NOTICE OF SALE
AND
BIDDING INSTRUCTIONS
ON
$20,000,000*
CITY OF SHERMAN, TEXAS
(A political subdivision of the State of Texas located in Grayson County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024

Sealed Bids Due Monday, October 7, 2024 at 10:00 AM, Central Time

THE SALE

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The City of Sherman, Texas (the "City"), is offering for sale its $20,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2024 (the "Certificates"). Bids may be submitted by either of three alternative procedures: (i) written bids; (ii) electronic bids; or (iii) telephone bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the City nor its Financial Advisor, Specialized Public Finance Inc., assumes any responsibility or liability for a prospective bidding procedure.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Notice of Sale and Bidding Instructions, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System ("PARITY").

WRITTEN BIDS DELIVERED IN PERSON . . . Signed bids, plainly marked "Bid for Certificates," should be addressed to "Mayor and City Council, City of Sherman, Texas," and delivered to the City's Financial Advisor, Specialized Public Finance Inc. at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746 by 10:00 AM, central time on October 7, 2024 (the "date of the bid opening"). All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Bidders must submit, by 10:00 AM on the date of the bid opening, SIGNED Official Bid Forms to Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746. Subscription to the i-Deal LLC's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Certificates on the terms provided in this Notice of Sale and Bidding Instructions, and shall be binding upon the bidder as if made by a signed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder.

If any provisions of this Notice of Sale and Bidding Instructions shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale and Bidding Instructions shall control. Further information about PARITY, including any fee charged, may be obtained from Parity Customer Support, 40 West 23rd Street, 5th Floor, New York, New York 10010, (212) 404-8102.

For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the City, as described under "Basis for Award" herein. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and Bidding Instructions and the Official Bid Form.

BIDS BY TELEPHONE . . . Bidders must submit SIGNED Official Bid Forms to Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, and submit their bid by telephone on the date of the sale.

Telephone bids will be accepted at (512) 275-7300, between 9:30 AM and 10:00 AM, central time.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the above deadlines.

Specialized Public Finance Inc. assumes no responsibility or liability with respect to any irregularities associated with the submission of bids if telephone option is exercised.

The City is not responsible if the telephone number is busy, which prevents a bid or bids from being submitted on a timely basis.

PLACE AND TIME OF BID OPENING . . . The bids for the Certificates will be publicly opened and read in the office of the Financial Advisor at 10:00 AM, central time on Monday, October 7, 2024.

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*See "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amortization." Preliminary, subject to change.

AWARD OF THE CERTIFICATES . . . The City Council will take action to award the Certificates (or reject all bids) at a meeting scheduled to convene at 5:00 PM, central time, on the date of the bid opening, and adopt an ordinance authorizing the Certificates and approving the Official Statement.

WITHDRAWAL OF THE BIDS . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for ten hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

EXTENSION OF SALE DATE . . . The City reserves the right to extend the date and/or time for the receipt of bids by giving notice by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, central time on Friday, October 4, 2024 of the new date and time of receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale and Bidding Instructions.

THE CERTIFICATES

DESCRIPTION . . . The Certificates will be dated October 31, 2024 (the "Dated Date"). Interest will accrue from the date of delivery to the initial purchaser (the "Date of Initial Delivery") and will be due commencing on February 15, 2025, and each August 15 and February 15 thereafter until maturity or prior redemption. The Certificates will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity. The Certificates will mature on August 15 in each year as follows:

MATURITY SCHEDULE*

Maturity (August 15)	Principal Amount	Maturity (August 15)	Principal Amount
2025	$ 1,000,000	2040	$ 615,000
2026	330,000	2041	640,000
2027	345,000	2042	670,000
2028	360,000	2043	700,000
2029	380,000	2044	730,000
2030	395,000	2045	765,000
2031	415,000	2046	800,000
2032	430,000	2047	835,000
2033	450,000	2048	870,000
2034	470,000	2049	910,000
2035	490,000	2050	950,000
2036	515,000	2051	995,000
2037	535,000	2052	1,040,000
2038	560,000	2053	1,085,000
2039	585,000	2054	1,135,000

*See "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amortization." Preliminary, subject to change.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2034, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – Optional Redemption" in the Preliminary Official Statement). Additionally, the Certificates may be subject to mandatory redemption in the event the Purchaser elects to designate one or more maturities as Term Certificates.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES . . . Bidders may provide that all of the Certificates be issued as serial Certificates or may provide that any two or more consecutive annual principal amounts be combined into one or more term Certificates.

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the ordinance to be passed by the City Council of the City (the "Ordinance") (see "THE CERTIFICATES – Authority for Issuance" in the Preliminary Official Statement).

BOOK-ENTRY-ONLY SYSTEM . . . The City intends to utilize the book-entry-only system of The Depository Trust Company ("DTC"). See "THE CERTIFICATES – Book-Entry-Only System" in the Preliminary Official Statement.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar shall be The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES – Paying Agent/Registrar" in the Preliminary Official Statement).

SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from the levy and collection of a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and a limited pledge not to exceed $1,000 derived from the net revenues of the City's Waterworks and Sewer System (see "THE CERTIFICATES – Security and Source of Payment" in the Preliminary Official Statement).

Further details regarding the Certificates are set forth in the Preliminary Official Statement.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES . . . **The Certificates will be sold in one block on an "All or None" basis, and at a price of not less than 102% of their par value and not more than 112% of their par value.** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 2.5% in rate. The maximum coupon rate shall not exceed 5.00%. For Certificates having stated maturities on and after August 15, 2034, no reoffering yield producing a dollar price less than 97% for any individual maturities will be accepted. The high bidder will be required to submit reoffering yields and dollar prices prior to award. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Certificates of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS FOR AWARD . . . Subject to the City's right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Certificates will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the "Purchaser") making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the City. The True Interest Cost rate is that rate which, when used to compute the total present value as of the Date of Initial Delivery of all debt service payments on the Certificates on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Certificates plus any premium bid. In the event of a bidder's error in interest cost rate calculations, the interest rates and premium, if any, set forth in the Official Bid Form will be considered as the intended bid.

POST BID MODIFICATION OF PRINCIPAL AMORTIZATION . . . After selecting the winning bid, the aggregate principal amount of the Certificates and the principal amortization schedule may be adjusted as determined by the City and its Financial Advisor in $5,000 increments to reflect the actual interest rates. Such adjustments will not change the aggregate principal amount of the Certificates by more than 15% from the amount set forth herein. The dollar amount bid for the Certificates by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Certificates finally determined to be issued. The City will use its best efforts to communicate to the winning bidder any such adjustment within three (3) hours after the opening of bids. Purchaser's compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters.

In the event of any adjustment of the maturity schedule for the Certificates as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. The bid price for such an adjustment will reflect changes in the dollar amount of par amount of the Certificates from the selling compensation that would have been received based on the purchase price in the winning bid and the initial reoffering terms. Any such adjustment of the aggregate principal amount of the Certificates and/or the maturity schedule for the Certificates made by the City or its Financial Advisor shall be subsequent to the award of the Certificates to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE – Basis for Award" herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

In order to provide the City with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Purchaser will be required to provide the City with a breakdown of its "underwriting spread" among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

ESTABLISHING THE ISSUE PRICE FOR THE CERTIFICATES.

a) The Purchaser shall assist the City in establishing the issue price of the Certificates and shall execute and deliver to the City by the Delivery Date an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Purchaser, the City, and Norton Rose Fulbright US LLP, the City's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Certificates under applicable federal regulations). All actions to be taken by the City under this Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the City by Specialized Public Finance Inc., the City's Financial Advisor, and any notice or report to be provided to the City may be provided to the City's Financial Advisor.

b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Certificates) will apply to the initial sale of the Certificates (the "competitive sale requirements") because:

   i. the City shall disseminate this Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;
   ii. all bidders shall have an equal opportunity to bid;
   iii. the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
   iv. the City anticipates awarding the sale of the Certificates to the bidder who submits a firm offer to purchase the Certificates at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Certificates, as specified in the bid.

c) In the event that the competitive sale requirements are not satisfied, the City shall so advise the Purchaser. In such event, the City intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Certificates as the issue price of that maturity (the "hold-the-offering-price rule"). The City shall promptly advise the Purchaser, at or before the time of award of the Certificates, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Certificates. **Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies**. In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the City.

d) By submitting a bid, the Purchaser shall (i) confirm that the underwriters have offered or will offer the Certificates to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the bid submitted by the Purchaser and (ii) agree, on behalf of the underwriters participating in the purchase of the Certificates, that the underwriters will neither offer nor sell unsold Certificates of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

   i. the close of the fifth (5^{th}) business day after the sale date; or
   ii. the date on which the underwriters have sold at least 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

The Purchaser will advise the City promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

e) The City acknowledges that, in making the representations set forth above, the Purchaser will rely on (i) the agreement of each underwriter to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Certificates to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a retail or other third-party distribution agreement that was employed in connection with the initial sale of the Certificates to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering price rule, if applicable to the Certificates, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail or other third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Certificates.

f) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail or other third-party distribution agreement, as applicable, to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Purchaser and as set forth in the related pricing wires, (ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter or dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Certificates to the public to require each broker-dealer that is a party to such third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Purchaser or the underwriter and as set forth in the related pricing wires.

g) Sales of any Certificates to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Notice of Sale. Further, for purposes of this section of the Notice of Sale:

   i. "public" means any person other than an underwriter or a related party,
   ii. "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Certificates to the public),
   iii. a purchaser of any of the Certificates is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
   iv. "sale date" means the date that the Certificates are awarded by the City to the Purchaser.

PROVISION OF TEXAS ETHICS COMMISSION FORM 1295 ("TEC FORM 1295") . . . In accordance with Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the City may not award the Certificates to a bidder unless the winning bidder either:

(i) submits a Certificate of Interested Parties Form 1295 (the "TEC Form 1295") to the City as prescribed by the Texas Ethics Commission ("TEC"), or

(ii) certifies in the Official Bid Form that it is exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

In the event that the bidder's bid for the Certificates is the best bid received, the City, acting through its financial advisor, will promptly notify the winning bidder. That notification will serve as the City's conditional verbal acceptance of the bid, and, unless the bidder is exempt from filing a TEC Form 1295, such notification will obligate the winning bidder to promptly file a completed TEC Form 1295, as described below, in order to allow the City to complete the award. The City reserves the right to reject any bid that does not comply with the requirements prescribed herein.

For purposes of completing the TEC Form 1295, box 2 is name of the governmental entity (*City of Sherman, Texas*) and box 3 is the identification number assigned to this contract by the City *(Sherman CO 2024)* and description of the goods or services *(Purchase of the City of Sherman Combination Tax and Revenue Certificates of Obligation, Series 2024)*. **The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require certain business entities contracting with the City to complete the TEC Form 1295 electronically at https://www.ethics.state.tx.us/filinginfo/1295, print, complete the unsworn declaration, sign, and deliver, in physical form, the certified TEC Form 1295 that is generated by the TEC's "electronic portal" to the City. The completed and signed TEC Form 1295 must be sent by email, to the City's financial advisor at garry@spfmuni.com as soon as possible following the notification of conditional verbal acceptance and prior to the final written award.** Upon receipt of the final written award, the winning bidder must submit the TEC Form 1295 with original signatures by email to Bond Counsel as follows: Kristen.savant@nortonrosefulbright.com.

To the extent that the bidder is not exempt from filing a TEC Form 1295 and therefor makes such filing with the City, the Interested Party Disclosure Act and the TEC 1295 provide that such declaration is made "under penalty of perjury." Consequently, a bidder should take appropriate steps prior to completion of the TEC Form 1295 to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the TEC Form 1295. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed TEC Form 1295 is received. The City reserves the right to reject any bid that does not satisfy the requirement of a completed TEC Form 1295, as described herein. Neither the City nor its consultants have the ability to verify the information included in a TEC Form 1295, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the TEC Form 1295. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the City that its bid is the conditional winning bid.

Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

VERIFICATIONS OF STATUTORY REPRESENTATIONS AND COVENANTS . . . The City will not award the Certificates to a bidder unless the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as amended (the "Government Code"), are included in the bid. As used in such verifications, "affiliate" means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. Liability for breach of any such verification during the term of the Official Bid Form shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of the Official Bid Form or Official Notice of Sale, notwithstanding anything in the Official Bid Form or Official Notice of Sale to the contrary.

(i) **No Boycott of Israel (Texas Government Code Chapter 2271):** A bidder must verify that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and will not boycott Israel during the term of the Official Bid Form. As used in the foregoing verification, "boycott Israel" has the meaning provided in Section 2271.001, Government Code.

(ii) **Not a Sanctioned Company (Texas Government Code Chapter 2252):** A bidder must represent that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Government Code. The foregoing representation excludes a bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

(iii) **No Discrimination Against Firearm Entities or Firearm Trade Associations (Texas Government Code Chapter 2274):** A bidder must verify that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and will not discriminate against a firearm entity or firearm trade association during the term of the Official Bid Form. As used in the foregoing verification, "discriminate against a firearm entity or firearm trade association" has the meaning provided in Section 2274.001(3), Government Code.

(iv) **No Boycott of Energy Companies (Texas Government Code Chapter 2276):** A bidder must verify that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and will not boycott energy companies during the term of the Official Bid Form. As used in the foregoing verification, "boycott energy companies" has the meaning provided in Section 2276.001(1), Government Code.

FURTHER STATE LAW COMPLIANCE AND STANDING LETTER REQUIREMENT . . . The winning bidder represents that it has, as of the date bids are due on the Certificates and as of the Delivery Date, on file with the Texas Attorney General a standing letter addressing the representations and verifications hereinbefore described in this Notice of Sale in the form attached as Exhibit B to the Updated Recommendations for Compliance with the Texas BPA Verification and Representation Requirements (December 1, 2023) of the Municipal Advisory Council of Texas or any other form accepted by the Texas Attorney General (a "Standing Letter"). In addition, if subsequent to the filing of its Standing Letter, the winning bidder or the parent company, a wholly- or majority-owned subsidiary or another affiliate of such winning bidder receives or has received a letter from the Texas Comptroller of Public Accounts or the Texas Attorney General seeking (a) confirmation or verification of the these representations and verifications or (b) written verification that such bidder is a member of the Net Zero Banking Alliance, Net Zero Insurance Alliance, Net Zero Asset Owner Alliance, or Net Zero Asset Managers or of the representations and certifications contained in the winning bidder's Standing Letter (each a "Request Letter"), the winning bidder shall promptly notify the City and Bond Counsel (if it has not already done so) and provide to the City or Bond Counsel, two business days prior to the Delivery Date and additionally upon request by the City or Bond Counsel, written verification to the effect that its Standing Letter described in the preceding sentence remains in effect and may be relied upon by the City and the Texas Attorney General (the "Bringdown Verification"). The Bringdown Verification shall also confirm that the winning bidder (or the parent company, a wholly- or majority-owned subsidiary or other affiliate of the winning bidder that received the Request Letter) intends to timely respond or has timely responded to the Request Letter. The Bringdown Verification may be in the form of an e-mail. The City reserves the right, in its sole discretion, to reject any bid from a bidder that does not satisfy the foregoing requirements as of the deadline for bids for the Certificates. Liability for breach of any such verification during the term of this contract for purchase shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of this contract for purchase, notwithstanding anything in this contract for purchase to the contrary.

To the extent the Purchaser and each syndicate member listed on the Official Bid Form is unable to provide a Standing Letter in a form satisfactory to the Texas Office of the Attorney General, the City reserves the right to cash and accept the Good Faith Deposit (see "CONDITIONS OF THE SALE – Good Faith Deposit").THE LIABILITY OF THE BIDDER FOR BREACH OF ANY OF THE VERIFICATIONS MADE IN CONNECTION WITH CHAPTERS 2252, 2271, 2274, AND 2276, TEXAS GOVERNMENT CODE, AS AMENDED (COLLECTIVELY, THE "COVERED VERIFICATIONS") SHALL SURVIVE UNTIL BARRED BY THE APPLICABLE STATUTE OF LIMITATIONS, AND SHALL NOT BE LIQUIDATED OR OTHERWISE LIMITED BY ANY PROVISION OF THIS OFFICIAL NOTICE OF SALE OR THE OFFICIAL BID FORM. ADDITIONALLY, THE CITY RESERVES AND RETAINS ALL RIGHTS AND REMEDIES AT LAW AND IN EQUITY FOR PURSUIT AND RECOVERY OF DAMAGES, IF ANY, RELATING TO THE COVERED VERIFICATIONS.

Good Faith Deposit . . . A bank cashier's check, payable to the order of "City of Sherman," in the amount of $400,000 which is 2% of the proposed par value of the Bonds (the "Good Faith Deposit"), is required to accompany any bid. The Good Faith Deposit of the Purchaser will be retained uncashed by the City pending the Purchaser's compliance with the terms of its bid and this Official Notice of Sale. In the event the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with its bid then said check shall be cashed and accepted by the City and shall constitute full and complete liquidated damages, except as provided under the caption "Verifications of Statutory Representations and Covenants," for which damages shall not be liquidated or limited. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately; however, if submitted separately, it shall be made available to the City prior to the opening of the bids, and shall be accompanied by instructions from the bank on which it is drawn which authorizes its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the Date of Initial Delivery. No interest will be allowed on the Good Faith Deposit. Checks accompanying bids other than the winning bid will be returned promptly after the bids are opened, and an award of the Bonds has been made by the City.

DELIVERY OF THE CERTIFICATES AND ACCOMPANYING DOCUMENTS

CUSIP Numbers . . . It is anticipated that CUSIP identification numbers will appear on the Certificates, but neither the failure to print or type such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. The Financial Advisor will obtain CUSIP identification numbers from the CUSIP Service Bureau, New York, New York prior to the date of sale. CUSIP identification numbers will be made available to the Purchaser at the time the Certificates are awarded or as soon thereafter as practicable. All expenses in relation to the assignment, printing or typing of CUSIP numbers on the Certificates shall be paid by the City.

Delivery of Certificates . . . Delivery will be accomplished by the issuance of one Initial Certificate either in typed or printed form, in the aggregate principal amount of $20,000,000*, payable in stated installments to the initial Purchaser or its designee, signed by the Mayor and City Clerk, approved by the Attorney General of Texas, and registered and manually signed by the Texas Comptroller of Public Accounts. Upon delivery of the Initial Certificate, it shall be immediately cancelled and one definitive Certificate for each maturity will be registered and delivered only to Cede & Co., and deposited with DTC in connection with DTC's book-entry-only system. Delivery will be at the principal office of the Paying Agent/Registrar. Payment for the Certificates must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days' notice of the time fixed for delivery of the Certificates. It is anticipated that delivery of the Certificates can be made on or about October 31, 2024, and it is understood and agreed that the Purchaser will accept delivery of and make payment for the Certificates by 10:00 AM, CT, on October 31, 2024, or thereafter on the date the Certificates are tendered for delivery, up to and including November 14, 2024. If for any reason the City is unable to make delivery on or before November 14, 2024, the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit check or wire will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided such failure is due to circumstances beyond the City's reasonable control.

Conditions to Delivery . . . The obligation of the Purchaser to take up and pay for the Certificates is subject to the Purchaser's receipt of (a) the legal opinion of Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel for the City ("Bond Counsel") and (b) the no-litigation certificate, all as further described in the Official Statement. In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986 relating to the exemption of interest on the Certificates from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (no later than the close of business on the business day following the award of the bid) a certification as to their "issue price" substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions. In the event the successful bidder will not reoffer the Certificates for sale, such certificate may be modified in a manner approved by the City. In no event will the City fail to deliver the Certificates as a result of the Purchaser's inability to sell a substantial amount of the Certificates at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate not later than the close of business on the business day following the award of the bid, if its bid is accepted by the City. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

Legal Opinion . . . The Certificates are offered for delivery when, as and if issued, subject to the approval of the Attorney General of the State. Delivery of and payment for the Certificates is subject to the receipt by the Purchaser of an opinion of Bond Counsel, to the effect that the Certificates are valid and binding obligations of the City and that the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" in the Official Statement.

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*See "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amortization." Preliminary, subject to change.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the City to deliver the Certificates and of the Purchaser to accept delivery of and pay for the Certificates are subject to the condition that at the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition of the City from those set forth in or contemplated by the "Preliminary Official Statement" as it may have been supplemented or amended through the date of sale.

NO-LITIGATION CERTIFICATE . . . On the date of delivery of the Certificates to the Purchaser, the City will deliver to the Purchaser a certificate, as of the same date, to the effect that to the best of the City's knowledge no litigation of any nature is pending or, to the best of the certifying officials' knowledge or belief, threatened against the City, contesting or affecting the Certificates; restraining or enjoining the authorization, execution, or delivery of the Certificates; affecting the provision made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Certificates; or affecting the validity of the Certificates or the title of the present officials of the City.

CERTIFICATION OF OFFICIAL STATEMENT . . . At the time of payment for and delivery of the Initial Certificate, the City will execute and deliver to the Purchaser a certificate in the form set forth in the Official Statement.

GENERAL

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Specialized Public Finance Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

BLUE SKY LAWS . . . By submission of its bid, the Purchaser represents that the sale of the Certificates in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Certificates in accordance with the securities law of the states in which the Certificates are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and sole expense, in registering the Certificates or obtaining an exemption from registration in any state where such action is necessary, provided, however, that the City shall not be obligated to qualify as a foreign corporation or execute a general or special consent to service of process in any such jurisdiction.

NOT AN OFFER TO SELL . . . This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Certificates, but is merely notice of the sale of the Certificates. The offer to sell the Certificates is being made by means of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Certificates.

ISSUANCE OF ADDITIONAL DEBT . . . The City anticipates issuing additional ad valorem tax supported debt within the next six months.

RATINGS . . . The Certificates and the outstanding general obligation debt of the City have been rated "AA" by S&P Global Ratings, a division of S&P Global Inc. ("S&P").

THE PRELIMINARY OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15C2-12 . . . The City has prepared the accompanying Preliminary Official Statement and, for the limited purpose of complying with SEC Rule 15c2-12, deems such Official Statement to be "final" as of its date within the meaning of such Rule for the purpose of review prior to bidding. To the best knowledge and belief of the City, the Preliminary Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates. Representations made and to be made by the City concerning the absence of material misstatements and omissions in the Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the Official Statement.

The City will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven (7) business days from the sale date copies of the Official Statement reflecting interest rates and other terms relating to the initial reoffering of the Certificates. The Purchaser shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award. Except as noted above, the City assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement in connection with the offering or reoffering of the Certificates.

CONTINUING DISCLOSURE AGREEMENT . . . The City will agree in the Ordinance to provide certain periodic information and notices of certain specified events in accordance with Securities and Exchange Commission Rule 15c2-12, as described in the Preliminary Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." The Purchaser's obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . In previous continuing disclosure undertakings, the City has agreed to supply financial information and operating data with respect to the City of the general type of information contained in specified tables of the applicable Official Statement. The annual financial information filings made by the City as a result of these undertakings for each of the last five years have consisted of the related City's Annual Comprehensive Financial Report ("ACFR"), which the City believes contains the information of the general type of information contained in the specified tables. Please note that certain information in the specified tables is not presented explicitly in the Annual Reports but can be calculated from information in the ACFR.

On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Certificates, approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Certificates by the Purchaser.

David Plyler
Mayor
City of Sherman, Texas

Linda Ashby
City Clerk
City of Sherman, Texas

September 26, 2024

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OFFICIAL BID FORM

Honorable Mayor and City Council
City of Sherman, Texas
317 South Travis Street
Sherman, Texas 75090

October 7, 2024

Members of the City Council:

Reference is made to your Preliminary Official Statement and Notice of Sale and Bidding Instructions, dated September 26, 2024, of $20,000,000* City of Sherman, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2024, both of which constitute a part hereof.

For your legally issued Certificates, in the aggregate principal amount of $20,000,000*, we will pay you a price of $_______________, representing approximately _____________% of the par value. Such Certificates mature August 15, in each of the years and in the amounts and interest rates shown below:

Maturity (August 15)	Principal Amount*	Interest Rate	Maturity (August 15)	Principal Amount*	Interest Rate
2025	$ 1,000,000	%	2040	$ 615,000	%
2026	330,000	%	2041	640,000	%
2027	345,000	%	2042	670,000	%
2028	360,000	%	2043	700,000	%
2029	380,000	%	2044	730,000	%
2030	395,000	%	2045	765,000	%
2031	415,000	%	2046	800,000	%
2032	430,000	%	2047	835,000	%
2033	450,000	%	2048	870,000	%
2034	470,000	%	2049	910,000	%
2035	490,000	%	2050	950,000	%
2036	515,000	%	2051	995,000	%
2037	535,000	%	2052	1,040,000	%
2038	560,000	%	2053	1,085,000	%
2039	585,000	%	2054	1,135,000	%

Of the principal maturities set forth in the table above, Term Certificates have been created as indicated in the following table (which may include multiple Term Certificates, one Term Certificate or no Term Certificate if none is indicated). For those years which have been combined into a Term Certificate, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Certificate maturity date shall mature in such year. The Term Certificates created are as follows:

Term Certificate Maturing August 15	Year of First Mandatory Redemption	Principal Amount	Interest Rate
		$	%
		$	%
		$	%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TRUE INTEREST COST ______________________%

*See "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amortization." Preliminary, subject to change.

The Initial Certificate shall be registered in the name of ______________________, which will, upon payment for the Certificates, be cancelled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the book-entry-only system.

A wire transfer or a cashiers or certified check to the City in the amount of $400,000 will be made available in accordance with the Notice of Sale and Bidding Instructions made a part hereof. Should we fail or refuse to make payment for the Certificates in accordance with the terms and conditions set forth in the Notice of Sale and Bidding Instructions, the proceeds of this deposit shall be retained by the City as complete liquidated damages against us, except as provided under the caption "Verifications of Statutory Representations and Covenants," for which damages shall not be liquidated or limited. Please check the box below to designate your Good Faith Deposit option.

We agree to accept delivery of the Certificates utilizing the book-entry-only system through DTC and make payment for the Initial Certificate in immediately available funds in the Corporate Trust Division, The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, not later than 10:00 AM, CDT, on October 31, 2024, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the purchaser of the Certificates to complete the DTC Eligibility Questionnaire.

Upon notification of conditional verbal acceptance, the undersigned will either (1) complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Form 1295") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Form 1295 that is generated by the TEC's electronic portal will be printed, signed and sent by email to the City's Bond Counsel at Kristen.savant@nortonrosefulbright.com or (2) provide written confirmation of its exemption from such requirement to complete a Form 1295. The undersigned understands that, unless exempt, the failure to provide the certified Form 1295 will prohibit the City from awarding the enclosed bid.

All syndicate members listed on the bid form must either submit a Disclosure Form or certify they are exempt from filing the Disclosure Form. Additionally, all syndicate members listed on the bid form (i) must have on file a Standing Letter acceptable to the Texas Attorney General addressing the representations and verifications described under the heading "CONDITIONS OF THE SALE – Verifications of Statutory Representations and Covenants," (ii) will, upon request of the City or Bond Counsel on behalf of the City, provide the City and Bond Counsel with a copy of its Standing Letter, and (iii) will, upon request of the City or Bond Counsel on the City's behalf, provide a Bringdown Verification.

Through submittal of this executed Official Bid Form, the undersigned makes the representations and verifications provided in the Notice of Sale and Bidding Instructions under the heading "Verifications of Statutory Representations and Covenants" and "Further State Law Compliance and Standing Letter Requirement."

The undersigned agrees to complete, execute, and deliver to the City, at least five business days prior to delivery of the Certificates, a certificate relating to the "issue price" of the Certificates in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the City and Bond Counsel.

By submitting this bid, the Initial Purchaser understands and agrees that if Initial Purchaser should fail or refuse to take up and pay for the Certificates in accordance with this bid, or it is determined that after the acceptance of this bid by the City that the Initial Purchaser was found not to satisfy the requirements described in the Official Notice of Sale and Bidding Instructions under the heading "CONDITIONS OF THE SALE" and as a result the Texas Attorney General will not deliver its approving opinion of the Certificates, then the check submitted herewith as the Initial Purchaser's Good Faith Deposit shall be cashed and accepted by the City. IF THE CITY CASHES THE INITIAL PURCHASER'S GOOD FAITH DEPOSIT AS DESCRIBED ABOVE, SUCH ACTION DOES NOT CONSTITUTE COMPLETE OR LIQUIDATED DAMAGES RELATED TO THE INITIAL PURCHASER'S BREACH OF ANY OF THE COVERED VERIFICATIONS.

By submitting this bid, the Initial Purchaser understands and agrees that the liability of the Initial Purchaser for breach of any of the verifications made in connection with Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as amended and as described above (collectively, the "Covered Verifications") shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of this Official Bid Form or the Official Notice of Sale. Additionally, the Initial Purchaser acknowledges and agrees that the City reserves and retains all rights and remedies at law and in equity for pursuit and recovery of damages, if any, relating to the Covered Verifications.

The undersigned certifies that the Purchaser [is]/[is not] exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

____
Name of Purchaser or Manager

____
Authorized Representative

____
Phone Number

____
Signature

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by City of Sherman, Texas, subject to and in accordance with the Notice of Sale and Bidding Instructions, this the 7th day of October, 2024.

ATTEST:

______________________________	______________________________
City Clerk City of Sherman, Texas	Mayor City of Sherman, Texas

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$20,000,000*
CITY OF SHERMAN, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of ___________________, ______________, ____________ (the "Purchaser"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "Obligations") of the City of Sherman, Texas (the "Issuer").

1. ***Reasonably Expected Initial Offering Price***.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Obligations to the Public by ___________________ are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Obligations used by the "Purchaser" in formulating its bid to purchase the Obligations. Attached as Schedule B is a true and correct copy of the bid provided by the "Purchaser" to purchase the Obligations.

(b) _____________________ was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by _____________________ constituted a firm offer to purchase the Obligations.

2. ***Defined Terms***.

(a) *Maturity* means Obligations with the same credit and payment terms. Obligations with different maturity dates, or Obligations with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is October 7, 2024.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Obligations to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Obligations to the Public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Obligations to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the tax certificate with respect to the Obligations and with respect to compliance with the federal income tax rules affecting the Obligations, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Obligations is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Obligations.

[NAME OF UNDERWRITER]

By: ________________________________

Name:________________________________

Title: ________________________________

Dated: _____________________

*Preliminary, subject to change.

SCHEDULE A
EXPECTED OFFERING PRICES
(*Attached*)

SCHEDULE B
COPY OF UNDERWRITER'S BID
(*Attached*)

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PRELIMINARY OFFICIAL STATEMENT
Dated September 26, 2024

Rating:
S&P: "AA"
(See "OTHER INFORMATION – Rating" herein)

NEW ISSUE – Book-Entry-Only

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

$20,000,000*
CITY OF SHERMAN, TEXAS
(A political subdivision of the State of Texas located in Grayson County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024

Dated Date: October 31, 2024 **Due: August 15, as shown on page 2**
Interest to accrue from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the $20,000,000* City of Sherman, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2024 (the "Certificates") will accrue from the Date of Initial Delivery (defined below) and will be payable on February 15 and August 15 of each year commencing February 15, 2025, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – Book-Entry-Only System"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance to be passed by the City Council of the City (the "Ordinance"). The Certificates constitute direct obligations of the City of Sherman, Texas (the "City"), payable from a combination of the levy and collection of a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and a limited pledge not to exceed $1,000 derived from the net revenues of the City's Waterworks and Sewer System as provided in the Ordinance (see "THE CERTIFICATES – Authority for Issuance" and "THE CERTIFICATES – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the (i) designing, constructing, improving, extending, expanding, upgrading developing, and equipping streets, roads, bridges, and intersections, including drainage, utility line relocations, sidewalks, entryways, landscaping, lighting, curbs, gutters, and acquisition of land and rights-of-way or other easements therefor; (ii) designing, constructing, acquiring, improving and equipping City administrative facilities, including fleet and equipment services facilities, solid waste and recycling facilities, building maintenance facilities, ground maintenance facilities, and facilities for the streets, parks, utility distribution and solid waste departments, and the purchase of land and acquisition of any rights-of-way or other easements therefor; (iii) designing, constructing, acquiring, purchasing, designing, renovating, improving and equipping public safety facilities, including a fire station and a public safety training facility, and the acquisition of land and rights-of-way or other easements therefor; (iv) designing, constructing, and renovating Westhill Cemetery, including creek erosion improvements; and (v) paying professional services fees and other such costs incurred in connection therewith including the costs of issuing the Certificates.

CUSIP PREFIX: 824161
MATURITY SCHEDULE
See Page 2 Hereof

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Purchaser (as hereinafter defined) and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas (see "APPENDIX D – Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Certificates will be available for initial delivery through DTC on October 31, 2024 (the "Date of Initial Delivery").

BIDS DUE ON MONDAY, OCTOBER 7, 2024, AT 10:00 AM, CENTRAL TIME

*Preliminary, subject to change.

MATURITY SCHEDULE*

8/15 Maturity	Principal Amount	Rate	Initial Yield	CUSIP Numbers(1)
2025	$ 1,000,000			
2026	330,000			
2027	345,000			
2028	360,000			
2029	380,000			
2030	395,000			
2031	415,000			
2032	430,000			
2033	450,000			
2034	470,000			
2035	490,000			
2036	515,000			
2037	535,000			
2038	560,000			
2039	585,000			
2040	615,000			
2041	640,000			
2042	670,000			
2043	700,000			
2044	730,000			
2045	765,000			
2046	800,000			
2047	835,000			
2048	870,000			
2049	910,000			
2050	950,000			
2051	995,000			
2052	1,040,000			
2053	1,085,000			
2054	1,135,000			

(Interest Accrues from the Date of Initial Delivery)

*See "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amortization," in the Notice of Sale and Bidding Instructions. Preliminary, subject to change.

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc. 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. The City, the Financial Advisor and the Initial Purchaser take no responsibility for the accuracy of such numbers.

REDEMPTION . . . The City reserves the right to redeem the Certificates maturing on and after August 15, 2034, on August 15, 2033, or any date thereafter, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest as further described herein (see "THE CERTIFICATES – Optional Redemption" herein). Additionally, the Purchaser may select certain consecutive maturities of the Certificates to be grouped together as a "Term Certificate" and such "Term Certificates" would also be subject to mandatory sinking fund redemption.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule"), this document constitutes an "official statement" of the City with respect to the Certificates that has been deemed "final" by the City as of its date except for the omission of the information permitted by Subsection (b)(1) of the Rule.

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

The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinion or that they will be realized. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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 ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM.

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

The Purchaser has provided the following sentence for inclusion in this Official Statement. The Purchaser has reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Purchaser 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 JURISDICTION IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21e OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. SEE "LEGAL MATTERS - FORWARD-LOOKING STATEMENTS" HEREIN.

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

THE CITY .... The City of Sherman, Texas (the "City") is a political subdivision located in Grayson County and is a political subdivision of the State of Texas. It is a home-rule city, and as such it operates under a City Charter. Voters approved the first charter on November 6, 1915. The City operates under the City Council/Manager form of government. The Mayor and six Council Members formulate the operating policy of the government, and the City Manager serves as the chief administrative officer (see "INTRODUCTION – Description of the City").

THE CERTIFICATES .... The Certificates are issued as $20,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2024. The Certificates are issued as serial Certificates maturing on August 15 in the years 2025 through and including 2054, unless the Purchaser designates one or more maturities as Term Certificates (see "THE CERTIFICATES – Description of the Certificates").

PAYMENT OF INTEREST .... Interest on the Certificates accrues from the Date of Initial Delivery (as defined on the cover page hereof) and is payable commencing on February 15, 2025, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES – Description of the Certificates" and "THE CERTIFICATES – Optional Redemption").

AUTHORITY FOR ISSUANCE .... The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance authorizing the issuance of the Certificates to be passed by the City Council (the "Ordinance") (see "THE CERTIFICATES – Authority for Issuance").

SECURITY .... The Certificates constitute direct obligations of the City secured by a continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City and a limited pledge not to exceed $1,000 derived from the net revenues of the City's Waterworks and Sewer System (see "THE CERTIFICATES – Security and Source of Payment").

REDEMPTION .... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2034, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – Optional Redemption"). Additionally, the Certificates may be subject to mandatory redemption in the event the Purchaser elects to designate one or more maturities as Term Certificates.

TAX EXEMPTION .... In the opinion of Bond Counsel, subject to the matters described in "TAX MATTERS" herein, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law and will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. See "TAX MATTERS – Tax Exemption" for a discussion of the opinion of Bond Counsel.

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*Preliminary, subject to change.

Use of Proceeds .... Proceeds from the sale of the Certificates will be used for the (i) designing, constructing, improving, extending, expanding, upgrading developing, and equipping streets, roads, bridges, and intersections, including drainage, utility line relocations, sidewalks, entryways, landscaping, lighting, curbs, gutters, and acquisition of land and rights-of-way or other easements therefor; (ii) designing, constructing, acquiring, improving and equipping City administrative facilities, including fleet and equipment services facilities, solid waste and recycling facilities, building maintenance facilities, ground maintenance facilities, and facilities for the streets, parks, utility distribution and solid waste departments, and the purchase of land and acquisition of any rights-of-way or other easements therefor; (iii) designing, constructing, acquiring, purchasing, designing, renovating, improving and equipping public safety facilities, including a fire station and a public safety training facility, and the acquisition of land and rights-of-way or other easements therefor; (iv) designing, constructing, and renovating Westhill Cemetery, including creek erosion improvements; and (v) paying professional services fees and other such costs incurred in connection therewith including the costs of issuing the Certificates.

Rating .... The Certificates and the outstanding general obligation debt of the City have been rated "AA" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") (see "OTHER INFORMATION – Rating").

Book-Entry-Only System .... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – Book-Entry-Only System").

Payment Record .... The City has never defaulted in the payment of its general obligation tax debt.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Term Expires	Occupation
David Plyler Mayor	2024	President, Plyler Construction
Shawn C. Teamann Deputy Mayor, District #1	2025	Owner, Nautilus Sports and Fitness Center
Josh Stevenson Councilmember, District #2	2026	Sales/Inspector for Eric L. Davis Engineering, Inc., Grayson County
Juston Dobbs Councilmember, Place #2	2024	Financial Advisor, Dobbs Wealth Management
Pamela L. Howeth Councilmember, District #3	2025	Retired
Henry Marroquin Councilmember, Place #1	2024	Owner, H&R Construction
Daron Holland Councilmember, District #4	2026	Owner, Holland Logos

CITY OFFICIALS

Name	Position
Robby Hefton, CPM	City Manager
Clint Philpott, PE	Assistant City Manager
Terrence Steele, CPM	Assistant City Manager
Dr. Zachary Flores	Assistant City Manager
Mary Lawrence, CPA	Chief Financial Officer
Linda Ashby	City Clerk

CONSULTANTS AND ADVISORS

Auditors .... Patillo, Brown & Hill, L.L.P.
Waco, Texas

Bond Counsel .... Norton Rose Fulbright US LLP
Dallas, Texas

Financial Advisor .... Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Mary Lawrence, CPA Chief Financial Officer City of Sherman 317 South Travis Street Sherman, Texas 75090 (903) 892-7205 (903) 892-9394 Fax	or	Garry Kimball Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 (512) 275-7300 (512) 275-7305 Fax

PRELIMINARY OFFICIAL STATEMENT
RELATING TO

$20,000,000*
CITY OF SHERMAN, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the $20,000,000* City of Sherman, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2024 (the "Certificates"). The Certificates are being issued pursuant to an ordinance to be approved by the City Council of the City of Sherman, Texas (the "City") on October 7, 2024 (the "Ordinance"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Specialized Public Finance Inc., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board, at www.emma.msrb.org; 1300 I St. NW, Ste 1000, Washington, DC 2005. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

Description of the City . . . The City of Sherman, Texas (the "City") is a political subdivision located in Grayson County and is a political subdivision of the State of Texas (the "State"). It is a home-rule city, and as such it operates under a City Charter. Voters approved the first charter on November 6, 1915. The City operates under the City Council/Manager form of government. The Mayor and six Council Members formulate the operating policy of the government, and the City Manager serves as the chief administrative officer. The City's estimated 2024 population is 43,273.

THE CERTIFICATES

Description of the Certificates . . . The Certificates are dated October 31, 2024 (the "Dated Date") and mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Certificates will accrue from the Date of Initial Delivery (as defined on the cover page hereof), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2025 until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry-only system described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "Book-Entry-Only System" herein.

Authority for Issuance . . . The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an Ordinance to be passed by the City Council.

Security and Source of Payment . . . The Certificates constitute direct obligations of the City secured by a continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City and a limited pledge not to exceed $1,000 derived from the net revenues of the City's Waterworks and Sewer System.

Tax Rate Limitation . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution limits the maximum ad valorem tax rate for home-rule cities to $2.50 per $100 taxable assessed valuation for all purposes. The City Charter of the City adopts the constitutionally authorized maximum tax rate of $2.50 per $100 taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all general obligation debt service calculated at the time of issuance based on 90% tax collections.

*Preliminary, subject to change.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after August 15, 2034, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date. Additionally, in the event any of the Certificates are structured as "Term Certificates," such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance, which provisions will be included in the final Official Statement.

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

The Paying Agent/Registrar and the City, 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, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised or any such notice.

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

Redemption of portions of the Certificates by the City 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 City or the Paying Agent/Registrar. Neither the City 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 "THE CERTIFICATES – Book-Entry-Only System" herein.

DEFEASANCE . . . The Ordinance provides for the defeasance of Certificates when the payment of the principal of and premium, if any, on such Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or an authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by the City's financial advisor, the Paying Agent/Registrar, an independent public accountant or other qualified third party 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 Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and (d) any other then authorized securities or obligations under applicable law that may be used to defease obligations such as the Certificates. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the 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.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Government Securities or that for any other Government Security will be maintained at any particular rating category. Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. 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 take any action amending the terms of the Certificates are extinguished.

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 DTC while the Certificates are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, 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 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 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 Certificates 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 certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market 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 Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 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 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 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.

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 MMI 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).

All 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 Certificates 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, 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 distributions and dividend 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 the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City does not take any responsibility for the accuracy thereof.

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, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

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

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new 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 business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month. 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 City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("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 Holder 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.

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance does not establish specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City under the Ordinance, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the obligations contained in the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the 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 Certificateholders 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. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) ("*Wasson*") that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. The Texas Supreme 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 the alleged breach. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the State. If sovereign immunity is determined to exist, then 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. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificate or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. 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 Certificateholders 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 creditors' rights 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 Certificate that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS TO THE ORDINANCE . . . The City may amend the Ordinance without the consent of or notice to any registered owners of the Certificates in any manner not detrimental to the interests of such registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding, 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 then outstanding no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Certificates, reduce the principal amount thereof, 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 the Certificates required to be held by the holders of such Certificates for consent to any such amendment, addition, or rescission as provided in the Ordinance.

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the (i) designing, constructing, improving, extending, expanding, upgrading developing, and equipping streets, roads, bridges, and intersections, including drainage, utility line relocations, sidewalks, entryways, landscaping, lighting, curbs, gutters, and acquisition of land and rights-of-way or other easements therefor; (ii) designing, constructing, acquiring, improving and equipping City administrative facilities, including fleet and equipment services facilities, solid waste and recycling facilities, building maintenance facilities, ground maintenance facilities, and facilities for the streets, parks, utility distribution and solid waste departments, and the purchase of land and acquisition of any rights-of-way or other easements therefor; (iii) designing, constructing, acquiring, purchasing, designing, renovating, improving and equipping public safety facilities, including a fire station and a public safety training facility, and the acquisition of land and rights-of-way or other easements therefor; (iv) designing, constructing, and renovating Westhill Cemetery, including creek erosion improvements; and (v) paying professional services fees and other such costs incurred in connection therewith including the costs of issuing the Certificates.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Certificates will be applied approximately as follows:

Sources:	
Principal	$
Bid Premium	
Total Sources	$
Uses:	
Deposit to Project Fund	$
Deposit to Debt Service Fund	
Purchaser's Discount	
Costs of Issuance	
Total Uses	$

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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 appraisal of property within the City is the responsibility of the Grayson Central Appraisal District (the "Appraisal District"). 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.

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").

On July 13, 2023, during the Second Special Session, the Texas Legislature passed Senate Bill 2, which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on 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, the Appraisal Cap 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 Cap takes effect on January 1, 2024.

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. Cities, counties, and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

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 outside the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or outside 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.

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 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. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, 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 Tax Code, as amended.

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.

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 "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" herein.

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 was set at $59,562,331 for the 2024 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 City 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).

"preceding total value" means a taxing unit's current total value in the applicable preceding tax year.

"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 greater of (i) zero; or (ii) the sum of the foregone revenue amount for each of the tax years 2021 foregone revenue amount, the 2022 foregone revenue amount, and 2023 foregone revenue amount divided by the current total value.

“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.

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 posted notice prominently on the appraisal district’s website (if the appraisal district maintains a website) and the assessor for the city has prominently posted on the city’s website notice informing property owners of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase. The appraisal district is also required to post notice in a newspaper of general circulation by August 7 or as soon thereafter as practicable or if there is no newspaper of general circulation, the notice must be posted in the appraisal district’s office.

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.

2023 Legislative Session – Legislation Affecting Ad Valorem Taxation . . . The 88th Texas Legislative Session convened in regular session on January 10, 2023 and concluded on May 29, 2023. 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.

The Governor called the first special session which began on May 29, 2023 and concluded on June 27, 2023. The Governor called a second special session which convened on June 27, 2023 and concluded on July 13, 2023. The charge for the second special session included "Legislation to cut property-tax rates solely by reducing the school district maximum compressed tax rate in order to provide lasting property-tax relief for Texas taxpayers" and "Legislation to put Texas on a pathway to eliminate school district maintenance and operations property taxes." During the second special session, the Legislature passed Senate Bill 2 ("SB 2") which included provisions that, among other things, increased the school district mandatory homestead exemption from $40,000 to $100,000, prohibited cities, school districts and counties that adopted a local option homestead exemption for the 2022 tax year from reducing the amount of or repealing such exemption through December 31, 2027, and placed further limitations on increases in appraised values on certain classes of properties. Certain provisions of SB 2, including those increasing the school district mandatory residential homestead exemption to $100,000, prohibiting the reduction or repeal of the local option homestead exemption, and placing limitations on increasing the appraised values on certain classes of properties, was passed by voters in an election on November 7, 2023.

The Governor called a third special session which convened on October 9, 2023 and concluded on November 7, 2023. The charge for the third special session, which was expanded on October 31, 2023, included, among other things, (i) "Legislation providing education savings accounts for all Texas schoolchildren" and "Legislation relating to primary and secondary education, including the public school finance system." The Governor called a fourth special session to address school safety, school funding, and border security, which convened on November 7, 2023, and adjourned on December 5, 2023, without taking any action that is related to the Obligations.

During the 88th Texas Legislative Session, the Legislature approved a general appropriations act and legislation affecting ad valorem taxation procedures affecting cities. The City can make no representation or predictions concerning the substance or the effect of any legislation passed in a prior session or that may be considered in a future session of the Legislature.

DEBT TAX RATE LIMITATIONS . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance based on 90% tax collections.

CITY APPLICATION OF PROPERTY TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older or certain disabled persons.

The City does not grant an additional exemption of 20% of the market value of residence homesteads of all taxpayers, with a minimum exemption of $5,000.

The City has adopted a tax freeze for residents 65 years of age or older and the disabled.

The City does not tax non-business vehicles.

The City does grant the "freeport property" tax exemption.

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has adopted a tax abatement policy and has entered into several tax abatement agreements, the value of which for the 2023/2024 tax year is shown in "APPENDIX A – Table 1." For more information, see "APPENDIX C – Excerpts from the City's Annual Financial Report, September 30, 2023."

The City has established one or more tax increment reinvestment zones. For more information, see "APPENDIX C – Excerpts from the City's Annual Financial Report, September 30, 2023."

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

GENERAL BOND DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law. Pursuant to the City's Home Rule Charter, the total principal amount of aggregate debt instruments secured by the value of property within the City that is subject to ad valorem taxes at the time of issuance shall at no time exceed ten percent (10%) of the value of the property within the City subject to ad valorem tax (see "THE CERTIFICATES – Tax Rate Limitation").

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . None

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City anticipates issuing additional ad valorem debt within the next six months.

EMPLOYMENT BENEFIT PLANS:

<u>Texas Municipal Retirement System</u>. All permanent, full-time City employees are covered by the Texas Municipal Retirement System ("TMRS"). TMRS is a nontraditional, joint contributory, defined benefit plan which is covered by a State statute and is administered by six trustees appointed by the Governor of Texas. TMRS operates independently of its over 700 member cities.

Under the City's basic plan, which includes a factor for updated service credits, an employee who retires receives an annuity based on the amount of the employee's contributions over-matched two for one by the City. Employee contribution rate is 7% of salary. For more information see "APPENDIX C – Excerpts from the City's Annual Financial Report, September 30, 2023," Note IV.I, Defined Benefit Pension Plan.

Deferred Compensation Plan. The City offers all employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. For more information see "APPENDIX C – Excerpts from the City's Annual Financial Report, September 30, 2023," Note IV.G, Deferred Compensation Plan.

Health Insurance Plan. The City contracts with a third-party administrator to administer a self-insured health insurance plan. For more information see "APPENDIX C – Excerpts from the City's Annual Financial Report, September 30, 2023," Note IV.B, Health Insurance.

Post-Employment Health Plan Benefits; GASB . . . In addition to its retirement and health insurance benefits, the City provides health care benefits for certain retired employees, which are sometimes referred to as other post-employment benefits ("OPEB"). The City allows retired employees to enroll in the City's health insurance plan. Retirees are required to pay the premium cost for both single and dependent coverage. The City also subsidizes certain retirees and dependents as a result of prior commitments. City contributions for these post-employment retirement benefits are strictly discretionary and are financed on a pay-as-you-go basis. For more information see "APPENDIX C – Excerpts from the City's Annual Financial Report, September 30, 2023," Note IV.J, Other Postemployment Benefits.

INVESTMENTS

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

Legal Investments . . . Under State law, the City is authorized to make investments meeting the requirements of the PFIA, which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, which require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (12) certain bankers' acceptances with the stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (13) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a bank organized under the laws of the United States or any state, (14) a no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission that provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 (15 U.S.C Section 80a-1 et seq.) and complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Except as stated above or inconsistent with its investment policy, the City 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 City is not required to liquidate the investment unless it no longer carries a required rating, in which case the City is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

INVESTMENT POLICIES . . . Under State law, the City is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The City must adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the City's investments 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." The City is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

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TAX MATTERS

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

In rendering the foregoing opinion, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Certificates. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance 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 City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the City 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 City 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.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. 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, 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, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

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.

Existing law may change to reduce or eliminate the benefit to bondholders 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.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES . . . The initial public offering price of certain Certificates (the "Discount Certificates") may be less than the amount payable on such Certificates at maturity. 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 Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Certificates described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount 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 the tax 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, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, 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 of accrued original issue discount on Discount Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The purchase price of certain Certificates (the "Premium Certificates") paid by an owner may be greater than the amount payable on such Certificates at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Certificate over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Certificate in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium that is amortizable each year by a 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 bond 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.

CONTINUING DISCLOSURE OF INFORMATION

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. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board ("MSRB"), who will make such information available to the general public, without charge, through its Electronic Municipal Markets Access (EMMA) system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the City of the general type included in APPENDIX A of this Official Statement in Tables 1 through 4 and 6 through 9 (the "Annual Financial Information"). The City will additionally provide financial statements of the City (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in APPENDIX C and (ii) audited, if the City commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The City will update and provide the Annual Financial Information within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2024. The City may provide the Financial Statements earlier, including at the time it provides its Annual Financial Information, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30, the Annual Financial Information must be provided by the last day of March in each year, and the Financial Statements must be provided by September 30th of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

NOTICE OF CERTAIN EVENTS . . . The City will also provide 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; (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 trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), 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 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."

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. Additionally, the City intends the words used in clauses (15) and (16) of the preceding paragraph and the definition of "financial obligation" in these clauses to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

AVAILABILITY OF INFORMATION. . . In connection with its continuing disclosure agreement entered into with respect to the Certificates, the City will file all required information and documentation 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 at www.emma.msrb.org.

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 continuing disclosure agreement or from any statement made pursuant to its agreement, although holders 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 from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized Bond Counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates.

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . In previous continuing disclosure undertakings, the City has agreed to supply financial information and operating data with respect to the City of the general type of information contained in specified tables of the applicable Official Statement. The annual financial information filings made by the City as a result of these undertakings for each of the last five years have consisted of the related City's Annual Comprehensive Financial Report ("ACFR"), which the City believes contains the information of the general type of information contained in the specified tables. Please note that certain information in the specified tables is not presented explicitly in the Annual Reports but can be calculated from information in the ACFR.

OTHER INFORMATION

Rating . . . The Certificates and the outstanding general obligation debt of the City have been rated “AA” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Certificates.

Cybersecurity . . . The City, like other cities in the State, utilizes technology in conducting its operations. As a user of technology, the City potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the City may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the City. The City employs a multi-layered approach to combating cybersecurity threats. While the City deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the City’s finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial and there is no assurance that these costs will be covered by insurance. Further, cybersecurity breaches could expose the City to litigation and other legal risks, which could cause the City to incur other costs related to such legal claims or proceedings.

Registration and Qualification of Certificates for Sale . . . The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates 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 provisions.

Legal Investments and Eligibility to Secure Public Funds in Texas . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – 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 capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL MATTERS

Legal Opinion . . . Issuance of the Certificates are subject to the approving legal opinion of the Attorney General of Texas to the effect that the Initial Certificate is a valid and binding obligation of the City. Issuance of the Certificates are also subject to the legal opinion of Norton Rose Fulbright US LLP (“Bond Counsel”), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Certificates, to the effect that the Certificates are valid and binding obligations of the City payable from the sources and 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. Bond Counsel’s legal opinion will also address the matters described above under “TAX MATTERS – Tax Exemption.” Such opinion will express no opinion with respect to the sufficiency of the security for or the marketability of the Certificates. In connection with the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the City. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are based upon a percentage of Certificates actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Certificates.

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.

NO-LITIGATION CERTIFICATE . . . The City will furnish to the Purchaser a certificate, dated as of the date of delivery of the Certificates, executed by both the Mayor and City Clerk of the City, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the Purchaser to take and pay for the Certificates, and of the City to deliver the Certificates, are subject to the condition that, up to the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition (financial or otherwise) of the City from that set forth or contemplated in the Official Statement.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

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.

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, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

INITIAL PURCHASER . . . After requesting competitive bids for the Certificates, the City accepted the bid of _________________ (the "Purchaser") to purchase the Certificates at the interest rates shown on page 2 hereof at a price of approximately ___________% of par. The Purchaser can give no assurance that any trading market will be developed for the Certificates 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.

MISCELLANEOUS . . . The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

Reference is made to original documents in all respects. The Ordinance authorizing the issuance of the Certificates will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Purchaser.

CERTIFICATION AS TO OFFICIAL STATEMENT . . . At the time of payment for and delivery of the Certificates, the Purchaser will be furnished a certificate executed by the proper officials of the City acting in their official capacity, to the effect that: (a) the descriptions and statements of or pertaining to the City contained in the final Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such final 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, 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 final 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 final 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, 2023, the date of the last financial statements of the City appearing in the final Official Statement as APPENDIX C.

Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the City delivers the Certificates to the Purchaser at closing, unless extended by the Purchaser. All information with respect to the resale of the Certificates subsequent to the "end of the underwriting period" is the responsibility of the Purchaser.

This Official Statement will be approved by the City Council of the City for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

<u>APPENDIX A</u>

Financial Information of the City

ASSESSED VALUATION		**TABLE 1**
2024 Actual Market Value of Taxable Property		$ 10,480,392,108
Less Exemptions:		
Local Over-65/Disabled	$ 101,557,292	
Abatement	77,550,507	
Pollution Control Exemption Loss	65,138,200	
Veterans Exemption Loss	73,238,635	
Freeport Exemption/Miscellaneous	151,279,863	
Other	689,646,759	
Exempt Property	869,785,933	
	$ 2,028,197,189	
2024 Net Taxable Assessed Valuation (100% of Actual)[1]		$ 8,452,194,919

(1) Source information provided by the Grayson Central Appraisal District, Certified Totals. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

GENERAL OBLIGATION BONDED DEBT (includes self-supporting debt)	**TABLE 2**
General Obligation Debt Principal Outstanding (as of August 31, 2024):	
Tax & Waterworks & Sewer System (Limited Pledge) Rev. Certificates of Obligation, Series 2016[1]	$ 4,785,000
Combination Tax & Revenue Certificates of Obligation, Series 2017[1]	13,850,000
General Obligation Refunding Bonds, Series 2017[1]	4,325,000
Tax & Municipal Drainage Utility System Rev. Certificates of Obligation, Series 2017A[1]	2,840,000
Combination Tax & Revenue Certificates of Obligation, Series 2018[1]	16,380,000
Combination Tax & Revenue Certificates of Obligation, Series 2019[1]	16,725,000
Combination Tax & Revenue Certificates of Obligation, Series 2021[1]	27,405,000
Limited Tax Notes, Series 2021[1]	690,000
Limited Tax Notes, Series 2022[1]	1,080,000
Limited Tax Notes, Series 2023[1]	2,120,000
Combination Tax & Revenue Certificates of Obligation, Series 2023[1]	72,185,000
Limited Tax Notes, Series 2024[1]	3,110,000
The Certificates, Series 2024[1][2]	20,000,000
Total Gross General Obligation Debt Outstanding	$ 185,495,000
Unaudited General Obligation Interest & Sinking Fund Balance as of 8/31/24[1]	$ 1,152,608
Net General Obligation Debt Outstanding	$ 184,342,392
Ratio of Net General Obligation Debt to 2023 Net Taxable Assessed Valuation	2.18%

2024 Population Estimate -	43,273
Per Capita 2025 Net Taxable Assessed Valuation -	$195,323
Per Capita 2025 Net General Obligation Debt -	$4,260

(1) The Series 2016, 2017, 2018, 2019, 2021 and 2023 Certificates of Obligation are secured by ad valorem taxes and a pledge of water and sewer revenues but are expected to be repaid from General Fund Revenues. The Series 2017 Refunding Bonds are secured by ad valorem taxes but are expected to be repaid from General Fund Revenues. The 2017A Certificates of Obligation are secured by ad valorem taxes and a pledge of Stormwater utility fee revenue but are expected to be repaid solely from the Stormwater utility fee. In the event the payments on such obligations are not made from the respective revenue sources, the City will be required to assess an ad valorem tax in an amount sufficient to make such payments.

(2) Preliminary, subject to change.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS **TABLE 3**

Fiscal Year September 30	Outstanding Debt Service Principal	Outstanding Debt Service Interest	Outstanding Debt Service Total	Plus: The Certificates[1] Principal	Plus: The Certificates[1] Interest	Plus: The Certificates[1] Total	Total Combined Debt Service
2025	$ 6,980,000	$ 6,740,888	$ 13,720,888	$ 1,000,000	$ 712,500	$ 1,712,500	$ 15,433,388
2026	7,320,000	6,413,088	13,733,088	330,000	855,000	1,185,000	14,918,088
2027	7,195,000	6,072,788	13,267,788	345,000	840,150	1,185,150	14,452,938
2028	7,130,000	5,744,188	12,874,188	360,000	824,625	1,184,625	14,058,813
2029	6,480,000	5,418,900	11,898,900	380,000	808,425	1,188,425	13,087,325
2030	5,480,000	5,150,038	10,630,038	395,000	791,325	1,186,325	11,816,363
2031	5,625,000	4,934,475	10,559,475	415,000	773,550	1,188,550	11,748,025
2032	5,825,000	4,737,400	10,562,400	430,000	754,875	1,184,875	11,747,275
2033	6,030,000	4,529,769	10,559,769	450,000	735,525	1,185,525	11,745,294
2034	6,255,000	4,311,781	10,566,781	470,000	715,275	1,185,275	11,752,056
2035	6,470,000	4,092,969	10,562,969	490,000	694,125	1,184,125	11,747,094
2036	6,705,000	3,861,131	10,566,131	515,000	672,075	1,187,075	11,753,206
2037	6,475,000	3,620,219	10,095,219	535,000	648,900	1,183,900	11,279,119
2038	5,110,000	3,382,569	8,492,569	560,000	624,825	1,184,825	9,677,394
2039	5,300,000	3,190,919	8,490,919	585,000	599,625	1,184,625	9,675,544
2040	5,500,000	2,990,194	8,490,194	615,000	573,300	1,188,300	9,678,494
2041	5,710,000	2,779,919	8,489,919	640,000	545,625	1,185,625	9,675,544
2042	5,925,000	2,560,881	8,485,881	670,000	516,825	1,186,825	9,672,706
2043	6,155,000	2,331,425	8,486,425	700,000	486,675	1,186,675	9,673,100
2044	5,195,000	2,092,381	7,287,381	730,000	455,175	1,185,175	8,472,556
2045	4,245,000	1,886,669	6,131,669	765,000	422,325	1,187,325	7,318,994
2046	4,420,000	1,708,056	6,128,056	800,000	387,900	1,187,900	7,315,956
2047	4,610,000	1,521,413	6,131,413	835,000	351,900	1,186,900	7,318,313
2048	4,805,000	1,325,988	6,130,988	870,000	314,325	1,184,325	7,315,313
2049	5,010,000	1,119,975	6,129,975	910,000	275,175	1,185,175	7,315,150
2050	5,225,000	904,538	6,129,538	950,000	234,225	1,184,225	7,313,763
2051	5,450,000	679,175	6,129,175	995,000	191,475	1,186,475	7,315,650
2052	4,325,000	443,250	4,768,250	1,040,000	146,700	1,186,700	5,954,950
2053	4,540,000	227,000	4,767,000	1,085,000	99,900	1,184,900	5,951,900
2054	-	-	-	1,135,000	51,075	1,186,075	1,186,075
	$165,495,000	$ 94,771,982	$260,266,982	$ 20,000,000	$16,103,400	$ 36,103,400	$ 296,370,382

Note: The City has entered into a number of capital leases for street and safety equipment. For a description of such leases, reference is made to Note III.D. of the City's audited financial statements for the year ended September 30, 2023, which is attached hereto as APPENDIX C.

(1) Interest on the Certificates calculated at an assumed rate for purposes of illustration. Preliminary, subject to change.

TAX ADEQUACY (includes self-supporting debt) **TABLE 4**

2024 Taxable Assessed Valuation	$ 8,452,194,919
Maximum Annual Debt Service Requirements	$ 15,433,388 [1]
Indicated Maximum Interest and Sinking Fund Tax Rate	$ 0.1883
Indicated Maximum Interest and Sinking Fund Tax Levy at 97% Collections	$ 15,438,019

(1) Includes the Certificates. Preliminary, subject to change.

OVERLAPPING DEBT DATA TABLE 5

Taxing Body	Outstanding Tax-Secured Debt as of 8/31/2024	Percent Overlapping	Amount Overlapping
Denison ISD	$ 203,470,000	4.23%	$ 8,606,781
Grayson County	36,030,000	28.24%	10,174,872
Grayson College District	12,775,000	28.24%	3,607,660
Howe ISD	19,140,482	3.14%	601,011
S&S Consolidated ISD	24,725,000	23.78%	5,879,605
Sherman ISD	408,200,000	90.76%	370,482,320
Whitewright ISD	18,010,000	0.25%	45,025
Total Overlapping Debt			$ 399,397,274
City of Sherman(1)	$ 185,495,000	100.00%	$ 185,495,000
Total Direct Overlapping Debt			$ 584,892,274
Ratio of Direct and Overlapping Debt to 2024 Assessed Valuation			6.92%
Per Capita Direct and Overlapping Debt			$ 13,516

Source: Texas Municipal Advisory Council.
(1) Includes the Certificates. Preliminary, subject to change.

PRINCIPAL TAXPAYERS (1) TABLE 6

2024 Top Ten Taxpayers

Name of Taxpayer	Type of Business	2024 Taxable Value	% of Net Valuation
Texas Instruments Inc.	Semiconductors	$ 1,625,000,000	19.23%
Global Wafers America LLC	Semiconductors	424,071,750	5.02%
Rayburn Energy Station LLC	Electric Utility	331,489,610	3.92%
Oncor Electric Delivery Co. LLC	Electric Utility	64,909,600	0.77%
JMCR Sherman LLC	Real Estate	60,442,661	0.72%
Tyson Fresh Meats Inc.	Food Processing	58,821,254	0.70%
Finisar Sherman Holdco LLC	VCSEL Technology	52,829,351	0.63%
Globitech Incorporated	Silicon Wafers	47,739,666	0.56%
Tyson Fresh Meats Inc. a Delaware Corp.	Food Processing	38,658,749	0.46%
Sherman Commons LP	Real Estate	35,821,977	0.42%
		$ 2,739,784,618	32.42%

(1) The 2024 Top Ten Taxpayers in the District currently account for approximately 32.42% of the District's tax base, with Texas Instruments, accounting for approximately 19.23% thereby creating a concentration risk for the District. Adverse developments in economic conditions, could adversely impact the businesses that own properties in the District and the tax values in the District, resulting in less local tax revenue.

PROPERTY TAX RATES AND COLLECTIONS **TABLE 7**

Fiscal Year	Net Taxable Assessed Valuation	M&O Tax Rate	I&S Tax Rate	% Collections Current	% Collections Total
2021	$ 3,819,840,433	$ 0.3376	$ 0.1514	98.67%	98.96%
2022	4,123,948,942	0.3056	0.1834	98.84%	98.84%
2023	4,897,963,059	0.2654	0.2046	98.76%	98.76%
2024	5,778,423,011	0.2638	0.2442	97.80% (1)	97.80% (1)
2025	8,452,194,919	0.3075	0.2005	N/A	N/A

(1) Partial collections as of August 31, 2024.

MUNICIPAL SALES TAX COLLECTIONS **TABLE 8**

Fiscal Year	Sales Tax Collections (1)	Ad Valorem Tax Levy	Sales Tax Rate	Percent of Ad Valorem Tax Levy	Equivalent Ad Valorem Tax Rate
2020	$ 18,494,327	$16,224,684	6.250%	113.99%	$ 0.5312
2021	21,037,726	17,890,744	6.250%	117.59%	0.5507
2022	23,875,173	19,196,760	6.250%	124.37%	0.5789
2023	29,544,514	23,017,096	6.250%	128.36%	0.6032
2024	30,010,369	29,354,389	6.250%	102.23%	0.5194

(1) Excludes 3/8 of 1% sales and use tax collected for the benefit of the Sherman Economic Development Corporation and includes 1/8 of 1% sales and use tax that is designated for street improvements.

GENERAL FUND COMBINED STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES **TABLE 9**

	9/30/2023	9/30/2022	9/30/2021	9/30/2020	9/30/2019
Fund Balance - Beginning of Year	$ 18,379,904	$ 16,904,099	$ 12,746,493	$ 11,358,102	$ 11,556,332
Revenues					
Taxes	$ 45,507,191	$ 40,090,336	$ 37,052,436	$ 32,511,083	$ 30,254,422
Licenses and Permits	2,874,488	1,096,610	810,670	608,942	691,323
Intergovernmental	460,095	1,285,721	1,922,483	1,305,186	942,785
Charges for Services	4,872,414	3,416,611	3,062,485	2,507,034	2,490,359
Fines and Forfeitures	626,982	382,181	336,442	349,213	578,638
Investment Income	514,365	(641,433)	35,504	128,409	232,376
Donations	25,592	27,589	8,713	105,534	10,193
Miscellaneous	872,614	347,687	240,406	275,017	355,335
Total Revenues	$ 55,753,741	$ 46,005,302	$ 43,469,139	$ 37,790,418	$ 35,555,431
Expenditures					
General Government	$ 8,924,409	$ 7,945,954	$ 7,165,907	$ 6,633,870	$ 6,157,454
Public Safety	32,214,040	26,822,468	24,529,901	22,866,008	21,921,180
Streets	5,644,914	4,263,598	3,897,857	3,798,232	4,173,527
Sanitation	-	871,075	709,899	912,939	792,838
Community Services	7,368,394	6,209,614	5,729,479	5,092,577	4,554,697
Debt Service/Capital Outlay	1,031,269	377,137	346,465	1,015,401	331,965
Total Expenditures	$ 55,183,026	$ 46,489,846	$ 42,379,508	$ 40,319,027	$ 37,931,661
Excess (Deficit) of Revenues Over Expenditures	$ 570,715	$ (484,544)	$ 1,089,631	$ (2,528,609)	$ (2,376,230)
Other Financing Sources (Uses):					
Proceeds from Lease Financing	$ 170,582	$ 12,210	$ -	$ -	$ -
Proceeds from Sales of Assets	-	-	-	-	-
Operating Transfers In	4,477,471	3,358,139	3,927,975	4,149,000	2,878,000
Operating Transfers (Out)	(795,000)	(1,410,000)	(860,000)	(232,000)	(700,000)
Total Other Financing Sources (Uses):	3,853,053	1,960,349	3,067,975	3,917,000	2,178,000
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	4,423,768	1,475,805	4,157,606	1,388,391	(198,230)
Prior period adjustment	-	-	-	-	-
Fund Balance - End of Year[1]	$ 22,803,672	$ 18,379,904	$ 16,904,099	$ 12,746,493	$ 11,358,102

(1) Unaudited General Fund Balance as of September 30, 2024 was approximately $21,100,000.

APPENDIX B

General Information Regarding the City

THE CITY

The City of Sherman is the county seat and principal industrial and commercial center of Grayson County, located approximately 65 miles north of Dallas/Fort Worth Metroplex and 11 miles south of the Oklahoma state border. Interstate Highway 75 and U.S. Highway 82 are the two major multi-lane thoroughfares that intersect at the City.

Grayson County was created in 1846 from Fannin County. The county is a manufacturing, distribution and trade center for north Texas and southern Oklahoma. The Handbook of Texas designates beef cattle, wheat, nurseries, turf, forage, and horses as the county's chief agricultural products with livestock sales accounting for about half of all agricultural sales. The county seat is Sherman.

LABOR MARKET PROFILE

Grayson County		
	August 2024	August 2023
Total Civilian Labor Force	71,846	69,946
Total Employment	68,849	67,192
Total Unemployment	2,997	2,754
Percent Unemployed	4.2%	3.9%

State of Texas		
	August 2024	August 2023
Total Civilian Labor Force	15,487,812	15,125,794
Total Employment	14,810,755	14,485,031
Total Unemployment	677,057	640,763
Percent Unemployed	4.4%	4.2%

Source: Texas Labor Market Information.

MAJOR AREA EMPLOYERS

Name	# of Employees
Tyson Fresh Meats	1,700
Sherman ISD	1,137
Carrus Hospital	650
Texas Instruments	600
Coherent	577
Grayson County	575
City of Sherman	518
Wilson N. Jones Regional Medical	489
Alorica	452
Capio	400

Source: Municipal Advisory Council of Texas.

APPENDIX C

Excerpts from the
City of Sherman, Texas
Annual Financial Report
For the Year Ended September 30, 2023

The information contained in this APPENDIX consists of excerpts from the City of Sherman, Texas Annual Financial Report for the Year Ended September 30, 2023, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
and Members of City Council
Sherman, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sherman, 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 Sherman, Texas' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sherman, 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 for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Sherman, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Change of Accounting Principle

As described in the notes to the financial statements, in fiscal year 2023 the City of Sherman, Texas adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based IT Arrangements*. Our opinion is not modified with respect to this matter.

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 Sherman, 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

Our objectives are 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 our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government 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 the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment 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 Sherman, 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 our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Sherman, Texas' ability to continue as a going concern for a reasonable period of time.

We are 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 we 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, budgetary comparison information, and pension and OPEB information, as listed in the table of contents, be presented to supplement the basic 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sherman, Texas' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information included in the Annual Comprehensive Financial Report

Management is responsible for the other information included in the annual comprehensive financial report (ACFR). The other information comprises the introductory section and statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2024, on our consideration of the City of Sherman, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Sherman, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sherman, Texas' internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
June 17, 2024

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MANAGEMENT'S
DISCUSSION AND ANALYSIS

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As management of the City of Sherman, Texas (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. The information presented here should be considered in conjunction with the letter of transmittal at the front of this report and the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Sherman exceeded its liabilities and inflows of resources at the close of the most recent fiscal year by $83.3 million (net position). Of this amount, $57.9 million represents net investment in capital assets, $5.0 million is restricted for specific uses with the remainder identified as unrestricted, which may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's total net position increased $18.0 million or 27.6% from last fiscal year's net position. The increase was due to an increase in deferred outflows of resources and a decrease in deferred inflow of resources from the city's pension plan, from investment returns and difference in the economic and demographic experience of the plan. Additionally, the City's water and sewer sales, impact fees, and sales tax and property tax revenues increased.

- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of $118.3 million, an increase of $72.3 million in comparison with the prior year. Approximately 18.6% of this total amount, $22.1 million, is available for spending at the government's discretion (unassigned fund balance). $89.9 million or 76.0% of fund balance in the City's governmental funds is restricted for general improvements of infrastructure and facilities.

- As of the end of the current fiscal year, the City's proprietary funds, excluding internal service funds, reported combined ending net position of $41.4 million. Approximately 20% of this total amount, $8.5 million, is in unrestricted net position.

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. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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 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 this statement 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 of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees (business-type activities). The governmental activities of the City include general government, public safety, streets, community services, and community development. The business-type activities of the City include water, wastewater, and solid waste services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate entity for which the City is financially accountable, the Sherman Economic Development Corporation (SEDCO). Financial information for this component unit is reported separately from the financial information presented for the primary government itself. Complete financial statements for SEDCO are available upon request from SEDCO or the City's Finance Department.

The government-wide financial statements begin on page 16 of this report.

Fund Financial Statements

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 other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

  Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

  The City maintains three (3) major governmental funds, and twenty (21) nonmajor governmental funds. Information for the major funds (General Fund, Debt Service Fund, and General Improvement Fund) is presented separately in the governmental fund statement of revenues, expenditures, and changes in fund balances. Data from the nonmajor governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in the form of combining statements beginning on page 79 of this report.

  The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

  The City's governmental fund financial statements begin on page 19 of this report.

- **Proprietary Funds.** The City maintains two types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements and account for its water and wastewater, and solid waste operations. Internal Service Funds are used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for its equipment services, information technology, self-funded health insurance, and fleet replacement. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

  Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater operations and for solid waste operations, both of which are major funds of the City. Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the Internal Service Funds are provided in the form of combining statements beginning on page 133 of this report.

  The basic proprietary fund financial statements begin on page 25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 30 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning budgetary compliance of the City's general fund and the City's progress in funding its obligation to provide pension benefits and other post-employment benefits (OPEB) to its employees. Required supplementary information begins on page 69 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules begin on page 79 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by $83.3 million at the close of the most recent fiscal year.

By far, the largest portion of the City's net position reflects its net investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. 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 related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The overall net position of the City of Sherman increased by $18.0 million, or 27.6% from the prior fiscal year. The increase was due to an increase in deferred outflows of resources and a decrease in deferred inflow of resources from the city's pension plan, from investment returns and difference in the economic and demographic experience of the plan, and an increase in water and sewer sales, impact fees, property tax revenue and sales tax revenue.

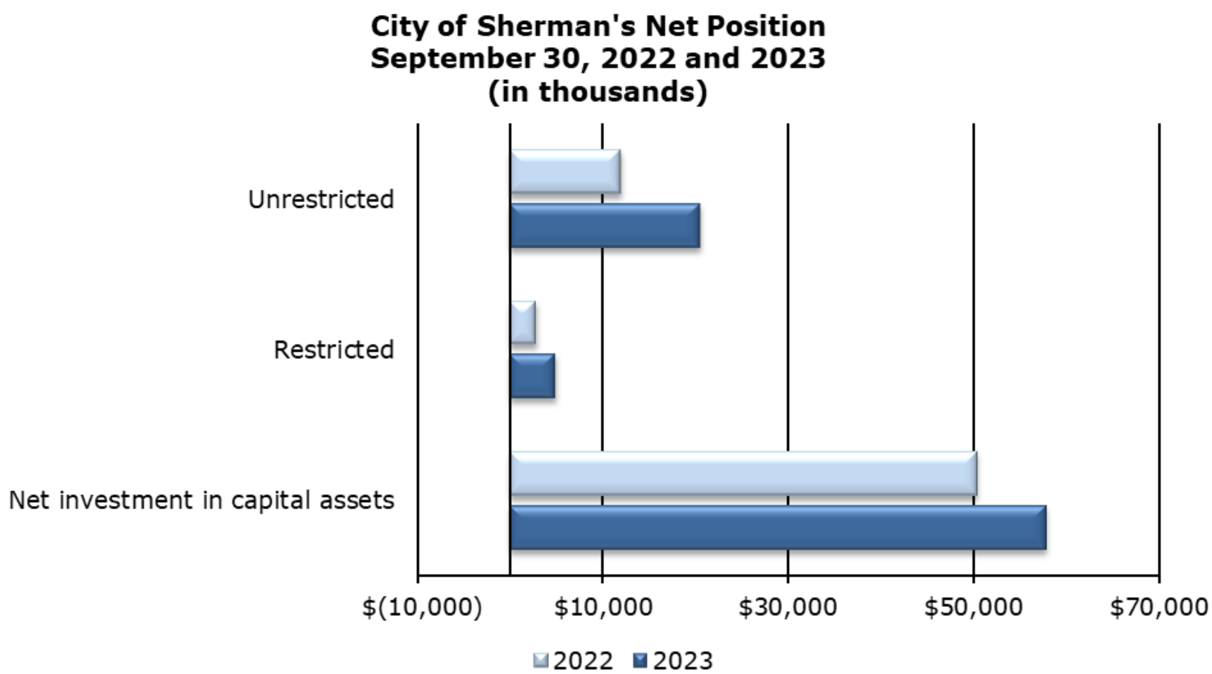
During fiscal year 2023, the City continued its plan to fund upcoming capital projects related to current and expected growth with debt issuances of $73.6 million in certificates of obligation and $3.1 million in tax notes. The debt issuance primarily accounts for the increase in current assets from the prior year and the correlating increase in total liabilities during the current year.

The City's current net position, along with last fiscal year's numbers, are presented for comparison in the following table.

CITY OF SHERMAN'S NET POSITION
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Current and other assets	$ 127,128	$ 52,896	$ 17,706	$ 16,755	$ 144,834	$ 69,651
Capital assets	119,903	107,260	33,950	30,253	153,853	137,513
Total assets	**247,031**	**160,156**	**51,656**	**47,008**	**298,687**	**207,164**
Deferred outflows of resources	**13,765**	**4,761**	**3,356**	**1,182**	**17,121**	**5,943**
Long-term liabilities	201,188	111,479	8,554	4,529	209,742	116,008
Other liabilities	14,593	12,374	3,934	6,423	18,527	18,797
Total liabilities	**215,781**	**123,853**	**12,488**	**10,952**	**228,269**	**134,805**
Deferred inflows of resources	**3,082**	**10,092**	**1,090**	**2,861**	**4,172**	**12,953**
Net investment in capital assets	25,941	22,359	31,909	28,113	57,850	50,472
Restricted	3,925	2,886	1,060	-	4,985	2,886
Unrestricted	12,067	5,727	8,465	6,264	20,532	11,991
Total net position	**$ 41,933**	**$ 30,972**	**$ 41,434**	**$ 34,377**	**$ 83,367**	**$ 65,349**

A portion of the City's net position, $5.0 million, represents resources that are subject to external restrictions on how they may be used. At the end of the current fiscal year, all categories of net position were positive.



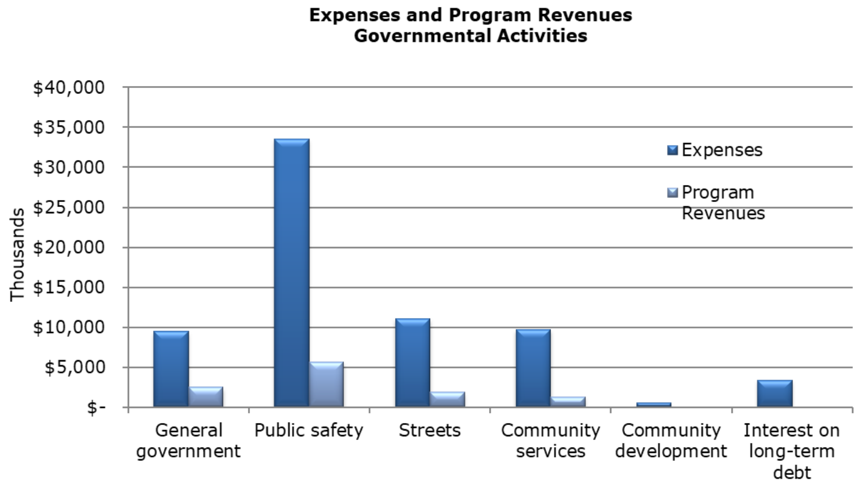
The City's condensed changes in net position, along with last fiscal year's numbers, are presented for comparison in the following table.

CITY OF SHERMAN'S CHANGES IN NET POSITION
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Revenues						
Program revenues:						
Charges for services	$ 11,381	$ 9,060	$ 41,847	$ 38,076	$ 53,228	$ 47,136
Operating grants and contributions	1,187	1,039	-	-	1,187	1,039
Capital grants and contributions	4,646	3,637	2,615	3,191	7,261	6,828
General revenues:						
Property taxes	20,837	18,613	-	-	20,837	18,613
Sales taxes	29,672	25,229	-	-	29,672	25,229
Other taxes	4,313	4,057	-	-	4,313	4,057
Other	2,775	(452)	2,570	1,077	5,345	625
Total revenues	**74,811**	**61,183**	**47,032**	**42,344**	**121,843**	**103,527**
Expenses						
General government	9,479	7,797	-	-	9,479	7,797
Public safety	33,535	25,060	-	-	33,535	25,060
Streets	11,075	9,879	-	-	11,075	9,879
Sanitation	-	750	-	-	-	750
Community services	9,723	7,997	-	-	9,723	7,997
Community development	559	305	-	-	559	305
Interest on long-term debt	3,369	2,918	-	-	3,369	2,918
Water and sewer service	-	-	28,726	24,153	28,726	24,153
Solid waste service	-	-	7,359	6,334	7,359	6,334
Total expenses	**67,740**	**54,706**	**36,085**	**30,487**	**103,825**	**85,193**
Increases (decreases) in net position before transfers	7,071	6,477	10,947	11,857	18,018	18,334
Transfers	3,890	3,358	(3,890)	(3,358)	-	-
Change in net position	**10,961**	**9,835**	**7,057**	**8,499**	**18,018**	**18,334**
Net position, beginning	30,972	21,866	34,377	25,878	65,349	47,744
Prior period adjustment	-	(729)	-	-	-	(729)
Net position, ending	**$ 41,933**	**$ 30,972**	**$ 41,434**	**$ 34,377**	**$ 83,367**	**$ 65,349**

Governmental Activities

Governmental activities increased the City's net position by $10.9 million due to a decrease in deferred outflows from the economic and demographic experience of the pension plan and an increase in deferred inflows related to the plan's investment earnings. Additional factors attributing to the increase compared to the prior year include sales tax growth of 17.6% or $4.4 million and general property tax growth of 12% or $2.2 million due to increased valuations and additions to the tax roll. Expenses in governmental activities were higher than the prior year primarily due to an increase in public safety expenses of $8.4 million or 33.8%. Charges for services were higher compared to the prior year due to an increase in permit fees, which were up $1.0 million in fiscal year 2023 from development growth. Engineering inspection fees were also up $0.4 million in fiscal year 2023.

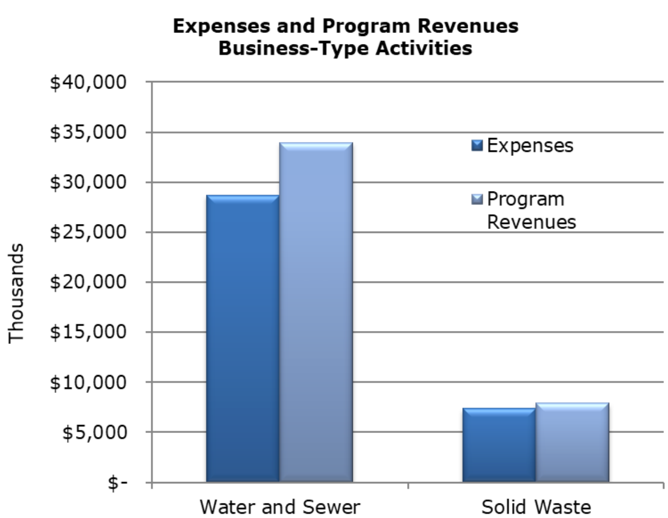


Business-type Activities

Results for the current fiscal year in the City's business-type activities increased the City's net position by $7.0 million, with operations similar to the prior year. Net position from Water and Sewer activities for fiscal year 2023 increased $7.0 million, primarily due to due to a decrease in deferred outflows due to the economic and demographic experience of the pension plan and an increase in deferred inflows related to the plan's investment earnings, and an increase in water and sewers sales as well as water impact fees of $2.2 million and sewer impact fees of $0.5 million.

Net position related to Solid Waste activities increased $0.1 million with solid waste service revenues slightly higher than expenses in fiscal year 2023.

The City's business-type activities expenses and program revenues are presented in the following chart.



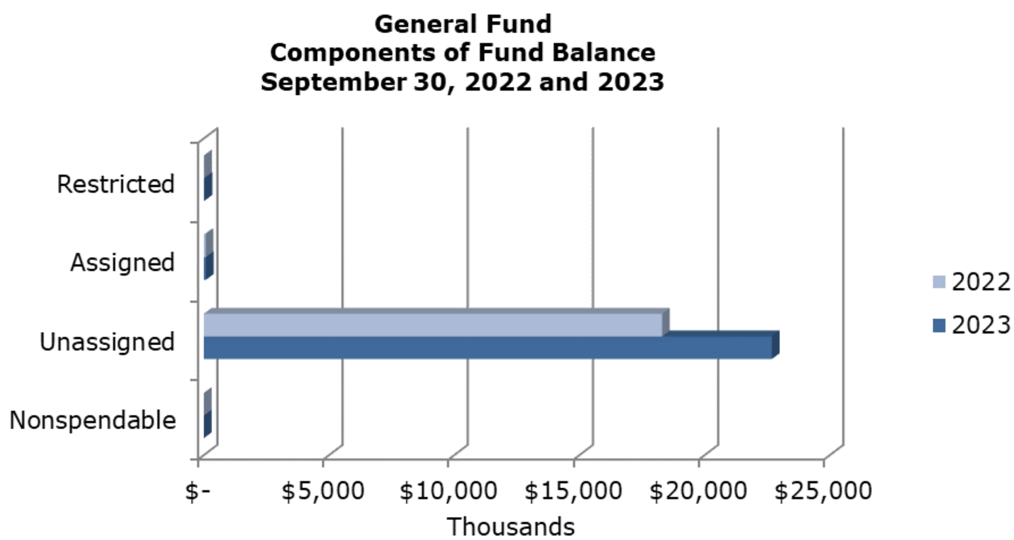
FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

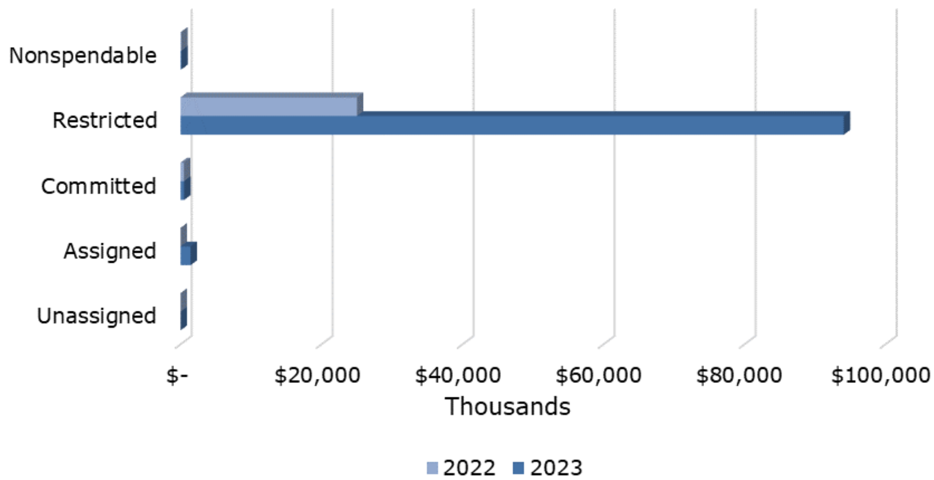
The focus of the City's governmental funds is to provide information on near-term inflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Sherman itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

On September 30, 2023, the City's governmental funds reported combined fund balances of $118.3 million, which is $72.3 million more than the prior year due to proceeds from the issuance of certificates of obligation and tax notes. Approximately 18.7% of the governmental fund balances, or $22.1 million, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form ($0.1 million), 2) committed for particular purposes ($0.5 million), 3) restricted for particular purposes ($94.1 million), or 4) assigned for particular purposes ($1.5 million).



The General Fund is the chief operating fund of the City of Sherman. At the end of the fiscal year, unassigned fund balance of the general fund was $22.7 million. Total fund balance increased by $4.4 million from the prior fiscal year to $22.8 million, primarily due to better-than-expected sales tax performance as well as an increase in license and permit revenues due to development growth. Expenditures were higher than the prior year primarily due to an increase in public safety expenditures of $8.4 million or 33.8%. Unassigned fund balance represents approximately 41.1% of total general fund expenditures, which is about the same percentage as total fund balance to expenditures.

Other Governmental Funds
Components of Fund Balance
September 30, 2022 and 2023



The General Improvement Fund, a major fund, increased $66.0 million during the fiscal year, ending the year at a fund balance of $86.0 million. The increase was due primarily due to issuance of certificates of obligation and tax notes. Expenditures of $13.1 million in fiscal year 2023 included $6.0 million for police headquarters construction, $1.7 million for Moore Street, $.08 million for Bel Air Boulevard phases I and II, $0.7 million for Shepherd Drive, $0.5 million for the Fairview pickleball and basketball courts and other street and facilities projects.

The Debt Service Fund, also a major fund, ended the year at a fund balance of $1.5 million. General property taxes of $7.3 million were allocated to this fund to cover principal and interest payments of approximately $7.2 million.

The remaining governmental funds ended the year with a fund balance of $8.2 million, an increase of $0.8 million from the prior year, with similar activity in both years.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The City has two proprietary funds, the Water and Sewer Fund, and the Solid Waste Fund.

Unrestricted net position of the Water and Sewer Fund at the end of the year was $7.6 million and had increased by $4.3 million primarily due to an increase in deferred outflows and a decrease in deferred inflows in the city's pension plan and an increase in water and sewer sales and impact fees.

Unrestricted net position of the Solid Waste Fund decreased marginally. Operations in the Solid Waste Fund were similar to the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original budget compared to final budget

The original budget was amended by the City Council during fiscal year 2023, increasing revenues by $4.4 million and expenditures by $6.5 million primarily related to increased sales tax revenue and increased expenses related to fleet vehicle repairs, well repairs, additional capital expenses and personnel costs. The size of the budget amendment reflected the rate of growth and change the City experienced during fiscal year 2023 as well as increased costs due to economic factors.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2023, amounts to $154 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery, equipment, vehicles, park facilities, roads, bridges, and the water and wastewater treatment plants. The City's total investments in net capital assets increased in the current fiscal year by $16.0 million or approximately 11.6%.

Major capital asset events during fiscal year 2023 included the following:

- New and continuing projects included miscellaneous water line improvements, work related to the renovation and addition to Fire Station No. 1, Pebblebrook Phase IV Drainage, Bel Air Boulevard Phase II, Moore Street and Shepherd Road.
- Construction projects in progress at the end of fiscal year 2023 included new street design and construction in developing areas, bridge repairs, water system extension and improvements as well as city facilities and park improvements.
- Projects completed during the year included the new police headquarters, the Fairview Pickleball and Basketball courts, MLK park restroom, Lamberth Road drainage improvements, Bel Air Boulevard Phase I, Texoma Parkway Water Main Construction and Ida Road GST Rehab Construction.
- Various machinery and equipment were acquired totaling approximately $7.9 million. Governmental activities included purchasing a wheel loader, excavator and dump truck for the street department, patrol vehicles and equipment for law enforcement, an ambulance and pickup trucks for the fire department, three pickup trucks and a tractor for the parks maintenance department, a dump truck for the community development department, a van and truck for building maintenance, a truck for equipment services, two trucks for engineering, two trucks for development services and a skid steer for quality services. Business type activities included purchasing a telehandler, two dump trucks, an excavator and two pickup trucks for water treatment and distribution, a freightliner, truck mount loader and a roll off truck for solid waste collection.
- Depreciation totaled $10.1 million for governmental activities, including internal service funds and $3.1 million for business-type activities.

CITY OF SHERMAN'S CAPITAL ASSETS, NET OF DEPRECIATION
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Land	$ 8,119	$ 7,844	$ 2,928	$ 2,928	$ 11,047	$ 10,772
Buildings	24,463	9,625	1,059	978	25,522	10,603
Other improvements	57,179	52,670	21,042	16,916	78,221	69,586
Machinery and equipment	17,601	13,695	2,023	1,951	19,624	15,646
Other assets	83	95	6,410	6,418	6,493	6,513
Construction in progress	12,060	23,225	312	1,033	12,372	24,258
Right of use asset - equipment	-	106	-	29	-	135
SBITA	398	330	175	-	573	330
Total Assets	**$ 119,903**	**$ 107,590**	**$ 33,949**	**$ 30,253**	**$ 153,852**	**$ 137,843**

Additional information on the City's capital assets can be found in the notes on pages 44 through 45 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total contractually obligated long-term debt of $277 million. In fiscal year 2023 the City issued $73.6 million of governmental certificates of obligation to fund general improvements. These obligations are to be repaid from general tax revenues of the General Fund and property taxes. Property taxes and a limited pledge of the net revenues of the water and sewer system secure the certificates of obligation even though repayment is expected to be made solely from general tax revenues. The City also issued $3.1 million in tax notes for the purchase of equipment for departments in the general fund, utility fund and the solid waste fund which will be repaid from property taxes.

CITY OF SHERMAN'S OUTSTANDING DEBT
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Bonds	$ 5,587	$ 6,501	$ -	$ -	$ 5,587	$ 6,501
Leases	-	102	-	36	-	138
SBITA	327	312	100	-	427	312
Certificates of obligation, net of premium	166,285	91,563	-	-	166,285	91,563
Other long-term payables	1,259	2,316	1,940	2,104	3,199	4,420
Tax notes	5,381	3,298	-	-	5,381	3,298
Total Debt	**$178,839**	**$104,092**	**$ 2,040**	**$ 2,140**	**$180,879**	**$106,232**

Long-term debt for the City increased by $75 million or 70.3%, due to the issuances of $73.6 million in certificates of obligation and $3.1 million in tax notes. Principal payments on outstanding debt totaled $6.8 million in fiscal year 2023.

The City of Sherman maintains a "AA" rating from Standard & Poor's for general obligation debt and a rating of "A" for its debt issued through the Greater Texoma Utility Authority.

As part of the budget process, City staff compare the debt limit allowed under the City charter to debt outstanding. At the beginning of the 2023 fiscal year, the City had 19.8% of allowable bonded debt outstanding.

Additional information on the City's long-term debt can be found in the notes on pages 46 through 51 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In November 2021, Texas Instruments (TI) selected its current location in the City of Sherman for a 4.7-million-square-foot semiconductor fabrication plant to produce state-of-the-art, 300 mm chips for use in consumer electronics and other purposes. The plant, which is slated to begin production by 2025, will employ more than 3,000 people and contribute billions of dollars to the Grayson County economy. TI plans to complete the project in four phases, with an investment totaling over $29.4 billion, by 2030.

In June 2022, Globitech Incorporated (Globitech) selected the City of Sherman to establish an additional manufacturing facility to produce state-of-the-art silicon wafers for use in consumer electronics and other purposes. The plant, when completed, will create 1,500 new jobs and generate billions of dollars in capital investment.

The City has entered into tax abatement agreements and Chapter 380 economic incentive agreements with TI and Globitech. The City is continuing preparations for both direct and indirect effects of the TI and Globitech plants. Direct benefits include property and sales tax revenue, water and sewer revenue, hotel/motel revenue during the construction phases, the addition of high-paying jobs and the community reputation in the US and global technology circles. Indirect benefits include the "spillover" effect for complementary primary job creation and residential and commercial growth. The City is also continuing preparations for the significant increase in demand for water and wastewater when the plants begin production, as well infrastructure to facilitate overall growth of the City.

The following economic factors affecting the City were considered in developing the 2023-2024 fiscal year budget.

- General Fund revenues are expected to be more than in the fiscal year 2023. Sales tax is projected to increase about $1.5 million due to tax revenue from large construction projects and growth in retail, utilities, and other sectors. Property tax is expected to increase due to a 17% increase in values. Tax notes, to be repaid from property taxes, will be used to finance about $3.9 million of fleet and equipment purchases.

- Utility Fund revenues are expected to increase in fiscal year 2024. An inverted block rate structure was approved whereby large users are charged a higher rate for incremental usage above certain thresholds. Residential customers using less than 20,000 gallons per month will not experience an increase. The tiered structure plus overall growth in the City is expected to generate about $3 million in revenue to help finance system expansion and improvements and pay debt service. Utility fund expenses are budgeted to increase compared to fiscal year 2023 due to an increase in personnel expenses.

- Solid Waste Fund revenue is expected to continue to grow, with most of the increase coming from commercial activity. The fund is unbalanced ongoing due to a rate increase in 2023 and a planned rate increase in 2024 in tipping fees from the landfill, Texoma Area Solid Waste Authority (TASWA), and the increasing costs of trash trucks. An expected distribution from the City's joint venture in TASWA may help offset the need for a rate increase to be evaluated later in the year.

- The budget of the General Improvement Fund - City Funds consists of projects not funded by Certificates of Obligation. The fiscal year 2024 budget includes the City's match on a major runway improvement at the Sherman Municipal Airport, implementation of permit software for Development Services, Information Technology equipment, rifle and handgun replacements, and a lease payment on police department video evidence equipment. Funding may come from a variety of sources including the General Fund, grant funds, or Tax Notes.

- The budget of the General Improvement Fund - Bond Funds consists of projects funded by Certificates of Obligation. Ongoing and new street projects include Interurban Parkway (formerly Moore Street), Shepherd Drive, Bel Air Phase II/Beach Club Blvd, Progress Drive, design of OB Groner west of FM 1417, Lamberth and Friendship Roads, and ramp improvements at Hwy 82 and FM 131 near the new Heritage Ranch development. City facility projects include combining Fire Stations Number 1 and 2, and a public safety trunking (communications) system. Park improvements include upgrading of Binkley Park, Pecan Grove West, Hawn Park, Fairview Park, Baker Park, Old Settlers, and development of the new "Shark Tooth" park.

- Projects funded by contractual debt through the Greater Texoma Utility Authority include Post Oak Wastewater Treatment Plant Industrial Expansion, Water Treatment Plant Concentrate Discharge (Brine Line), Shepherd EST, Lake Texoma Pump Station 25MGD #1, Reservoir Pump Station, 36" Water Line West to Water Treatment Plant, 15 MGD Water Treatment Plant South, and Wastewater Treatment Plant Electrical System Switchgear and Generator.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Sherman, Finance Department, P.O. Box 1106, Sherman, Texas 75091-1106.

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BASIC
FINANCIAL STATEMENTS

CITY OF SHERMAN, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current assets:				
Cash	$ 8,752,698	$ 2,314,178	$ 11,066,876	$ 10,990,036
Pooled and temporary investments	111,487,976	8,814,143	120,302,119	10,618,531
Receivables, net	6,628,469	5,872,878	12,501,347	1,110,330
Inventories, at cost	258,352	695,093	953,445	-
Prepayments and deposits	748	10,158	10,906	-
Total current assets	127,128,243	17,706,450	144,834,693	22,718,897
Noncurrent assets:				
Capital assets:				
Non-depreciable assets	20,178,755	9,641,420	29,820,175	7,316,552
Other capital assets, net	99,724,302	24,308,092	124,032,394	104,111
Total noncurrent assets	119,903,057	33,949,512	153,852,569	7,420,663
Total assets	$ 247,031,300	$ 51,655,962	$ 298,687,262	$ 30,139,560
DEFERRED OUTFLOWS OF RESOURCES				
Pension plan - TMRS	$ 12,832,681	$ 3,128,642	$ 15,961,323	$ 182,424
OPEB - Retiree health plan	671,532	163,723	835,255	9,545
OPEB - TMRS supplemental death benefit	260,595	63,534	324,129	3,705
Total deferred outflows of resources	$ 13,764,808	$ 3,355,899	$ 17,120,707	$ 195,674
LIABILITIES				
Current liabilities:				
Accounts payable	$ 2,743,375	$ 1,120,325	$ 3,863,700	$ 17,242
Accrued expenses payable	725,951	155,407	881,358	33,929
Accrued interest payable	476,764	-	476,764	-
Unearned revenue	55,512	1,625,528	1,681,040	-
Landfill closure costs	-	39,468	39,468	-
Customers' deposits payable	183,854	409,319	593,173	-
Current portion of bonds, leases, certificates of obligation, tax notes and other long-term payables	10,408,279	583,580	10,991,859	40,363
Total current liabilities	14,593,735	3,933,627	18,527,362	91,534

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

CITY OF SHERMAN, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

	Governmental Activities	Business-type Activities	Total	Component Unit
LIABILITIES (Continued)				
Long-term liabilities:				
Accrued compensated absences	$ 2,775,353	$ -	$ 2,775,353	$ -
Notes payable	530,890	-	530,890	-
General obligation bonds	4,652,172	-	4,652,172	-
Certificates of obligation	161,477,697	-	161,477,697	-
Tax notes	4,168,770	-	4,168,770	-
Subscription liability	102,079	50,938	153,017	-
Lease liabilities	-	-	-	62,641
Net pension liability	21,735,546	5,299,219	27,034,765	308,985
Total OPEB liability - retiree health plan	4,614,974	1,125,150	5,740,124	65,605
Total OPEB liability - TMRS supplemental death benefit	1,130,247	275,559	1,405,806	16,067
Other long-term payables	-	1,803,249	1,803,249	-
Total long-term liabilities	201,187,728	8,554,115	209,741,843	453,298
Total liabilities	$ 215,781,463	$ 12,487,742	$ 228,269,205	$ 544,832
DEFERRED INFLOWS OF RESOURCES				
Leases	$ -	$ 338,714	$ 338,714	$ -
Pension plan - TMRS	429,704	104,764	534,468	6,109
OPEB - Retiree health plan	2,056,238	501,319	2,557,557	29,232
OPEB - TMRS supplemental death benefit	595,762	145,250	741,012	8,469
Total deferred inflows of resources	$ 3,081,704	$ 1,090,047	$ 4,171,751	$ 43,810
NET POSITION				
Net investment in capital assets	$ 25,941,607	$ 31,909,333	$ 57,850,940	$ 7,317,659
Restricted for:				
General obligation debt service	1,102,493	-	1,102,493	-
Cemetery maintenance:				
Expendable	1,736,720	-	1,736,720	-
Nonexpendable	115,532	-	115,532	-
Cafeteria plan	30,291	-	30,291	-
Law enforcement support	738,660	-	738,660	-
Airport and tourism	200,962	-	200,962	-
Impact fees	-	1,059,784	1,059,784	-
Economic development	-	-	-	22,428,933
Unrestricted	12,066,676	8,464,955	20,531,631	-
Total net position	$ 41,932,941	$ 41,434,072	$ 83,367,013	$ 29,746,592

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

CITY OF SHERMAN, TEXAS

STATEMENT OF ACTIVITIES

YEAR END SEPTEMBER 30, 2023

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Governmental activities:				
General government	$ 9,478,708	$ 2,509,533	$ -	$ -
Public safety	33,534,809	5,691,026	518,676	41,180
Streets	11,075,578	1,886,216	-	4,604,885
Community services	9,723,208	1,294,616	191,038	-
Community development	559,148	-	477,092	-
Interest on long-term debt	3,368,658	-	-	-
Total governmental activities	67,740,109	11,381,391	1,186,806	4,646,065
Business-type activities:				
Water and sewer service	28,725,798	33,940,375	-	2,615,122
Solid waste service	7,359,006	7,906,956	-	-
Total business-type activities	36,084,804	41,847,331	-	2,615,122
Total primary government	$ 103,824,913	$ 53,228,722	$ 1,186,806	$ 7,261,187
Component unit:				
Economic development	$ 5,171,607	$ -	$ -	$ -
Total component unit	$ 5,171,607	$ -	$ -	$ -

General revenues:
Taxes
General property
City sales
Franchise
Nonproperty
Property assessment
Investment income
Miscellaneous
Gain on sale of capital assets
Transfers - internal activity
Total general revenues and transfers

Change in net position

Net position, beginning

Net position, ending

The accompanying notes are in
intergel part of these financial statements.

Net (Expense) Revenue and Change in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
$ (6,969,175)	$ -	$ (6,969,175)	$ -
(27,283,927)	-	(27,283,927)	-
(4,584,477)	-	(4,584,477)	-
(8,237,554)	-	(8,237,554)	-
(82,056)	-	(82,056)	-
(3,368,658)	-	(3,368,658)	-
(50,525,847)	-	(50,525,847)	-
-	7,829,699	7,829,699	-
-	547,950	547,950	-
-	8,377,649	8,377,649	-
$ (50,525,847)	$ 8,377,649	$ (42,148,198)	$ -
$ -	$ -	$ -	$ (5,171,607)
$ -	$ -	$ -	$ (5,171,607)
$ 20,837,372	$ -	$ 20,837,372	$ -
29,672,392	-	29,672,392	6,847,476
3,141,869	-	3,141,869	-
941,534	-	941,534	-
229,094			
1,901,775	535,455	2,437,230	782,854
873,235	2,063,191	2,936,426	-
-	(29,005)	(29,005)	-
3,889,829	(3,889,829)	-	-
61,487,100	(1,320,188)	60,166,912	7,630,330
10,961,253	7,057,461	18,018,714	2,458,723
30,971,688	34,376,611	65,348,299	27,287,869
$ 41,932,941	$ 41,434,072	$ 83,367,013	$ 29,746,592

CITY OF SHERMAN, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2023

	General	General Improvement	Debt Service
ASSETS			
Cash	$ 1,262,107	$ 908,670	$ 1,466,904
Pooled and temporary investments	17,870,508	86,950,541	-
Receivables (net of allowances for uncollectibles):			
Interest	82,925	25,175	-
Intergovernmental	64,224	-	-
Accounts	914,532	-	-
Taxes	4,869,557	-	112,353
Leases	-	-	-
Inventory	-	-	-
Prepayments and deposits	735	-	-
Total assets	$ 25,064,588	$ 87,884,386	$ 1,579,257
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities:			
Accounts payable	$ 1,447,498	$ 826,791	$ -
Accrued wages payable	216,030	-	-
Customer deposits	2,025	-	-
Unearned revenue	-	-	-
Due to other funds	-	1,164,690	-
Total liabilities	1,665,553	1,991,481	-
Deferred inflows of resources:			
Property taxes	221,835	-	101,451
Court fines	97,619	-	-
Ambulance fees	275,909	-	-
Total deferred inflows of resources	595,363	-	101,451
Fund balances:			
Nonspendable:			
Prepayments and deposits	735	-	-
Endowment	-	-	-
Inventory	-	-	-
Restricted for:			
Cafeteria plan	30,291	-	-
Law enforcement support	-	-	-
Airport and tourism	-	-	-
Infrastructure and facilities improvement	-	84,461,096	-
Debt service	-	-	1,477,806
Cemetery maintenance	-	-	-
Committed to:			
New street development	-	-	-
Assigned for:			
Public charities	84,833	-	-
General improvements	-	1,431,809	-
Unassigned	22,687,813	-	-
Total fund balance	22,803,672	85,892,905	1,477,806
Total liabilities, deferred inflows of resources and fund balances	$ 25,064,588	$ 87,884,386	$ 1,579,257

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

Nonmajor Governmental	Total Governmental
$ 3,123,200	$ 6,760,881
5,690,505	110,511,554
5,795	113,895
230,867	295,091
110,523	1,025,055
153,981	5,135,891
50,547	50,547
15,532	15,532
-	735
$ 9,380,950	$ 123,909,181
$ 96,060	$ 2,370,349
6,143	222,173
181,829	183,854
48,789	48,789
878,941	2,043,631
1,211,762	4,868,796
-	323,286
-	97,619
-	275,909
-	696,814
-	735
100,000	100,000
15,532	15,532
-	30,291
738,660	738,660
200,962	200,962
5,475,316	89,936,412
-	1,477,806
1,736,720	1,736,720
515,277	515,277
-	84,833
-	1,431,809
(613,279)	22,074,534
8,169,188	118,343,571
$ 9,380,950	$ 123,909,181

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CITY OF SHERMAN, TEXAS

RECONCILIATION OF THE GOVERNMENTAL
FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2023

Total fund balances - governmental funds	$	118,343,571
Amounts reported for governmental activities in the statement of net position are different because:		
Internal Service Funds are used to charge the costs of certain activities such as fleet maintenance, information technology and insurance to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net position.		10,564,913
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		
Governmental capital assets		202,197,397
Less: accumulated depreciation		(95,976,444)
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Included with amounts related to long-term liabilities is the deferred charge on bond refunding. Included with amounts related to the net pension liability are deferred outflows of resources and deferred inflows of resources that are attributable to the multiple-employer pension plan. Balances at year-end are:		
Bonds payable		(5,586,700)
Certificates of obligation		(166,285,470)
Tax notes		(245,223)
Subscription liability		(209,521)
Compensated absences		(5,168,938)
Net pension liability		(20,600,781)
OPEB - Retiree health plan		(4,374,036)
OPEB - TMRS supplemental death benefit		(1,071,239)
Deferred outflow of resources - pension plan		12,162,714
Deferred outflow of resources - OPEB retiree health plan		636,472
Deferred outflow of resources - TMRS supplemental death benefit		246,990
Deferred inflow of resources - pension plan		(407,270)
Deferred inflow of resources - OPEB retiree health plan		(1,948,885)
Deferred inflow of resources - TMRS supplemental death benefit		(564,659)
Various other items necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, including:		
Accrued interest payable		(476,764)
Unavailable revenue - property taxes		323,286
Unavailable revenue - court fines		97,619
Unavailable revenue - ambulance fees		275,909
Net position of governmental activities	$	41,932,941

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

CITY OF SHERMAN, TEXAS

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED SEPTEMBER 30, 2023

	General	General Improvement	Debt Service
REVENUES			
Taxes:			
General property	$ 12,824,275	$ -	$ 7,324,803
City sales	29,341,121	-	-
Franchise	3,141,869	-	-
Nonproperty	199,926	-	-
Property assessment	-	-	-
Licenses and permits	2,874,488	-	-
Intergovernmental	460,095	-	-
Charges for services	4,872,414	-	-
Fines and forfeitures	626,982	-	-
Investment income (loss)	514,365	715,785	65,260
Donations	25,592	-	-
Miscellaneous	872,614	-	5,530
Total revenues	55,753,741	715,785	7,395,593
EXPENDITURES			
Current:			
General government	8,924,409	-	-
Public safety	32,214,040	-	-
Streets	5,644,914	56,109	-
Community services	7,368,394	-	-
Community development	-	-	-
Capital outlay	995,228	12,850,496	-
Debt service:			
Principal	35,377	-	4,061,659
Interest	664	-	3,146,879
Debt issuance costs and agent fees	-	283,799	6,200
Total expenditures	55,183,026	13,190,404	7,214,738
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	570,715	(12,474,619)	180,855
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	73,640,000	-
Issuance of tax notes	-	47,250	-
Premium on issuance of debt	-	4,393,799	-
Issuance of SBITA's	170,582	-	-
Transfers in	4,477,471	598,720	846,272
Transfers out	(795,000)	(224,914)	-
Total other financing sources (uses)	3,853,053	78,454,855	846,272
NET CHANGE IN FUND BALANCES	4,423,768	65,980,236	1,027,127
FUND BALANCES, BEGINNING	18,379,904	19,912,669	450,679
FUND BALANCES, ENDING	$ 22,803,672	$ 85,892,905	$ 1,477,806

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

Nonmajor Governmental	Total Governmental
$ 679,364	$ 20,828,442
-	29,341,121
-	3,141,869
741,608	941,534
229,094	229,094
-	2,874,488
839,414	1,299,509
2,820,728	7,693,142
76,533	703,515
355,764	1,651,174
60,367	85,959
64,571	942,715
5,867,443	69,732,562
-	8,924,409
302,303	32,516,343
-	5,701,023
1,716,953	9,085,347
575,319	575,319
1,138,504	14,984,228
-	4,097,036
-	3,147,543
-	289,999
3,733,079	79,321,247
2,134,364	(9,588,685)
-	73,640,000
-	47,250
-	4,393,799
-	170,582
200,000	6,122,463
(1,498,720)	(2,518,634)
(1,298,720)	81,855,460
835,644	72,266,775
7,333,544	46,076,796
$ 8,169,188	$ 118,343,571

CITY OF SHERMAN, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2023

Total net change in fund balance - governmental funds	$ 72,266,775
Amounts reported for governmental activities in the statement of activities are different because:	
Internal Service Funds are used to charge the costs of certain activities such as fleet maintenance, information technology and insurance to individual funds. The change in net position of the Internal Service Funds is reported with governmental activities.	1,968,483
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. This is the amount of capital assets recorded in the current period.	18,638,038
Depreciation on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation is not reported as expenditures in the governmental funds.	(7,406,407)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of refunding transactions, premiums, discounts, and similar items when debt is issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Issuance of debt	(73,857,832)
Premium on debt issuance	(4,393,799)
Principal paid - bonds payable	860,000
Principal paid - certificates of obligation	3,145,000
Principal paid - tax notes	75,261
Principal paid - subscription liability	35,378
Principal paid - sales tax overpayment	331,271
Amortization of premium on debt issuance	220,617
Certain expenses related to employee compensation and benefits are reported in the statement of activities but do not require the use of financial resources and, therefore, are not reported as expenditures in governmental funds:	
Change in compensated balances	318,849
Change in net pension liability	(1,390,106)
Change in OPEB obligation - Retiree health plan	271,551
Change in OPEB obligation - TMRS supplemental death benefit	(26,869)
Various other items necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, including:	
Miscellaneous transactions involving capital assets	(5,093)
Change in accrued interest payable	17,922
Change in unavailable revenue - property taxes	8,930
Change in unavailable revenue - court fines	(44,431)
Change in unavailable revenue - ambulance fees	(72,285)
Change in net position of governmental activities	$ 10,961,253

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

CITY OF SHERMAN, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

SEPTEMBER 30, 2023

	Business-type Activities Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
ASSETS				
Current assets:				
Cash	$ 2,038,068	$ 276,110	$ 2,314,178	$ 1,991,817
Pooled and temporary investments	7,784,502	1,029,641	8,814,143	976,422
Receivables (net of allowances for uncollectibles):				
Interest	25,676	5,906	31,582	-
Leases	533,378	-	533,378	-
Accounts	3,532,831	790,890	4,323,721	7,990
Unbilled accounts	855,560	128,637	984,197	-
Inventories, at cost	695,093	-	695,093	242,354
Prepaid items	10,158	-	10,158	13
Due from other funds	-	-	-	2,177,048
Total current assets	15,475,266	2,231,184	17,706,450	5,395,644
Capital assets				
Non-depreciable assets	9,638,420	3,000	9,641,420	55,250
Other capital assets, net	23,400,241	907,851	24,308,092	13,627,320
Total noncurrent assets	33,038,661	910,851	33,949,512	13,682,570
Total assets	48,513,927	3,142,035	51,655,962	19,078,214
DEFERRED OUTFLOWS OF RESOURCES				
Pension plan - TMRS	2,437,372	691,270	3,128,642	669,967
OPEB - retiree health plan	127,565	36,158	163,723	35,060
OPEB - supplemental death benefit	49,503	14,031	63,534	13,605
Total deferred outflows of resources	2,614,440	741,459	3,355,899	718,632

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

CITY OF SHERMAN, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

SEPTEMBER 30, 2023

	Business-type Activities Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
LIABILITIES				
Current liabilities:				
Accounts payable	$ 886,225	$ 234,100	$ 1,120,325	$ 373,026
Accrued expenses payable:				
Accrued wages payable	117,977	37,430	155,407	30,652
Landfill closure and postclosure care costs	-	39,468	39,468	-
Claims payable	-	-	-	473,126
Due to other funds	-	-	-	133,417
Unearned revenue	1,625,528	-	1,625,528	6,723
Customers' deposits payable	369,260	40,059	409,319	-
Current portion of long-term liabilities:				
Notes payable	-	-	-	728,493
Subscription liability	-	49,568	49,568	-
Accrued compensated absences	309,381	88,207	397,588	106,488
Tax notes	-	-	-	1,197,252
Other long-term payables	136,424	-	136,424	-
Total current liabilities	3,444,795	488,832	3,933,627	3,049,177
Long-term liabilities (net of current portion):				
Notes payable	-	-	-	530,890
Subscription liability	-	50,938	50,938	117,758
Net pension liability	4,128,906	1,170,313	5,299,219	1,134,765
Tax notes	-	-	-	3,938,507
Total OPEB liability - retiree health plan	876,665	248,485	1,125,150	240,938
Total OPEB liability - supplemental death benefit	214,703	60,856	275,559	59,008
Other long-term payables	1,803,249	-	1,803,249	-
Total long-term liabilities	7,023,523	1,530,592	8,554,115	6,021,866
Total liabilities	10,468,318	2,019,424	12,487,742	9,071,043
DEFERRED INFLOWS OF RESOURCES				
Leases	338,714	-	338,714	-
Pension plan - TMRS	81,627	23,137	104,764	22,434
OPEB - retiree health plan	390,605	110,714	501,319	107,353
OPEB - supplemental death benefits	113,172	32,078	145,250	31,103
Total deferred outflows of resources	924,118	165,929	1,090,047	160,890
NET POSITION				
Net investment in capital assets	31,098,988	810,345	31,909,333	9,461,831
Restricted	1,059,784	-	1,059,784	-
Unrestricted	7,577,159	887,796	8,464,955	1,103,082
Total net position	$ 39,735,931	$ 1,698,141	$41,434,072	$ 10,564,913

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

CITY OF SHERMAN, TEXAS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

YEAR ENDED SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
OPERATING REVENUES				
Water sales	$ 16,712,287	$ -	$ 16,712,287	$ -
Sewer sales	9,373,673	-	9,373,673	-
Solid waste service	-	7,906,956	7,906,956	-
Laboratory fees	121,691	-	121,691	-
Service connections and penalties	915,248	-	915,248	-
Utility tap fees	91,548	-	91,548	-
Charges for services	1,584,461	-	1,584,461	15,288,175
Property taxes	-	-	-	1,292,000
Miscellaneous	1,258,283	804,908	2,063,191	68,131
Total operating revenues	30,057,191	8,711,864	38,769,055	16,648,306
OPERATING EXPENSES				
Personnel services	7,669,584	2,174,399	9,843,983	2,085,469
Contractual services	10,328,535	2,723,275	13,051,810	6,600,742
Supplies	1,774,872	321,144	2,096,016	1,333,754
Maintenance and repair	4,710,130	51,572	4,761,702	2,184,706
Vehicle usage	1,166,605	1,972,778	3,139,383	75,000
Depreciation	3,013,862	115,838	3,129,700	2,692,884
Total operating expenses	28,663,588	7,359,006	36,022,594	14,972,555
OPERATING INCOME (LOSS)	1,393,603	1,352,858	2,746,461	1,675,751
NONOPERATING REVENUES (EXPENSES)				
Gain (loss) on sale of assets	(22,908)	(6,097)	(29,005)	(56,078)
Investment income	474,244	61,211	535,455	250,601
Interest expense	(62,210)	-	(62,210)	(187,791)
Impact fees	2,714,135	-	2,714,135	-
Intergovernmental	2,427,332	-	2,427,332	-
Total nonoperating revenues (expenses)	5,530,593	55,114	5,585,707	6,732
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	6,924,196	1,407,972	8,332,168	1,682,483
CONTRIBUTIONS AND TRANSFERS				
Capital contributions	2,615,122	-	2,615,122	-
Transfers in	5,012,742	-	5,012,742	286,000
Transfers out	(7,584,855)	(1,317,716)	(8,902,571)	-
Total contributions and transfers	43,009	(1,317,716)	(1,274,707)	286,000
CHANGE IN NET POSITION	6,967,205	90,256	7,057,461	1,968,483
NET POSITION, BEGINNING	32,768,726	1,607,885	34,376,611	8,596,430
NET POSITION, ENDING	$ 39,735,931	$ 1,698,141	$ 41,434,072	$ 10,564,913

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

CITY OF SHERMAN, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	$27,143,899	$ 8,759,872	$35,903,771	$ -
Cash received for interfund services	-	-	-	16,891,939
Cash paid for supplies and materials	(18,205,230)	(5,112,295)	(23,317,525)	(4,147,558)
Cash paid for premiums, claims and administrative	-	-	-	(5,971,390)
Cash paid for personnel services	(7,518,677)	(2,142,583)	(9,661,260)	(2,056,355)
Net cash provided (used) by operating activities	1,419,992	1,504,994	2,924,986	4,716,636
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other governments	2,427,332	-	2,427,332	-
Cash received from other funds	5,012,742	-	5,012,742	330,118
Cash paid to other funds	(7,584,855)	(1,317,716)	(8,902,571)	(2,191,048)
Net cash provided (used) by noncapital financing activities	(144,781)	(1,317,716)	(1,462,497)	(1,860,930)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	56,092	18,273	74,365	304,033
Acquisition of capital assets	(4,374,379)	(348,627)	(4,723,006)	(4,497,539)
Proceeds from issuance of long-term debt	28,627	94,650	123,277	3,258,027
Principal retirement of long-term debt	(194,342)	-	(194,342)	(1,680,559)
Impact fees	2,714,135	-	2,714,135	-
Interest paid on long-term debt	(62,210)	-	(62,210)	(261,948)
Capital contributions	408,574	-	408,574	-
Net cash provided (used) by capital and related financing activities	(1,423,503)	(235,704)	(1,659,207)	(2,877,986)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and investment income received	469,486	56,074	525,560	250,601
Purchases of investments	(3,809,175)	-	(3,809,175)	(375,275)
Proceeds from sale of investments	4,675,910	26,667	4,702,577	-
Net cash provided (used) by investing activities	1,336,221	82,741	1,418,962	(124,674)
NET INCREASE (DECREASE) IN CASH	1,187,929	34,315	1,222,244	(146,954)
CASH, BEGINNING	850,139	241,795	1,091,934	2,138,771
CASH, ENDING	$ 2,038,068	$ 276,110	$ 2,314,178	$ 1,991,817

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

CITY OF SHERMAN, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income	$ 1,393,603	$ 1,352,858	$ 2,746,461	$ 1,675,751
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	3,013,862	115,838	3,129,700	2,692,884
(Increase) decrease in:				
Accounts receivable (net)	(560,214)	64,206	(496,008)	249,927
Unbilled receivables	(64,101)	(15,423)	(79,524)	-
Inventories	(65,257)	-	(65,257)	(21,268)
Prepaid items	-	-	-	2,308
Deferred outflows of resources	(1,693,113)	(481,058)	(2,174,171)	(458,833)
Increase (decrease) in:				
Accounts payable	(159,831)	(43,526)	(203,357)	139,337
Accrued wages payable	13,873	6,662	20,535	354
Estimated liability for claims	-	-	-	(49,923)
Accrued compensated absences	203	(24,235)	(24,032)	4,553
Unearned revenue	(2,427,331)	-	(2,427,331)	(1,494)
Customer deposits	138,354	(775)	137,579	-
Net pension liability	3,538,982	1,003,579	4,542,561	968,416
Net OPEB	(320,975)	(89,840)	(410,815)	(98,313)
Deferred inflows of resources	(1,388,063)	(383,292)	(1,771,355)	(387,063)
Total adjustments	26,389	152,136	178,525	3,040,885
Net cash provided (used) by operating activities	$ 1,419,992	$ 1,504,994	$ 2,924,986	$ 4,716,636

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

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sherman, Texas (the City) was founded by an act of the First Texas Legislature in 1846 and was incorporated as a general law City on December 7, 1858. In 1915, the City was reorganized as a home rule City with the adoption of a new City Charter. The new charter established a Council-Manager form of government. The general governmental functions include law enforcement, fire and other public safety activities, streets, sanitation, public improvements, public charities, parks and recreation, library services, zoning and general administrative services. Enterprise Funds are used to account for the operations of its water, sewer and solid waste systems.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles (GAAP) generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for the local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled, *Audits of State and Local Governmental Units.*

A. Financial Statement Presentation

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, business-type activities and activities of its discretely presented component unit on the statement of net position and statement of activities. The City's statement of net position includes both noncurrent assets and noncurrent liabilities of the City. 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 resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Management's Discussion and Analysis provides an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the original adopted and final amended general fund budgets with actual results. The City does not have any major special revenue funds.

B. Financial Reporting Entity

The City is governed by an elected mayor and a six-member council. As required by GAAP, these financial statements present the City (the primary government) and the entities for which the City is considered to be financially accountable (component units). Discretely presented component units are reported in a separate column in the basic financial statements in order to emphasize that they are legally separate from the City.

The City's financial reporting entity comprises the following:

Primary Government:	City of Sherman
Discrete Component Unit:	Sherman Economic Development Corporation (SEDCO)

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units with the City's reporting entity, as set forth in Section 2100 of 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 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; and
- There is fiscal dependency by the organization on the City.

These factors make the organization meet the criteria for being presented as a component unit.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City presents no blended component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The following component unit is discretely presented into the reporting activity type of the City's report.

Sherman Economic Development Corporation – (SEDCO) is a nonprofit industrial development corporation organized for the purpose of promoting, assisting and enhancing economic development activities for the City as provided by the Development Corporation Act of 1979. SEDCO is managed by a board of directors composed entirely of persons appointed by and serving at the pleasure of the Sherman City Council. The City is also financially accountable for SEDCO because the City Council approves SEDCO's budget, levies sales taxes (SEDCO's primary source of revenue), and approves any debt issuances. Sales taxes are collected under Section 4A of the Development Corporation Act of 1979 for these purposes. SEDCO began its operations on April 1, 1996. A copy of SEDCO's audit report can be obtained by contacting their offices at 307 West Washington, Sherman, Texas 75090.

Related Organizations

Related organizations are excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. Audited financial statements are available from the respective organizations. Related organizations are described as follows:

Housing Authority of the City of Sherman (Authority) – Administers federal programs to provide low-rent housing to qualified City residents. The five-member board of the Authority is appointed by the Mayor. The City Council has no significant influence over the management, budget or policies of the Authority. The Authority reports independently.

Greater Texoma Utility Authority (GTUA) – Assists local governments in the development of water, sewer and solid waste facilities. The City appoints 3 members to GTUA's 9-member Board of Directors. The City financed certain water and sewer facilities through debt issued by GTUA and the City is contractually obligated to make sufficient payments to GTUA for annual debt service requirements of that debt. The City has no significant influence over the operations of GTUA, as its scope benefits other entities beside the City. GTUA reports independently.

Texoma Area Solid Waste Authority (TASWA) – Developed and operates a municipal solid waste landfill for the benefit of the City and other local governments in Grayson and Cooke Counties. The Mayor serves as one of five members of TASWA's Board of Directors. The City has an ongoing financial responsibility to TASWA and has pledged to pay fees established by TASWA in order for TASWA to pay its operating and debt service obligations. However, the City has no significant influence over TASWA's administration or operation. TASWA reports independently.

C. Government-wide and Fund Financial Statements

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 activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (general government, public safety, streets, community services and community development) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, sales taxes, franchise taxes, intergovernmental revenues, and interest income).

Separate funds-based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of applicable fund category and for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a separate column in the applicable fund financial statements.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (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, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are franchise fees and administrative charges between the City's Enterprise Funds and the General Fund and charges of the Internal Service Funds to the City's other operating funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include charges to customers for services, and operating and capital grants and contributions. General revenues include all taxes and internally generated resources.

Governmental fund 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 government considers revenue to be available if 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.

Property taxes, sales taxes, franchise taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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

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

E. Fund Types and Major Funds

Governmental Funds

The focus of governmental fund measurement (in the fund financial statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The City reports the following major governmental funds:

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

General Improvement Fund – accounts for projects planned as part of the City's five-year capital improvement program.

Debt Service Fund – to account for the payment of principal and interest on long-term debt.

Proprietary Funds

The focus of proprietary funds measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to businesses. The City reports the following major Enterprise Funds:

Water and Sewer Fund – accounts for the provision of water and sewer services to the residents of the City.

Solid Waste Fund – accounts for the solid waste collection function of the City.

Other Fund Types

Additionally, the City reports the following fund type:

Special Revenue Funds – account for the proceeds of specific revenue sources that are restricted by law or committed by governing authority for specified purposes, other than debt service or capital projects. They are funded through taxes, grants, or donations.

Capital Projects Funds – account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Fund – used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. The Perpetual Care Fund of the cemetery is the City's only permanent fund.

Internal Service Funds – used to account for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis. These services include fleet management, information technology, self-funded health and dental insurance, and fleet replacement. These are proprietary funds that are reported with governmental activities in the government-wide financial statements.

F. Assets, Liabilities, and Net Position or Equity

Cash and Investments

Cash of all funds is pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month-end. An individual fund's pooled cash and cash investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of 90 days or less are also considered to be "cash equivalents."

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during a 60-day period after the close of the City's fiscal year.

Taxable property includes real property and certain personal property situated in the City. Certain properties of religious, educational and charitable organizations, including the federal government and the State of Texas, are exempt from taxation. Additionally, there are other exemptions as noted below in arriving at the total assessed valuation of taxable property. The valuations are subject to countywide revaluation every five years. The effective tax rate is based upon the previous year's total assessed valuation.

	2023 Tax Roll	2022 Tax Roll
Total assessed value	$ 6,753,984,305	$ 5,467,018,875
Less exemptions for:		
Individuals over 65/disabled	90,697,998	90,751,051
Community housing	4,254,805	3,717,005
Productivity valuations of open land space	219,669,855	114,813,248
Homestead cap exemption	300,532,863	92,981,198
Veterans exemption	45,047,270	37,932,176
Pollution control exemption	49,170,015	43,005,842
Freeport exemptions	138,752,880	107,184,485
Exempt	767,487,790	596,038,941
Abatement	219,705,138	242,080,397
Wind/solar power	494,088	372,794
Net assessed value	$ 4,918,171,603	$ 4,138,141,738
Tax rate (per $100 valuation)	$ 0.4699	$ 0.4890

Inventories

Inventories consist of supplies and fuels held for consumption and are valued at cost on a first-in, first-out basis. Expenditures/expenses are recorded when consumed rather than when purchased.

Prepayments and Deposits

Certain payments to vendors reflect costs applicable to future accounting periods and are recognized as prepayments and deposits in both the government-wide and fund financial statements. The cost of these items is recorded as expenditures / expenses when consumed / provided rather than when paid.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund level balance sheets / statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Transactions between Funds

Transactions between funds, which would have been treated as revenues, expenditures, or expenses if they involved organizations external to the government unit, are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expenses in the fund reimbursed. All other nonreciprocal transactions between funds which are not reimbursements and where the funds do not receive equivalent goods or services for the transaction are classified as transfers.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at acquisition value at the time received. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

During fiscal year 2007, the City completed its inventory of general infrastructure assets (i.e., streets and storm water drains), beginning with assets put in use in 1980. The City was able to estimate the historical cost for the initial reporting of these assets through back-trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each year, including infrastructure assets, they are capitalized and reported at historical cost.

Assets capitalized have an original cost of $5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Right to use SBITA assets are amortized over the lesser of the contract or the useful life of the underlying asset. Estimated useful lives are as follows:

Assets	Years
Buildings	20 - 50
Water and sewer system	30 - 50
Machinery and equipment	5 - 10
Improvements	20
Other assets	10
Right-of-use: SBITA	contract term
Right-of-use: leases	lease term

Compensated Absences

The City's policy allows employees to accumulate earned but unused vacation leave up to the number of days equal to a one-year accrual. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. Vacation accrual is considered a current liability since it must be used within a year or paid at separation, whichever is earlier.

The City's policy allows employees to accumulate earned but unused sick leave on an unlimited basis. For non-civil service employees, accumulated sick leave lapses when the employees leave the City and no monetary obligation exists. Civil service employees are entitled to be paid up to 135 and 90 days for fire and police civil service employees, respectively. An estimated portion of the sick leave liability is included in the current liability for compensated absences based on past experience.

Pensions

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

Other Post-Employment Benefits

TMRS Supplemental Death Benefits Fund

The City participates in the Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF), which is an optional single-employer defined benefit life insurance plan that is administered by TMRS. It provides death benefits to active and, if elected, retired employees of participating employers. Contribution rates are determined annually for each participating municipality as a percentage of that City's covered payroll. The death benefit for retirees is considered an other postemployment benefit (OPEB). The OPEB program is an unfunded trust because the SDBF trust covers both actives and retirees and is not segregated. The Total OPEB Liability of the plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the Total OPEB Liability, deferred inflows and outflows of resources, and OPEB expense. Benefit payments are recognized when due and payable in accordance with the benefit terms.

Retiree Insurance Plan

The City, through its substantive commitment to provide other post-employment benefits (OPEB) provides retiree medical coverage to eligible employees. To be eligible, a City employee retiring at age 62 or over must have at least 5 years of service with the City. City employees retiring before age 62 must have at least 20 years of service with the City. Retirees are required to pay the premium cost for both single and dependent coverage. The City also subsidizes certain retirees and dependents as a result of prior commitments. The plan qualifies as a single-employer defined benefit plan and is accounted for in the City's Insurance Fund and in the fund where the retiree last worked. A separate financial statement is not issued for the plan.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position and/or 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 assets that applies to future periods and will not be recognized as an outflow of resources, either expenses or expenditures, until that time. The City reports the following items qualifying for this category:

- Deferred charges on refunding reported in the statements of net position - A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the shorter of the life of the refunded or refunding debt.
- Difference in expected and actual pension and OPEB experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions related to the pension and OPEB plan – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Pension and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

In addition to liabilities, the statement of net position and/or 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 net assets that applies to future periods and will not be recognized as an inflow of resources, or revenues, until that time. The City reports the following items qualifying for reporting in this category:

- Difference in expected and actual pension and OPEB experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Changes in actuarial assumptions related to the OPEB plan – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Deferred unavailable revenues reported on the balance sheet of the governmental funds - A deferred amount is recorded for the billed revenues not yet collected or available. These amounts are deferred and recognized as inflow of resources in the period the amounts become available.

Long-term Obligations

In the government-wide, proprietary and component unit financial statements, long-term debt and other long-term obligations are reported as liabilities. In the fund financial statements, long-term liabilities are not recorded in the governmental funds, as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing sources.

Subscription-Based IT Arrangements

The City is under contract for noncancellable subscription-based IT arrangements (SBITAs). The City recognizes a liability and an intangible right-to-use asset in the government-wide financial statements.

At the commencement of a SBITA, the City initially measures the liability at the present value of payments expected to be made during the agreement term. Subsequently, the liability is reduced by the principal portion of payments made. The asset is initially measured as the initial amount of the liability, adjusted for payments made at or before the commencement date, plus certain initial direct costs. Subsequently, the asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to SBITAs include how the City determines (1) the discount rate it uses to discount the expected payments to present value, (2) agreement term, and (3) agreed upon payments.

- The City uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate.

- The agreement term includes the noncancellable period of the SBITA.

- The agreed upon payments included in the measurement of the liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure the asset and liability if certain changes occur that are expected to significantly affect the amount of the liability.

Leases

The component unit is a lessee for noncancellable leases of office space. The component unit recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, the component unit initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the component unit determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The component unit uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the component unit generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the component unit is reasonably certain to exercise.

The component unit monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long term debt on the statement of net position.

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - These amounts can only be used for specific purposes pursuant to constraints imposed by an ordinance of the City Council – the government’s most binding form of commitment. Those committed amounts cannot be used for any other purpose unless the City Council removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance - This classification includes amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council authorizes an assignment of fund balance by directing the City Manager to assign the amounts or by delegating the authority to assign the amounts to the City Manager, such as for funds given to the City for a specific charitable purpose. Since no formal City Council action is taken for authorization of an assignment, no additional action is taken for its removal.

Unassigned fund balance - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

The City uses restricted amounts first when both restricted and unrestricted fund balance are available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when the expenditures are made.

The City's Fund Balance policy is to spend the funds with the most constraints first. Restricted fund balance is spent first, then committed fund balance, then assigned fund balance, and last of all, unassigned fund balance. The policy also sets 60 days of expenditures as the minimum amount of fund balance for the General, Utility and Solid Waste Funds. Furthermore, when fund balance falls below 60 days, the City will implement a replenishment plan. The policy also allows the City Council to use unassigned fund balance for capital needs to offset difficult economic times, to stabilize fluctuations in cash flow requirements, and to provide for emergencies.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as needed.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates. Actual amounts could differ from those estimates.

G. <u>New Accounting Pronouncements</u>

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the City include the following:

GASB Statement No. 99, Omnibus 2022 – The objective of this Statement is to correct practice issues identified during implementation and application of certain GASB Statements and financial reporting for financial guarantees. There are various effective dates 1.) upon issuance 2.) fiscal years beginning after June 15, 2022 and 3.) fiscal years beginning after June 15, 2023.

GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62 – The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 101, Compensated Absences – The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

The Government Accounting Standards Board (GASB) has amended the existing standards regarding capitalization thresholds for assets. The amended guidance for the capitalization threshold comes from GASB Implementation Guide 2021-1, Question 5.1. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture and library books are examples of asset types that may not meet a capitalization policy on an individual basis yet could be significantly collectively. In this example, if the $150,000 aggregate amount (100 computers costing $1,500 each) is significant, the government should capitalize the computers. The amended guidance is effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budget Policy and Practice

The City follows the procedures outlined below in establishing budgetary data reflected in the financial statements:

Annual budgets are legally adopted for all funds of the City. Fifty (50) days prior to the end of the fiscal year, the City Manager is required to submit to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes the proposed expenditures/expenses and the proposed method to finance them.

Dates for public hearings, the purpose of which are to obtain taxpayers' comments, are set by the City Council at the time the budget is submitted to that body. The City Council may add to, subtract from or change appropriations, but may not change the form of the proposed budget. Any changes must be within the revenue and reserves estimated as available by the City Manager. Prior to September 25 of each year, the budget is legally enacted through the passage of an ordinance.

At any time during the fiscal year, the City Manager may move part or all of any unencumbered appropriation balance among the various departments or programs within each fund.

In the case where additional appropriations are required within a fund, the City Manager must seek approval of the City Council, who may, by resolution, increase that fund's appropriation.

Budget Basis of Accounting

The City prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Schedule of Revenues, Expenditures and Changes in Fund Balances –Budget and Actual – General Fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis in the General Fund is that sales tax is recorded when earned for GAAP and is recorded when received for budget. Unrealized investment gain (loss) is recognized for GAAP basis only.

B. Deficit Fund Equity

The Hotel-Motel, TIRZ#5, TIRZ#7, Stormwater, Equipment Services, and Information Technology Funds have a deficit fund balance of $28,221, $67,399, $286,750, $230,909, $268,316, and $8,347, respectively. These deficits will be addressed as part of the development of the Fiscal Year 2023-2024 budget.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

Cash at September 30, 2023, as reported in the Statement of Net Position, consists of the following items:

	Primary Government	Component Unit
Petty Cash	$ 6,430	$ -
Bank Deposits:		
Demand Accounts	9,560,446	4,813,494
Time Accounts	1,500,000	6,176,542
Total Cash and Deposits	$ 11,066,876	$ 10,990,036

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government Obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. At September 30, 2023, the City's deposit balance of $11,066,876 and the Sherman Economic Development Corporation, a discretely presented component unit, balance of $10,990,036 were both collateralized by FDIC insurance and with letters of credit issued by the Federal Home Loan Bank in the name of the respective entity.

Investments

The following schedule summarizes the City's investments as of September 30, 2023:

Investment Type	Fair Value	Credit Rating	Weighted Average Maturity (Days)
Primary government			
U.S. Treasury	$ 1,944,338	AA+	402
Texas Subdivisions Municipal Obligations	6,665,956	A3 to AA+	610
U.S. Agencies	16,441,124	AA+	624
TexStar	2,128,609	AAAm	29
TexPool	91,318,013	AAAm	26
Common trust funds (corporate)	1,804,079	NR	
Total primary government	120,302,119		
Component unit			
TexPool	10,618,531	AAAm	26
Total component unit	10,618,531		
Total Investments	$ 130,920,650		

The City has investments with two public funds investment pools as of September 30, 2023: the Texas Local Government Investment Pool (TexPool) and the Texas Short-term Asset Reserve Program (TexStar). These pools have been organized in conformity with the Interlocal Cooperation Act and the Public Funds Investment Act of the Texas Government Code. The Comptroller maintains oversight responsibility and has established an advisory board composed of both participants in the pool and other persons who do not have a business relationship with pool. The Advisory Board members review the investment policy and management fee structure.

Both pools state all investments at amortized cost, which generally approximates the fair value of the securities. Both pools submit their information to Standard & Poor's for ratings review. Deposits in this fund are not subject to custodial credit risk. The City does not have any limitations or restrictions on withdrawals from these pools.

In 1956, the City established a trust fund with the purpose to hold investments to provide income for the perpetual upkeep of the City's cemetery. The investments of the trust fund are administered by the trust company affiliated with a non-depository bank. The City's investments in the trust fund at September 30, 2023, are comprised of money market funds, exchange-traded funds and corporate equity and bond mutual funds. The investments are insured and held by the trustee in the City's name. The City has not imposed any restrictions on the investments selected by the trustee. These investments are carried at fair value as determined by market quotes.

Credit Risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. Investing is performed in accordance with the City's investment policy adopted by the City Council complying with state law and the City charter. City funds may be invested in: 1) fully insured time deposits; 2) obligations of the United States Treasury; 3) obligations of Agencies or Instrumentalities of the United States; 4) obligations of the State of Texas, or its political subdivisions, rated no lower than A; 5) investment pools with a continuous rating no lower than AAA; and 6) repurchase agreements. Under the City policy, the City may not invest in collateralized mortgage obligations, mutual funds, commercial paper and investment pools rated lower than AAA or who invest in prohibited investments under the City policy.

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. For direct investments, the City policy provides that investments and investment collateral is held by a third party custodian with whom the City has a current custodial agreement in the City's name.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. However, the City's policy provides that investments to be purchased must have final maturities of five years or less.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investments in a single issuer. The City's policy does not place a limit on the amount that may be invested in any one issuer. This risk does not apply to U. S. Government Securities or investments in an external investment pool.

Foreign Currency Risk is the risk that an investment denominated in the currency of a foreign country could reduce its U. S. dollar value as a result of changes in foreign currency exchange fees. As of September 30, 2023, the City was not exposed to foreign currency risk.

Investments - Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs or quoted prices in markets that are not active; and Level 3 inputs are significant unobservable inputs.

The following schedule summarizes the City's investments that are measured at fair value on a recurring basis as of September 30, 2023:

		Fair Value Measurements Using		
Investment Type	Fair Value 9/30/2023	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasury	$ 1,944,338	$ 1,944,338	$ -	$ -
Texas Subdivisions Obligations	6,665,956	-	6,665,956	-
U.S. Agencies	16,441,124	-	16,441,124	-
Common trust funds	1,804,079	1,804,079	-	-
Total	$ 26,855,497	$ 3,748,417	$ 23,107,080	$ -

Each of the City's investments are categorized as Level 2, but the perpetual care cemetery trust is classified as Level 1. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers (some brokered markets, for example), or in which little information is released publicly. Level 2 inputs other than quoted prices that are observable for the asset(s) may include observable and commonly quoted interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, default rates, inputs that are derived principally from or corroborated by observable market data, and similar information. A Level 2 designation requires that all inputs and/or adjustments are observable and documentable in the marketplace.

B. Receivables

Amounts recorded as receivable as of September 30, 2023, for the City's individual major funds, internal service funds, and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	General Improvement	Debt Service	Water and Sewer	Solid Waste	Internal Service	Nonmajor	Total
Receivables:								
Interest	$ 82,925	$ 25,175	$ -	$ 25,676	$ 5,906	$ -	$ 5,795	$ 145,477
Intergovernmental	64,224	-	-	-	-	-	230,867	295,091
Leases	-	-	-	533,378	-	-	50,547	583,925
Accounts	3,173,015	-	-	3,747,831	846,890	7,990	110,523	7,886,249
Taxes	4,869,557	-	112,353	855,560	128,637	-	153,981	6,120,088
Gross receivables	8,189,721	25,175	112,353	5,162,445	981,433	7,990	551,713	15,030,830
Less: allowance for uncollectibles	(2,258,483)	-	-	(215,000)	(56,000)	-	-	(2,529,483)
Net total receivables	$ 5,931,238	$ 25,175	$ 112,353	$ 4,947,445	$ 925,433	$ 7,990	$ 551,713	$ 12,501,347

The Water and Sewer Fund and the Solid Waste Fund accounts receivable include unbilled charges for services rendered at September 30, 2023.

Governmental funds report unavailable revenue (a deferred inflow of resources) in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

	General	Debt Service	Total
Delinquent property taxes receivables	$ 221,835	$ 101,451	$ 323,286
Court fines	97,619	-	97,619
Ambulance fees	275,909	-	275,909
Total governmental funds	$ 595,363	$ 101,451	$ 696,814

C. Capital Assets

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

Primary Government

	Beginning Balance	Increases	Decreases	Reclassifications/ Transfers	Ending Balance
Governmental activities, excluding internal service funds:					
Capital assets, not being depreciated:					
Land	$ 7,789,235	$ 274,618	$ -	$ -	$ 8,063,853
Construction in progress	23,217,016	-	(11,157,364)	-	12,059,652
Total assets not being depreciated	31,006,251	274,618	(11,157,364)	-	20,123,505
Capital assets, being depreciated:					
Buildings	16,087,059	15,616,964	-	-	31,704,023
Improvements other than buildings	126,116,606	10,452,465	-	-	136,569,071
Machinery and equipment	9,817,364	3,176,084	(961,497)	11,961	12,043,912
Other capital assets	1,406,832	-	-	-	1,406,832
Right-of-use asset - equipment	217,895	-	(217,895)	-	-
SBITA	82,650	266,938	-	-	349,588
Total capital assets being depreciated	153,728,406	29,512,451	(1,179,392)	11,961	182,073,426
Less accumulated depreciation:					
Buildings	(6,511,456)	(770,658)	-	-	(7,282,114)
Improvements other than buildings	(73,517,882)	(5,937,704)	-	-	(79,455,586)
Machinery and equipment	(8,134,133)	(598,928)	960,144	(11,961)	(7,784,878)
Other capital assets	(1,354,749)	(18,973)	-	-	(1,373,722)
Right-of-use asset - equipment	(112,315)	-	112,315	-	-
SBITA	-	(80,144)	-	-	(80,144)
Total accumulated depreciation	(89,630,535)	(7,406,407)	1,072,459	(11,961)	(95,976,444)
Total capital assets being depreciated, net	64,097,871	22,106,044	(106,933)	-	86,096,982
Governmental activities, excluding internal service funds, capital assets, net	$ 95,104,122	$ 22,380,662	$ (11,264,297)	$ -	$ 106,220,487

	Beginning Balance	Increases	Decreases	Reclassifications/ Transfers	Ending Balance
Internal service funds:					
Capital assets, not being depreciated:					
Land	$ 55,250	$ -	$ -	$ -	$ 55,250
Construction in progress	7,929	-	(7,929)	-	-
Total Assets not being depreciated:	63,179	-	(7,929)	-	55,250
Capital assets, being depreciated:					
Buildings	201,401	-	-	-	201,401
Improvements other than buildings	82,949	-	-	-	82,949
Machinery and equipment	28,387,563	4,241,015	(805,261)	(11,961)	31,811,356
Other capital assets	164,340	16,657	-	-	180,997
SBITA	247,794	-	-	-	247,794
Total capital assets being deprecated	29,084,047	4,257,672	(805,261)	(11,961)	32,524,497
Less: accumulated depreciation:					
Buildings	(152,617)	(7,314)	-	-	(159,931)
Improvements other than buildings	(11,613)	(5,645)	-	-	(17,258)
Machinery and equipment	(16,376,106)	(2,550,372)	445,151	11,961	(18,469,366)
Other capital assets	(121,070)	(10,611)	-	-	(131,681)
SBITA	-	(118,941)	-	-	(118,941)
Total accumulated depreciation	(16,661,406)	(2,692,883)	445,151	11,961	(18,897,177)
Total capital assets being depreciated, net	12,422,641	1,564,789	(360,110)	-	13,627,320
Internal service fund capital assets, net	12,485,820	1,564,789	(368,039)	-	13,682,570
Governmental activities capital assets, net	$ 107,589,942	$ 23,945,451	$ (11,632,336)	$ -	$ 119,903,057

	Beginning Balance	Increases	Decreases	Reclassifications/ Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land	$ 2,928,321	$ -	$ -	$ -	$ 2,928,321
Water rights	6,400,892	-	-	-	6,400,892
Construction in progress	1,032,633	5,491,227	(6,211,653)	-	312,207
Total assets not being depreciated	10,361,846	5,491,227	(6,211,653)	-	9,641,420
Capital assets, being depreciated:					
Buildings	4,201,022	218,018	-	-	4,419,040
Improvements other than buildings	61,701,845	6,691,704	-	-	68,393,549
Machinery and equipment	9,067,501	440,917	(11,500)	-	9,496,918
Other capital assets	163,979	-	-	-	163,979
Right-of-use asset - equipment	69,962	-	(69,962)		-
SBITA	-	224,977	-	-	224,977
Total capital assets being depreciated	75,204,309	7,575,616	(81,462)	-	82,698,463
Less accumulated depreciation:					
Buildings	(3,223,386)	(136,809)	-	-	(3,360,195)
Improvements other than buildings	(44,786,187)	(2,565,363)	-	-	(47,351,550)
Machinery and equipment	(7,115,618)	(369,622)	11,500	-	(7,473,740)
Other capital assets	(146,980)	(7,914)	-	-	(154,894)
Right-of-use asset - equipment	(40,957)		40,957		-
SBITA	-	(49,992)	-	-	(49,992)
Total accumulated depreciation	(55,313,128)	(3,129,700)	52,457	-	(58,390,371)
Total capital assets being depreciated, net	19,891,181	4,445,916	(29,005)	-	24,308,092
Business-type activities capital assets, net	30,253,027	9,937,143	(6,240,658)	-	33,949,512
Total primary government	$ 137,760,319	$ 33,965,244	$ (17,872,994)	$ -	$ 153,852,569
Component unit					
Capital assets, not being depreciated:					
Land and improvements	$ 10,094,122	$ 25,228	$ (2,916,923)	$ -	$ 7,202,427
Construction in progress	95,450	18,675	-	-	114,125
Total assets not being depreciated	10,189,572	43,903	(2,916,923)	-	7,316,552
Capital assets, being depreciated:					
Equipment	18,490	-	-	-	18,490
Right to use: building	-	123,056	-	-	123,056
Accumulated depreciation	(15,364)	(22,071)	-	-	(37,435)
Total capital assets being depreciated, net	3,126	100,985	-	-	104,111
Total component unit	$ 10,192,698	$ 144,888	$ (2,916,923)	$ -	$ 7,420,663

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

Governmental activities:	
General government	$ 246,406
Public safety	1,010,863
Streets	5,344,790
Community services	804,348
Internal service funds	2,692,883
Total depreciation expense - governmental activities	$ 10,099,290
Business-type activities:	
Water and sewer	$ 3,013,862
Solid waste	115,838
Total depreciation expense - business-type activities	$ 3,129,700

D. Long-term Debt

The following schedule summarizes the changes in long-term debt during the year ended September 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Certificates of obligation	$ 88,170,000	$ 73,640,000	$ 3,145,000	$ 158,665,000	$ 4,495,000
Premium	3,392,760	4,393,799	166,129	7,620,430	312,733
Total certificates of obligation	91,562,760	78,033,799	3,311,129	166,285,430	4,807,733
Bonds payable	6,065,000	-	860,000	5,205,000	880,000
Premium	436,228	-	54,528	381,700	54,528
Total bonds payable	6,501,228	-	914,528	5,586,700	934,528
Tax notes	3,045,000	3,095,000	1,130,000	5,010,000	1,120,000
Tax note premium	252,996	210,277	92,251	371,022	92,252
Notes payable	1,984,358	-	724,975	1,259,383	728,493
Leases	101,841	-	101,841	-	-
SBITA	312,074	170,582	155,377	327,279	225,200
Sales tax overpayment	331,271	-	331,271	-	-
Compensated absences	5,589,722	3,187,796	3,502,092	5,275,426	2,500,073
Governmental activities long-term liabilities	$ 109,681,250	$ 84,697,454	$ 10,263,464	$ 184,115,240	$ 10,408,279
Business-type activities					
Notes payable	$ 31,930	$ -	$ 31,930	$ -	$ -
Other long-term debt	2,072,138	-	132,465	1,939,673	136,424
Leases	35,803	-	35,803	-	-
SBITA	-	100,506	-	100,506	49,568
Compensated absences	421,620	504,031	528,063	397,588	397,588
Business-type activities long-term liabilities	$ 2,561,491	$ 604,537	$ 728,261	$ 2,437,767	$ 583,580
Component unit					
Leases	$ -	$ 123,056	$ 20,052	$ 103,004	$ 40,363
Sales tax overpayment	76,447	-	76,447	-	-
Component unit	$ 76,447	$ 123,056	$ 96,499	$ 103,004	$ 40,363

Interest expense totaled $3,368,658 and $62,210 for governmental and business-type activities, respectively. No interest was capitalized during the year ended September 30, 2023.

Proceeds from the issuance of tax notes and related premium are recorded in the General Improvement Fund ($47,250), for governmental capital projects, and in the Fleet Replacement Fund ($3,258,027) for fleet purchases made on behalf of all funds.

Certificates of Obligation

Certificates of obligation are comprised of the following issues at September 30, 2023:

Governmental activities		
$6,970,000 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2016, due in annual installments of $290,000 to $455,000 through 2036, interest at 2.0% to 3.0%, to pay contractual obligations for public works projects.	$	5,125,000
$18,110,000 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2017, due in annual installments of $625,000 to $1,295,000 through 2037, interest at 3.0% to 5.0%, to pay contractual obligations for public works projects.		14,650,000
$3,900,000 Tax and Municipal Drainage Utility System Revenue Certificates of Obligation, Series 2017A, due in annual installments of $130,000 to $260,000, interest at 2% to 4% to pay contractual obligations for public works projects.		3,010,000
$18,980,000 Combination Tax and Revenue Certificates of Obligation, Series 2018 due in annual installments of $470,000 to $1,155,000, interest at 3.25% to 5% for public works projects.		16,950,000
$19,130,000 Combination Tax and Revenue Certificates of Obligation, Series 2019 due in annual installments of $184,000 to $1,165,000, interest at 3.00% to 5% for street improvements.		17,255,000
$29,025,000 Combination Tax and Revenue Certificates of Obligation, Series 2021 due in annual installments of $390,000 to $1,330,000, interest at 2.00% to 5.00% for a new police department headquarters.		28,035,000
$73,640,000 Combination Tax and Revenue Certificates of Obligation, Series 2023 due in annual installments of $1,455,000 to $4,540,000, interest at 4.00% to 5.00% for various city parks and facilities.		73,640,000
Total governmental activities	$	158,665,000

Debt service requirements for the certificates of obligation through maturity are as follows:

Year Ending	Governmental Activities		
September 30,	Principal	Interest	Totals
2024	$ 4,495,000	$ 6,073,488	$ 10,568,488
2025	4,340,000	6,225,438	10,565,438
2026	4,550,000	6,017,188	10,567,188
2027	4,760,000	5,802,338	10,562,338
2028	4,985,000	5,586,588	10,571,588
2029-2033	28,105,000	24,709,031	52,814,031
2034-2038	31,015,000	19,268,669	50,283,669
2039-2043	28,590,000	13,853,338	42,443,338
2044-2048	23,275,000	8,534,506	31,809,506
2049-2053	24,550,000	3,373,938	27,923,938
Total	$ 158,665,000	$ 99,444,519	$ 258,109,519

Bonds Payable

Bonds payable is comprised of the following issue at September 30, 2023:

Governmental Activities	
$9,360,000 General Obligation Refunding Bonds, Series 2017, due in annual installments of $65,000 to $955,000 through 2030; interest at 2% to 4%.	$ 5,205,000

Debt service requirements of bonds payable through maturity are as follows:

Year Ending	Governmental Activities		
September 30,	Principal	Interest	Totals
2024	$ 880,000	$ 198,750	$ 1,078,750
2025	905,000	172,350	1,077,350
2026	955,000	136,150	1,091,150
2027	890,000	97,950	987,950
2028	925,000	62,350	987,350
2029	650,000	27,300	677,300
Total	$ 5,205,000	$ 694,850	$ 5,899,850

Tax Notes

The City issued $1,980,000 of Limited Tax Notes, Series 2021. The note will be used for the purchase of equipment for various City facilities. The interest rates range from 3.125% to 4% and will mature in 2026. In the event of default, an acceleration clause goes into effect and the bonds become immediately due.

The City issued $2,100,000 of Limited Tax Notes, Series 2022. The note will be used for the purchase of equipment for various City facilities. The interest rate is 5% and the note will mature in 2027. In the event of default, an acceleration clause goes into effect and the bonds become immediately due.

The City issued $3,095,000 of Limited Tax Notes, Series 2023. The note will be used for the purchase of equipment for various City facilities. The interest rate is 5% and the note will mature in 2027. In the event of default, an acceleration clause goes into effect and the bonds become immediately due.

Debt service requirements of bonds payable through maturity are as follows:

Year Ending	Governmental Activities		
September 30,	Principal	Interest	Totals
2024	$ 1,120,000	$ 240,350	$ 1,360,350
2025	1,170,000	187,600	1,357,600
2026	1,225,000	132,500	1,357,500
2027	925,000	74,750	999,750
2028	570,000	28,500	598,500
Total	$ 5,010,000	$ 663,700	$ 5,673,700

Notes Payable

The note payable is comprised of the following issue at September 30, 2023:

Governmental activities

$2,522,822 Note payable for the purchase of street department equipment (dump truck, mechanical sweeper, milling machine, roller, wheel excavator, wheel loader, concrete paver and trailer) and a tactical rescue truck for the fire department, due in quarterly installments of $102,739 through 2025, interest at 3.78%☐	$ 576,852
$1,418,810 Note payable for the purchase of street department equipment (motor grader, split drum roller, flip screen attachment, pneumatic roller, paver, & skid steer), due in quarterly installments of $45,391 through 2026, interest at 2.84%	436,674
$794,090 Note payable for the purchase of a pumper and police vehicles, due in quarterly installments of $41,515 through 2025, interest at 1.78%	245,857
Total	$ 1,259,383

Debt service requirements for notes payable through maturity are as follows:

Year Ending September 30,	Governmental Activities Principal	Interest	Totals
2024	$ 728,493	$ 30,492	$ 758,985
2025	441,066	8,779	449,845
2026	89,824	959	90,783
Total	$ 1,259,383	$ 40,230	$ 1,299,613

The City's direct borrowings (notes payable) related to governmental and business-type activities are secured with equipment as collateral.

SBITA Obligations

A summary of subscription payables as of September 30, 2023, are as follows:

Governmental activities:

Purpose of Lease	Interest Rate	Initial Year of SBITA	Amount of Initial Liability	Interest Current Year	Amounts Outstanding 9/30/2023	Amounts Due Within One Year
SBITA:						
Brightly	2.26%	2022	$ 48,725	$ 276	$ 25,695	$ 12,509
Granicus	2.26%	2022	25,592	388	13,245	13,245
M365	2.26%	2022	237,757	448	117,758	117,758
Civic Clerk	2.73%	2023	32,616	-	32,616	15,715
Headlight	2.73%	2023	39,333	-	39,333	19,146
Neo Gov	2.73%	2023	98,633	-	98,632	46,827
Total			$ 482,656	$ 1,112	$ 327,279	$ 225,200

Year Ending September 30,	Governmental Activities Principal	Interest	Totals
2024	$ 225,200	$ 6,956	$ 232,156
2025	102,079	2,758	104,837
Total	$ 327,279	$ 9,714	$ 336,993

Business-type activities:

Purpose of Lease	Interest Rate	Initial Year of SBITA	Amount of Initial Liability	Interest Current Year	Amounts Outstanding 9/30/23	Amounts Due Within One Year
SBITA:						
Rubicon	2.73%	2023	$ 100,506	$ -	$ 100,506	$ 49,568
Total			$ 100,506	$ -	$ 100,506	$ 49,568

Year Ending	Business-type Activities		
September 30,	Principal	Interest	Totals
2024	$ 49,568	$ 2,778	$ 52,346
2025	50,938	1,408	52,346
Total	$ 100,506	$ 4,186	$ 104,692

Leases

A summary of lease payables as of September 30, 2023, are as follows:

Component Unit:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Liability	Interest Current Year	Amounts Outstanding 9/30/23	Amounts Due Within One Year
Lease:						
Right to use: building	2.26%	2023	$ 123,056	$ 1,284	$ 103,004	$ 40,363
Total			$ 123,056	$ 1,284	$ 103,004	$ 40,363

Year Ending	Component Unit		
September 30,	Principal	Interest	Totals
2024	$ 40,363	$ 2,309	$ 42,672
2025	41,477	1,195	42,672
2026	21,164	168	21,332
Total	$ 103,004	$ 3,672	$ 106,676

Other Long-Term Payable

During the year ended September 30, 2006, the City contracted with the U. S. Army Corp of Engineers for the remaining 11,600 acre-feet of water supply storage allocated to the City of Sherman in Lake Texoma. Annual payments are due with interest rates being adjusted at five-year intervals; the current annual payment is $194,531. The balance outstanding at September 30, 2023, is $1,939,673.

Debt service requirements at September 30, 2023, for the long-term payable through maturity are as follows:

Year Ending	Business-Type Activities Texoma Water Rights Series 2006		
September 30,	Principal	Interest	Totals
2024	$ 136,424	$ 58,103	$ 194,527
2025	140,515	54,016	194,531
2026	144,724	49,807	194,531
2027	149,059	45,472	194,531
2028	153,525	41,007	194,532
2029-2033	839,423	133,234	972,657
2034-2035	376,003	17,036	393,039
Total	$ 1,939,673	$ 398,675	$ 2,338,348

Accrued Compensated Absences

Accrued compensated absences (vested sick and vacation leave) are payable from the fund responsible for the employee's compensation. Of the liability attributed to governmental activities at September 30, 2023, significantly all is payable from the General Fund.

Net Pension Liability and Total Other Post Employment Benefit (OPEB) Liabilities

When these liabilities are liquidated for governmental activities, the General Fund will be primarily responsible.

E. Interfund Transfers and Balances

Transfers between funds during the year were as follows:

	Transfers In						
Transfers Out	General	General Improvement	Debt Service	Nonmajor Governmental	Water and Sewer	Internal Service Fund	Totals
General fund	$ -	$ 375,000	$ -	$ 200,000	$ -	$ 220,000	$ 795,000
General improvements	224,915	-	-	-	-	-	224,915
Debt service	-	-	-	-	-	-	-
Nonmajor governmental	227,728	223,720	1,294,248	-	200,000	1,000	1,946,696
Water and sewer	2,927,112	-	-	-	-	51,000	2,978,112
Solid waste	1,097,716	-	-	-	206,000	14,000	1,317,716
Internal service	-	-	-	-	-	-	-
Total	$ 4,477,471	$ 598,720	$ 1,294,248	$ 200,000	$ 406,000	$ 286,000	$ 7,262,439

Transfers were used to 1) allocate funds from the Water and Sewer Fund and Solid Waste Fund for general, administrative and franchise costs; 2) move funds from Construction funds, Stormwater Fund and the Hotel Tax Fund for debt service payments;3) transfer funds to the Hotel Tax Fund for various programs; 4) fund capital projects in the General Improvement Fund; 5) close TIF 1 and transfer proceeds to the General Fund; 6) transfer to fund Capital Projects construction crew; 7) reimburse the Water and Sewer Fund for TIRZ Projects; and 8) restore fund balance in the Health Fund.

Interfund balances at September 30, 2023 consisted of the following receivables and payables:

	Due from Other Funds	
Due to Other Funds	Internal Service Fund	Purpose
General improvement	$ 1,164,690	Pooled cash overdraft
Nonmajor governmental	878,941	Pooled cash overdraft
Internal service	133,417	Pooled cash overdraft
Total	$ 2,177,048	

All of the above balances are expected to be repaid within one year.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. Except for health insurance, the City carries commercial insurance for all risks of loss. The City has not made any significant reductions in insurance coverage from the prior year and there have been no settlements which exceeded insurance coverage during any of the past three fiscal years.

Workers' Compensation, Liability and Property Insurance

The City participates in the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) for workers' compensation claims, liability (general, automobile, law enforcement, and errors/omissions), and property insurance. The TMLIRP is a public entity risk pool currently operating as a common risk management and insurance program. The risk pool is self-sustaining through member contributions and reinsures through commercial companies for claims in excess of pre-determined acceptable risk levels. Each department receives an allocation for the premium amount contributed to the pool. This cost is based on the pool's claims cost, which is adjusted to reflect the City's individual claims experience. Automobile claims are paid up to the actual cash value of the covered automobile. All other insured claims are paid at replacement cost.

B. Health Insurance

The City contracts with an insurance carrier to administer a self-insured health and dental insurance plan. This plan is funded by charges to other funds and charges to employees for extended benefits at their option. For the year ended September 30, 2023, total City and employee contributions to the plan were $6,393,443. Benefit payments, insurance premiums and administrative fees aggregated $4,971,664. The cumulative net position was $1,314,800 at September 30, 2023.

The transactions of the self-insurance plan are reported in the Insurance Internal Service Fund. The City pays a specified monthly amount for each employee and a portion of an employee's dependent coverage which averages approximately $800. The largest portion of this amount is dedicated to the direct payment of claims. The remaining part of the monthly amount is dedicated to the payment of administrative fees and commercial insurance for excess claims. The commercial insurance coverage becomes effective when the claims exceed the maximum amount per employee.

The liability for insurance claims is based on Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accordingly, the insurance claims liability includes an estimate for incurred but not reported claims. All claims are expected to be settled within one year and have not been discounted due to their short-term nature and the immaterial effect of discounting the liability.

The following presentation shows the changes in claims liabilities for the years ended September 30, 2023 and 2022:

	2023	2022
Amount of claims liability - October 1	$ 523,049	$ 373,965
Incurred claims	4,749,349	4,011,818
Payments on claims	(4,799,272)	(3,862,734)
Amount of claims liability - September 30 (due within one year)	$ 473,126	$ 523,049

C. Landfill Closure and Postclosure Care Costs

The Cities of Sherman and Denison contracted with the Greater Texoma Utility Authority (GTUA) for use of the Dripping Springs landfill. The City owns the permitted area but GTUA is responsible for the operation and maintenance. This landfill was considered full at September 30, 1993, for financial reporting purposes and a liability was recognized by GTUA based on the future landfill closure and postclosure care cost estimates. The City is financially obligated for a portion of these costs related to gas and ground water monitoring. To date, the City has paid $1,137,503. These costs are expected to significantly decline in the near future and long-term costs cannot be reasonably estimated.

D. Commitments

Greater Texoma Utility Authority

The City has entered into various contracts with the Greater Texoma Utility Authority (GTUA), whereby GTUA provides water and sewer services to the City. As part of the contractual agreements, GTUA issues debt for the benefit of the City, the proceeds of which are used to finance construction of water and sewer facilities and infrastructure within the City. Although this debt is not that of the City, the City is contractually obligated for the repayment of principal and interest on the debt through a pledging of water and sewer revenues.

During the year ended September 30, 2023, the City paid $6,772,592 to GTUA in accordance with these contracts. Future payments under these contracts average approximately $15,300,000 per year for the next 30 years.

A summary of the remaining debt service as of September 30, 2023, is as follows:

Year Ending September 30,	Principal	Interest	Totals
2024	$ 5,444,480	$ 1,671,993	$ 7,116,473
2025	5,575,960	4,381,986	9,957,946
2026	5,707,440	10,563,481	16,270,921
2027	6,488,920	10,409,989	16,898,909
2028	6,950,400	10,221,962	17,172,362
2029-2033	40,102,840	47,530,125	87,632,965
2034-2038	46,210,000	39,776,555	85,986,555
2039-2043	46,360,000	30,417,638	76,777,638
2044-2048	53,920,000	20,193,375	74,113,375
2049-2053	60,360,000	7,388,950	67,748,950
Total	$ 277,120,040	$ 182,556,054	$ 459,676,094

Following is an excerpt from the audited financial statements of GTUA, reflecting the balances as of and for the year ended September 30, 2023. These assets, deferred outflows of resources, liabilities, and net position are not that of the City but are the City's allocation of resources held by GTUA.

SCHEDULE OF NET POSITION

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,476,077	$ 1,515,799
Interest receivable	4,200,952	277,958
Due from other governments	52,861	35,939
Due from other funds	298,846	-
Restricted assets:		
Cash and cash equivalents	136,692,750	33,697,507
Temporary investments	233,297,070	-
Total Current Assets	376,018,556	35,527,203
Noncurrent assets:		
Cash and cash equivalents	5,531,848	3,758,514
Temporary investments	45,586,839	55,396,243
Capital assets (net)	101,640,625	69,170,757
Total Noncurrent Assets	152,759,312	128,325,514
Total assets	528,777,868	163,852,717
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	184,785	201,396
LIABILITIES		
Current liabilities:		
Accounts payable	6,994,332	1,359,579
Retainage payable	834,892	377,036
Accrued interest payable	6,330,315	-
Revenue bonds payable	5,075,000	4,980,000
Total current liabilities	19,234,539	6,716,615
Long-term liabilities:		
Revenue bonds payable	503,313,696	148,063,425
Total liabilities	522,548,235	154,780,040
NET POSITION		
Net investment in capital assets	1,184,149	4,642,650
Restricted - debt service	5,531,848	3,758,514
Unrestricted	(301,579)	872,909
Total net position	$ 6,414,418	$ 9,274,073

COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES

	2023	2022
OPERATING REVENUES		
Charges for services	$ 6,613,728	$ 6,595,708
Total operating revenues	6,613,728	6,595,708
OPERATING EXPENSES		
General and administrative	301,781	565,254
Maintenance and repair	207,692	-
Depreciation	4,796,166	4,672,075
Total operating expenses	5,305,639	5,237,329
OPERATING INCOME (LOSS)	1,308,089	1,358,379
NONOPERATING REVENUE (EXPENSES)	(4,167,744)	(2,818,832)
CHANGE IN NET POSITION	$ (2,859,655)	$ (1,460,453)

Grant Programs

The City participates in several federal and state assisted grant programs. Under the terms of these grants, the City is subject to program compliance audits by the grantors or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. If future program compliance audits result in questioned or disallowed costs, reimbursements would be made to the grantor agencies. The amounts of expenditures which might be disallowed by the grantor agencies cannot be determined at this time; however, management believes such amounts, if any, would be immaterial.

Encumbrances

The City employs encumbrance accounting under which obligations in the form of purchase orders, contracts and other commitments for the expenditure of funds are reported as committed fund balances since they do not constitute expenditures or liabilities. Appropriations with outstanding commitments or encumbrances are carried into the following year.

The City had the following encumbrances at September 30, 2023:

	General	General Improvement	Nonmajor Governmental
General government	$ 26,777,177	$ -	$ -
Public safety	2,396,619	-	71
Streets	749,756	-	-
Community services	107,416	-	-
General improvements	-	7,210	-
	$ 30,030,968	$ 7,210	$ 71

Component Unit

SEDCO entered into incentive agreements with various companies in Sherman to promote economic development. Under these agreements, SEDCO has agreed to pay amounts ranging from $67,200 to $20,060,000 to each of the individual companies if the companies meet certain requirements by a specified date. Total payments for the fiscal year 2023 under these agreements were $433,863 Potential payments for these agreements are estimated at $1,668,437 for the fiscal year ending September 30, 2023.

SEDCO has contracted with the City of Sherman to fund the City's debt service on the construction of certain infrastructure projects, including water and sewer lines along the west and east sides of Highway 75, sewer lines along Highway 289, sewer lines to Blalock Industrial Park, northbound entrance/exit ramps near Highway 75 and FM 1417, and the Northgate Drive extension. During the year ended September 30, 2023, SEDCO paid $556,056 to the City of Sherman in accordance with these contracts. Future payments under this contract average $833,544 over the next 30 years.
A summary of the remaining debt service as of September 30, 2023, is as follows:

Year Ending September 30,	Principal	Interest	Total
2024	$ 619,512	$ 617,025	$ 1,236,537
2025	600,264	644,075	1,244,339
2026	621,042	620,748	1,241,790
2027	644,627	596,775	1,241,402
2028	477,028	572,149	1,049,177
2029-2033	2,703,350	2,564,263	5,267,613
2034-2038	1,724,203	1,974,869	3,699,072
2039-2043	1,776,945	1,565,429	3,342,374
2044-2048	2,267,621	1,074,649	3,342,270
2049-2053	2,893,582	448,162	3,341,744
	$ 14,328,174	$ 10,678,144	$ 25,006,318

Construction Commitments

The City has active construction projects as of September 30, 2023. The projects include new street design and construction in developing areas, construction of a new police headquarters, drainage improvements, wastewater treatment plant and system improvements, water system expansion/extension and bridge repairs. At year end, the City's commitments with contractors are as follows:

	Spent-to-Date	Remaining Commitment
Construction of new city building facilities	$ 483,658	$ 186,692
Park Facilities	55,489	1,994,164
Grand Total	$ 539,147	$ 2,180,856

Litigation

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

E. Tax Abatements

The City of Sherman is authorized by the Texas Local Government Code to enter into property tax abatement agreements and to offer a range of incentives designed to promote local economic development. For the year ended September 30, 2023, the City abated property taxes of $1,102,309 or 0.23% of the $469,018,513 market valuation of properties under these agreements. In accordance with these laws, the City has passed resolutions that establish guidelines and criteria for the administration of the following programs:

Industrial and Commercial Tax Reinvestment Incentives Texas Local Government Code Chapter 312

The City enters into property tax abatement agreements for industrial and commercial entities as stimulation for economic development in Sherman. The impact is based directly on the number and type of jobs created or retained, wages paid, value and economic life of real and personal property added to the tax rolls, local purchase of products and services, indirect employment gains and the general benefit of furthering the City's economic development. Once the industrial or commercial property is added to the tax rolls, the agreements generally call for five to ten years of property tax abatement ranging from 25% to 100%. Some agreements require commitments to create and maintain certain levels of full-time employment. Recapture provisions vary based on each agreement. Many of these agreements are granted in conjunction with other local taxing entities; however, each is approved separately by their governing boards. All abatements under this program for fiscal year 2023 are presented in the following table.

Economic Development Agreements Texas Local Government Code Chapter 380

The City enters into economic development agreements authorized under Chapter 380 with qualifying companies to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of Sherman. These agreements are tailored to company needs and offer a range of incentives designed to achieve the goals of the program. Grants based on a percentage of City taxes with terms ranging from 36% to 64% for five to ten years have been executed under the program, with no recapture provisions. All abatements under this program for fiscal year 2023 are presented in the following table.

Residential Tax Abatement Program Texas Local Government Code Chapter 312

The City's Residential Tax Abatement Program provides property tax abatements for development or redevelopment of single-family residential structures within new or existing subdivisions in low-to-moderate income locations as a stimulus for economic development in Sherman. The abatements equal 100% of the property taxes on the added value above the base year value (as determined by the Grayson Appraisal District) for six years, 80% in year seven, 60% in year eight, 40% in year nine and 20% in year ten. There are no provisions for recapturing taxes abated in prior years. Tax abatements for this program have been aggregated for presentation purposes in the following table.

Central Business District Tax Abatement Program Texas Local Government Code Chapter 312

The City enters into property tax abatement agreements to promote development or redevelopment through modernization or new construction of commercial structures with improvements valued in excess of $25,000 in the Central Business District of Sherman. Property tax abatement agreements under this program generally call for abatements of 100% for five years with no provision to recapture taxes abated in prior years. No property tax abatements were granted under this program for fiscal year 2023.

Tax Abatement Program	Purpose	Recapture Provisions	Tax Revenue for Fiscal Year 2023
Industrial and Commercial Reinvestment Incentives:			
Panda Sherman Power, LLC	Development and construction of electric generation facility	None	$ 618,537
Texas Instruments	Warehousing equipment	None	49,603
Kaiser Aluminum Fabricated Products, LLC	Building and facility improvements, equipment and machinery	None	19,317
JP Hart Lumber Company	Building, facility improvements, land, equipment and machinery	None	6,790
Finisar Sherman RE HOLDCO LLC	Building, facility improvements, land, equipment and machinery	None	297,071
West Moore Solar II LLC	Building, facility improvements, land, equipment and machinery	None	15,771
Total Industrial and Commercial Reinvestment Incentives			1,007,089
Economic Development Agreements Chapter 380 Incentives:			
Riverside(East) Homebuilders, Ltd.	Building, facility improvements, land, equipment and machinery	None	4,517
Highland Homes - Dallas, LLC	Building, facility improvements, land, equipment and machinery	None	13,012
Super Shack LLC	Building, facility improvements, land, equipment and machinery	None	3,497
58 Aggie Development LLC	Building, facility improvements, land, equipment and machinery	None	48,818
Total Chapter 380 Incentives			69,844
Residential Tax Abatement Program	Residential development and redevelopment in low to moderate income locations	None	25,376
Total Tax Abatements			$ 1,102,309

F. Joint Venture

The City has entered an agreement with the Cities of Denison and Gainesville and the Counties of Grayson and Cooke to form the Texoma Area Solid Waste Authority (TASWA). TASWA was organized in July 2000 for the purpose of aiding, assisting and acting on behalf of the participating entities in the financing, construction, ownership and operation of a Type I Municipal Solid Waste Landfill Facility.

TASWA began operation of the landfill during fiscal year 2006. Under the terms of the agreement, TASWA established fees for the member Cities (Sherman, Denison and Gainesville), who have pledged to deliver a guaranteed annual tonnage to the landfill facility. The fees may be recalculated to include changes in debt service requirements or estimated operational and postclosure expenses. According to its operational plan, there will be no significant accumulation of equity in TASWA by the participating governments.

A copy of TASWA's audited financial statements may be obtained directly from TASWA:

Texoma Area Solid Waste Authority, Inc. 20590 State Highway 56, Whitesboro, Texas 76273-4993
Phone: 903-564-4749

G. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all fulltime employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are the property of the beneficiary.

H. Net Pension and Total OPEB Liabilities and Expenses

Amounts are aggregated into a single net pension liability and total OPEB liabilities, and expenses for certain columns. Below is the detail of the net pension liability and total OPEB liabilities and expenses for governmental and business-type activities.

	Governmental Activities	Business-type Activities	Totals	Component Unit
Deferred Outflows:				
Net pension	$ 12,832,681	$ 3,128,642	$ 15,961,323	$ 182,424
OPEB - Retiree health plan	671,532	163,723	835,255	9,545
OPEB - TMRS supplemental death benefit	260,595	63,534	324,129	3,705
Total Deferred Outflows	$ 13,764,808	$ 3,355,899	$ 17,120,707	$ 195,674
Net pension liability	$ 21,735,546	$ 5,299,219	$ 27,034,765	$ 308,985
Total OPEB liability:				
OPEB - Retiree health plan	4,614,974	1,125,150	5,740,124	65,605
OPEB - TMRS supplemental death benefit	1,130,247	275,559	1,405,806	16,067
Total OPEB liability	$ 5,745,221	$ 1,400,709	$ 7,145,930	$ 81,672
Deferred Inflows:				
Net pension	$ 429,704	$ 104,764	$ 534,468	$ 6,109
OPEB - Retiree health plan	2,056,238	501,319	2,557,557	29,232
OPEB - TMRS supplemental death benefit	595,762	145,250	741,012	8,469
Total Deferred Inflows	$ 3,081,704	$ 751,333	$ 3,833,037	$ 43,810
Pension expense	$ 5,341,482	$ 1,302,276	$ 6,643,758	$ 75,933
OPEB expense:				
OPEB - TMRS supplemental death benefit	$ 65,842	$ 16,052	$ 81,894	$ 936
OPEB - Retiree health plan	122,769	29,932	152,701	1,745
Total OPEB expense	$ 188,611	$ 45,984	$ 234,595	$ 2,681

I. Defined Benefit Pension Plan

Plan Description

The City participates as one of 934 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Comprehensive Annual Financial Report (Annual Report) that can be obtained at *tmrs.com.*

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options.

Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City grants monetary credits for service rendered of a theoretical amount equal to two times what would have been contributed by the employee, with interest. Monetary credits, also known as the matching ratio, are 200% of the employee's accumulated contributions and are only payable in the form of an annuity.

Beginning in 2000, the City granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employ match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2006, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

Plan provisions for the City were as follows:

	Plan Year 2022	Plan Year 2021
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility		
(expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	30% of CPI repeating	30% of CPI repeating

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

Inactive employees or beneficiaries currently receiving benefits	381
Inactive employees entitled to but not yet receiving benefits	233
Active employees	495
Total	1,109

Contributions

Member contribution rates in TMRS are either 5%, 6% or 7% of the Member's total compensation, and the city matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The city's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.04% and 14.18% in calendar years 2023 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2023, were $4,912,051, and were equal to the required contributions.

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 Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

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

Inflation	2.5% per year
Overall Payroll Growth	2.75% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2023 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%
Total	100.0%	

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.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2021	$ 167,677,593	$ 163,826,917	$ 3,850,676
Changes for the year:			
Service cost	5,369,785	-	5,369,785
Interest	11,197,229	-	11,197,229
Difference between expected and actual experience	2,007,562	-	2,007,562
Changes of assumptions	-	-	-
Contributions - employer	-	4,663,850	(4,663,850)
Contributions - employee	-	2,341,962	(2,341,962)
Net investment income	-	(11,944,313)	11,944,313
Benefit payments, including refunds of employee contributions	(8,955,232)	(8,955,232)	-
Administrative expense	-	(103,484)	103,484
Other changes	-	123,487	(123,487)
Net changes	9,619,344	(13,873,730)	23,493,074
Balance at December 31, 2022	$ 177,296,937	$ 149,953,187	$ 27,343,750

Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net Pension Liability (Asset)	$ 51,044,145	$ 27,343,750	$ (7,811,125)

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.com*.

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

For the year ended September 30, 2023, the City recognized pension expense of $6,643,758 and $75,933 for the component unit.

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

City

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 2,141,666	$ 534,468
Change in actuarial assumptions	32,938	-
Difference between projected and actual investment earnings	10,119,689	-
Contributions subsequent to the measurement date	3,667,030	-
Total	$ 15,961,323	$ 534,468

At September 30, 2023, the Component Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Component Unit

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 24,478	$ 6,109
Change in actuarial assumptions	376	-
Difference between projected and actual investment earnings	115,659	-
Contributions subsequent to the measurement date	41,911	-
Total	$ 182,424	$ 6,109

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date in the amount of $3,667,030 will be recognized as a reduction of the NPL for the year ended September 30, 2024 for the City.

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date in the amount of $41,911 will be recognized as a reduction of the NPL for the year ended September 30, 2024 for the Component Unit.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

City Year Ended September 30,	Pension Expense
2024	$ (814,514)
2025	(2,942,550)
2026	(3,290,352)
2027	(4,712,409)
Total	$ (11,759,825)

Component Unit Year Ended September 30,	Pension Expense
2024	$ (9,309)
2025	(33,631)
2026	(37,606)
2027	(53,858)
Total	$ (134,404)

J. Other Postemployment Benefits

Plan Description. The City, through its substantive commitment to provide other post-employment benefits (OPEB) provides retiree medical coverage to eligible employees. To be eligible, a City employee retiring at age 62 or over must have at least 5 years of service with the City. City employees retiring before age 62 must have at least 20 years of service with the City. Retirees are required to pay the premium cost for both single and dependent coverage. The City also subsidizes certain retirees and dependents as a result of prior commitments. The plan qualifies as a single-employer defined benefit plan and is accounted for in the City's Insurance Fund and in the fund where the retiree last worked. A separate financial statement is not issued for the plan and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Contributions. The City's contributions to the OPEB for the year ended September 30, 2023 were $701,702, which equal benefit payments for retirees.

The number of employees currently covered by the benefit terms is as follows:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	42
Active employees	486
Total	528

Actuarial Methods and Assumptions

Significant methods and assumptions were as follows:

Discount Rate	4.05% as of December 31, 2022
Inflation Rate	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four year period ending December 31, 2018 as conducted for the Texas Municipal Retirement System (TMRS).
Mortality	For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables published through 2019 to account for future mortality improvements.
Health care trend rates	Initial rate of 7.00% declining to an ultimate rate of 4.25% after 15 years.
Participation rates	25% for retirement ages between 50 and 65; 0% for employees who retire before age 50; 0% for employees who retire after the age of 65.
Discount rate	The discount rate changed from 1.84% as of December 31, 2021 to 4.05% as of December 31, 2022. Additionally, the healthcare trend rates were updated to reflect the plan's anticipated experience.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point.

Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

A Single Discount Rate of 4.05% was used to measure the total OPEB liability. This Single Discount Rate was based on the municipal bond rates as of the measurement date. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2023.

Changes in the Total OPEB Liability

The City's total OPEB liability of $5,805,729 was measured as of December 31, 2022 and was determined by an actuarial valuation as of December 31, 2022.

	Total OPEB Liability
Balance at 12/31/2021	$ 7,191,263
Changes for the year:	
Service cost	394,843
Interest on the total liability	130,950
Difference between expected and actual experience	(378,350)
Changes in assumptions and other inputs	(989,357)
Benefit payments	(543,620)
Net changes	(1,385,534)
Balance at 12/31/2022	$ 5,805,729

Changes of assumptions reflect a change in the discount rate from 1.84% as of December 31, 2021 to 4.05% as of December 31, 2022, lowering the participation rates and the dependent coverage assumption for females, and updates to the health care trend assumption to reflect the plan's anticipated experience.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the total OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (4.05%) in measuring the total OPEB liability.

	1% Decrease in Discount Rate (3.05%)	Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
Total OPEB Liability	$ 6,360,838	$ 5,805,729	$ 5,320,907

Healthcare Cost Trend Rate Sensitivity Analysis

The following schedule shows the impact of the total OPEB liability if the Healthcare Cost Trend Rate used was 1% less than and 1% greater than what was used in measuring the total OPEB liability.

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Total OPEB Liability	$ 5,046,300	$ 5,805,729	$ 6,770,827

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended September 30, 2023, the City recognized OPEB expense of $152,701 and $1,745 for the Component Unit.

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

City

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 86,545	$ 1,303,882
Changes in actuarial assumptions	261,747	1,253,675
Contributions subsequent to the measurement date	486,963	-
Total	$ 835,255	$ 2,557,557

At September 30, 2023, the Component Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Component Unit

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,631	$ 18,230
Changes in actuarial assumptions	4,934	11,002
Contributions subsequent to the measurement date	2,980	-
Total	$ 9,545	$ 29,232

$486,963 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date are due to benefit payments the City paid with own assets and will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2024.

$2,980 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date are due to benefit payments the Component Unit paid with own assets and will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2024.

Other amounts of the reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

City

For the Year Ended September 30,	
2024	$ (366,485)
2025	(366,485)
2026	(372,469)
2027	(288,032)
2028	(251,420)
Thereafter	(564,374)
Total	$ (2,209,265)

Component Unit

For the Year Ended September 30,	
2024	$ (4,862)
2025	(4,862)
2026	(4,975)
2027	(3,384)
2028	(2,692)
Thereafter	(1,892)
Total	$ (22,667)

K. Defined Other Post-Employment Benefit Plans

TMRS Supplemental Death Benefits Fund

Plan Description. The City voluntarily participates in the Texas Municipal Retirement System Supplemental Death Benefits Fund (TMRS SDBF). The SDBF is a single-employer defined benefit Other Postemployment Benefit (OPEB) plan as defined by GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. It is established and administered in accordance with the TMRS Act identically to the City's pension plan.

Benefits Provided. The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other employment benefit and is a fixed amount of $7,500.

The number of employees currently covered by the benefit terms is as follows:

Inactive employees or beneficiaries currently receiving benefits	264
Inactive employees entitled to but not yet receiving benefits	46
Active employees	495
Total	805

Contributions. The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.35% for 2023 and 0.24% for 2022, of which 0.17% and 0.15%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2023 and 2022 were $59,003 and $50,165, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Total OPEB Liability

The City's total OPEB liability of $1,421,873 was measured as of December 31, 2022 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs. The City's total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.5% per annum
Discount rate	4.05%
Actuarial cost method	Entry Age Normal
Projected salary increases	3.50% to 11.50% including inflation

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females.

In addition, a 3.5% and 3% minimum mortality rate is applied to reflect the impairment for younger members who became disabled. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 4.05% was used to measure the Total OPEB Liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2022.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (4.05%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (3.05%)	Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
Total OPEB Liability	$ 1,682,771	$ 1,421,873	$ 1,216,863

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2021	$ 2,027,691
Changes for the year:	
Service cost	100,370
Interest	37,771
Difference between expected and actual experience	(14,686)
Changes of assumptions and other inputs	(679,088)
Benefit payments	(50,185)
Net changes	(605,818)
Balance at 12/31/2022	$ 1,421,873

Changes in assumptions and other inputs reflect a change in the discount rate from 1.84% to 4.05%.

OPEB Expense and Deferred Outflows of Resources Related to OPEB. For the year ended September 30, 2023, the City recognized OPEB expense of $81,894 and $936 for the component unit. There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

City

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 34,804	$ 166,318
Changes in assumptions and other inputs	243,789	574,694
Contributions subsequent to the measurement date	45,537	-
Totals	$ 324,129	$ 741,012

At September 30, 2023, the Component Unit reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

Component Unit

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 398	$ 1,901
Changes in assumptions and other inputs	2,786	6,568
Contributions subsequent to the measurement date	521	-
Totals	$ 3,705	$ 8,469

$45,537 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB Liability for the year ending September 30, 2024 for the City.

$521 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB Liability for the year ending September 30, 2024 for the Component Unit.

Other amounts of the reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

City For the Year Ended September 30,	
2024	$ (71,926)
2025	(91,733)
2026	(82,792)
2027	(101,881)
2028	(112,947)
Thereafter	(1,140)
Total	$ (462,419)

Component Unit For the Year Ended September 30,	
2024	$ (822)
2025	(1,048)
2026	(946)
2027	(1,164)
2028	(1,291)
Thereafter	(14)
Total	$ (5,285)

L. Related Party Transactions

The City had two council members that had transactions with the City through their personal businesses. The two council members had transactions totaling $42,452, and $1,812. One employee had a transaction with the City through their personal business, totaling $15,137. All two council members disclosed the financial relationship with the City on their conflict of interest questionnaires.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHERMAN, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS)
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2023

	Budgeted Amounts		Actual GAAP
	Original	Final	Basis
REVENUES			
Taxes			
General property	$ 12,038,400	$ 12,038,400	$ 12,824,275
City sales	28,047,000	29,771,999	29,341,121
Franchise	3,021,000	3,021,000	3,141,869
Nonproperty	168,800	168,800	199,926
Licenses and permits	2,341,200	2,341,200	2,874,488
Intergovernmental	228,482	278,482	460,095
Charges for services	3,411,250	3,411,250	4,872,414
Fines and forfeitures	354,000	354,000	626,982
Investment income	75,000	75,000	514,365
Donations	15,000	15,000	25,592
Miscellaneous	249,200	747,200	872,614
Total revenues	49,949,332	52,222,331	55,753,741
EXPENDITURES			
Current:			
General government	8,613,161	8,953,965	8,924,409
Public safety	30,887,904	32,163,326	32,214,040
Streets	5,814,739	6,246,200	5,644,914
Community services	7,119,319	7,233,475	7,368,394
Capital outlay	658,692	1,167,753	995,228
Debt service:			
Principal	-	-	35,377
Interest	-	-	664
Total expenditures	53,093,815	55,764,719	55,183,026
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,144,483)	(3,542,388)	570,715
OTHER FINANCING SOURCES (USES)			
Issuance of SBITA	-	-	170,582
Transfers in	4,249,742	4,249,742	4,477,471
Transfers out	(375,000)	(795,000)	(795,000)
Total other financing sources (uses)	3,874,742	3,454,742	3,853,053
NET CHANGE IN FUND BALANCE	730,259	(87,646)	4,423,768
FUND BALANCE, BEGINNING	18,379,904	18,379,904	18,379,904
FUND BALANCE, ENDING	$ 19,110,163	$ 18,292,258	$ 22,803,672

The major differences between the budget basis and GAAP basis is that sales tax is recorded when earned for GAAP and is recorded when received for budget. Unrealized investment gain (loss) is recognized for GAAP basis only. The adjustments necessary to convert from the GAAP basis to the budget basis are as follows:

Reverse accrual for sales tax for budget basis	$ 203,392
Reverse adjustment for unreleazed gains/losses on investments	(829,220)
Total adjustments between GAAP and budget basis	$ (625,828)

Adjustments Budget Basis	Actual Budget Basis	Final Budget Variance
$ -	$ 12,824,275	$ 785,875
203,392	29,544,513	(227,486)
-	3,141,869	120,869
-	199,926	31,126
-	2,874,488	533,288
-	460,095	181,613
-	4,872,414	1,461,164
-	626,982	272,982
(829,220)	(314,855)	(389,855)
-	25,592	10,592
-	872,614	125,414
(625,828)	55,127,913	2,905,582
-	8,924,409	29,556
-	32,214,040	(50,714)
-	5,644,914	601,286
-	7,368,394	(134,919)
-	995,228	172,525
	-	
-	35,377	(35,377)
-	664	(664)
-	55,183,026	581,693
(625,828)	(55,113)	3,487,275
-	170,582	170,582
-	4,477,471	227,729
-	(795,000)	-
-	3,853,053	398,311
(625,828)	3,797,940	3,885,586
-	18,379,904	-
$ (625,828)	$ 22,177,844	$ 3,885,586

CITY OF SHERMAN, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS

Year Ended September 30, 2023

	Year Ended December 31, 2022	Year Ended December 31, 2021	Year Ended December 31, 2020
Total Pension Liability			
Service Cost	$ 5,369,785	$ 4,577,040	$ 4,499,305
Interest (on the Total Pension Liability)	11,197,229	10,682,508	10,371,517
Difference Between Expected and Actual Experience	2,007,562	956,873	(1,535,502)
Changes of Assumptions	-	-	-
Benefit Payments, including Refunds of Employee Contributions	(8,955,232)	(9,019,378)	(8,514,436)
Net Change in Total Pension Liability	9,619,344	7,197,043	4,820,884
Total Pension Liability - Beginning	167,677,593	160,480,550	155,659,666
Total Pension Liability - Ending (a)	$ 177,296,937	$ 167,677,593	$ 160,480,550
Plan Fiduciary Net Position			
Contributions - Employer	$ 4,663,850	$ 4,124,458	$ 4,024,957
Contributions - Employee	2,341,962	1,992,493	1,964,762
Net Investment Income	(11,944,313)	19,224,382	10,587,504
Benefit Payments, including Refunds of Employee Contributions	(8,955,232)	(9,019,378)	(8,514,436)
Administrative Expense	(103,484)	(89,027)	(68,568)
Other	123,487	609	(2,675)
Net Change in Plan Fiduciary Net Positon	(13,873,730)	16,233,537	7,991,544
Plan Fiduciary Net Position - Beginning	163,826,917	147,593,380	139,601,836
Plan Fiduciary Net Position - Ending (b)	$ 149,953,187	$ 163,826,917	$ 147,593,380
Net Pension Liability (Asset) - ending (a) - (b)	$ 27,343,750	$ 3,850,676	$ 12,887,170
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	84.58%	97.70%	91.97%
Covered Payroll	$ 33,456,605	$ 28,464,182	$ 28,068,030
Net Pension Liability (Asset) as a Percentage of Covered Payroll	81.73%	13.53%	45.91%

GASB 68 requires 10 fiscal years of data to be provided in this schedule. Additional years will be displayed as they become available.

Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
$ 4,230,570	$ 3,883,639	$ 3,649,444	$ 3,486,523	$ 3,226,817	$ 2,979,275
9,912,992	9,447,203	9,050,846	8,656,254	8,473,364	8,161,413
639,165	1,223,491	96,380	350,688	(618,003)	(628,326)
263,070	-	-	-	2,493,834	-
(8,259,971)	(7,394,476)	(6,689,131)	(6,769,128)	(6,257,098)	(6,102,278)
6,785,826	7,159,857	6,107,539	5,724,337	7,318,914	4,410,084
148,873,840	141,713,983	135,606,444	129,882,107	122,563,193	118,153,109
$ 155,659,666	$ 148,873,840	$ 141,713,983	$ 135,606,444	$ 129,882,107	$ 122,563,193
$ 3,779,847	$ 3,500,405	$ 3,285,194	$ 2,940,094	$ 2,904,162	$ 2,921,484
1,911,958	1,731,652	1,624,037	1,548,582	1,477,221	1,420,534
19,038,402	(3,872,794)	15,968,315	7,443,517	165,252	6,158,745
(8,259,971)	(7,394,476)	(6,689,131)	(6,769,128)	(6,257,098)	(6,102,278)
(107,658)	(74,888)	(82,784)	(84,096)	(100,658)	(64,305)
(3,234)	(3,911)	(4,195)	(4,531)	(4,972)	(5,287)
16,359,344	(6,114,012)	14,101,436	5,074,438	(1,816,093)	4,328,893
123,242,492	129,356,504	115,255,068	110,180,630	111,996,723	107,667,830
$ 139,601,836	$ 123,242,492	$ 129,356,504	$ 115,255,068	$ 110,180,630	$ 111,996,723
$ 16,057,830	$ 25,631,348	$ 12,357,479	$ 20,351,376	$ 19,701,477	$ 10,566,470
89.68%	82.78%	91.28%	84.99%	84.83%	91.38%
$ 26,929,153	$ 24,736,553	$ 23,200,533	$ 22,122,605	$ 21,118,153	$ 20,293,345
59.63%	103.62%	53.26%	91.99%	93.29%	52.07%

CITY OF SHERMAN, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM

Year Ended September 30, 2023

	2023	2022	2021
Actuarially Determined Contribution	$ 4,912,051	$ 4,539,719	$ 4,136,055
Contributions in Relation to the Actuarially Determined Contribution	4,912,051	4,539,719	4,136,055
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered Payroll	$ 35,722,972	$ 32,429,322	$ 28,624,847
Contributions as a Percentage of Covered Employee Payroll	13.75%	14.00%	14.45%

Notes to Schedule of Contributions

Valuation Date	Actuarially determined contribution rates are calculated as of December 31 and become effective 13 months later (in January).
Methods and Assumptions Used to Determine Contribution Rates	
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years
Asset Valuation Method	10 year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% 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	There were no benefit changes during the year.

GASB 68 requires 10 fiscal years of data to be provided in this schedule. Additional years will be displayed as they become available.

2020	2019	2018	2017	2016	2015
$ 3,905,318	$ 3,701,373	$ 3,432,140	$ 3,198,051	$ 2,911,816	$ 2,883,283
3,905,318	3,701,373	3,432,140	3,198,051	2,911,816	2,883,283
$ -	$ -	$ -	$ -	$ -	$ -
$ 27,443,124	$ 26,523,239	$ 24,250,983	$ 22,954,410	$ 21,711,800	$ 20,725,423
14.23%	13.96%	14.15%	13.93%	13.41%	13.91%

CITY OF SHERMAN, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS
RETIREE INSURANCE BENEFITS PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Plan Year ended December 31,	**2022**	**2021**	**2020**
A. Total OPEB liability			
Service Cost	$ 394,843	$ 282,712	$ 353,212
Interest (on the Total OPEB Liability)	130,950	146,969	224,515
Difference between expected and actual experience	(378,350)	114,216	(548,928)
Changes of assumptions	(989,357)	(259,196)	(279,885)
Benefit payments, including refunds of employee contributions	(543,620)	(601,065)	(457,753)
Net change in Total OPEB liability	(1,385,534)	(316,364)	(708,839)
Total OPEB liability - beginning	7,191,263	7,507,627	8,216,466
Total OPEB liability - ending (a)	5,805,729	7,191,263	7,507,627
B. Covered-employee payroll	$ 33,456,605	$ 28,454,484	$ 27,729,829
C. Total OPEB liability as a percentage of covered-employee payroll	17.35%	25.27%	27.07%

Note: This schedule is required to have 10 years of information, but the information prior to 2017 is not available.

Note: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Note: Changes of assumptions reflect a change in the discount rate from 2.75% as of December 31, 2019 to 2.00% as of December 31, 2020, lowering the participation rates and the dependent coverage assumption for females, and updates to the health care trend assumption to reflect the plan's anticipated experience.

2019	2018	2017
$ 267,401	$ 322,200	$ 250,905
289,859	290,538	321,034
(141,126)	(1,183,991)	(265,075)
314,951	14,195	343,497
(387,662)	(372,776)	(296,252)
343,423	(929,834)	354,109
7,873,043	8,802,877	8,448,768
8,216,466	7,873,043	8,802,877
$ 26,929,139	$ 24,736,553	$ 23,200,536
30.51%	31.83%	37.94%

CITY OF SHERMAN, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFITS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Plan Year ended December 31,	**2022**	**2021**	**2020**
A. Total OPEB liability			
Service Cost	$ 100,370	$ 85,393	$ 64,556
Interest (on the Total OPEB Liability)	37,771	38,365	46,262
Difference between expected and actual experience	(14,686)	(6,584)	(90,851)
Changes of assumptions	(679,088)	59,165	238,206
Benefit payments, including refunds of employee contributions	(50,185)	(48,389)	(16,841)
Net change in Total OPEB liability	(605,818)	127,950	241,332
Total OPEB liability - beginning	2,027,691	1,899,741	1,658,409
Total OPEB liability - ending (a)	$ 1,421,873	$ 2,027,691	$ 1,899,741
B. Covered-employee payroll	$ 33,456,605	$ 28,464,182	$ 28,068,030
C. Total OPEB liability as a percentage of covered-employee payroll	4.25%	7.12%	6.77%

Note: This schedule is required to have 10 years of information, but the information prior to 2017 is not available.

Note: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

2019	2018	2017
$ 48,472	$ 51,947	$ 41,761
60,886	47,552	47,400
(306,729)	214,798	-
246,961	(92,549)	103,930
(16,157)	(14,842)	(16,240)
33,433	206,906	176,851
1,624,976	1,418,070	1,241,219
$ 1,658,409	$ 1,624,976	$ 1,418,070
$ 26,929,153	$ 24,736,553	$ 23,200,533
6.16%	6.57%	6.11%

APPENDIX D

Form of Bond Counsel's Opinion

NORTON ROSE FULBRIGHT

[CLOSING]

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

IN REGARD to the authorization and issuance of the "City of Sherman, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2024," dated October 31, 2024, in the principal amount of $___________ (the "Certificates"), we have examined into their issuance by the City of Sherman, Texas (the "City"), solely to express legal opinions as to the validity of the Certificates and the exclusion of the interest on the Certificates from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Certificates, or the sufficiency of the security for or the value or marketability of the Certificates.

THE CERTIFICATES are issued in fully registered form only and in denominations of $5,000 or any integral multiple thereof (within a maturity). The Certificates mature on August 15 in each of the years specified in the ordinance adopted by the City Council of the City authorizing the issuance of the Certificates (the "Ordinance"), unless redeemed prior to maturity in accordance with the terms stated on the Certificates. The Certificates accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

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

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

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

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2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Certificates for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

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

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