OF APPLES AND ORANGES: How to Reduce Securities Law Liability Through Implementation of a Disclosure Compliance Program

Joseph (Jodie) E. Smith
August 21, 2015
Overview of Presentation

▼ We will review a story that illustrates a typical securities fraud fact pattern.
▼ We will review very briefly the federal securities laws.
▼ We will review how the federal securities laws apply to our securities law fact pattern.
▼ We will review a few “real life” examples of securities fraud claims in the municipal securities market.
▼ We will review why a municipal issuer’s governing body members, administrative staff, and advisors should pay attention to securities fraud claims.
Overview of Presentation

- We will review the U.S. Securities and Exchange Commission’s recent emphasis on disclosure compliance policies.
- We will review some guiding principles and practical solutions relevant to preparation of disclosure compliance policies.
- We will walk through a sample continuing disclosure agreement, a sample closing certificate, and a sample disclosure compliance policy.
- We will open the floor for questions from attendees (but, by all means, please raise questions during the presentation if you have them).
No representation is made that the quality of the legal services to be performed is greater than the quality of legal services performed by other lawyers.
Hypothetical Disclaimer

Although inspired in part by true incidents, the following story is fictional and does not depict any actual person or event.
Marjorie Applewhite retires as a forklift operator from Citrus Grove Produce Company.

In ten days, Marjorie will receive a lump sum pension payment of $500,000.

What is she to do with the $500,000?
Marjorie’s investment advisor advises that she put the $500,000 in an annuity one year from now and that, in the meantime, she “park” the money in a safe fixed-income security.
Marjorie’s investment advisor has picked two potential fixed-income securities as places to park the $500,000.
Option #1: Apple Inc. Senior Notes Due 2045 - Interest Rate of 3.45%
Of Apples and Oranges: A Story of Risk – Day Two (Continued)

Option #2: Orange County, NC General Obligation Bonds Due 2024 - Interest Rate of 4.00% (Tax Exempt)
Marjorie reviews an Apple Inc. prospectus, which includes copious disclosures on Apple Inc., including disclosure that Apple Inc. is subject to a pending lawsuit for patent infringement relating to its popular iPhone 6 product; Apple Inc. dismisses the lawsuit in the prospectus as “frivolous”.
Of Apples and Oranges: A Story of Risk – Day Three (Continued)
Marjorie reviews an Orange County, NC official statement, which includes copious disclosures on Orange County, NC, including disclosure that Tar Heel Textiles is the largest property tax payer and accounts for 5% of property tax revenues of Orange County, NC.
NEW ISSUE—Book-Entry Only

This Official Statement has been prepared by the Local Government Futures of North Carolina and the County of Orange, North Carolina to provide information in connection with the sale and issuance of the Bonds described herein. Delivered in electronic format to qualified institutional investors in accordance with the 1933 and 1934 Securities Acts, this Official Statement is not an offer to sell securities or solicitation of offers to purchase securities. In analyzing this Official Statement, a prospective investor should read the Official Statement in its entirety. Underlined capitalized terms used in this cover page have the meanings given in this Official Statement.

$13,300,000
County of Orange, North Carolina
General Obligation Refunding Bonds, Series 2012

Date: Date of Delivery
Tax Exemption: In the opinion of Bond Counsel and subject to the qualifications described herein, interest on the Bonds paid by the County is not includable in gross income for federal income tax purposes and is excludable from existing State of North Carolina income taxes. See “Tax Exemption” herein for additional information regarding the consequences arising from ownership or receipt of interest on the Bonds.

Redemption: The Bonds are not subject to redemption prior to maturity.

Security: The Bonds constitute general obligations of the County, secured by a pledge of the faith and credit and taxing power of the County.

Issued Payment Dates: April 1 and October 1, commencing October 1, 2013

Denominations: $10,000 or any integral multiple thereof

Expected Closing/Settlement: December 28, 2012

Bond Counsel: Maynard Cooper & Gale LLP

Financial Advisor: Davenport & Company LLC

The date of this Official Statement is December 17, 2012.
Of Apples and Oranges: A Story of Risk – Day Three (Continued)
Of Apples and Oranges: A Story of Risk – Day Three (Continued)
Of Apples and Oranges: A Story of Risk – Day Three (Continued)
Apple Inc. reports annual earnings in its Form 10-K (best year in company history due, in large part, to iPhone 6 sales) but fails to note in the Form 10-K that, due to a large judgment in the patent infringement lawsuit, it plans to file for Chapter 11 bankruptcy in the near future.
Of Apples and Oranges: A Story of Risk – Day Four (Continued)
Orange County, NC makes its annual financial filing on EMMA (a record year of tax collections) but fails to note in the EMMA filing that, due to the bankruptcy of Tar Heel Textiles, it plans to file for Chapter 9 bankruptcy in the near future (turns out Tar Heel Textiles accounts for 50% of property tax revenues and not 5%).
Comprehensive Annual Financial Report
Year Ended June 30, 2011

Bernadette Pelissier
Chair, Board of County Commissioners

Frank Clifton
County Manager

Clarence G. Grier, CPA
Financial Services Director

Prepared by
The Orange County Financial Services Department
Howard A. Fitts, CPA, Accountant
Shari Rasberry, Financial Service Coordinator
Michele Brooks, Accounting Technician
Katina Perry, Accounting Technician
and the Budget Office Staff
Of Apples and Oranges: A Story of Risk – Day Four (Continued)
Marjorie decides to split her $500,000 as follows: (1) $250,000 in Apple Inc. senior notes; and (2) $250,000 in Orange County, NC GO bonds.

Marjorie bases her investment decision on the primary and secondary market disclosures of Apple Inc. and Orange County, NC (she figures, based on the disclosures, the investments are a “sure bet”).
Of Apples and Oranges: A Story of Risk – Day 15

Apple Inc. announces it has filed for Chapter 11 bankruptcy (citing a large judgment in the patent infringement lawsuit).
Orange County, NC announces it has filed for Chapter 9 bankruptcy (citing the bankruptcy of Tar Heel Textiles and the corresponding loss of 50% of its property tax revenues).
Marjorie now is ready to recoup the money she has invested in the Apple Inc. and Orange County, NC fixed-income securities and deposit her $500,000 (plus interest earnings) with the insurance company that will provide her annuity.

Annuity and Social Security earnings will constitute 80% of Marjorie’s retirement income.
Marjorie’s investment advisor tells her she will be unable to recoup the full $500,000 of her investment.

Due to the Apple Inc. bankruptcy, Marjorie will receive $100,000 from her investment in Apple Inc. senior notes.

Due to the Orange County, NC bankruptcy, Marjorie will receive $100,000 from her investment in Orange County, NC GO bonds.
Marjorie is unhappy. What is Marjorie to do? Any recourse under the federal securities laws?
“Most reform in society seems to come about as the consequence of crisis or a catastrophe or a dramatic event which points up the existence of a problem.”
– Former SEC Commissioner A. A. Sommer Jr.

“Never let a serious crisis go to waste.”
– Former White House Chief of Staff Rahm Emanuel
A Very Brief Tour of the Federal Securities Laws

▲ Avalanche of securities laws passed after collapse of stock market in 1929.

▲ Other securities laws passed since 1930s in response to perceived abuses (for example, Sarbanes-Oxley Act of 2002 passed in wake of Enron, Worldcom, and other corporate scandals and Dodd-Frank Act of 2010 passed in wake of 2007-2008 financial crisis).
A Very Brief Tour of the Federal Securities Laws

▼ Full and fair disclosure is guiding principle of securities laws.

▼ No assessment of meritworthiness of securities under securities laws.
Disclosure documents (prospectuses, official statements, offering circulars, and private placement memoranda) tell investors what they are buying.
Municipal securities generally are exempt from the registration requirements of the Securities Act of 1933; hence, municipal securities lawyers focus much of their attention on the antifraud provisions of state and federal securities law (for example, SEC Rule 10b-5).
Even after Dodd-Frank, municipal issuers still are not subject to a line-item disclosure regime comparable to the regime to which corporate issuers are subject.

In the absence of a line-item disclosure regime (or any other sort of mandated disclosure regime), the federal antifraud provisions, SEC/MSRB regulation of market participants, demands of market participants, and voluntary efforts are the forces that shape disclosure by municipal issuers.
Remember that, when we last left Marjorie Applewhite, she was unhappy. What is Marjorie to do? Any recourse under the federal securities laws?
Meanwhile . . . Back to Marjorie Applewhite’s Situation

Marjorie potentially has securities fraud claims against Apple Inc. and Orange County, NC (primary offering documents and continuing disclosure documents all contain untruths).
Meanwhile . . . Back to Marjorie Applewhite’s Situation

Apple Inc.’s prospectus contains a misstatement that a pending lawsuit was “frivolous”.
Meanwhile . . . Back to Marjorie Applewhite’s Situation (Continued)

Orange County, NC’s official statement contains a misstatement that Tar Heel Textiles accounted for only 5% of property tax revenues (versus 50%).
Meanwhile . . . Back to Marjorie Applewhite’s Situation (Continued)

Apple Inc.’s Form 10-K contains an omission of the fact that it planned to file Chapter 11 bankruptcy.
Meanwhile . . . Back to Marjorie Applewhite’s Situation (Continued)

Orange County, NC’s annual financial filing on EMMA contains an omission of the fact it planned to file for Chapter 9 bankruptcy.
Meanwhile . . . Back to Marjorie Applewhite’s Situation (Continued)

Even though the corporate securities market (illustrated here by Apple Inc.) and the municipal securities market (illustrated here by Orange County, NC) differ in many respects, a securities plaintiff’s lawyer or an SEC Enforcement Division lawyer will view fraud claims under the same lens of the federal securities laws.
Meanwhile . . . Back to Marjorie Applewhite’s Situation (Continued)

▼ Claims against Apple Inc. and Orange County, NC truly are “apples to apples”.

▼ Techniques for reducing securities law liability for a corporate issuer and a municipal issuer through implementation of a disclosure compliance program also are “apples to apples”.
Before We Move On . . . A Few Examples of Municipal Securities Claims

- Unenforceable power purchase contracts (Washington Public Power Supply System)
- Investment risk (Orange County, California)
- Retiree healthcare liabilities (City of San Diego)
- Pension liabilities (State of New Jersey/State of Illinois/State of Kansas)
- Rosy projections (Greater Wenatchee Regional Events Center Public Facilities District)
Before We Move On . . . A Few Examples of Municipal Securities Claims (Continued)

▼ Conflicts of interest (UNO Charter School Network, Inc.)
▼ Use of proceeds (City of Harvey, Illinois)
▼ Misleading statements outside securities disclosure documents (City of Harrisburg, Pennsylvania)
▼ Continuing disclosure (West Clark Community Schools/ Kings Canyon Joint Unified School District)
▼ Deterioration of financial condition since end of fiscal year (Maricopa County, Arizona)
Before We Move On . . . A Few Examples of Municipal Securities Claims (Continued)

- Nondisclosure of exodus of private-sector partner in movie studio project (Allen Park, Michigan)
- Deterioration of financial condition due to flawed implementation of new billing system (Public Health Trust of Miami-Dade County, Florida)
- Risk to tax-exempt status of bonds (Neshannock Township School District/City of South Miami)
- Risk of loss of major office building tenant (Dauphin County General Authority)
So What! Why Should I Care About Municipal Securities Claims?

▼SEC administrative proceeding – cease-and-desist order

▼SEC civil proceeding in federal court – monetary penalties, temporary restraining order, preliminary or permanent injunction, other equitable relief

▼Criminal referral by SEC to U.S. Department of Justice
So What! Why Should I Care About Municipal Securities Claims? (Continued)

▼ Referral to other federal, state or self-regulatory authorities

▼ Private securities litigation

▼ State law proceeding
So What! Why Should I Care About Municipal Securities Claims? (Continued)

- Issuer itself (many instances—even monetary penalties in at least one instance)

- Governing body president (Larry Langford)
So What! Why Should I Care About Municipal Securities Claims? (Continued)

▼ Mayor (Allen Park, Michigan)

▼ City administrator (Allen Park, Michigan)

▼ Finance staff (Orange County, California/Syracuse, New York/City of Miami, Florida/Mount Sinai Medical Center of Florida, Inc./City of Harvey, Illinois)

▼ Financial advisor (Maricopa County, Arizona)
So What! Why Should I Care About Municipal Securities Claims? (Continued)

▼ Bond counsel (Ira Weiss)

▼ Outside auditor (City of San Diego, California)

▼ Bond insurer (MBIA, Inc.)

▼ Underwriter (Charles Le Croy/William B. Blount/Greater Wenatchee Regional Events Center Public Facilities District)
Recent SEC Emphasis on Compliance Policies

SEC has shown a willingness in recent years to punish fraud in the municipal securities market, both in primary offerings of bonds and in continuing disclosure filings made with respect to bonds.

SEC enforcement actions are the SEC’s principal tool for punishing fraud.

SEC has articulated a desire not only to punish fraud but also to work to prevent fraud.
U.S. District Court Judge Avern Cohn has remarked that “[A securities regulator] today lacks a mechanism to review the legitimacy of municipal borrowings before debt instruments are issued . . . . [Hence, it is] fair to say that the [securities regulator] steps in only and after the barn door is closed and the horse escapes.”
Former SEC Chairman Christopher Cox has remarked that “We’d all prefer a sign saying ‘Bridge Out Ahead’ to an ambulance at the bottom of [a] canyon. Yet our current tools in the area of [tax-exempt bond] offerings are more like the ambulance that arrives to pick up the pieces.”
SEC has indicated that building the “Bridge Out Ahead” sign includes implementation of appropriate disclosure controls, policies, and procedures.
SEC has focused on the existence (or lack) of written disclosure policies in many recent SEC enforcement actions and initiatives (including the SEC’s ongoing Municipalities Continuing Disclosure Cooperation Initiative).
Recent SEC Emphasis on Compliance Policies

▼SEC focus on written disclosure policies clearly indicates the SEC’s desire to change behavior in the municipal securities market so that issuers adopt and follow written disclosure policies.
If an issuer disseminates disclosure to investors that contains a material misstatement or omission, the SEC must predicate a federal antifraud action against the issuer based on negligent, reckless, or intentional misconduct in the preparation of that disclosure.
Recent SEC Emphasis on Compliance Policies

- SEC has broad power to pursue disclosure violations; private plaintiffs in a securities lawsuit face tougher standards.

- SEC’s power to bring enforcement proceedings is broad and not dependent on a number of requirements that may inhibit private action.
Recent SEC Emphasis on Compliance Policies

SEC must prove: (1) a material misrepresentation or omission, (2) in connection with the purchase or sale of a security, and (3) negligent, reckless, or intentional misconduct.
Private plaintiffs must prove (1) a material misrepresentation or omission by the defendant, (2) reckless or intentional misconduct, (3) a connection between the misrepresentation or omission and the purchase or sale of a security, (4) reliance upon the misrepresentation or omission, (5) economic loss, and (6) loss causation.
Recent SEC Emphasis on Compliance Policies

Issuers that adopt written disclosure policies and follow them are better positioned to establish that they were not acting negligently or recklessly in the preparation of disclosure, and that provides a measure of protection in any future effort by the SEC to find that they have violated the federal antifraud laws.
Recent SEC Emphasis on Compliance Policies

“Character is revealed through action.”
– Aristotle

“We are what we do. Excellence is . . . a habit.”
– Aristotle
“How you run the race – your planning, preparation, practice, and performance – counts for everything. Wining or losing is a by-product, an after-effect, of that effort.”

– Coach John Wooden
Recent SEC Emphasis on Compliance Policies

▼ “It’s not the end result. Don’t think about winning the SEC Championship. Don’t think about the national championship. Think about what you need to do in this drill, on this play, in this moment. That’s the process: Let’s think about what we can do today, the task at hand.”
  – Coach Nick Saban

▼ “Process guarantees success. A good process produces good results.”
  – Coach Nick Saban
Guiding Principles and Practical Solutions for Disclosure Compliance Policies

So what should an issuer’s disclosure compliance policy look like?
Guiding Principles and Practical Solutions for Disclosure Compliance Policies

A disclosure compliance policy should identify who is responsible for various aspects of compliance.
A disclosure compliance policy should state the process by which disclosure is drafted and reviewed.
A disclosure compliance policy should require regular, effective training of individuals involved in the disclosure process so that those individuals understand the nature of the disclosure process and what they are expected to do in the disclosure process.
Guiding Principles and Practical Solutions for Disclosure Compliance Policies

A disclosure compliance policy should address how issuers should document their compliance with disclosure policies (for example, maintenance of a deal file for each transaction and a report file for each annual or other periodic report).
Guiding Principles and Practical Solutions for Disclosure Compliance Policies

A disclosure compliance policy should provide checks and balances so there is adequate supervision and reasonable disbursement of responsibilities to ensure that too much power and information is not placed in just one person (for example, a chief financial officer).
Guiding Principles and Practical Solutions for Disclosure Compliance Policies

▼ An issuer should make sure it establishes a workable disclosure compliance policy.

▼ After analyzing its organizational structure and existing compliance policies, the issuer should be clear in its policy who is responsible for the tasks under the policy.
Guiding Principles and Practical Solutions for Disclosure Compliance Policies

Establishment of a workable disclosure compliance policy should include measures that ensure the policy does not just “sit on the shelf”; ignoring established policies can have harmful consequences to issuers under certain circumstances.
Guiding Principles and Practical Solutions for Disclosure Compliance Policies

Maynard, Cooper & Gale’s Public Finance Group has worked with many issuers of municipal securities to implement workable disclosure compliance programs.

Maynard, Cooper & Gale’s Public Finance Group’s compliance programs span the life cycle of disclosure compliance, including initial implementation, continuous execution, and periodic training.
A Tour Through a Sample Continuing Disclosure Agreement, a Sample Closing Certificate, and a Sample Disclosure Compliance Policy

See Handouts
A Tour Through a Sample Continuing Disclosure Agreement, a Sample Closing Certificate, and a Sample Disclosure Compliance Policy (Continued)

CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT is entered into by CITY OF CITRUS GROVE, a municipal corporation (the "Obligated Entity"), for the benefit of the holders of the Obligated Entity’s $5,170,000 Water and Sewer Revenue Warrants, Series 2014-A (the "Series 2014-A Warrants").

Recitals

A. The Series 2014-A Warrants are being issued pursuant to a Trust Indenture dated August 1, 2004 (as amended and supplemented, the "Indenture"), between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

B. An Official Statement dated November 12, 2014 (the "Official Statement") has been prepared for distribution to prospective purchasers of the Series 2014-A Warrants.

C. The Series 2014-A Warrants are subject to the provisions of Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule"). This Agreement is being entered into pursuant to the continuing disclosure requirements of the Rule.

D. There is no Obligated Person with respect to the Series 2014-A Warrants other than the Obligated Entity.

NOW, THEREFORE, for and in consideration of the premises, the Obligated Entity hereby covenants, agrees and binds itself as follows:

1. Definitions.

(a) Capitalized terms not otherwise defined in this Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with definitions in the Rule, in the Official Statement.

(b) The terms set forth below shall have the following meanings in this Agreement, unless the context clearly otherwise requires:

EMMA means the MSRB’s Electronic Municipal Market Access system, as provided by the Rule.

MSRB means the Municipal Securities Rulemaking Board.

Repository means the MSRB and its EMMA system.

2. Financial Information.

(a) The Obligated Entity will provide to the Repository financial information and operating data (collectively referred to as "Annual Financial Information") with respect to the Obligated Entity of the type contained in the Official Statement under the following heading(s): "RESULTS OF OPERATIONS OF THE SYSTEMS" in Appendix A.

(b) Such Annual Financial Information will be provided to the Repository within 180 days after the end of each fiscal year of the Obligated Entity, commencing with the fiscal year ending...
A Tour Through a Sample Continuing Disclosure Agreement, a Sample Closing Certificate, and a Sample Disclosure Compliance Policy (Continued)

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GENERAL CERTIFICATE OF THE CITY OF CITRUS GROVE

The undersigned officers of the City of Citrus Grove, a municipal corporation organized under the laws of the State of Florida (the "City"), do hereby certify as follows:

1. This certificate is being delivered in connection with the issuance by the City of its $7,179,000 Water and Sewer Revenue Warrants, Series 2014-A (the "Series 2014-A Warrants") under and pursuant to (i) an ordinance adopted by the governing body of the City on November 18, 2014 (the "Warrant Ordinance"), and (ii) a Trust Indenture dated as of August 1, 2004 (the "Original Indenture") between the City and Big Apple Trust Company, N.A., a national banking association, as trustee (the "Trustee"), as supplemented pursuant to an Eighth Supplemental Indenture dated as of November 3, 2014 (the "Supplemental Indenture"), together with the Original Indenture and all prior amendments and supplements to the Original Indenture, the "Indenture") between the City and the Trustee. Capitalized terms not otherwise defined herein shall have the meaning assigned in the Indenture.

2. The City is a municipal corporation duly organized and existing under the laws of the State of Florida. The City has never been dissolved. Since prior to the adoption of the Warrant Ordinance, the City has operated under the council-manager form of government pursuant to the local laws of Florida described in the next sentence. Except for Act No. 1450 enacted at the 1954 Regular Session of the Legislature of the State of Florida, as amended (the "City Manager Act of 1954"), there are presently in effect no local or special laws or general laws of local application pertaining to or having any bearing on or restricting the borrowing of money by the City or the execution, issuance or sale of notes, warrants or bonds by the City in evidence of any money so borrowed.

3. The governing body of the City is a council composed of 5 councilmembers, including the Mayor (the "Council"). The Council exercises the legislative functions of the City. The City Manager and the City Clerk are appointed by the Council. The Director of Finance is appointed by the City Manager.

4. Each of the following named persons is (and was at the time of adoption of the Warrant Ordinance and at the time of execution by him or her of any documents or instruments delivered on behalf of the City in connection with the issuance of the Series 2014-A Warrants) a duly elected, qualified and acting officer of the City holding the office or offices set forth below his or her name:

<table>
<thead>
<tr>
<th>Office</th>
<th>Name of Officer</th>
<th>Date of Ending of Current Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayor</td>
<td>Barack Obama</td>
<td>October 2020</td>
</tr>
<tr>
<td>Councilmember</td>
<td>John Adams</td>
<td>October 2020</td>
</tr>
<tr>
<td>Councilmember</td>
<td>Thomas Jefferson</td>
<td>October 2020</td>
</tr>
<tr>
<td>Councilmember</td>
<td>Hillary Clinton</td>
<td>October 2020</td>
</tr>
<tr>
<td>Councilmember</td>
<td>Martin Luther King, Jr.</td>
<td>October 2020</td>
</tr>
<tr>
<td>City Manager</td>
<td>Tony Dwyer</td>
<td>At Pleasure of the Council</td>
</tr>
<tr>
<td>City Clerk</td>
<td>Eleanor Roosevelt</td>
<td>At Pleasure of the Council</td>
</tr>
<tr>
<td>Director of Finance</td>
<td>J.P. Morgan</td>
<td>At Pleasure of the City Manager</td>
</tr>
</tbody>
</table>

5. The respective signatures of the officers of the City appearing at the end of this certificate are the genuine signatures of such officers.

6. Those of the foregoing officers and Council members who are required to post bond as security for any funds handled by them have duly posted all bonds with sufficient surety required of them, which bonds have been duly approved by the officers required by law to approve the same. Those of the
CERTIFICATE OF DIRECTOR OF FINANCE OF THE CITY OF CITRUS GROVE
(Financial Information and Operating Data)

I, J.P. Morgan, do hereby certify that I am the duly elected, qualified and acting Director of Finance of the City of Citrus Grove, a municipal corporation organized under the laws of the State of Florida (the “City”), and that I am duly authorized to certify matters concerning the financial affairs and utility system operations of the City. I do further certify that:

1. This certificate is being delivered in connection with the issuance by the City of its $7,170,000 Water and Sewer Revenue Warrants, Series 2014-A (the “Series 2014-A Warrants”) under and pursuant to (a) an ordinance adopted by the governing body of the City on November 18, 2014 (the “Warrant Ordinance”), and (b) a Trust Indenture dated as of August 1, 2004 (the “Original Indenture”) between the City and Big Apple Trust Company, N.A., as trustee (the “Trustee”), supplemented pursuant to an Eighth Supplemental Indenture dated as of November 1, 2014 (the “Supplemental Indenture”), together with the Original Indenture and all prior amendments and supplements to the Original Indenture, the Indenture) between the City and the Trustee. Capitalized terms not otherwise defined herein shall have the meaning assigned in the Indenture.

2. In connection with the issuance of the Series 2014-A Warrants, a Preliminary Official Statement dated October 31, 2014 (the “Preliminary Official Statement”) and an Official Statement dated November 12, 2014 (the “Final Official Statement”) describing the terms and conditions of the Series 2014-A Warrants and the related financing documents have been prepared for distribution to the purchasers of the Series 2014-A Warrants.

3. As the Director of Finance of the City, I am: (a) responsible for the financial and accounting matters of the City, including oversight of the financial and accounting functions and staff; (b) knowledgeable about the internal accounting records and accounting practices, systems, policies, and procedures of the City; and (c) knowledgeable about and responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting.

4. I have carefully reviewed the Final Official Statement. The amounts and percentages identified with a checkmark (•) on the selected pages from the Final Official Statement attached hereto as Exhibit A have been compared and agreed with corresponding figures in, or confirmed for arithmetic accuracy based on figures included in, (a) the City’s accounting records or in reports, schedules or other analyses prepared by the City from its accounting records; or (b) the City’s operational records.

5. I acknowledge and agree that: (a) the Underwriter is entitled to rely on this certificate in conducting and documenting its due diligence investigation of the City in connection with the issuance of the Series 2014-A Warrants; and (b) Martino, Comé & Giles, P.C., Tampa, Florida, bond counsel and disclosure counsel to the City, and Melvin N. James, Esq., Citrus Grove, Florida, counsel to the City, are entitled to rely on this certificate in connection with the opinion letters and disclosure letters those firms will deliver in connection with the issuance of the Series 2014-A Warrants. This certificate may not be relied upon for any other purpose or by any other party.

IN WITNESS WHEREOF, this certificate has been executed on behalf of the City by the undersigned officer.

Dated: November 19, 2014.

[Signature]
Director of Finance of City of Citrus Grove
A Tour Through a Sample Continuing Disclosure Agreement, a Sample Closing Certificate, and a Sample Disclosure Compliance Policy (Continued)

DISCLOSURE CONTROLS AND PROCEDURES

of

CITY OF CITRUS GROVE

December 1, 2014
Questions and answers
For more information on the topics covered in this presentation, please contact the Maynard, Cooper & Gale public finance lawyer(s) listed below.

Joseph (Jodie) E. Smith  
(205) 254-1109  
jodie.smith@maynardcooper.com