

OFFICIAL STATEMENT**August 11, 2025**

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Certificates (defined below) with certain covenants contained in the Ordinance (defined below) and subject to the matters described under "TAX MATTERS" herein, interest on the Certificates under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code, as amended to the date of initial delivery of the Certificates and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. (See "TAX MATTERS" herein.)

The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

\$1,800,000**CITY OF STAR HARBOR, TEXAS****(A political subdivision of the State of Texas located in Henderson County, Texas)****COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025****Dated Date: August 1, 2025****Due: February 1, as shown on inside cover**

The \$1,800,000 City of Star Harbor, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2025 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, and an ordinance (the "Ordinance") adopted by the City Council of the City of Star Harbor, Texas (the "City" or the "Issuer") on August 11, 2025. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise (See "THE CERTIFICATES - Security for Payment" and "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations" herein.)

Interest on the Certificates will accrue from August 1, 2025 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2026, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, construction, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; (2) providing for drainage improvements, including designing, engineering, and construction costs related thereto; (3) designing, demolishing constructing, renovating, improving, reconstructing, restructuring and extending street and thoroughfares and related land and right-of-way sidewalks, streetscapes, collectors, drainage, landscape, signage, acquiring lands and rights-of-way necessary thereto or incidental therewith; (4) the purchase of materials, supplies, equipment, land, and rights-of-way for authorized needs and purposes; and (5) payment for professional and employee services related to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

SEE THE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS,
CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE CERTIFICATES

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" as "APPENDIX C – Form of Legal Opinion of Bond Counsel" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about September 10, 2025.

\$1,800,000
CITY OF STAR HARBOR, TEXAS
(A political subdivision of the State of Texas located in Henderson, Texas)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

MATURITY SCHEDULE
(Due February 1)

CUSIP Prefix No. 85514A⁽¹⁾

\$940,000 SERIAL CERTIFICATES

Stated				CUSIP
Maturity	Principal	Interest	Initial	No.
<u>2/1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix</u> ⁽¹⁾
2026	\$ 85,000	5.000%	3.000%	AA5
2027	90,000	5.000%	3.000%	AB3
2028	95,000	5.000%	3.000%	AC1
2029	100,000	5.000%	3.000%	AD9
2030	100,000	5.000%	3.000%	AE7
2031	110,000	5.000%	3.100%	AF4
2032	115,000	5.000%	3.250%	AG2
2033	120,000	5.000%	3.400%	AH0
2034	125,000	5.000%	3.550%	AJ6

\$860,000 TERM CERTIFICATES

\$265,000 4.000% Term Certificates due February 1, 2036, and priced to yield 3.850⁽²⁾ CUSIP Suffix⁽¹⁾ AL1
\$280,000 4.000% Term Certificates due February 1, 2038, and priced to yield 4.050 CUSIP Suffix⁽¹⁾ AN7
\$315,000 4.125% Term Certificates due February 1, 2040, and priced to yield 4.125 CUSIP Suffix⁽¹⁾ AQ0

(Interest to accrue from Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2035, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2034, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. The Certificates maturing on February 1, 2036, February 1, 2038, and February 1, 2040 (the "Term Certificates") are also subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

⁽¹⁾ CUSIP numbers are included solely for the convenience of the owner of the Certificates. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), managed by FactSet Research Systems on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, or the Purchaser is responsible for the selection or the correctness of the CUSIP numbers set forth herein.

⁽²⁾ Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on February 1, 2034, the earliest date of redemption for the Certificates, at a price of par plus accrued interest to the date of redemption.

CITY OF STAR HARBOR, TEXAS
 99 Sunset Blvd
 Malakoff, Texas 75148
 Telephone: (903) 489-0091

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)
Steve Watson Mayor	2	2026
Bobb Hedge Mayor Pro-Tem	2	2026
John Adair Councilman	4	2027
Kathy Martin Councilwoman	2	2027
Tony Morrison Councilman	3	2026
Tom Sherman Councilman	3	2027

ADMINISTRATION

Name	Position	Years with The City
Adabeth Shumate	City Administrator	19

CONSULTANTS AND ADVISORS

Bond CounselNorton Rose Fulbright US LLP
 Austin, Texas

Certified Public AccountantsMike Ward Accounting & Financial Consulting, PLLC
 Point, Texas

Financial AdvisorSAMCO Capital Markets, Inc.
 San Antonio, Texas

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation 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 Issuer. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression 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 an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE PURCHASER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION IS PROVIDED BY DTC.

The Financial Advisor 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 its responsibilities to the Issuer 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.

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

The agreements of the City and others related to the Certificates 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 Certificates is to be construed as constituting an agreement with the Purchaser of the Certificates. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of Star Harbor, Texas (the "Issuer" or "City"), is located in western Henderson County at the southern end of Cedar Creek Lake, Star Harbor is 4 miles northwest of Malakoff and 13 miles west of Athens, the Henderson county seat. The City was incorporated in April 1970 and converted to a Type A municipality on March 10, 2025. The City has a Mayor and five council members. (See "APPENDIX B - General Information Regarding the City of Star Harbor and Henderson County, Texas" herein.)
The Certificates	The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, and an ordinance (the "Ordinance") adopted by the City Council of the City of Star Harbor, on August 11, 2025. (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
Security	The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Additional Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise (See "THE CERTIFICATES - Security for Payment" and "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations" herein.)
Redemption Provisions of the Certificates	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2035, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2034, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. The Certificates maturing on February 1, 2036, February 1, 2038, and February 1, 2040 (the "Term Certificates") are also subject to mandatory sinking fund redemption. (See "THE Certificates - Redemption Provisions of the Certificates" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "Tax MATTERS", and will not be included in calculating the alternative minimum taxable income of the owners thereof who are individuals. (See "Tax MATTERS" and, "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein.)
Qualified Tax-Exempt Obligations	The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)
Use of Certificate Proceeds	Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, construction, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; (2) providing for drainage improvements, including designing, engineering, and construction costs related thereto; (3) designing, demolishing constructing, renovating, improving, reconstructing, restructuring and extending street and thoroughfares and related land and right-of-way sidewalks, streetscapes, collectors, drainage, landscape, signage, acquiring lands and rights-of-way necessary thereto or incidental therewith; (4) the purchase of materials, supplies, equipment, land, and rights-of-way for authorized needs and purposes; and (5) payment for professional and employee services related to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)
Rating	S&P Global Ratings ("S&P"), a division of S&P Global Ratings Inc. has assigned a rating of "A" (Stable Outlook) to the Certificates. (See "OTHER PERTINENT INFORMATION - Ratings" herein.)
Payment Record	The City has never defaulted on the payment of its general obligation or revenue indebtedness.
Future Debt Issues	The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2025 or 2026.
Delivery	When issued, anticipated on or about September 10, 2025.
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel.

OFFICIAL STATEMENT

relating to

\$1,800,000

CITY OF STAR HARBOR, TEXAS

(A political subdivision of the State of Texas located in Henderson County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Star Harbor, Texas (the "City" or the "Issuer") of its \$1,800,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2025 (the "Certificates") identified on the cover page.

The Issuer is a political subdivision of the State of Texas (the "State") and a municipal corporation organized and existing under the Constitution and laws of the State of Texas. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained upon request from the Issuer or its Financial Advisor, SAMCO Capital Markets, Inc., 1020 Northeast Loop 410, Suite 640, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in financial position or other affairs of the City. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

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

THE CERTIFICATES

General Description of the Certificates

The Certificates are dated August 1, 2025 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2026, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Dallas, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Certificates is a Saturday, Sunday, a legal holiday or a 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 will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, and an ordinance (the "Ordinance") adopted by the City Council of the City of Star Harbor (the "City Council") on August 11, 2025.

Security for Payment

Limited Pledge of Ad Valorem Taxes. The Certificates are general obligations of the City, payable from its collection of an ad valorem tax levied annually, within the legal limitations imposed by law, upon all taxable property located in the City. (See “AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations” herein.)

Limited Revenue Pledge Benefiting the Certificates. Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are further secured by a lien on and pledge of the Pledged Revenues (being a limited amount of the Net Revenues derived from the operation of the Issuer’s combined utility system (the “System”) not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereinafter issued by the Issuer. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise.

Even though the City has pledged the Pledged Revenues of the System to further secure the Certificates, the City does not expect that any Net Revenues from such System will actually be utilized to pay the debt service requirements on the Certificates.

Redemption Provisions of the Certificates

Optional Redemption. The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after February 1, 2035, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

Mandatory Sinking Fund Redemption. The Certificates maturing February 1, 2036, February 1, 2038, and February 1, 2040 (the “Term Certificates”) are also subject to mandatory redemption prior to their stated maturity in part and by lot, at the redemption prices equal to the principal amounts thereof, plus accrued interest thereon to the redemption dates, on February 1, in the years and principal amounts shown below:

Term Certificates to Mature on February 1, 2036

<u>Year</u>	<u>Principal Amount</u>
2035	\$130,000
2036*	135,000

Term Certificates to Mature on February 1, 2038

<u>Year</u>	<u>Principal Amount</u>
2037	\$135,000
2038*	145,000

Term Certificates to Mature on February 1, 2040

<u>Year</u>	<u>Principal Amount</u>
2039	\$155,000
2040*	160,000

*Payable at Stated Maturity.

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

The principal amount of a Term Certificate required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Certificates of such stated maturity which, at least fifty (50) days prior to the mandatory redemption date (1) shall have been defeased or acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not therefore credited against a mandatory redemption requirement

Notice of Redemption

At least 30 days prior to the date fixed for any redemption of any Certificates or portions thereof prior to stated maturity, the Issuer shall cause notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Certificate or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Certificates or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding

except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE CERTIFICATEHOLDER, AND, PROVIDED THAT PROVISION FOR PAYMENT OF THE REDEMPTION PRICE IS MADE AND ANY OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST ON THE REDEEMED CERTIFICATES SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A CERTIFICATE HAS NOT BEEN PRESENTED FOR PAYMENT.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with

DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "Book-Entry-Only System" herein.)

Selection of Certificates to be Redeemed

The Certificates of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Certificates to be partially redeemed must be surrendered in exchange for one or more new Certificates for the unredeemed portion of the principal. If less than all of the Certificates are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to select, at random and by lot, the particular Certificates, or portion thereof, to be redeemed. If a Certificate (or any portion of the principal sum thereof) will have been called for redemption and notice of such redemption will have been given, such Certificate (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will 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.

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, construction, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; (2) providing for drainage improvements, including designing, engineering, and construction costs related thereto; (3) designing, demolishing constructing, renovating, improving, reconstructing, restructuring and extending street and thoroughfares and related land and right-of-way sidewalks, streetscapes, collectors, drainage, landscape, signage, acquiring lands and rights-of-way necessary thereto or incidental therewith; (4) the purchase of materials, supplies, equipment, land, and rights-of-way for authorized needs and purposes; and (5) payment for professional and employee services related to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

Sources and Uses

Sources	
Par Amount of the Certificates	\$1,800,000.00
Accrued Interest on the Certificates	8,860.99
Net Premium	<u>69,922.90</u>
Total Sources of Funds	<u>\$1,878,783.89</u>
Uses	
Project Fund Deposit	\$1,785,000.00
Certificate Fund Deposit	8,860.99
Purchaser's Discount	29,880.00
Costs of Issuance	<u>55,042.90</u>
Total Uses	<u>\$1,878,783.89</u>

Payment Record

The Issuer has never defaulted on the payment of its ad valorem tax-backed or revenue indebtedness.

Amendments

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

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (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, on the date of the purchase thereof, are rated 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 on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Certificates 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 Certificates are extinguished; provided, however, the City has the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the 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.

Default and Remedies

If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court 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.

Furthermore, Tooke, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("Wasson") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). 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 bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission. Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates affected by the change by United States mail, first-class, postage prepaid.

The Certificates will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or prior redemption upon presentation to the Paying Agent/Registrar; provided however, that so long as DTC's Book-Entry-Only System is used, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Record Date

The record date ("Record Date") for determining the party to whom interest is payable on a Certificate on any interest payment date means the fifteenth (15th) day of the month next preceding each interest payment date. 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 will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment" herein.)

Special Record Date for Interest Payment

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. 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 a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Future Registration

In the event the Certificates are not in the Book-Entry-Only System, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Certificate or Certificates surrendered for exchange or transfer. (See "Book-Entry-Only System" herein for a description of the system to be utilized in regard to ownership and transferability of the Certificates.)

Limitation on Transfer of Certificates

Neither the Issuer nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Certificate or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Certificate redeemed in part.

Replacement Certificates

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement. The person requesting the authentication of and delivery of a replacement Certificate must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates are registered in its nominee 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, the Financial Advisor, and the Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.

One fully registered bond certificate will be issued for the Certificates, in the aggregate principal amount of such issue, 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, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

Redemption proceeds, principal, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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, 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 depository with respect to the Certificates at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to the holder of such Certificates and will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" hereinabove.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City, the Financial Advisor, and the Purchaser believe to be reliable, but none of the City, the Financial Advisor, or the Purchaser take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Certificates, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such 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 Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates representing the Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE – Future Registration."

INVESTMENT POLICIES

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

Legal Investment

Under Texas law and subject to certain limitations, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The Issuer may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the Issuer may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the Issuer may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the Issuer is not required to liquidate the investment unless it no longer carries a required rating, in which case the Issuer is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

Investment Policies

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

Under State law, the Issuer's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for

investment considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the Issuer must submit an investment report to the City Council detailing: (1) the investment position of the Issuer, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) the investment strategy expressed in the Issuer’s investment policy, and (b) the Public Funds Investment Act. No person may invest Issuer funds without express written authority from the City Council.

Current Investments

TABLE 1

As of May 31, 2025, the City held in Cash and Money Market

\$999,635.19

CONVENING OF TEXAS LEGISLATURE

The regular session of the 89th Texas Legislature convened on January 14, 2025 and concluded on June 2, 2025 (the “89th Regular Session”). The Texas Legislature (the “Legislature”) meets in regular session in odd numbered years for 140 days. When the Legislature is not in session the Governor of Texas (the “Governor”) may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda (any such special sessions, together with the 89th Regular Session, are collectively referred to herein as the “2025 Legislative Sessions”).

The Governor called for a special session on June 23, 2025, which commenced on July 21, 2025, and may last no longer than 30 days (the “First Special Session”). The Governor identified eighteen (18) agenda items that will be considered in the First Special Session. Among the items being considered is “legislation reducing the property tax burden on Texans and legislation imposing spending limits on entities authorized to impose property taxes.” The City is unable to predict the substance of such legislation or the effect, if any, it will have on the City’s finances or operations.

Additional special sessions may be called by the Governor. During this time, the Legislature may enact laws that materially affect the City and its finances. The City is still in the process of reviewing legislation passed during the 89th Regular Session. At this time, the City cannot make any representations as to the full impact of such legislation. Further, the City can make no representations or predictions regarding the scope of legislation that may be considered in any special session or the potential impact of such legislation at this time, but it intends to monitor applicable legislation related thereto.

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the “Property Tax Code”), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The Henderson County Appraisal District (the “Appraisal District”) is primarily responsible for appraising property within the City generally as of January 1 of each year. Except as generally described below, the Appraisal District is required 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, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner’s principal residence (“homestead” or “homesteads”) to be based solely on the property’s value as a 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 homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

State law provides that eligible owners of both agricultural land and open-space land, 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 as both agricultural and open-space land.

Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the “Subjected Property”) whose appraised values are not more than \$5 million dollars

(the “maximum property value”) to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the “Appraisal Cap”). After the 2024 tax year, through December 31, 2026 unless extended by the Legislature, the maximum property value may be increased or decreased by the product of the preceding state fiscal year’s increase or decrease in the consumer price index, as applicable, to the maximum property value.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates (see “AD VALOREM PROPERTY TAXATION – City and Taxpayer Remedies”).

State Mandated Homestead Exemptions

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

Local Option Freeze for the Elderly and Disabled

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport and Goods-In-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of

nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes, located in an area declared by the Governor (hereinafter defined) to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. The governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. The Texas Legislature amended Section 11.35, Tax Code to clarify that “damage” for purposes of such statute is limited to “physical damage.” For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended.

Tax Increment Reinvestment Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones (“TIRZ”) within its boundaries. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the “tax increment”. During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, 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.

For a discussion of how the various exemptions described above are applied by the City, see “CITY’S APPLICATION OF THE PROPERTY TAX CODE” herein.

Chapter 380 Agreements

Cities are also 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.

City and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the City, may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$61,349,201 for the 2025 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see “AD VALOREM PROPERTY TAXATION – Public Hearing and Maintenance and Operations Tax Rate Limitations”). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. 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 for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

Federal bankruptcy law provides that an automatic stay of actions 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.

Public Hearing and Maintenance and Operations Tax Rate Limitations

The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

"foregone revenue amount" means the greater of zero or the amount expressed in dollars calculated according to the following formula: the voter-approval tax rate less the actual tax rate, then multiplied by the taxing unit's current total value in the applicable preceding tax year.

"no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

"unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

"voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate".

The City's tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the "maintenance and operations tax rate"), and (2) a rate for funding debt service in the current year (the "debt service tax rate"). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

A city must annually calculate its voter-approval tax rate and no-new-revenue tax rate in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year. Furthermore, beginning for tax year 2026, if the Texas Attorney General determines that a city did not have its audited annual financial statements on file with its city secretary before the 180th day after the city's fiscal year-end, the city may not adopt an ad valorem tax rate that exceeds the city's no-new revenue tax rate for (i) the tax year that begins on or after the date for the Attorney General's determination or (ii) a subsequent tax year that begins before the date the city has had an annual

audit completed and financial statements prepared or filed the financial statement and auditor's opinion on such financial statement with the city secretary.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its de minimis rate, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city's voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its voter-approval tax rate using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Certificates.

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.

Debt Tax Rate Limitations

The City operates as a Type A municipality under the Constitution and laws of the State of Texas. Article XI, Section 4 of the Constitution of the State provides that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$1.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$1.50 rate for interest and sinking fund purposes; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.00 of the foregoing \$1.50 maximum tax rate calculated at 90% collection.

CITY'S APPLICATION OF THE PROPERTY TAX CODE

See Table 1 in APPENDIX A for a listing of the amounts of the exemptions described below.

The City does grant a local option exemption to the appraised value of the residence homestead of persons 65 years of age or older of \$10,000.00.

The City of Star Harbor offers an optional general homestead exemption of 20%, with a minimum of \$5,000.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

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

The City does not tax nonbusiness personal property; and Henderson County Tax Assessor/Collector does collect taxes for the City.

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

TAX MATTERS

Tax Exemption

The delivery of the Certificates is subject to the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that interest on the Certificates for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof 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. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is reproduced as APPENDIX C.

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

Except as described above, Bond Counsel will express 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 Certificates. 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 Issuer 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 municipal obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Certificates 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 Certificates, the Issuer may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to Certificate holders of the exclusion of interest on the Certificates 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 Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax Exempt Obligations" herein), property and casualty insurance companies, life 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 financial asset securitization investment trust ("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. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Certificates. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Certificates.

Tax Accounting Treatment of Discount Certificates

The initial public offering price to be paid for certain Certificates may be less than the amount payable on such Certificates at maturity (the "Discount Certificates"). An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates 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 Certificates. A portion of such original issue discount, allocable to the holding period of a Discount Certificate by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Certificates. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate 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 his taxable year.

However, such interest may be required to be taken into account in determining 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 (see “TAX MATTERS – Qualified Tax Exempt Obligations” herein), 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 Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

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

Tax Accounting Treatment of Premium Certificates

The initial public offering price to be paid for certain Certificates may be greater than the stated redemption price on such Certificates at maturity (the “Premium Certificates”). An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable Certificate premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable Certificate premium with respect to the Premium Certificates. 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 Certificate. 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 Certificates should consult with their own tax advisors with respect to the determination of amortizable Certificate premium on Premium Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

Qualified Tax Exempt Obligations

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 for financial institutions, stating that such disallowance does not apply to interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are properly 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 current 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 Certificates 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 Certificates will not be subject to the 100% disallowance of interest expense allocable to interest on the Certificates 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 Certificates will be reduced by 20% pursuant to section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Certificates qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City’s continuing disclosure obligations because the City does not have more than \$10,000,000 in aggregate amount of outstanding debt (including the Certificates) that offered pursuant to Rule 15c2-12 and no person is committed by contract or other arrangement with respect to payment of the Certificates. This exception allows the City to not file annual updates to all financial and operating data that is included in this Official Statement. In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Markets Access (“EMMA”) system at www.emma.msrb.org.

Annual Reports

The City will provide certain updated financial information and operating data to the Municipal Securities Rulemaking Board ("MSRB"). The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in APPENDIX D to this Official Statement, which is customarily prepared by the City and publicly available. The City will update and provide this information within twelve months after the end of each fiscal year ending in and after 2025.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements for the City, if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide unaudited financial statements for the applicable fiscal year to the MSRB with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the City's annual financial statements or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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 Website or filed with the SEC, as permitted by the Rule.

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

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City, any of which reflect financial difficulties. In the Ordinance, the City adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

For these purposes, (a) any event described in clause (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, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

All information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain specified 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 Certificates 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

agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement 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 the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or 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 or beneficial owners of the Certificates. If the City amends its agreement, it must 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 information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision 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 any Purchasers from lawfully purchasing or selling Certificates, respectively, in the primary offering of the Certificates.

Compliance with Prior Undertakings

The City has not previously issued public debt and thus has no continuing disclosure agreements in accordance with SEC Rule 15c2-12.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, Austin, Texas has reviewed (except for numerical, statistical or technical data) the information under the captions "THE CERTIFICATES" (except under the subcaptions "Use of Certificate Proceeds", "Sources and Uses", "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

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

Litigation

In the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

At the time of the initial delivery of the Certificates, the City will provide the Purchaser with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Certificates or that affects the payment and security of the Certificates or in any other manner questioning the issuance, sale, or delivery of the Certificates.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) and Section 271.051, as amended, Texas Local Government Code, each, provide that the Certificates are negotiable instruments governed by Chapter 8, as amended, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code, the Certificates must have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See "OTHER PERTINENT INFORMATION – Rating" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. The City has made no review of laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

FORWARD LOOKING STATEMENTS

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

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

The sale of the Certificates has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Certificates have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Certificates been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Certificates under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Purchaser's written request and sole expense, in registering or qualifying the Certificates or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction.

Ratings

S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") has assigned an insured rating of "A" (Stable Outlook) to the Certificates. An explanation of the significance of such rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Ordinances. These summaries do

not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Financial Advisor

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Certificates. In this capacity, the Financial Advisor has compiled certain data relating to the Certificates and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and initial delivery of the Certificates.

The Financial Advisor 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 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.

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of BOK Financial Securities, Inc. (the "Purchaser" or the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a net premium of \$69,922.90, less a Purchaser's discount of \$29,880.00, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2019, the date of the last financial statements of the City appearing in the Official Statement.

Information from External Sources

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

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Concluding Statement

No person has been authorized 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. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

The information set forth herein has been obtained from the City's records, audited financial statements and other sources which the City considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The Ordinance authorizing the issuance of the Certificates approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Certificates by the Purchaser.

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

CITY OF STAR HARBOR, TEXAS

/s/ Steve Watson
Mayor
City of Star Harbor, Texas

ATTEST:

/s/ Adabeth Shumate
City Secretary
City of Star Harbor, Texas

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APPENDIX A

**FINANCIAL INFORMATION RELATING TO
THE CITY OF STAR HARBOR, TEXAS**

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2025 Assessed Value of Taxable Property (100% of Market Value).....	\$	250,854,673
Less Exemptions:		
Veterans Exemptions.....		2,347,422
Homestead.....		17,982,763
Exemption/Other.....		2,785,844
Total Exemptions		<u>23,116,029</u>
Homestead Cap.....		<u>14,581,864</u>
2025 Assessed Value of Taxable Property	\$	<u>213,156,780</u>

Source: Henderson County Appraisal District.

GENERAL OBLIGATION BONDED DEBT

(as of August 1, 2025)

General Obligation Debt (Principal Outstanding)

NONE

Current Issue of General Obligation Debt Principal:

Certificates of Obligation, Series 2025 (the "Certificates")	\$	<u>1,800,000</u>
Total Net General Obligation Debt Principal Outstanding folloing the Issuance of the Certificates	\$	<u>1,800,000</u>

2025 Certified Net Assessed Valuation	\$	213,156,780
Ratio of Gross General Obligation Debt Principal to Net Taxable Assessed Valuation		0.84%
Population: 2000 - 416; 2010 -444; 2020 - 4822; est. 2025 - 487		
Per Capita Net Taxable Assessed Valuation - \$437,693.59		
Per Capita Gross General Obligation Debt Principal - \$3,696.10		

* Preliminary, subject to change.

CITY DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE

TABLE 2

(As of September 30, 2024)

NONE

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending Sept. 30	The Certificates		
	Principal	Interest	Total
2026	\$ 85,000	\$ 79,669	\$ 164,669
2027	90,000	75,294	165,294
2028	95,000	70,669	165,669
2029	100,000	65,794	165,794
2030	100,000	60,794	160,794
2031	110,000	55,544	165,544
2032	115,000	49,919	164,919
2033	120,000	44,044	164,044
2034	125,000	37,919	162,919
2035	130,000	32,194	162,194
2036	135,000	26,894	161,894
2037	135,000	21,494	156,494
2038	145,000	15,894	160,894
2039	155,000	9,797	164,797
2040	160,000	3,300	163,300
Total	<u>\$ 1,800,000</u>	<u>\$ 649,216</u>	<u>\$ 2,449,216</u>

TAX ADEQUACY (Includes Self-Supporting Debt)

2025 Net Taxable Assessed Valuation	\$	213,156,780
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2029)	\$	165,794
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$	0.0794

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

<u>Fiscal Year</u> <u>Ending 9-30</u>	<u>The</u> <u>Certificates</u>	<u>Total</u>	<u>Principal</u> <u>Unpaid at</u> <u>End of Year</u>	<u>Percent of</u> <u>Principal</u> <u>Retired (%)</u>
2026	\$ 85,000	\$ 85,000	\$ 1,715,000	4.72%
2027	90,000	90,000	1,625,000	9.72%
2028	95,000	95,000	1,530,000	15.00%
2029	100,000	100,000	1,430,000	20.56%
2030	100,000	100,000	1,330,000	26.11%
2031	110,000	110,000	1,220,000	32.22%
2032	115,000	115,000	1,105,000	38.61%
2033	120,000	120,000	985,000	45.28%
2034	125,000	125,000	860,000	52.22%
2035	130,000	130,000	730,000	59.44%
2036	135,000	135,000	595,000	66.94%
2037	135,000	135,000	460,000	74.44%
2038	145,000	145,000	315,000	82.50%
2039	155,000	155,000	160,000	91.11%
2040	160,000	160,000	-	100.00%
Total	\$ 1,800,000	\$ 1,800,000		

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2016 - 2025

TABLE 3

<u>Year</u>	<u>Net Taxable</u> <u>Assessed Valuation</u>	<u>Change from Preceding Year</u> <u>Amount (\$)</u>	<u>Percent</u>
2016	\$ 84,030,260	-	-
2017	86,236,268	\$ 2,206,008	2.63%
2018	87,643,694	1,407,426	1.63%
2019	100,133,148	12,489,454	14.25%
2020	110,389,983	10,256,835	10.24%
2021	128,005,404	17,615,421	15.96%
2022	189,463,602	61,458,198	48.01%
2023	206,215,270	16,751,668	8.84%
2024	203,147,782	(3,067,488)	-1.49%
2025	213,156,780	10,008,998	4.93%

Source: Henderson County Appraisal District.

PRINCIPAL TAXPAYERS 2025

TABLE 4

<u>Name</u>	<u>Type of Business/Property</u>	<u>2025 Net Taxable</u> <u>Assessed Valuation</u>	<u>% of Total 2025</u> <u>Assessed Valuation</u>
5907 Holdings LLC	Individual Residence	\$ 3,178,240	1.49%
Pitts 2007 Properties Ltd.	Individual Residence	3,038,728	1.43%
Reinhart, Michael R. & Carol F.	Individual Residence	2,990,483	1.40%
KBM 1915 Investments LLC	Real Estate	2,485,000	1.17%
Ligon William D & Jennifer Pearcy	Residential Land	2,477,628	1.16%
Miller Alan L & Margaret L.	Individual Residence	2,248,781	1.05%
Trinity Valley Electric Co-Op	Electric Utility/Power Plant	2,217,220	1.04%
Lambert Charamine 2017 Revocable Trust	Individual Residence	2,170,185	1.02%
Jttank LLC	Individual Residence	2,052,751	0.96%
Dbrandenburger LLC	Rental Properties/Vrbo	1,959,063	0.92%
		<u>\$ 24,818,079</u>	<u>11.64%</u>

Source: Henderson County Appraisal District.

CLASSIFICATION OF ASSESSED VALUATION
TABLE 5

	2025	2024	2023
Single Family Residence	\$ 242,973,945	\$ 243,890,909	\$ 221,845,381
Vacant Lots and Land Tracts	3,147,020	3,367,520	3,455,740
Commercial Real Property	2,075,488	499,385	431,269
Utilities	2,656,660	2,485,310	2,379,270
Commercial Personal Property	-	5,000	5,000
Totally Exempt Property	1,560	1,717,470	1,606,127
Total Appraised Market Value	\$ 250,854,673	\$ 250,532,309	\$ 229,567,716
Less:			
Over-65/Disabled Exemptions	\$ -	\$ -	\$ -
Veterans Exemptions	2,347,422	1,758,220	1,385,852
Homestead	17,982,763	17,284,457	14,693,743
Exemption/Other	2,785,844	4,501,754	4,339,820
Total Exemptions	23,116,029	23,544,431	20,419,415
Homestead Cap	\$ 14,581,864	\$ 23,840,096	\$ 23,352,446
Net Taxable Assessed Valuation	\$ 213,156,780	\$ 203,147,782	\$ 206,215,270

Source: Henderson County Appraisal District.

TAX DATA
TABLE 6

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections Current	Total	Year Ended
2016	84,030,260	0.2500	210,076	98.55	98.87	9/30/2017
2017	86,236,268	0.2500	215,591	97.64	97.61	9/30/2018
2018	87,643,694	0.2500	219,109	98.18	98.71	9/30/2019
2019	100,133,148	0.2500	250,333	98.62	98.77	9/30/2020
2020	110,389,983	0.2500	275,975	98.03	97.95	9/30/2021
2021	128,005,404	0.2500	320,014	97.96	97.87	9/30/2022
2022	189,463,802	0.2500	473,660	98.18	98.47	9/30/2023
2023	206,215,270	0.2500	515,538	99.23	99.14	9/30/2024
2024	203,147,782	0.2269	460,942	98.93	99.62	9/30/2025*
2025	213,156,780					

* As of June 15, 2025.

TAX RATE DISTRIBUTION
TABLE 7

	2024	2023	2022	2021	2020
M&O	\$ 0.2269	\$ 0.2500	\$ 0.2500	\$ 0.2500	\$ 0.2500
I&S	<u>0.0000</u>	<u>0.0000</u>	<u>0.0000</u>	<u>0.0000</u>	<u>0.0000</u>
Total Tax Rate	\$ 0.2269	\$ 0.2500	\$ 0.2500	\$ 0.2500	\$ 0.2500

Source: Henderson County Appraisal District.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES**TABLE 8**

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	9/30/2024*	9/30/2023	9/30/2022	9/30/2021	9/30/2020
Fund Balance - Beginning of Year	\$ 758,906	\$ 666,386	\$ 442,786	\$ 377,045	\$ 266,641
Revenues	632,103	595,962	590,906	531,049	401,986
Expenditures	<u>421,075</u>	<u>503,442</u>	<u>361,169</u>	<u>315,816</u>	<u>291,582</u>
Excess (Deficit) of Revenues Over Expenditures	211,028	92,520	229,737	215,233	110,404
Other Financing Sources (Uses):					
Purchases of Fixed Assets	\$ -	\$ -	\$ (6,137)	\$ (149,492)	\$ -
Transfers In	-	-	-	-	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses):		\$ -	\$ (6,137)	\$ (149,492)	\$ -
Net Change in Fund Balance	\$ 211,028	\$ 92,520	\$ 223,600	\$ 65,740	\$ -
Fund Balance - End of Year	<u>\$ 969,934</u>	<u>\$ 758,906</u>	<u>\$ 666,386</u>	<u>\$ 442,786</u>	<u>\$ 377,045</u>

Source: The Issuer's Annual Financial Reports. City anticipates Fund Balance on 9-30-2025 of \$1,485,426

* FYE 2024, unaudited.

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS**TABLE 9**

The Defined Benefit Pension Plan can be obtained from the City's 2023 Financial Report Note "H", page 37.

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APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF STAR HARBOR
AND HENDERSON, TEXAS**

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**GENERAL INFORMATION REGARDING
THE CITY OF STAR HARBOR, TEXAS AND HENDERSON COUNTY, TEXAS**

Star Harbor was founded in 1970 and is located in western Henderson County at the south end of Cedar Creek Reservoir. The city occupies a peninsula on the east side of the lake, half a mile north of the lake's dam. The main body of the lake is to the south, west, and north of the city, while the lake arm formed by Caney Creek is to the northeast. Star Harbor is 4 miles (6 km) northwest of Malakoff and 13 miles (21 km) west of Athens, the Henderson county seat.

Operating as a "Class A" General law city, Star Harbor has a mayor and five council members serving as their governing officials. A portion of their responsibility lies as overseers of community projects, such as maintenance of the eight miles of streets that serve residents. To help maintain their high standards and quality of life, they have built their own water system for their citizens. Having a police department offers reassurance to citizens concerning their personal safety and the security of their property.

Education

Star Harbor is served by the Malakoff Independent School District. The district has one primary school, one elementary school, one junior high school and one high school.

Henderson County, Texas

Henderson County is a county in the U.S. state of Texas. As of the 2020 census, its population was 82,150, with an estimated 2025 population of 89,494. The county seat is Athens. The county is named in honor of James Pinckney Henderson, the first attorney general of the Republic of Texas, and secretary of state for the republic. He later served as the first governor of Texas. Henderson County was established in 1846, the year after Texas gained statehood. Its first town was Buffalo, laid out in 1847. Henderson County comprises the Athens micropolitan statistical area, which is also included in the Dallas-Fort Worth combined statistical area.

Labor Force Statistics ⁽¹⁾

	2025 ⁽²⁾	2024 ⁽³⁾	2023 ⁽³⁾	2022 ⁽³⁾
Civilian Labor Force	36,796	36,242	35,533	34,798
Total Employed	35,146	34,626	33,895	33,306
Total Unemployed	1,650	1,616	1,638	1,492
% Unemployment	4.5%	4.5%	4.6%	4.3%
Texas Unemployment	4.1%	4.1%	4.0%	3.9%

(1) Source: Texas Workforce Commission.

(2) As of June 2025.

(3) Average Annual Statistics.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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September 10, 2025

Norton Rose Fulbright US LLP
98 San Jacinto Boulevard, Suite 1100
Austin, Texas 78701-4255
United States

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FINAL

IN REGARD to the authorization and issuance of the “City of Star Harbor, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2025” (the *Certificates*), dated August 1, 2025 in the aggregate principal amount of \$1,800,000 we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Star Harbor, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 2026 through 2034, February 1, 2036, February 1, 2038, and February 1, 2040, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Certificates under the laws of the State of Texas and with respect to the exclusion of the interest on the Certificates from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer or the Issuer’s combined utility system and have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Certificates. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

WE HAVE EXAMINED, the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the Certificates, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Certificates and certain other funds of the Issuer and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Certificate executed and delivered initially by the Issuer and such matters of law as we deem relevant to the matters discussed below. In such examination, 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. We express no opinion

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

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Legal Opinion of Norton Rose Fulbright US LLP, Austin, Texas, in connection with the authorization and issuance of “CITY OF STAR HARBOR, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025”

concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Certificates are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, 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 general principles of equity. The Certificates are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the Issuer and are additionally payable from and secured by a lien on and pledge of the Pledged Revenues, being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the *System*), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge thereof providing for the payment and security of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer. In the Ordinance, the Issuer reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Ordinance and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Certificates, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Certificates will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Certificates will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income 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.

Legal Opinion of Norton Rose Fulbright US LLP, Austin, Texas, in connection with the authorization and issuance of “CITY OF STAR HARBOR, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025”

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.

Norton Rose Fulbright US LLP

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APPENDIX D

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements – not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.)

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ANNUAL FINANCIAL REPORT
OF THE
CITY OF STAR HARBOR, TEXAS

FOR
FISCAL YEAR ENDED
SEPTEMBER 30, 2023



**CITY OF STAR HARBOR, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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FINANCIAL SECTION

Mike Ward Accounting & Financial Consulting, PLLC

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Star Harbor, Texas

Opinions

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Star Harbor, Texas as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Star Harbor, Texas' basic financial statements as listed in the table of contents.

In my 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, , each major fund, and the aggregate remaining fund information of the City of Star Harbor, Texas as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinions

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City of Star Harbor, Texas, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements related to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Star Harbor, Texas' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

misrepresentations, or override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Star Harbor, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Star Harbor, Texas' ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement that basis financial statements. Such information is the responsibility of management and, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Respectfully Submitted,

Mike Ward Accounting & Financial Consulting, PLLC

Mike Ward Accounting & Financial Consulting, PLLC

Point, Texas

January 13, 2025

CITY OF STAR HARBOR, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2023

As management of the City of Star Harbor ("City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2023. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City exceeded its liabilities at the end of the fiscal year by \$2,176,369 (net position). Of this amount \$1,339,310, or 62%, is net investment in capital assets. The remaining amount of \$837,059, or, 38%, (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- The City's total net position increased by \$252,548.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$758,904, an increase of \$92,520 in comparison with the prior year. Approximately 100% of this total amount, or \$758,904, is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$758,904, or 151%, of total general fund expenditures.
- The City's total long-term debt decreased by (\$37,365), or (46.%), during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the City.

**CITY OF STAR HARBOR, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2023**

Basic Financial Statements

The first two statements (pages 15 - 18) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 19 - 25) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes** on pages 26 - 42. The notes to the financial statements explain in detail some of the data contained in those statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The statement of net position presents information on all of the City's assets, deferred outflows, liabilities, and deferred inflows with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety and general administration. Property and sales taxes finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the utility services offered by the City.

The government-wide financial statements are on pages 15 - 18 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what funds are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her

**CITY OF STAR HARBOR, TEXAS
MANAGEMENT AND DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2023**

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$758,904, an increase from the prior year.

Unassigned fund balance of \$758,904, or 100%, represents the residual classification for the City's General Fund.

General Fund Budgetary Highlights: During the fiscal year, the City did revise the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were more than the budgeted amounts in most classifications. Expenditures were more than budgeted amounts at the fund level.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$163,316.

CITY OF STAR HARBOR, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2023

Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 769,887	\$ 673,982	\$ 305,705	\$ 274,903	\$ 1,075,592	\$ 948,885
Capital assets	494,032	403,974	888,759	929,879	1,382,791	1,333,853
Total assets	1,263,919	1,077,956	1,194,464	1,204,782	2,458,383	2,282,738
Deferred outflows-pension	131,374	60,820.00	-	-	131,374	60,820
Long-term liabilities	104,933	75,464	44,739	43,770	149,672	119,234
Current liabilities	6,610	12,725	141,131	92,651	147,741	105,376
Total liabilities	111,543	88,189	185,870	136,421	297,413	224,610
Deferred inflows-pension	115,975	76,817.00	-	118,311	115,975	195,128
Net position:						
Net investment in capital assets	494,032	403,974	845,278	849,030	1,339,310	1,253,004
Unrestricted	673,743	569,796	163,316	101,020	837,059	670,816
Total net position	\$ 1,167,775	\$ 973,770	\$ 1,008,594	\$ 950,050	\$ 2,176,369	\$ 1,923,820

As noted earlier, net position may serve over time as one useful indicator of a City's financial condition. The net position of the City was \$2,176,369 as of September 30, 2023. The City's net position increased by \$252,548 for the fiscal year ended September 30, 2023.

Net investment in capital assets:

The largest portion of the City's net position, \$1,339,310 or, 62%, reflects the investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities.

Unrestricted net position:

Unrestricted net position of \$837,059, or 38%, is available to fund City programs to citizens and debt obligations to creditors.

CITY OF STAR HARBOR, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2023

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Totals	
	2023	2022	2023	2022	2023	2022
REVENUE:						
Program Revenues						
Charges for Services	\$ 110,515	\$ 116,252	\$ 722,353	\$ 728,164	\$ 832,868	\$ 844,416
General Revenues:						
Property Taxes	425,513	318,919	-	-	425,513	318,919
Hotel Taxes	30,221	-	-	-	30,221	-
Franchise Taxes	28,267	25,342	-	-	28,267	25,342
Investment Income	1,712	-	1,556	-	3,268	-
Miscellaneous	4,107	130,394	371	192	4,478	130,586
Total Revenues	600,335	590,907	724,280	728,356	1,324,615	1,319,263
EXPENSES:						
Program Expenses:						
General Government	184,643	180,913	-	-	184,643	180,913
Public Safety	63,763	63,350	-	-	63,763	63,350
Culture and Recreation	119,404	97,085	-	-	119,404	97,085
Public Works	38,520	69,787	-	-	38,520	69,787
Water and Sewer	-	-	665,736	704,984	665,736	704,984
Total Expenses	406,330	411,135	665,736	704,984	1,072,066	1,116,119
Change in Net Position before Transfers	194,005	179,772	58,544	23,372	252,549	203,144
Transfers	-	-	-	-	-	-
Total Other Financing Sources (uses)	-	-	-	-	-	-
Change in Net Position	194,005	179,772	58,544	23,372	252,549	203,144
Net Position - beginning of year	973,770	793,998	950,050	926,678	1,923,820	1,720,676
Net Position - end of year	\$ 1,167,775	\$ 973,770	\$ 1,008,594	\$ 950,050	\$ 2,176,369	\$ 1,923,820

**CITY OF STAR HARBOR, TEXAS
MANAGEMENT AND DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2023**

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the City's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$758,904, a decrease from the prior year.

Unassigned fund balance of \$758,904, or 100%, represents the residual classification for the City's General Fund.

General Fund Budgetary Highlights: During the fiscal year, the City did revise the budget. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were less than the budgeted amounts in most classifications. Expenditures were less than budgeted amounts at the fund level.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the proprietary funds at the end of the fiscal year amounted to \$163,316.

CITY OF STAR HARBOR, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2023

Capital assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2023, totals \$1,382,791 (net of accumulated depreciation). This investment in capital assets includes buildings, roads and bridges, land, machinery and equipment.

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

- Infrastructure improvements
- Equipment purchases
- Golf course improvements

Capital Assets
As of September 30, 2023
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land & Improvements	\$ 136,400	\$ 136,400	\$ 8,158	\$ 8,158	\$ 144,558	\$ 144,558
Machinery & Equipment	35,234	44,412	22,108	28,939	57,342	73,351
Buildings	134,331	154,106	-	-	134,331	154,106
Infrastructure	188,067	69,058	858,493	585,551	1,046,560	654,609
Construction in Progress	-	-	-	307,230	-	307,230
Total	\$ 494,032	\$ 403,976	\$ 888,759	\$ 929,878	\$ 1,382,791	\$ 1,333,854

More detailed information about the City's capital assets is presented in Note F to the financial statements

Long-term Obligations - As of September 30, 2023, the City had long-term obligations of \$43,481. The debt is secured by property taxes and/or revenues. The total long-term obligation decreased by (\$37,365), or (46.%).

Outstanding Debt
As of September 30, 2023

	Governmental Activities		Business-type Activities		Total	
	2023	2022	2023	2022	2023	2022
Notes payable	\$ -	\$ -	\$ 43,481	\$ 80,846	\$ 43,481	\$ 80,846
Capital lease payable	-	-	-	-	-	-
Total	\$ -	\$ -	\$ 43,481	\$ 80,846	\$ 43,481	\$ 80,846

**CITY OF STAR HARBOR
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2023**

Economic Factors and Next Year's Budgets and Rates

The following known factors were considered in preparing the City's operating budget for FY 2023-24:

- The 2023-24 property tax rate was set at \$0.250000 per \$100 valuation.

Request for Information

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning the information found in this report or requests for additional financial information should be directed to the City of Star Harbor, P O Box 949, Malakoff, Texas 75148.



BASIC FINANCIAL STATEMENTS

**CITY OF STAR HARBOR, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 746,673	\$ 244,880	\$ 991,553
Receivables (net of allowance for uncollectible)	23,214	60,627	83,841
Restricted assets:			
Cash and cash equivalents	-	198	198
Capital assets, not being depreciated:			
Land & improvements	136,400	8,158	144,558
Capital assets, net of accumulated depreciation:			
Buildings and improvements	134,331	-	134,331
Infrastructure	188,067	858,493	1,046,560
Machinery & equipment	35,234	22,108	57,342
Total Assets	1,263,919	1,194,464	2,458,383
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow from pensions	129,777	-	129,777
Deferred outflow from OPEB	1,597	-	1,597
Total Deferred Outflows	131,374	-	131,374
LIABILITIES			
Accounts payable	4,895	2,576	7,471
Accrued interest payable	-	244	244
Deferred grant revenue	-	118,311	118,311
Other liabilities	1,715	20,000	21,715
Noncurrent Liabilities:			
Due within one year:			
Compensated absence accrual	5,127	1,258	6,385
Notes payable	-	32,626	32,626
Due in more than one year:			
Notes payable	-	10,855	10,855
Net pension liability	64,446	-	64,446
Net other pension benefits liability	35,360	-	35,360
Total Liabilities	111,543	185,870	297,413
DEFERRED INFLOW OF RESOURCES			
Deferred inflow from pensions	106,831	-	106,831
Deferred inflow from OPEB	9,144	-	9,144
Total Deferred Inflows	115,975	-	115,975
NET POSITION			
Net investment in capital assets	494,032	845,278	1,339,310
Unrestricted	673,743	163,316	837,059
Total Net Position	\$ 1,167,775	\$ 1,008,594	\$ 2,176,369

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



CITY OF STAR HARBOR, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

		Program Revenues	
		Operating	Capital
	Expenses	Charges for	Grants and
		Services	Contributions
Function/Program Activities			
Primary Government			
Governmental Activities:			
General Government	\$ 184,643	\$ -	\$ -
Public Safety	63,763	-	-
Public Services and Operations	-	29,785	-
Public Works	38,521	-	-
Parks and Recreation	119,404	80,730	-
Total governmental activities	406,331	110,515	-
Business-type Activities:			
Water and Sewer	665,736	722,353	-
Total business-type activities	665,736	722,353	-
Total primary government	\$ 1,072,067	\$ 832,868	\$ -

General revenues:
Property taxes
Hotel taxes
Franchise taxes
Investment income
Miscellaneous
Transfers
Total general revenues & transfers
Change in net position
Net position - beginning
Net position - ending

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

**Net (Expense) Revenue and
Changes in Net Position**

Primary Government		
Governmental Activities	Business Activities	Total
\$ (184,643)	\$ -	\$ (184,643)
(63,763)	-	(63,763)
29,785	-	29,785
(38,521)	-	(38,521)
(38,674)	-	(38,674)
(295,816)	-	(295,816)
-	56,617	56,617
-	56,617	56,617
<u>\$ (295,816)</u>	<u>\$ 56,617</u>	<u>\$ (239,199)</u>

\$ 425,513	\$ -	\$ 425,513
30,221	-	30,221
28,267	-	28,267
1,712	1,556	3,268
4,107	371	4,478
-	-	-
<u>489,820</u>	<u>1,927</u>	<u>491,747</u>
194,004	58,544	252,548
973,771	950,050	1,923,821
<u>\$ 1,167,775</u>	<u>\$ 1,008,594</u>	<u>\$ 2,176,369</u>

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

**CITY OF STAR HARBOR, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2023**

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 746,673	\$ 746,673
Receivables (net of allowances for uncollectible)	23,214	23,214
Total Assets	<u>769,887</u>	<u>770,085</u>
LIABILITIES		
Accounts payable	4,895	4,895
Other liabilities	1,715	1,715
Total Liabilities	<u>6,610</u>	<u>6,610</u>
DEFERRED INFLOW OF RESOURCES		
Unavailable revenue-property taxes	4,373	4,373
Total Deferred Inflow of Resources	<u>4,373</u>	<u>4,373</u>
FUND BALANCES		
Restricted for:		
Unassigned	758,904	758,904
Total Fund Balances	<u>758,904</u>	<u>758,904</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	<u>\$ 769,887</u>	<u>\$ 769,887</u>

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

CITY OF STAR HARBOR, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

Total fund balances - governmental funds balance sheet	\$ 758,904
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,163,189
Accumulated depreciation has not been included in the governmental fund financial statements.	(669,159)
Revenues reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	4,375
Deferred inflow/outflow of resources for pension are not reported in the fund financial statements.	15,399
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(5,127)
Net pension asset is not available in the current period and, therefore, is not reported in the fund financial statements.	(64,446)
Net other pension employee benefits liability is not due in the current period and, therefore, not reported in the fund financial statements.	(35,360)
Net position of governmental activities - statement of net position	<u>\$ 1,167,775</u>

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

CITY OF STAR HARBOR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	General Fund	Total Governmental Funds
REVENUE		
Property taxes	\$ 421,140	\$ 421,140
Hotel tax	30,221	30,221
Franchise tax	28,267	28,267
Licenses and permits	25,697	25,697
Fines and forfeitures	3,386	3,386
Charge for services	75,458	75,458
Investment income	1,712	1,712
Miscellaneous	10,081	10,081
Total Revenues	<u>595,962</u>	<u>595,962</u>
EXPENDITURES		
Current:		
General Government	142,149	142,149
Public Safety	57,649	57,649
Parks and Recreation	119,404	119,404
Public Works	38,521	38,521
Capital outlay:		-
General Government	7,550	7,550
Public works	131,924	131,924
Parks and Recreation	6,245	6,245
Total Expenditures	<u>503,442</u>	<u>503,442</u>
Excess (deficiency) of revenues over (under) expenditures	<u>92,520</u>	<u>92,520</u>
Net Change in Fund Balances	92,520	92,520
Fund Balances, October 1	666,384	666,384
Fund Balances, September 30	<u><u>\$ 758,904</u></u>	<u><u>\$ 758,904</u></u>

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

**CITY OF STAR HARBOR, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Net change in fund balances - total governmental funds	\$ 92,520
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	145,719
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(55,664)
Current year changes in unearned property tax revenues in the governmental fund statements are not shown as an change in liabilities in the government-wide financial statements.	4,375
Changes in net pension assets are not shown in the fund financial statements.	7,054
Change in net position of governmental activities - statement of activities	<u>\$ 194,004</u>

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

CITY OF STAR HARBOR, TEXAS
STATEMENT OF FUNDS NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2023

	Water/Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 244,880
Receivables (net of allowances for uncollectible)	60,627
Restricted cash and cash equivalents	198
Total Current Assets	<u>305,705</u>
Noncurrent Assets:	
Capital Assets:	
Land	8,158
Machinery & equipment	93,188
Infrastructure	2,236,560
Less: accumulated depreciation	<u>(1,449,145)</u>
Total Capital Assets (net of accumulated depreciation)	<u>888,761</u>
Total Noncurrent Assets	<u>888,761</u>
Total Assets	<u><u>1,194,466</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	2,578
Deferred grant income	118,311
Accrued interest payable	244
Compensated absences - current	1,258
Notes Payable - current	<u>32,626</u>
Total Current Liabilities	<u>155,017</u>
Noncurrent Liabilities:	
Notes payable	<u>10,855</u>
Total Non-Current Liabilities	<u>10,855</u>
Total Liabilities	<u>165,872</u>
NET POSITION	
Net investment in capital assets	845,280
Unrestricted	<u>163,314</u>
Total Net Position	<u><u>\$ 1,008,594</u></u>

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

CITY OF STAR HARBOR, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Water/Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 639,824
Tap fees	7,000
Refuge collection	75,529
Miscellaneous income	371
Total Operating Revenues	<u>722,724</u>
OPERATING EXPENSES	
Personnel costs	148,584
Supplies and materials	50,870
Maintenance and repair	64,170
Contractual services	312,717
Utilities	26,631
Depreciation	60,034
Total Operating Expenses	<u>663,006</u>
Operating Income (Loss)	<u>59,718</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(2,730)
Investment income	1,556
Total Non-Operating Revenues (Expenses)	<u>(1,174)</u>
Change in Net Position	58,544
Net position - Beginning, October 1	950,050
Net Position - Ending, September 30	<u><u>\$ 1,008,594</u></u>

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

**CITY OF STAR HARBOR, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Water/Sewer Fund
Cash Flows from Operating Activities	
Cash received from customers	\$ 742,164
Cash received from other sources	371
Cash paid to or on behalf of employees for services	(148,584)
Cash payments to suppliers for goods and services	(506,127)
Net cash provided by (used for) operating activities	<u>87,824</u>
Cash Flows from Noncapital Financing Activities	
Transfers to/from other funds	-
Intergovernmental receipts	-
Net Cash Provided by Non-capital Financing Activities	<u>-</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(18,915)
Principal payments on debt obligations	(37,366)
Interest and fiscal charges on debt	(2,486)
Net cash provided by (used for) capital and related financing activities	<u>(58,767)</u>
Cash Flows from Investing Activities	
Interest Income	1,556
Net cash provided by (used for) investing activities	<u>1,556</u>
Net Increase (Decrease) in Cash and Cash Equivalents	30,613
Cash and Cash Equivalents at Beginning of Year	214,465
Cash and Cash Equivalents at End of Year	<u>\$ 245,078</u>
Reconciliation of operating income to net cash provided by (used for) operation activities	
Operating income (loss)	\$ 59,718
Adjustment to reconcile operating income to net provided by operating activities:	
Depreciation	60,034
Change in Assets and Liabilities	
Decrease (increase) in receivables	19,811
Increase (decrease) in accounts payable	(47,304)
Increase (decrease) in accrued expenses	(244)
Increase (decrease) in other liabilities	(4,189)
Total Adjustments	<u>28,108</u>
Net cash provided by (used for) operating activities	<u>\$ 87,826</u>

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

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments-Audit and Accounting Guide* and by the Financial Accounting Standards Board, when applicable. The more significant accounting policies of the City are described below:

1. Reporting Entity

The City is a political subdivision of the State of Texas. The City was incorporated in 1970 under the provisions of the State of Texas. The City operates under a council-manager form of government and provides the following services as authorized by its order of election for incorporation and ordinances; public safety (police and fire, animal control and inspection), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administration services. Other services include utilities.

The City's basic financial statements include the accounts of all City operations. The criteria for including organization as component units within the City's reporting entity, as set forth in Section 2100 or GASB's Codification of Governmental Accounting and Financial Reporting Standards include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City has no component unit. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB statement.

2. Basis of Presentation, Basis of Accounting

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities within the statement of net position and statement of activities. Significantly, the City's statement of net position include both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resource measurement focus. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Management's Discussion and Analysis provides an analytical overview of the City's financial activities. In addition, a budgetary comparison schedule is presented that compares the original adopted budget and final amended General Fund budget with actual results.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Municipal Court, and public works) or program are offset by program revenues. Direct expenses are those that are identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, or c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

items not properly included among program revenues are reported instead as general revenues. Internally dedicated resources are also reported as general revenues rather than as program revenues. The net cost (by function) is normally covered by general revenue (property and sales taxes, franchise taxes, and interest income).

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the funds financial statements. The major governmental fund is the general fund. The major proprietary fund is the water and sewer fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and proprietary combined) for the determination of major funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are franchise fees and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on major individual funds of the governmental and proprietary categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

3. Measurement Focus, Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting also relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

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

Ad valorem, franchise and sales tax revenues recorded in the General Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenue is recognized when all eligibility requirements have been met.

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FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following is a description of the major governmental funds of the City:

The **General Fund** is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund.

Proprietary funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

Proprietary funds are financed and operated in a manner similar to a private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The following is a description of the proprietary funds of the City:

The **Water and Sewer Fund** accounts for the operations of the water and sanitary sewer utilities and garbage which are self-supporting activities rendering services on a user-charge basis.

4. Financial Statement Amounts:

a. Cash and Cash Equivalents

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

The City may invest in certificates of deposits, authorized investment pools and funds, U.S. Government Securities, commercial paper, and repurchase agreements.

b. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances are provided in the financial statements to avoid the obscuring of significant components by aggregation.

Trade and property tax receivables are shown net of an allowance for uncollectible.

c. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the governmental funds represent cash and cash equivalents and investments set aside for specific capital additions, and municipal court uses and seizure funds. Restricted assets in the proprietary funds represent cash and cash equivalents and investments set aside for repayment of deposits to utility customers.

Customer deposits received for the water and sewer service are, by law, to be considered restricted assets. These activities are included in the Water and Sewer Fund.

CITY OF STAR HARBOR, TEXAS
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d. Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or acquired, are in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. The City defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical, if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. There was not any interest accrued in the current period.

Management elected not to retroactively report infrastructure assets within the scope of GASB Statement No. 34.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	15 - 50
Building & Improvements	20 - 50
Machinery and Equipment	5 - 20

e. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method and netted with the long-term obligations in the liabilities. The City has compared this method to the effective interest method and found the difference between the two methods to be immaterial. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if any, are expensed during the year they are incurred in accordance with GASB Statement No. 65.

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

f. Compensated Absences

Regular full-time employees are eligible for 120 hours personal time off (PTO) per fiscal year. After five years of continuous service, regular full-time employees will receive 160 hours per calendar year. Employees are allowed to retain 40 hours of PTO each year to be rolled over to the next year. Any remaining PTO balance will be forfeited.

CITY OF STAR HARBOR, TEXAS
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g. Deferred Outflows/Inflows of Resources

In addition to assets, the fund balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The City does not have any items to report in this category.

In addition to liabilities, the fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of a net position that applies to that time. The City has only two types of deferred inflow of resources in the governmental fund financial statements. Deferred revenue from property taxes and outstanding warrants are deferred and recognized as an inflow of resources in the period that the amounts become available.

h. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the City is bound to honor constraints on how specific amounts can be spent:

- *Nonspendable fund balance* - includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaid) or because they must remain intact such as the principal of an endowment.
- *Restricted fund balance* - includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.
- *Committed fund balance* - includes the portion of net resources for which the City Council has imposed limitations of use. Amounts that can be used only for the specific purposes determined by a resolution of the City Council. Commitments may be changed or lifted only by a resolution of the City Council. The resolution must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.
- *Assigned fund balance* - includes the portion of net resources for which an *intended* use has been established by the Mayor or Finance Officer and is authorized to do so by the City Council. Assignments of fund balances are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

CITY OF STAR HARBOR, TEXAS
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- *Unassigned fund balance* - includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

The City does not have a minimum fund balance policy.

i. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

j. Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

k. Federal and State Grants

Grants are generally accounted for within the fund financed.

l. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in order to provide an understanding of the budget to actual fiscal year performance. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

m. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consideration. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges an appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position. The City did not have any Internal Balances at fiscal year end.

n. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

o. Program Revenues

Certain revenues such as charges for services are included in program revenues.

p. Program Expenditures

Certain indirect costs such as administrative costs are included in the program expenditures reported for individual functional activities.

The City has elected to report all Governmental payroll recorded within the General Government functional department. Based on this election, no payroll expense has been recorded within the Public Safety, Public Services and Operations, and Public Works Department.

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

B. COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations.

<u>Violation</u>
None

<u>Action</u>
N/A

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None	N/A

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data:

- No later than the first City Council meeting each May, the Mayor submits to the City Council a proposed budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.

CITY OF STAR HARBOR, TEXAS
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 FOR THE YEAR ENDED SEPTEMBER 30, 2023

- Before September 30, the budget is legally enacted through passage of an ordinance. If the Council takes no action on or prior to such day, the budget, as submitted by the Mayor, shall be deemed to have been adopted by the City Council.
- The budget for the General Fund is legally adopted on a modified accrual basis.
- According to the Local Government Code for General Law, a city's total estimated expenditures of the General Fund are to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The Mayor is authorized to approve a transfer of budgeted amounts within departments; however, any revisions that alter the total of any fund must be approved by the City Council.

C. CASH AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank is required to deposit, for safekeeping and trust, approved pledged securities in an amount sufficient to protect the City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository banks dollar amount of Federal Deposit Insurance Corporation ("FDIC"). At September 30, 2023, the City's depository bank maintained pledged securities for deposits held in excess of FDIC coverage.

Cash Deposits:
 At September 30, 2023, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$305,976 and the bank balance was \$338,810. The City's cash deposits at September 30, 2023, and during the year ended September 30, 2023, were entirely covered by FDIC.

Statement of net position:

Primary Government	
Cash and cash equivalents	\$ 991,553
Restricted assets-cash & cash equivalents	198
Total cash and cash equivalents	<u>\$ 991,751</u>
Business-type - Restricted cash	
Construction	198
Total Restricted Cash	<u>\$ 198</u>

Investments:
 The Public Funds Investment Act ("Act") (Government Code Chapter 2256) requires the City to have an independent auditor perform test procedures related to investment practices as provided by the Act. The City is in compliance with the requirements of the Act.

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

C. CASH AND INVESTMENTS

Cash Deposits (continued)

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are report at value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "non-participating" means that the investment value does not vary with market interest rate changes. Non-negotiable certificates of deposits are examples of non-participating interest-earning investment contracts.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investment is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The Public Funds Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state or local governmental unit. The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC at all times.

D. PROPERTY TAXES

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within sixty days following the close of the fiscal year have been recognized as revenue at the fund level.

The City's 2023 ad valorem tax rate was \$0.25000 per \$100 of taxable value.

E. RECEIVABLES

Receivables as of year-end for the City's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Proprietary	Total
Taxes receivable	\$ 4,373	\$ -	\$ 4,373
Other	20,000	60,627	80,627
Gross Receivables	24,373	60,627	85,000
Less: Allowance for Uncollectible	(1,159)	-	(1,159)
Net Receivables	23,214	60,627	83,841
Total Net Receivables	\$ 23,214	\$ 60,627	\$ 83,841

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

F. CAPITAL ASSETS

Capital asset activity for the period ended September 30, 2023 was as follows:

	Beginning Balances	Additions	Decreases	Ending Balances
Governmental Activities:				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ -	\$ -	\$ -
Land	136,400	-	-	136,400
Total capital assets, not being depreciated	136,400	-	-	136,400
Capital assets, being depreciated:				
Buildings and improvements	286,070	7,550	-	293,620
Infrastructure	347,256	131,924	-	479,180
Machinery & equipment	247,744	6,245	-	253,989
Total capital assets being depreciated	881,070	145,719	-	1,026,789
Less accumulated depreciation for:				
Buildings & improvements	(131,964)	(27,325)	-	(159,289)
Infrastructure	(278,198)	(12,915)	-	(291,113)
Machinery & equipment	(203,332)	(15,423)	-	(218,755)
Total accumulated depreciation	(613,494)	(55,663)	-	(669,157)
Total capital assets, being depreciated, net	267,576	90,056	-	357,632
Governmental activities capital assets, net	<u>\$ 403,976</u>	<u>\$ 90,056</u>	<u>\$ -</u>	<u>\$ 494,032</u>
Business-type Activities:				
Water/Sewer				
Capital assets, not being depreciated				
Land	\$ 8,158	\$ -	\$ -	\$ 8,158
Construction in progress	307,230	-	(307,230)	-
Total capital assets, not being depreciated	315,388	-	(307,230)	8,158
Capital assets, being depreciated:				
Buildings and improvements	-	-	-	-
Infrastructure	1,910,413	326,145	-	2,236,558
Machinery & equipment	93,188	-	-	93,188
Total capital assets being depreciated	2,003,601	326,145	-	2,329,746
Less accumulated depreciation for:				
Buildings & Improvements	-	-	-	-
Infrastructure	(1,324,862)	(53,203)	-	(1,378,065)
Machinery & equipment	(64,249)	(6,831)	-	(71,080)
Total accumulated depreciation	(1,389,111)	(60,034)	-	(1,449,145)
Total capital assets, being depreciated, net	614,490	266,111	-	880,601
Business-type activities capital assets, net	<u>\$ 929,878</u>	<u>\$ 266,111</u>	<u>\$ (307,230)</u>	<u>\$ 888,759</u>

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

Governmental activities:	
General Government	\$ 55,663
	<u>\$ 55,663</u>
Business-type activities:	
Water and Sewer	<u>\$ 60,034</u>

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

G. LONG-TERM OBLIGATIONS

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2023 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Compensated Absences	\$ 5,127	\$ 3,500	\$ (3,500)	\$ 5,127	\$ 5,127
Long-term Obligations	<u>\$ 5,127</u>	<u>\$ 3,500</u>	<u>\$ (3,500)</u>	<u>\$ 5,127</u>	<u>\$ 5,127</u>
	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Notes Payable	80,846	-	(37,365)	43,481	32,626
Total Notes Payable	\$ 80,846	\$ -	\$ (37,365)	\$ 43,481	\$ 32,626
Compensated Absences	1,258	2,200	(2,200)	1,258	1,258
Long-term Obligations	<u>\$ 82,104</u>	<u>\$ 2,200</u>	<u>\$ (39,565)</u>	<u>\$ 44,739</u>	<u>\$ 33,884</u>

Compensated Absences

The compensated absences liability will be liquidated by the General Fund and Water/Sewer Fund based on the assignment

Changes in Business-type Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30, 2022	Issued	Retired	Amounts Outstanding September 30, 2023	Due Within One Year
Notes Payable	5.00%	150,100	80,846	-	(37,365)	43,481	32,626
Total notes payable		\$ 150,100	\$ 80,846	\$ -	\$ (37,365)	\$ 43,481	\$ 32,626
Compensated absences		-	1,258	2,200	(2,200)	1,258	1,258
Total debt obligations		<u>\$ 150,100</u>	<u>\$ 82,104</u>	<u>\$ 2,200</u>	<u>\$ (39,565)</u>	<u>\$ 44,739</u>	<u>\$ 33,884</u>

Debt service requirements are as follows:

Year Ending June 30:	Principal	Interest	Total Requirements
2024	32,626	1,433	34,059
2025	10,855	111	10,966
	<u>\$ 43,481</u>	<u>\$ 1,544</u>	<u>\$ 45,025</u>

The City secured a note with First State Bank, Athens, Texas in the amount of \$150,100 for utility system improvements. This note will be repaid in 60 monthly installments with an interest rate of 5.00% with the final payment in 2025.

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

H. PENSION PLAN

1. Plan Description

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

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

2. Benefits Provided

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

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

Employees covered by benefit terms:

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

	Plan Year 2022
Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	4
Active employees	4
Total	16

3. Contributions

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rate for the City was 5% in calendar year 2022. The City's contributions to TMRS for the fiscal year ended June 30, 2023 was \$21,722 and was equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability ("NPL") was measured as of December 31, 2022, and the Total Pension Liability ("TPL") used to calculate the NPL was determined by an actuarial valuation as of that date.

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Actuarial assumptions:

The TPL in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Overall payroll growth	3.50% to 11.50% including inflation
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases are estimated using 2.75% per year representing the expected yearly increase in total payroll. Service retirees and beneficiary mortality rates used in calculating the actuarial liability and the retirement contribution rate are calculated using gender-distinct 2019 municipal retirees of Texas mortality tables. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. Based on the size of the city, rates are multiplied by an additional factor of 96.0%. Mortality rates for disabled retirees were calculated using mortality tables for healthy retirees with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is applied to reflect the impairment of younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Actuarial assumptions used in the December 31, 2022 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period of December 31, 2014 through December 31, 2018.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focus is on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.70%
Core Fixed Income	6.0%	4.90%
Non-Core Fixed Income	20.0%	8.70%
Other Public and Private Markets	12.0%	8.10%
Real Estate	12.0%	5.80%
Hedge Funds	5.0%	6.90%
Private Equity	10.0%	11.80%
	<u>100.0%</u>	

Discount Rate

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

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Changes in the Net pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2021	\$ 1,017,467	\$ 989,938	\$ 27,529
Changes for the year:			
Service cost	21,721	-	21,721
Interest (on the total pension liability)	66,436	-	66,436
Difference between expected and actual experience	(92,654)	-	(92,654)
Changes of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(88,188)	(88,188)	-
Contributions - employer	-	21,977	(21,977)
Contributions - employee	-	8,538	(8,538)
Net investment income	-	(72,051)	72,051
Administrative expense	-	(625)	625
Other	-	747	(747)
Net changes	(92,685)	(129,602)	36,917
Balance at December 31, 2022	\$ 924,782	\$ 860,336	\$ 64,446

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

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 168,270	\$ 64,446	\$ (22,676)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2023, the City recognized pension expense of \$9,132.

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ 671	\$ 56,461
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	111,096	50,370
Contributions subsequent to the measurement date of December 31, 2022	18,010	-
	\$ 129,777	\$ 106,831

\$9,938 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Net deferred outflows (inflows) of resources:

December 31,		
2023	\$	(34,195)
2024		(5,213)
2025		16,573
2026		27,771
2027		-
Thereafter		-
Total	\$	<u>4,936</u>

I. Total OPEB Liability

The City of Star Harbor's total OPEB liability of \$35,360 was measured as of December 31, 2022, and was determined by an actuarial valuation as of that date.

The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 11.5% including inflation
Discount rate*	4.05%

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA index" rate as of December 31, 2022.

Mortality rates - service retirees:

2022 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Mortality rates - disabled retirees:

2022 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Membership

Number of:	
-Inactive employees currently receiving benefits	7
-Inactive employees entitled to but not yet receiving benefits	-
-Active employees	<u>4</u>
Total	<u>11</u>

Changes in the Total OPEB Liability:

Total OPEB Liability - beginning of year	\$	47,935
Changes for the year:		
Service costs		1,008
Interest on Total OPEB Liability		877
Changes in benefit terms		-
Differences between expected and actual experience		(1,180)
Changes in assumptions or other inputs		(11,760)
Benefit payments		<u>(1,520)</u>
Total OPEB Liability - end of year	\$	<u>35,360</u>

CITY OF STAR HARBOR, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

The following presents the Total OPEB Liability of the City of Leonard, Texas, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75 percent) or 1-percentage-point higher (3.75%) than the current discount rate.

	1% Decrease (3.05%)	Current Discount Rate (4.05%)	1% Increase (5.05%)
Total OPEB Liability	\$ 40,019	\$ 35,360	\$ 31,479

Deferred (Inflows)/Outflows of Resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 697
Changes in assumptions and other inputs	-	7,944
Contributions made subsequent to measurement date	503	-
Total	<u>\$ 503</u>	<u>\$ 8,641</u>

Amounts reported as deferred outflows of resources and deferred inflow of resources related to OPEB will be recognized in OPEB expense follows:

	Net Deferred Outflows
2023	\$ (3,293)
2024	(3,796)
2025	(1,552)
2026	-
2027	-
Thereafter	-
Total	<u>\$ (8,641)</u>

J. HEALTH CARE COVERAGE AND LIFE INSURANCE

During the current fiscal year, eligible employees of the City were covered by a health care insurance plan. The City contributed 100% per month toward each employee's health insurance premium. Any remaining cost is the responsibility of the employee. In addition, the City provided a \$15,000 life insurance policy for each employee that worked more than 30 hours per week. Additional coverage may be purchased at the employee's expense.

K. INSURANCE COVERAGE

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas, in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims up to \$125,000 and for aggregate loss. According to the latest actuarial opinion, dated July 1, 2022, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred but not reported.

L. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reimbursement. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

M. LITIGATION

Currently, management is unaware of significant pending litigation against the City.

CITY OF STAR HARBOR, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2023

N. TRANSFERS

Transfers between funds for debt payments during the fiscal year were as follows:

	General Fund	Water and Sewer Fund
<u>Transfers Out</u>		
General Fund	\$ -	\$ -
Water and Sewer	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

O. SUBSEQUENT EVENTS

The City has evaluated all events or transactions that occurred after September 30, 2023 up through January 13, 2025, the date the financial statements were available to be issued. Management noted no subsequent events requiring disclosure.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STAR HARBOR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUE				
Property taxes	\$ 406,800	\$ 406,800	\$ 421,140	\$ 14,340
Fines and forfeitures	2,500	2,500	3,386	886
Licenses and permits	25,000	25,000	25,697	697
Hotel tax	42,000	42,000	30,221	(11,779)
Franchise tax	24,000	24,000	28,267	4,267
Charge for services	67,400	67,400	75,458	8,058
Investment income	325	325	1,712	1,387
Miscellaneous	9,200	9,200	10,081	881
Total Revenues	577,225	577,225	595,962	18,737
EXPENDITURES				
General government	164,933	164,933	142,149	22,784
Public safety	65,000	65,000	57,649	7,351
Parks and recreation	114,668	114,668	119,404	(4,736)
Public works	4,016	4,016	38,521	(34,505)
Capital outlay:				
General Government	-	-	7,550	(7,550)
Parks and recreation	-	-	6,245	(6,245)
Public works	50,000	50,000	131,924	(81,924)
Total Expenditures	398,617	398,617	503,442	(104,825)
Excess (deficiency) of revenues over (under) expenditures	178,608	178,608	92,520	(86,088)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	178,608	178,608	92,520	(86,088)
Fund Balances/Equity, July 1	\$ 666,384	\$ 666,384	\$ 666,384	\$ 666,384
Fund Balances/Equity, June 30	\$ 844,992	\$ 844,992	\$ 758,904	\$ 580,296

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

**CITY OF STAR HARBOR, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

**SCHEDULE OF CONTRIBUTIONS
LAST FISCAL YEAR (UNAUDITED)**

	2023	2022	2021
Actuarially determined contribution	\$ 23,998	\$ 22,560	\$ 19,145
Contributions in relation to the actuarially determined contribution	\$ 23,998	\$ 22,560	\$ 19,145
Contributions deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 149,331	\$ 185,324	\$ 179,838
Contributions as a percentage of covered employee payroll	16.07%	12.17%	10.65%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January, thirteen months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization	12 Years (longest amortization ladder)
Asset Valuation Method	10-year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

**CITY OF STAR HARBOR, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS-TMRS**

	12/31/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
Total Pension Liability						
Service cost	\$ 21,721	\$ 24,948	\$ 22,580	\$ 22,686	\$ 21,006	\$ 19,011
Interest (on the Total Pension Liability)	66,436	62,259	59,548	58,800	56,156	54,225
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	(92,654)	45,449	35,055	3,325	246	(5,788)
Change of assumptions	-	-	-	(2,837)	-	-
Benefit payments, including refunds of employee contributions	(88,188)	(50,138)	(106,259)	(35,421)	(42,761)	(36,907)
Net Change in Total Pension Liability	(92,685)	82,518	10,924	46,553	34,647	30,541
Total Pension Liability - Beginning	1,017,467	934,949	924,025	877,472	842,825	812,284
Total Pension Liability - Ending	\$ 924,782	\$ 1,017,467	\$ 934,949	\$ 924,025	\$ 877,472	\$ 842,825
Plan Fiduciary Net Position						
Contribution - employer	\$ 21,977	\$ 20,931	\$ 19,024	\$ 20,521	\$ 16,813	\$ 14,069
Contribution - employee	8,538	9,845	8,890	8,917	8,129	7,397
Net investment income	(72,051)	116,337	68,572	121,864	(24,911)	103,198
Benefit payments, including refunds of employee contributions	(88,188)	(50,138)	(106,259)	(35,421)	(42,761)	(36,907)
Administrative expense	(625)	(539)	(444)	(689)	(482)	(535)
Other	747	5	(16)	(22)	(23)	(27)
Net Change in Plan Fiduciary Net Position	(129,602)	96,441	(10,233)	115,170	(43,235)	87,195
Plan Fiduciary Net Position - Beginning	989,938	893,497	903,730	788,560	831,795	744,600
Plan Fiduciary Net Position - Ending	\$ 860,336	\$ 989,938	\$ 893,497	\$ 903,730	\$ 788,560	\$ 831,795
Net Pension Liability - Ending	\$ 64,446	\$ 27,529	\$ 41,452	\$ 20,295	\$ 88,912	\$ 11,030
Plan Fiduciary Net Position as a percentage of Total Pension Liability	93.03%	97.29%	95.57%	97.80%	89.87%	98.69%
Covered employee payroll	\$ 170,765	\$ 196,907	\$ 177,792	\$ 178,349	\$ 162,583	\$ 147,945
Net Pension Liability as a percentage of covered employee payroll	37.74%	13.98%	23.31%	11.38%	54.69%	7.46%

Note: Years will be added until there are 10 years of comparison

CITY OF STAR HARBOR, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS-TMRS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	<u>12/31/2022</u>	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>
Total OPEB Liability						
Service cost	\$ 1,008	\$ 1,398	\$ 1,049	\$ 731	\$ 878	\$ 695
Interest (on the Total OPEB liability)	877	909	1,098	1,199	1,123	1,129
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	(1,180)	428	(674)	60	(1,276)	-
Change of assumptions	(11,760)	1,143	4,796	5,912	(1,882)	2,396
Benefit payments, including refunds of employee contributions	(1,520)	(1,437)	(391)	(464)	(293)	(237)
Net Change in Total Pension Liability	(12,575)	2,441	5,878	7,438	(1,450)	3,983
Total OPEB Liability - Beginning	47,935	45,494	39,616	32,178	33,628	29,645
Total OPEB Liability - Ending	<u>\$ 35,360</u>	<u>\$ 47,935</u>	<u>\$ 45,494</u>	<u>\$ 39,616</u>	<u>\$ 32,178</u>	<u>\$ 33,628</u>
 Covered employee payroll	 \$ 170,765	 \$ 196,907	 \$ 177,792	 \$ 178,349	 \$ 162,583	 \$ 147,945
 Total OPEB liability as a percentage of covered employee payroll	 20.71%	 24.34%	 25.59%	 22.21%	 19.79%	 22.73%

See accompanying notes to these financial statements for more detail.

Note: Years will continue to be added until there are 10 years for comparison

Financial Advisory Services
Provided By:

