewardship, Compliance, and Accountability

Budgetary Information

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

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

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

3. Deposits and Investments

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

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

3. Deposits and Investments - continued

Investments

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

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

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

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

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

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

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

4. Receivables, Uncollectible Accounts, and Deferred Revenue

Enterprise Fund Receivables, Uncollectible Accounts and Deferred Revenue

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

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

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

Property Taxes Receivable, Deferred Revenue, and Property Tax Calendar

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

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

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

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

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

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

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

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

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

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

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

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

Allowance for Uncollectible Taxes

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

Fines and Court Costs Receivable and Related Allowances

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

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

Grants Receivable

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

5. Capital Assets

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

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

5. Capital Assets - continued

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

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

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

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

6. Long-Term Obligations

Long-term Obligations Supporting Governmental Activities

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

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

Business-type Activities - Revenue Bonds

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

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

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

6. Long-Term Obligations - continued

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

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

6. Long-Term Obligations - continued

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

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

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

Debt Service Requirements to Maturity

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

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

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

6. Long-Term Obligations - continued

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

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

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

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

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

7. Defeased Debt

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

8. Retirement Plan

Plan Description

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

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

8. Retirement Plan - continued

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

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

Contributions

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

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

Three Year Trend Information

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

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

8. Retirement Plan - continued

Annual Pension Cost

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

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

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

**Analysis of Funding Progress
(in Thousands of Dollars)**

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

* Actuarial valuation performed under the original fund structure

** Actuarial valuation performed under the new fund structure

8. Retirement Plan - continued

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

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

9. Litigation

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

10. Contingencies

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

11. Balances and Transfers/Payments Within the Reporting Entity

Receivables and Payables

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

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

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

Transfers and Payments

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

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

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

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

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

12. Service Area Acquisition

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

13. Operating Lease

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

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

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

14. Economic Dependence

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

15. Subsequent Events

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

APPENDIX C

FORM OF BOND COUNSEL'S OPINION
(THE BONDS)

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[Closing Date]

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

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

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

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

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

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

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

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

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

APPENDIX D

FORM OF BOND COUNSEL'S OPINION
(THE CERTIFICATES)