

OFFICIAL STATEMENT

Dated December 15, 2025

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

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, interest on the Notes 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.



\$4,045,000
CITY OF SHERMAN, TEXAS
(A political subdivision of the State of Texas located in Grayson County)
LIMITED TAX NOTES, SERIES 2026

Dated Date: January 15, 2026

Due: August 15, as shown on page 2

Interest to accrue from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the \$4,045,000 City of Sherman, Texas, Limited Tax Notes, Series 2026 (the "Notes") will accrue from the Date of Initial Delivery (defined below) and will be payable on February 15 and August 15 of each year commencing August 15, 2026, until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Notes 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 Notes may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Notes will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Notes will be payable by the Paying Agent/Registrar (identified below) 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 Notes (see "THE NOTES – Book-Entry-Only System"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE NOTES – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Notes are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1431, Texas Government Code, as amended, and an ordinance passed by the City Council of the City of Sherman, Texas (the "City") on December 15, 2025, the date of sale of the Notes (the "Ordinance"). The Notes constitute direct obligations of the City, secured by a direct and continuing annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Ordinance (see "THE NOTES – Authority for Issuance" and "THE NOTES – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Notes will be used for (1) constructing, improving, and equipping streets and medians, (2) purchasing materials, supplies, equipment, and machinery, including vehicles for the City's Streets and Solid Waste departments, (3) renovating, improving, and equipping existing City buildings, (4) designing, constructing, improving, and equipping City park or recreation facilities, and (5) payment of professional services in connection therewith including legal, fiscal fees and costs of issuing the Notes.

CUSIP PREFIX: 824161
MATURITY SCHEDULE
See Page 2 Hereof

LEGALITY . . . The Notes 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 Notes will be available for initial delivery through DTC on January 15, 2026 (the "Date of Initial Delivery").

MATURITY SCHEDULE

8/15 Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
2026	\$ 665,000	5.00%	2.62%	824161YU1
2027	610,000	5.00%	2.62%	824161YV9
2028	640,000	5.00%	2.63%	824161YW7
2029	675,000	5.00%	2.61%	824161YX5
2030	710,000	5.00%	2.63%	824161YY3
2031	745,000	5.00%	2.69%	824161YZ0

(Interest Accrues from the Date of Initial Delivery)

- (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 Purchaser take no responsibility for the accuracy of such numbers.

NO OPTIONAL REDEMPTION . . . The Notes are **not** subject to optional redemption prior to their stated maturities (see “THE NOTES – No Optional Redemption”).

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

THE NOTES 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 NOTES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE NOTES 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.

TABLE OF CONTENTS

OFFICIAL STATEMENT SUMMARY	4	OTHER INFORMATION	20
CITY OFFICIALS, STAFF AND CONSULTANTS	5	LEGAL MATTERS	21
ELECTED OFFICIALS	5	APPENDICES	
CITY OFFICIALS	5	FINANCIAL INFORMATION OF THE CITY	A
CONSULTANTS AND ADVISORS	5	GENERAL INFORMATION REGARDING THE CITY .B	
INTRODUCTION	6	EXCERPTS FROM THE CITY’S ANNUAL FINANCIAL	
THE NOTES	6	REPORT	C
AD VALOREM PROPERTY TAXATION.....	10	FORM OF BOND COUNSEL’S OPINION	D
INVESTMENTS	15		
TAX MATTERS	17	The cover page hereof, this page, and the appendices	
CONTINUING DISCLOSURE OF INFORMATION 18		included herein and any addenda, supplement or amendment	
		hereto, are part of the Official Statement.	

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Notes (as defined herein) 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 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 February 20, 1973. 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 NOTES	The City’s \$4,045,000 Limited Tax Notes, Series 2026 (the “Notes”) are being issued as serial Notes maturing on August 15 in the years 2026 through and including 2031 (see “THE NOTES – Description of the Notes”).
PAYMENT OF INTEREST	Interest on the Notes accrues from the Date of Initial Delivery (as defined on the cover page hereof) and is payable commencing on August 15, 2026, and each February 15 and August 15 thereafter until maturity (see “THE NOTES – Description of the Notes” and “THE NOTES – No Optional Redemption”).
AUTHORITY FOR ISSUANCE	The Notes are being issued pursuant to the Constitution and general laws of the State, particularly Chapter 1431, Texas Government Code, as amended, and an ordinance passed by the City Council of the City on December 15, 2025, the date of sale of the Notes (the “Ordinance”). See “THE NOTES – Authority for Issuance”.
SECURITY	The Notes constitute direct obligations of the City secured by a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City. See “THE NOTES – Security and Source of Payment.”
NO OPTIONAL REDEMPTION	The Notes are not subject to optional redemption prior to their stated maturities (see “THE NOTES – No Optional Redemption”).
TAX EXEMPTION	In the opinion of Bond Counsel, subject to the matters described in “TAX MATTERS” herein, the interest on the Notes 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.
USE OF PROCEEDS	Proceeds from the sale of the Notes will be used for (1) constructing, improving, and equipping streets and medians, (2) purchasing materials, supplies, equipment, and machinery, including vehicles for the City’s Streets and Solid Waste departments, (3) renovating, improving, and equipping existing City buildings, (4) designing, constructing, improving, and equipping City park or recreation facilities, and (5) payment of professional services in connection therewith including legal, fiscal fees and costs of issuing the Notes.
RATING	The Notes 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 Notes 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 Notes may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Notes will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Notes 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 Notes (see “THE NOTES – Book-Entry-Only System”).
PAYMENT RECORD	The City has never defaulted in the payment of its general obligation tax debt.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Term Expires November	Occupation
Shawn Teamann Mayor	2027	Owner, Nautilus Sports and Fitness Center
Juston Dobbs Deputy Mayor	2027	Financial Advisor, Dobbs Wealth Management
Clay Barnett Councilmember, District #1	2028	Vice President, Huitt-Zollars, Inc.
Josh Stevenson Councilmember, District #2	2026	Sales/Inspector for Eric L. Davis Engineering, Inc.
Pamela L. Howeth Councilmember, District #3	2028	Retired
Henry Marroquin Councilmember, Place #1	2027	Owner, H&R Construction
Daron Holland Councilmember, District #4	2026	Owner, Holland Logos

CITY OFFICIALS

Name	Position
Dr. Zachary Flores	City Manager
Clint Philpott, PE	Assistant City Manager
Terrence Steele, CPM	Assistant City Manager
Mary Lawrence, CPA	Chief Financial Officer
Teri Fine	City Clerk

CONSULTANTS AND ADVISORS

Auditors	Weaver and Tidwell, L.L.P. Dallas, 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 220 W. Mulberry Street Sherman, Texas 75090 (903) 892-7218 (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
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**OFFICIAL STATEMENT
RELATING TO

\$4,045,000
CITY OF SHERMAN, TEXAS
LIMITED TAX NOTES, SERIES 2026**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$4,045,000 City of Sherman, Texas, Limited Tax Notes, Series 2026 (the “Notes”). The Notes are being issued pursuant to an ordinance passed by the City Council of the City of Sherman, Texas (the “City”) on December 15, 2025 (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 Notes 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 Notes will be deposited with the Municipal Securities Rulemaking Board, at www.emma.msrb.org; 1300 I St. NW, Ste 1000, Washington, DC 20005. 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 is 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 February 20, 1973. The City operates under the City Council/Manager form of government. The Mayor and six Council Members (the “City Council”) formulate the operating policy of the government, and the City Manager serves as the chief administrative officer. The City’s estimated 2025 population is 50,229.

THE NOTES

DESCRIPTION OF THE NOTES . . . The Notes are dated January 15, 2026 (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 Notes 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 August 15, 2026 until maturity. The definitive Notes 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 Notes will be made to the owners thereof.** Principal of, premium, if any, and interest on the Notes will be payable by the Paying Agent/Registrar (defined herein) 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 Notes. See “Book-Entry-Only System” herein.

AUTHORITY FOR ISSUANCE . . . The Notes are being issued pursuant to the Constitution and general laws of the State, particularly Chapter 1431, Texas Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Notes constitute direct obligations of the City secured by a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City.

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.

NO OPTIONAL REDEMPTION . . . The Notes are not subject to optional redemption prior to their stated maturities.

DEFEASANCE . . . The Ordinance provides for the defeasance of Notes when the payment of the principal of and premium, if any, on such Notes, 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 Notes. 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 Notes. 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 Notes. 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 Notes 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 Notes have been made as described above, all rights of the City to take any action amending the terms of the Notes are extinguished.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Notes is to be transferred and how the principal of, premium, if any, and interest on the Notes are to be paid to and credited by DTC while the Notes 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 Notes, 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 Notes), 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 Notes. The Notes will be issued as fully-registered Notes 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 Note certificate will be issued for each maturity of the Notes, 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 Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes 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 Notes 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Notes 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 Notes 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 Notes 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, Note 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, Note 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 Notes 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 Notes, 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.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City with respect to the Notes, printed Notes will be issued to the holders and the Notes will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE NOTES - Transfer, Exchange and Registration" below.

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 Notes 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 Notes. Upon any change in the Paying Agent/Registrar for the Notes, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Notes 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 Notes 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.

Notes may be assigned by the execution of an assignment form on the Notes or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Notes will be delivered by the Paying Agent/Registrar, in lieu of the Notes 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 Notes issued in an exchange or transfer of Notes 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 Notes 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 Notes 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 Notes surrendered for exchange or transfer. See “THE NOTES – Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Notes.

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“Record Date”) for the interest payable on the Notes 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 Note 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.

NOTEHOLDERS’ REMEDIES . . . The Ordinance does not establish specific events of default with respect to the Notes. If the City defaults in the payment of the principal of or interest on the Notes 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 Notes 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 Notes 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 Noteholders 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, Noteholders may not be able to bring such a suit against the City for breach of the Note 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 Notes. 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 Noteholders 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 note that all opinions relative to the enforceability of the Notes 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 Notes 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 Notes 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 Notes 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 Notes, 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 Notes, (2) give any preference to any Note over any other Note, or (3) reduce the aggregate principal amount of the Notes required to be held by the holders of such Notes for consent to any such amendment, addition, or rescission as provided in the Ordinance.

PURPOSE . . . Proceeds from the sale of the Notes will be used for (1) constructing, improving, and equipping streets and medians, (2) purchasing materials, supplies, equipment, and machinery, including vehicles for the City's Streets and Solid Waste departments, (3) renovating, improving, and equipping existing City buildings, (4) designing, constructing, improving, and equipping City park or recreation facilities, and (5) payment of professional services in connection therewith including legal, fiscal fees and costs of issuing the Notes.

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

Sources:

Principal	\$ 4,045,000.00
Net Bid Premium	272,836.46
Total Sources	<u>\$ 4,317,836.46</u>

Uses:

Deposit to Project Fund	\$ 4,239,861.00
Deposit to Debt Service Fund	3,450.46
Costs of Issuance	74,525.00
Total Uses	<u>\$ 4,317,836.46</u>

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").

An appraisal district is prohibited from increasing the appraised value of real property during the 2025 tax year on certain non-homestead properties (the “Subjected Property”) whose appraised values are not more than \$5,160,000 (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. After the 2025 tax year, through December 31, 2026 (unless extended by the Legislature), the Maximum Property Value may be increased or decreased by the product of the preceding state fiscal year’s increase or decrease in the consumer price index, as applicable, to the Maximum Property Value.

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 that adopted an optional homestead exemption described in (1), above, for the 2022 tax year are prohibited from repealing or reducing the exemption 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. Legislation enacted during the 89th Regular Session (as defined herein) was approved by voters at a Statewide election held on November 4, 2025 and, subject to canvass by Governor, effective January 1, 2026, provide a person with an exemption from taxation by a taxing unit of \$125,000 of the appraised value of tangible personal property the person owns that is held or used for production of income and has taxable situs at the same location in the taxing unit (or, if the person leases such property, regardless of where the property is located in the taxing unit).

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, Property Tax Code to clarify that “damage” for purposes of such statute is limited to “physical damage.” For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended.

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. Beginning with the 2026 tax year, all intangible personal property is exempt from taxation.

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 1.2 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 \$61,349,201 for the 2025 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the 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).

"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 2022 through 2024 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. Furthermore, during the 89th Regular Session, the Legislature adopted Senate Bill 1851 ("SB 1851"), which will be applied in connection with the adoption of an ad valorem tax rate for tax year 2026 and thereafter. Under SB 1851, if the Texas Attorney General determines that a city has (a) not had its records and accounts audited and an annual financial statement prepared based on the audit or (b) failed to file its financial statements and auditor's opinion on such financial statements with the city secretary or city clerk before the 180th day after the city's fiscal year end, the city may not adopt an ad valorem tax rate that exceeds the city's no-new-revenue tax rate for (i) the tax year that begins on or after the date of the Attorney General's determination or (ii) a subsequent tax year that begins before the date the city has had an annual audit completed and financial statements prepared or filed the financial statement and auditor's opinion on such financial statement with the city secretary, as applicable.

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 Notes.

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.

2025 REGULAR AND SPECIAL LEGISLATIVE SESSIONS . . . The Legislature meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, 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 regular session of the Texas Legislature (the "89th Regular Session") convened on January 14, 2025, and adjourned on June 2, 2025. The Governor called a first special session which began on July 21, 2025, and adjourned on August 15, 2025, and a second special session which began on August 15, 2025, and adjourned on September 4, 2025. Additional special sessions may be called by the Governor.

During the 89th Regular Session, the Legislature adopted a general appropriations act and legislation affecting ad valorem taxation procedures. The City is still in the process of reviewing legislation passed during the 89th Regular Session and the special sessions. At this time, the City cannot make any representations as to the full impact of such legislation. Further, the City can make no representations or predictions regarding any legislation that may be considered during any additional special session or the potential impact of such legislation at this time, but it intends to monitor applicable legislation related thereto.

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 2024/2025 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, 2024.”

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, 2024.”

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 NOTES – Tax Rate Limitation”).

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS . . . None

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City anticipates issuing approximately \$15-\$20 million of additional ad valorem debt within the next twelve months.

EMPLOYMENT BENEFIT PLANS:

Texas Municipal Retirement System. 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, 2024,” 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, 2024,” 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, 2024,” 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, 2024,” 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 Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (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.

TAX MATTERS

TAX EXEMPTION . . . The delivery of the Notes is subject to the opinion of Bond Counsel to the effect that interest on the Notes 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 Notes pertaining to the use, expenditure, and investment of the proceeds of the Notes and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Notes. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Notes and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Notes 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 Notes to be includable in the gross income of the owners thereof from the date of the issuance of the Notes.

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 Notes is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Notes 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 Notes, the City may have different or conflicting interests from the owners of the Notes. Public awareness of any future audit of the Notes could adversely affect the value and liquidity of the Notes 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 Notes. Prospective purchasers of the Notes should be aware that the ownership of tax-exempt obligations such as the Notes 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 Notes. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Notes.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Notes 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 Notes. Prospective purchasers of the Notes 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 NOTES . . . The initial public offering price of certain Notes (the “Discount Notes”) may be less than the amount payable on such Notes at maturity. An amount equal to the difference between the initial public offering price of a Discount Note (assuming that a substantial amount of the Discount Notes 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 Note. A portion of such original issue discount allocable to the holding period of such Discount Note by the initial purchaser will, upon the disposition of such Discount Note (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 Notes 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 Note, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Note 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 Note by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Note in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Note was held) is includable in gross income.

Owners of Discount Notes should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Notes for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Notes. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Notes 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 Notes (the “Premium Notes”) paid by an owner may be greater than the amount payable on such Notes at maturity. An amount equal to the excess of a purchaser’s tax basis in a Premium Note over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Note 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 Note. 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 Notes should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Notes for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Notes.

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 Notes. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Notes. 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 2025. 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. Accordingly, 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 Notes 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 Notes, or other material events affecting the tax status of the Notes; (7) modifications to rights of holders of the Notes, if material; (8) Note calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes, 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 or operating data 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 Notes, 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 Notes 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 Notes 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 Notes 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 (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Notes 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 Notes. 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 Notes in the primary offering of the Notes.

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 Notes 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 Notes.

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 NOTES FOR SALE . . . The sale of the Notes 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 Notes have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Notes been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Notes under the securities laws of any jurisdiction in which the Notes may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Notes 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 Notes 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 Notes 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 Notes 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 Notes are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Notes 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 Notes are legal investments for various institutions in those states.

LEGAL MATTERS

LEGAL OPINION . . . Issuance of the Notes are subject to the approving legal opinion of the Attorney General of Texas to the effect that the Initial Note is a valid and binding obligation of the City. Issuance of the Notes 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 Notes, to the effect that the Notes 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 Notes. In connection with the issuance of the Notes, 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 or 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 Notes 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 Notes are based upon a percentage of Notes actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Notes.

The various legal opinions to be delivered concurrently with the delivery of the Notes 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 Notes, 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 Notes; restraining or enjoining the issuance, execution or delivery of the Notes; affecting the provisions made for the payment of or security for the Notes; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Notes; or affecting the validity of the Notes.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the Purchaser to take and pay for the Notes, and of the City to deliver the Notes, are subject to the condition that, up to the time of delivery of and receipt of payment for the Notes, 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 Notes. The Financial Advisor’s fee for services rendered with respect to the sale of the Notes is contingent upon the issuance and delivery of the Notes. 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 Notes, 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 Notes, the City accepted the bid of BOK Financial Securities, Inc. (the “Purchaser”) to purchase the Notes at the interest rates shown on page 2 hereof at a price of approximately 106.745% of par. The Purchaser can give no assurance that any trading market will be developed for the Notes after their sale by the City to the Purchaser. The City has no control over the price at which the Notes are subsequently sold and the initial yield at which the Notes 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 Notes 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 Notes by the Purchaser.

CERTIFICATION AS TO OFFICIAL STATEMENT . . . At the time of payment for and delivery of the Notes, 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 Notes, on the date of such final Official Statement, on the date of sale of said Notes 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, 2024, 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 Notes to the Purchaser at closing, unless extended by the Purchaser. All information with respect to the resale of the Notes subsequent to the “end of the underwriting period” is the responsibility of the Purchaser.

This Official Statement has been 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.

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APPENDIX A

Financial Information of the City

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ASSESSED VALUATION**TABLE 1**

2025 Actual Market Value of Taxable Property		\$ 13,725,754,292
Less Exemptions:		
Local Over-65/Disabled	\$ 104,178,669	
Abatement	3,999,036,352	
Pollution Control Exemption Loss	59,333,145	
Veterans Exemption Loss	84,424,880	
Freeport Exemption/Miscellaneous	147,741,270	
Other	600,234,147	
Exempt Property	985,925,483	
	<u>\$ 5,980,873,946</u>	
2025 Net Taxable Assessed Valuation (100% of Actual) ⁽¹⁾		<u><u>\$ 7,744,880,346</u></u>

(1) Source information provided by the Grayson Central Appraisal District, Certified Totals. Certified values are subject to change through 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 October 31, 2025):**

Tax & Waterworks & Sewer System (Limited Pledge) Rev. Certificates of Obligation, Series 2016 ⁽¹⁾	\$ 4,435,000
Combination Tax & Revenue Certificates of Obligation, Series 2017 ⁽¹⁾	13,010,000
General Obligation Refunding Bonds, Series 2017 ⁽¹⁾	3,420,000
Tax & Municipal Drainage Utility System Rev. Certificates of Obligation, Series 2017A ⁽¹⁾	2,665,000
Combination Tax & Revenue Certificates of Obligation, Series 2018 ⁽¹⁾	15,780,000
Combination Tax & Revenue Certificates of Obligation, Series 2019 ⁽¹⁾	16,170,000
Combination Tax & Revenue Certificates of Obligation, Series 2021 ⁽¹⁾	26,745,000
Limited Tax Notes, Series 2021 ⁽¹⁾	350,000
Limited Tax Notes, Series 2022 ⁽¹⁾	740,000
Limited Tax Notes, Series 2023 ⁽¹⁾	1,630,000
Combination Tax & Revenue Certificates of Obligation, Series 2023 ⁽¹⁾	71,025,000
Limited Tax Notes, Series 2024 ⁽¹⁾	2,545,000
Combination Tax & Revenue Certificates of Obligation, Series 2024 ⁽¹⁾	18,705,000
Limited Tax Notes, Series 2025 ⁽¹⁾	5,695,000
Combination Tax & Revenue Certificates of Obligation, Series 2025 ⁽¹⁾	24,750,000
The Notes, Series 2026 ⁽¹⁾	4,045,000
Total Gross General Obligation Debt Outstanding	<u>\$ 211,710,000</u>
Unaudited General Obligation Interest & Sinking Fund Balance as of 9/30/2025 ⁽¹⁾	<u>\$ 787,615</u>
Net General Obligation Debt Outstanding	<u><u>\$ 210,922,385</u></u>

Ratio of Net General Obligation Debt to 2025 Net Taxable Assessed Valuation 2.72%

2025 Population Estimate -	50,229
Per Capita 2025 Net Taxable Assessed Valuation -	\$154,191
Per Capita 2025 Net General Obligation Debt -	\$4,199

(1) The Series 2016, 2017, 2018, 2019, 2021, 2023, 2024, and 2025 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.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 3

Fiscal Year September 30	Outstanding Debt Service			Plus: The Notes ⁽¹⁾			Total Combined Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2026	\$ 9,050,000	\$ 8,725,213	\$ 17,775,213	\$ 665,000	\$ 117,979	\$ 782,979	\$ 18,558,192
2027	9,005,000	8,298,413	17,303,413	610,000	169,000	779,000	18,082,413
2028	9,030,000	7,879,313	16,909,313	640,000	138,500	778,500	17,687,813
2029	8,480,000	7,459,025	15,939,025	675,000	106,500	781,500	16,720,525
2030	7,585,000	7,090,163	14,675,163	710,000	72,750	782,750	15,457,913
2031	6,515,000	6,769,350	13,284,350	745,000	37,250	782,250	14,066,600
2032	6,760,000	6,527,775	13,287,775	-	-	-	13,287,775
2033	7,010,000	6,273,394	13,283,394	-	-	-	13,283,394
2034	7,285,000	6,006,406	13,291,406	-	-	-	13,291,406
2035	7,545,000	5,740,894	13,285,894	-	-	-	13,285,894
2036	7,835,000	5,455,306	13,290,306	-	-	-	13,290,306
2037	7,655,000	5,163,094	12,818,094	-	-	-	12,818,094
2038	6,345,000	4,871,844	11,216,844	-	-	-	11,216,844
2039	6,590,000	4,624,094	11,214,094	-	-	-	11,214,094
2040	6,850,000	4,364,719	11,214,719	-	-	-	11,214,719
2041	7,120,000	4,093,044	11,213,044	-	-	-	11,213,044
2042	7,405,000	3,803,506	11,208,506	-	-	-	11,208,506
2043	7,710,000	3,500,050	11,210,050	-	-	-	11,210,050
2044	6,825,000	3,190,256	10,015,256	-	-	-	10,015,256
2045	5,945,000	2,910,344	8,855,344	-	-	-	8,855,344
2046	6,195,000	2,654,281	8,849,281	-	-	-	8,849,281
2047	6,470,000	2,386,738	8,856,738	-	-	-	8,856,738
2048	6,750,000	2,106,513	8,856,513	-	-	-	8,856,513
2049	7,040,000	1,811,750	8,851,750	-	-	-	8,851,750
2050	7,345,000	1,506,525	8,851,525	-	-	-	8,851,525
2051	7,665,000	1,187,363	8,852,363	-	-	-	8,852,363
2052	6,640,000	852,194	7,492,194	-	-	-	7,492,194
2053	6,960,000	532,200	7,492,200	-	-	-	7,492,200
2054	2,530,000	193,300	2,723,300	-	-	-	2,723,300
2055	1,525,000	76,250	1,601,250	-	-	-	1,601,250
	\$ 207,665,000	\$ 126,053,314	\$ 333,718,314	\$ 4,045,000	\$ 641,979	\$ 4,686,979	\$ 338,405,293

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 fiscal year ended September 30, 2024, which is attached hereto as APPENDIX C.

(1) Interest on the Notes calculated at the rates shown on page 2 hereof.

TAX ADEQUACY (includes self-supporting debt)

TABLE 4

2025 Taxable Assessed Valuation	\$ 7,744,880,346
Maximum Annual Debt Service Requirements	\$ 18,558,192 ⁽¹⁾
Indicated Maximum Interest and Sinking Fund Tax Rate	\$ 0.2446
Indicated Maximum Interest and Sinking Fund Tax Levy at 98% Collections	\$ 18,565,098

(1) Includes the Notes.

OVERLAPPING DEBT DATA

TABLE 5

Taxing Body	Outstanding Tax-Secured Debt as of 9/30/2025	Percent Overlapping	Amount Overlapping
Denison ISD	\$ 221,135,000	4.30%	\$ 9,508,805
Grayson County	33,370,000	33.02%	11,018,774
Grayson College District	112,060,000	33.02%	37,002,212
Howe ISD	50,142,191	3.31%	1,659,707
S&S Consolidated ISD	18,860,000	24.71%	4,660,306
Sherman ISD	618,575,000	92.78%	573,913,885
Whitewright ISD	17,475,000	0.23%	40,193
Total Overlapping Debt			\$ 637,803,881
City of Sherman ⁽¹⁾	\$ 211,710,000	100.00%	\$ 211,710,000
Total Direct Overlapping Debt			\$ 849,513,881
Ratio of Direct and Overlapping Debt to 2025 Assessed Valuation			10.97%
Per Capita Direct and Overlapping Debt			\$ 16,913

Source: Municipal Advisory Council of Texas.

(1) Includes the Notes.

PRINCIPAL TAXPAYERS⁽¹⁾

TABLE 6

<u>2025 Top Ten Taxpayers</u>		
Name of Taxpayer	2025 Taxable Value	% of Net Valuation
Texas Instruments Inc.	\$ 580,426,246	7.49%
Rayburn Energy Station LLC	300,490,505	3.88%
Global Wafers America LLC	241,328,186	3.12%
Tyson Fresh Meats Inc.	92,214,555	1.19%
Oncor Electric Delivery Co. LLC	75,557,390	0.98%
JMCR Sherman LLC	59,457,838	0.77%
Finisar Sherman Holdco LLC	56,326,891	0.73%
Globitech Incorporated	50,013,054	0.65%
Well Zeal Sherman Owner LLC	43,094,770	0.56%
Finisar Corporation	41,187,579	0.53%
	\$ 1,540,097,014	19.89%

(1) The 2025 Top Ten Taxpayers in the City currently account for approximately 19.89% of the District's tax base, with Texas Instruments, accounting for approximately 7.49% thereby creating a concentration risk for the City. Adverse developments in economic conditions, could adversely impact the businesses that own properties in the City and the tax values in the City, resulting in less local tax revenue.

PROPERTY TAX RATES AND COLLECTIONS
TABLE 7

Fiscal Year	Net Taxable	M&O	I&S	% Collections	
	<u>Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Rate</u>	<u>Current</u>	<u>Total</u>
2022	\$ 4,123,948,942	\$ 0.3056	\$ 0.1834	98.84%	99.59%
2023	4,897,963,059	0.2654	0.2046	98.76%	99.41%
2024	5,778,423,011	0.2638	0.2442	98.10%	99.29%
2025	8,452,194,919	0.3075	0.2005	98.60% ⁽¹⁾	98.60% ⁽¹⁾
2026	7,744,880,346	0.2584	0.2496	N/A	N/A

⁽¹⁾ Unaudited.

MUNICIPAL SALES TAX COLLECTIONS
TABLE 8

Fiscal Year	Sales Tax	Ad Valorem	Sales Tax	Percent of	Equivalent
	<u>Collections⁽¹⁾</u>	<u>Tax Levy</u>	<u>Rate</u>	<u>Ad Valorem Tax Levy</u>	<u>Ad Valorem Tax Rate</u>
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	21,936,624	6.250%	134.68%	0.6032
2024	30,010,369	27,746,440	6.250%	108.16%	0.5194
2025	28,663,531 ⁽²⁾	41,058,854	6.250%	69.81%	0.3391

⁽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.

⁽²⁾ Unaudited.

GENERAL FUND COMBINED STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES

TABLE 9

	<u>9/30/2024</u>	<u>9/30/2023</u>	<u>9/30/2022</u>	<u>9/30/2021</u>	<u>9/30/2020</u>
Fund Balance - Beginning of Year	\$ 22,803,672	\$ 18,379,904	\$ 16,904,099	\$ 12,746,493	\$ 11,358,102
Revenues					
Taxes	\$ 48,036,908	\$ 45,507,191	\$ 40,090,336	\$ 37,052,436	\$ 32,511,083
Licenses and Permits	3,053,786	2,874,488	1,096,610	810,670	608,942
Intergovernmental	1,033,521	460,095	1,285,721	1,922,483	1,305,186
Charges for Services	5,963,760	4,872,414	3,416,611	3,062,485	2,507,034
Fines and Forfeitures	776,769	626,982	382,181	336,442	349,213
Investment Income	1,298,577	514,365	(641,433)	35,504	128,409
Donations	42,991	25,592	27,589	8,713	105,534
Miscellaneous	<u>797,534</u>	<u>872,614</u>	<u>347,687</u>	<u>240,406</u>	<u>275,017</u>
Total Revenues	<u>\$ 61,003,846</u>	<u>\$ 55,753,741</u>	<u>\$ 46,005,302</u>	<u>\$ 43,469,139</u>	<u>\$ 37,790,418</u>
Expenditures					
General Government	\$ 11,062,394	\$ 8,924,409	\$ 7,945,954	\$ 7,165,907	\$ 6,633,870
Public Safety	36,149,039	32,214,040	26,822,468	24,529,901	22,866,008
Streets	6,385,459	5,644,914	4,263,598	3,897,857	3,798,232
Sanitation	-	-	871,075	709,899	912,939
Community Services	8,833,547	7,368,394	6,209,614	5,729,479	5,092,577
Debt Service/Capital Outlay	<u>1,016,488</u>	<u>1,031,269</u>	<u>377,137</u>	<u>346,465</u>	<u>1,015,401</u>
Total Expenditures	<u>\$ 63,446,927</u>	<u>\$ 55,183,026</u>	<u>\$ 46,489,846</u>	<u>\$ 42,379,508</u>	<u>\$ 40,319,027</u>
Excess (Deficit) of Revenues Over Expenditures	\$ (2,443,081)	\$ 570,715	\$ (484,544)	\$ 1,089,631	\$ (2,528,609)
Other Financing Sources (Uses):					
Proceeds from Lease Financing	\$ -	\$ 170,582	\$ 12,210	\$ -	\$ -
Proceeds from Sales of Assets	-	-	-	-	-
Operating Transfers In	5,005,471	4,477,471	3,358,139	3,927,975	4,149,000
Operating Transfers (Out)	<u>(1,000,000)</u>	<u>(795,000)</u>	<u>(1,410,000)</u>	<u>(860,000)</u>	<u>(232,000)</u>
Total Other Financing Sources (Uses):	4,005,471	3,853,053	1,960,349	3,067,975	3,917,000
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	1,562,390	4,423,768	1,475,805	4,157,606	1,388,391
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of Year ⁽¹⁾	<u>\$ 24,366,062</u>	<u>\$ 22,803,672</u>	<u>\$ 18,379,904</u>	<u>\$ 16,904,099</u>	<u>\$ 12,746,493</u>

(1) Unaudited General Fund Balance as of September 30, 2025 was approximately \$31,340,584.

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APPENDIX B

General Information Regarding the City

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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 2025	August 2024
Total Civilian Labor Force	72,728	71,818
Total Employment	69,505	68,715
Total Unemployment	3,223	3,103
Percent Unemployed	4.4%	4.3%

	State of Texas	
	August 2025	August 2024
Total Civilian Labor Force	15,857,279	15,687,839
Total Employment	15,213,480	15,033,023
Total Unemployment	643,799	654,816
Percent Unemployed	4.1%	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
Grayson County	588
City of Sherman	550
Alorica	452
Emerson	450
Wilson N. Jones Regional Medical Center	443
Capio	400

Source: Municipal Advisory Council of Texas.

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APPENDIX C

Excerpts from the City of Sherman, Texas Annual Financial Report For the Year Ended September 30, 2024

The information contained in this APPENDIX consists of excerpts from the City of Sherman, Texas Annual Financial Report for the Year Ended September 30, 2024, 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.

Sherman
CLASSIC TOWN. BROAD HORIZON.

Independent Auditor's Report

Honorable Mayor and Members of City Council
City of 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sherman, Texas (the City), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2024, 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 (*Government Auditing Standards*). 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 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.

Responsibilities of Management for the Financial Statements

The City's 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's 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's 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's 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 and the required supplementary 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 GAAS, 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.

Honorable Mayor and Members of City Council
City of Sherman, Texas

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is 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 GAAS. In our opinion, the other supplementary information is 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 (ACFR)

Management is responsible for the other information included in the ACFR. The other information comprises the introductory and statistical sections 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 February 25, 2025 on our consideration of the City's 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's 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's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 25, 2025



Management's Discussion and Analysis



Management's Discussion and Analysis

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, 2024. 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 \$113 million (net position). Of this amount, \$85.2 million represents net investment in capital assets, \$9.3 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 \$29.6 million or 36% from last fiscal year's net position. The increase was due to 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 \$91.9 million, a decrease of \$26.5 million in comparison with the prior year. Approximately 25% of this total amount, \$23.1 million, is available for spending at the government's discretion (unassigned fund balance). \$61.7 million or 67% 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 \$50.4 million. Approximately 17% of this total amount, \$8.7 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 20 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. *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 used in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the 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-one (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 98 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 24 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 129 of this report.

The basic proprietary fund financial statements can be found on pages 28 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 33 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 85 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 98 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 \$113.0 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 \$28.7 million, or 34.4% from the prior fiscal year. The increase was due to an increase in water and sewer sales, impact fees, property tax revenue and sales tax revenue and investment returns.

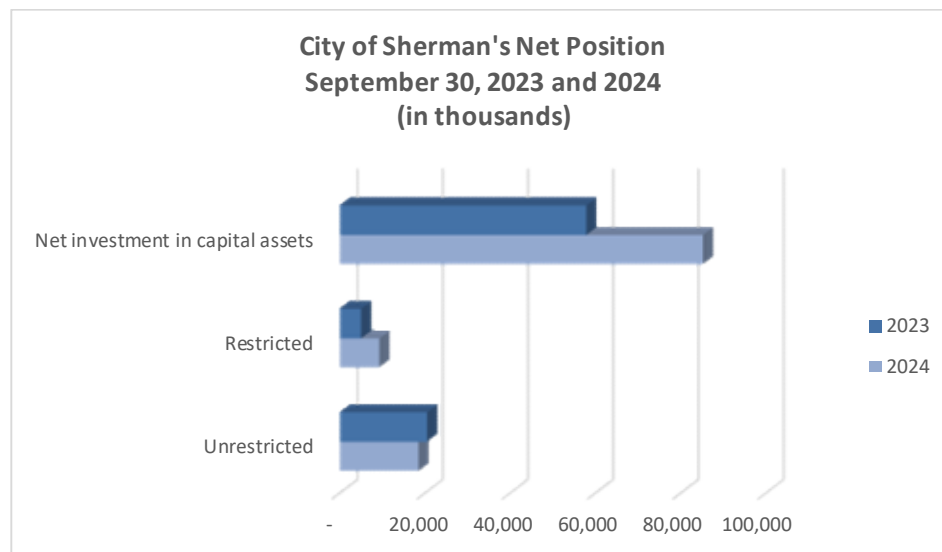
During fiscal year 2024, the City continued its plan to fund upcoming capital projects related to current and expected growth with debt issuances of \$3.7 million in tax notes.

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	
	2024	2023	2024	2023	2024	2023
Current and other assets	\$ 104,728	\$ 127,128	\$ 21,541	\$ 17,706	\$ 126,269	\$ 144,834
Capital assets	162,286	119,903	38,600	33,950	200,886	153,853
Total assets	267,014	247,031	60,141	51,656	327,155	298,687
Deferred outflows of resources	9,261	13,765	2,258	3,356	11,519	17,121
Long-term liabilities	191,677	201,188	6,936	8,554	198,613	209,742
Other liabilities	19,046	14,593	4,025	3,934	23,071	18,527
Total liabilities	210,723	215,781	10,961	12,488	221,684	228,269
Deferred inflows of resources	2,970	3,082	1,021	1,090	3,991	4,172
Net investment in capital assets	48,480	25,941	36,745	31,909	85,225	57,850
Restricted	4,340	3,925	4,952	1,060	9,292	4,985
Unrestricted	9,762	12,067	8,720	8,465	18,482	20,532
Total net position	\$ 62,582	\$ 41,933	\$ 50,417	\$ 41,434	\$ 112,999	\$ 83,367

A portion of the City's net position, \$9.3 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.

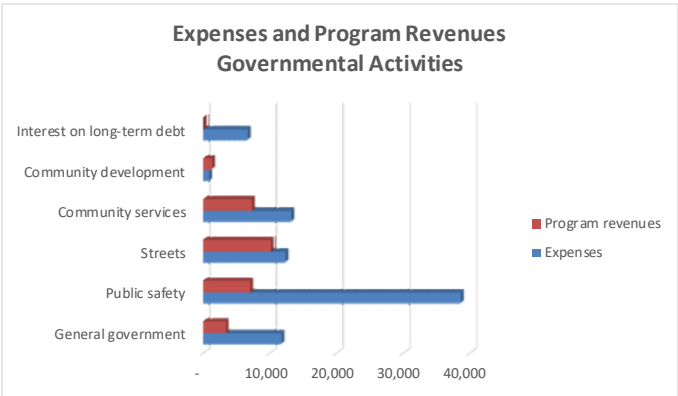


Changes in Net Position. The City's condensed changes in net position, along with last fiscal year's numbers, are presented for comparison in the following table.

City of Sherman's Changes in Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2024	2023	2024	2023	2024	2023
Revenues						
Program revenues:						
Charges for services	\$ 12,305	\$ 11,381	\$ 43,480	\$ 41,847	\$ 55,785	\$ 53,228
Operating grants and contributions	3,188	1,187	-	-	3,188	1,187
Capital grants and contributions	13,204	4,646	7,873	2,615	21,077	7,261
General revenues:						
Property taxes	27,864	20,837	-	-	27,864	20,837
Sales taxes	30,207	29,672	-	-	30,207	29,672
Other taxes	4,452	4,313	-	-	4,452	4,313
Other	7,713	2,775	1,819	2,570	9,532	5,345
Total revenues	98,933	74,811	53,172	47,032	152,105	121,843
Expenses						
General government	11,640	9,479	-	-	11,640	9,479
Public safety	38,541	33,535	-	-	38,541	33,535
Streets	12,240	11,075	-	-	12,240	11,075
Sanitation	-	-	-	-	-	-
Community services	13,120	9,723	-	-	13,120	9,723
Community development	797	559	-	-	797	559
Interest on long-term debt	6,597	3,369	-	-	6,597	3,369
Water and sewer service	-	-	30,972	28,726	30,972	28,726
Solid waste service	-	-	8,566	7,359	8,566	7,359
Total expenses	82,935	67,740	39,538	36,085	122,473	103,825
Increase in net position before transfers	15,998	7,071	13,634	10,947	29,632	18,018
Transfers	4,651	3,890	(4,651)	(3,890)	-	-
Change in net position	20,649	10,961	8,983	7,057	29,632	18,018
Net position, beginning	41,933	30,972	41,434	34,377	83,367	65,349
Net position, ending	\$ 62,582	\$ 41,933	\$ 50,417	\$ 41,434	\$ 112,999	\$ 83,367

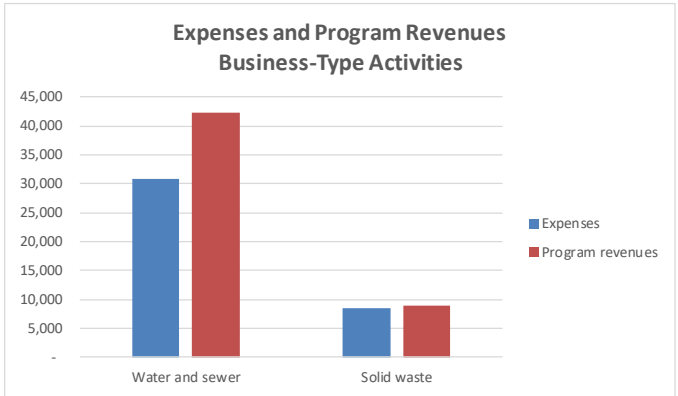
Governmental Activities. Governmental activities increased the City's net position by \$20.6 million due to capital contributions increasing \$8.6 million, property tax growth of \$7.0 million or 33% from increased valuations and additions to the tax roll. Expenses in governmental activities were higher than the prior year primarily due to an increase in general government expenses of \$2.2 million or 23% due to payroll expenditures, maintenance and repair costs, as well as other operating costs. An increase in public safety expenses of \$5.0 million or 15% was due to payroll costs, and interest on long-term debt increased \$3.2 million.



Business-type Activities. Results for the current fiscal year in the City's business-type activities increased the City's net position by \$8.9 million, with operations similar to the prior year. Net position from Water and Sewer activities for fiscal year 2024 increased \$9.1 million, primarily due to water and sewer sales, along with increased capital contributions and impact fees.

Net position related to Solid Waste activities decreased \$0.2 million with solid waste service revenues slightly higher than expenses in fiscal year 2024. There were also transfers out totaling \$1.6 million.

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

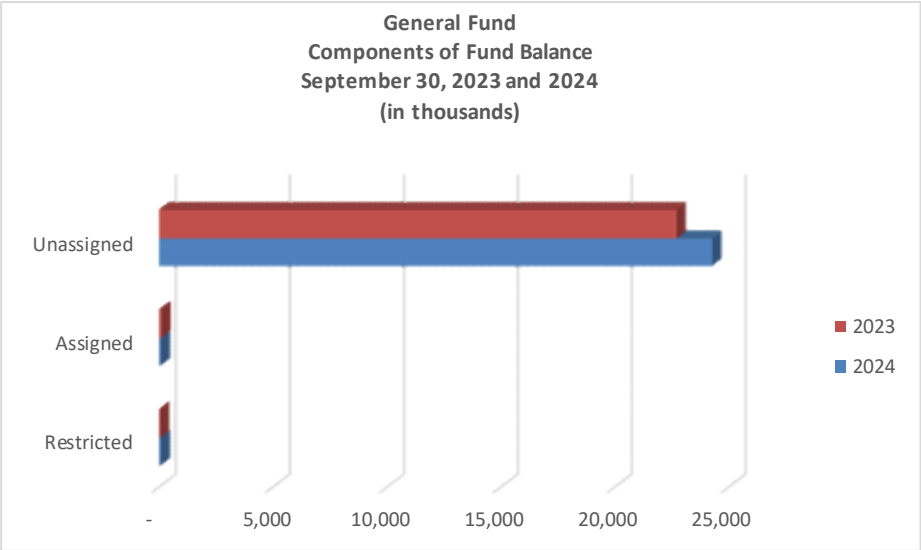


Financial Analysis of The Government's Funds

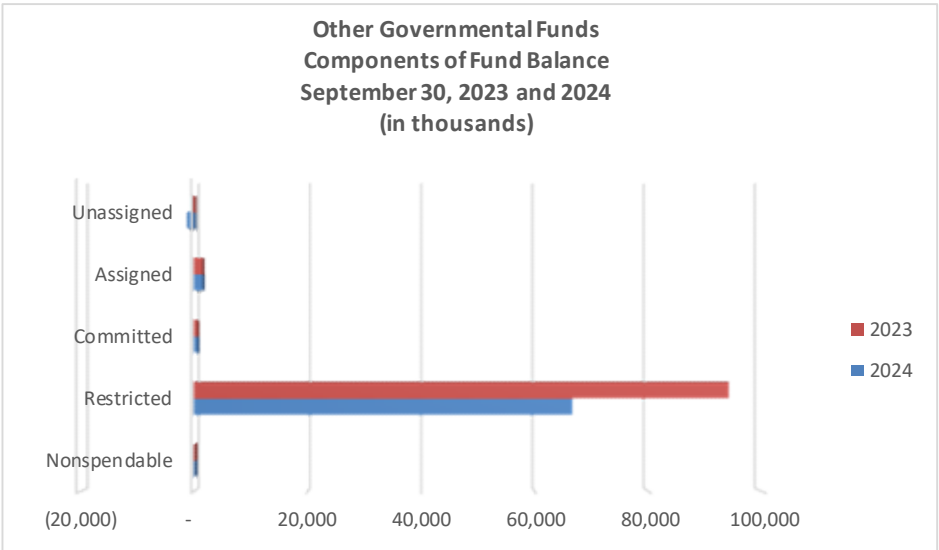
As noted earlier, the City of Sherman uses fund accounting to ensure and demonstrate compliance with finance- related legal requirements.

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, 2024, the City's governmental funds reported combined fund balances of \$91.9 million, which is \$26.5 million less than the prior year due to increased capital outlay. Approximately 25.1% of the governmental fund balances, or \$23.1 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 (\$66.6 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 \$24.3 million. Total fund balance increased by \$1.6 million from the prior fiscal year to \$24.4 million, primarily due to growth of property tax revenue. Expenditures were higher than the prior year primarily due to an increase in general government of \$2.1 million and public safety of \$3.9 million from payroll and other operating costs. Unassigned fund balance represents approximately 38.2% of total general fund expenditures.



The General Improvement Fund, a major fund, decreased \$26.1 million during the fiscal year, ending the year at a fund balance of \$59.8 million. The decrease was due primarily due to capital outlay. Expenditures of \$34.6 million in fiscal year 2024 included \$12.3 million for Shepherd Drive, \$4.8 million for the renovation and addition of Fire Station No.1, \$4.0 million for Bel Air Boulevard, \$2.1 million for Lamberth Road, \$3.4 million for the public safety trunking system, \$0.7 million for Moore Street and other street and facilities projects.

The Debt Service Fund, also a major fund, ended the year at a fund balance of \$1.3 million. General property taxes of \$10.4 million were allocated to this fund to cover principal and interest payments of approximately \$11.8 million.

The remaining governmental funds ended the year with a fund balance of \$6.5 million, a decrease of \$1.7 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 \$8.0 million and had increased by \$9.1 million primarily due to water and sewer sales, capital contributions and impact fees, combined with transfers out.

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 2024, increasing revenues by \$2.9 million and expenditures by \$10.6 million. The additional revenues included interfund transfers of about \$2.5 million in addition to revenue realized in some of the minor funds. The additional expenses included \$2.6 million for well repairs, about \$2 million in transfers, \$900 thousand for demolition work, and expenses related to solid waste (disposal fees and truck repairs). The size of the budget amendment reflected the rate of growth and change the City experienced during fiscal year 2024 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, 2024, amounts to \$200.9 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 \$47.0 million or approximately 31%.

Major capital asset events during fiscal year 2024 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 Drive, Lamberth Road and City Hall renovations.
- Construction projects in progress at the end of fiscal year 2024 included new street design and construction in developing areas, drainage improvements, park facilities and improvements, consolidation of Fire Stations No. 1 and 2 and city hall design and renovation.
- Projects completed during the year included the Pecan Grove trail, shading and athletic field lights, the asphalt pump track at Binkley Park and the outdoor chapel at Westhill Cemetery.

- Various machinery and equipment were acquired totaling approximately \$6.6 million. Governmental activities included purchasing a vacuum sweeper, crack sealer, dump truck and two heavy-duty pickup trucks for the street department, rifle and handgun replacements as well as patrol vehicles and equipment for law enforcement, workstations for communications, three ambulances and equipment for the fire department, a skid steer and two pickup trucks for neighborhood services, two trucks, a tractor and a soil cultivator for the parks maintenance department, and a tractor for cemetery services. Business type activities included purchasing a vactor truck, a dump truck, an excavator, a skid steer and six pickup trucks for water treatment and distribution, two pickup trucks for wastewater treatment services, a roll off truck and four front loaders for solid waste collection.
- Depreciation totaled \$11.6 million for governmental activities, including internal service funds and \$3.4 million for business-type activities.

City of Sherman's Capital Assets, Net of Depreciation and Amortization
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2024	2023	2024	2023	2024	2023
Land	\$ 9,452	\$ 8,119	\$ 2,928	\$ 2,928	\$ 12,380	\$ 11,047
Buildings	23,673	24,463	996	1,059	24,669	25,522
Other improvements	66,804	57,179	25,778	21,042	92,582	78,221
Machinery and equipment	20,044	17,601	1,899	2,023	21,943	19,624
Other assets	62	83	6,507	6,410	6,569	6,493
Construction in progress	42,097	12,060	492	312	42,589	12,372
SBITA	154	398	-	176	154	574
Total assets	\$ 162,286	\$ 119,903	\$ 38,600	\$ 33,950	\$ 200,886	\$ 153,853

Additional information on the City's capital assets can be found in footnote 3(C) of this report.

Debt Administration

At the end of the current fiscal year, the City had total contractually obligated long-term debt of \$176 million. In fiscal year 2024, the City issued \$3.7 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	
	2024	2023	2024	2023	2024	2023
Bonds	\$ 4,652	\$ 5,587	\$ -	\$ -	\$ 4,652	\$ 5,587
Leases	-	-	-	-	-	-
SBITA	102	327	51	100	153	427
Certificates of obligation, net of premium	161,483	166,285	-	-	161,483	166,285
Other long-term payables	531	1,259	1,803	1,940	2,334	3,199
Tax notes	7,508	5,381	-	-	7,508	5,381
Total debt	\$ 174,276	\$ 178,839	\$ 1,854	\$ 2,040	\$ 176,130	\$ 180,879

Long-term debt for the City decreased by \$4.7 million or 2.6%, due to annual principal payments offset by issuances of \$3.7 million in tax notes.

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 2024 fiscal year, the City had 29.2% of allowable bonded debt outstanding.

Additional information on the City's long-term debt can be found in footnote 3(D) of this report.

Economic Factors and Next Year's Budgets and Rates

The following economic factors affecting the City were considered in developing the 2024-2025 fiscal year budget.

- General Fund revenues are expected to be more than in the fiscal year 2024. Sales tax is expected to decrease due to the end of construction-related revenue on the industrial facilities. Property tax is expected to increase due to one-time property tax from the unabated value of the industrial construction. In fiscal year 2026 when the facilities are placed in service, most of this value will be abated and property taxes will decrease. Tax notes, to be repaid from property taxes, will be used to finance about \$4.5 million for fleet, facility and equipment expenses. New positions planned or added since the fiscal year 2024 original budget include a civil engineer, engineering construction inspector, two patrol officers and a permit technician.
- Utility Fund revenues are expected to increase in fiscal year 2025. An increase in utility rates and consumption is expected to generate about \$16 million. Most of this revenue will be used to fund debt service in fiscal year 2026 through fiscal year 2030 or until revenues catch up to debt service levels. Utility fund expenses are budgeted to increase compared to fiscal year 2024 due to an increase in personnel, debt service, chemicals and other supplies to operate the expansions at the water treatment plant and the wastewater treatment plant. Twelve positions were added, primarily to staff expansions at the water treatment plant and the wastewater treatment plant.
- Solid Waste Fund revenue is expected to continue to grow, with most of the increase coming from commercial activity. The Solid Waste fund is balanced ongoing due to a 5% commercial rate increase and an increase for two residential carts from \$12.75 to \$15.30 per month. A commercial driver position was also added.
- The budget of the General Improvement Fund - City Funds consists of projects not funded by Certificates of Obligation. The fiscal year 2025 budget includes the City's match on a major runway improvement at the Sherman Municipal Airport, almost \$2 million in street material, facility repairs at the Municipal building, animal shelter, cemetery and senior center, and 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 Three Oaks, Travis Heights, Bel Air Village, Pecan Grove Estates and Heritage Ranch developments, major rebuilds of Cherry, Washington and Sunset, and infrastructure for the commercial activity at Sherman Crossroads. City facility projects include creek erosion at the cemetery, design and planning for a public works facility, a public safety training facility, another fire station and remodel of Fire Station #3 (Pecan Grove). Lamberth Road and Blanton and McGee Streets will see drainage improvements.

- Projects funded by contractual debt through the Greater Texoma Utility Authority include the final phase of the Wastewater Treatment Plant MBR, engineering for the expansion of the MBR, rehab of Stephens ground storage tank, and 18" wastewater line along Choctaw Creek, a wastewater reuse study, and other projects.

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.



Basic Financial Statements

City of Sherman, Texas
Statement of Net Position
September 30, 2024

	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current assets:				
Cash	\$ 11,473,169	\$ 2,867,898	14,341,067	\$ 16,178,171
Pooled and temporary investments	85,655,413	11,098,384	96,753,797	11,198,773
Receivables, net	7,362,228	6,705,574	14,067,802	1,117,785
Inventories, at cost	236,185	859,428	1,095,613	-
Prepayments and deposits	644	10,158	10,802	-
Total current assets	104,727,639	21,541,442	126,269,081	28,494,729
Noncurrent assets:				
Capital assets:				
Nondepreciable assets	51,549,382	9,820,743	61,370,125	7,109,689
Other capital assets, net	110,737,171	28,779,635	139,516,806	61,532
Total noncurrent assets	162,286,553	38,600,378	200,886,931	7,171,221
Total assets	267,014,192	60,141,820	327,156,012	35,665,950
DEFERRED OUTFLOWS OF RESOURCES				
Pension plan - TMRS	8,521,320	2,077,534	10,598,854	121,136
OPEB - retiree health plan	531,262	129,524	660,786	7,552
OPEB - TMRS supplemental death benefit	208,271	50,778	259,049	2,961
Total deferred outflows of resources	9,260,853	2,257,836	11,518,689	131,649
LIABILITIES				
Current liabilities:				
Accounts payable	5,640,088	895,533	6,535,621	166,313
Accrued expenses payable	1,141,670	196,629	1,338,299	74,420
Accrued interest payable	902,536	-	902,536	-
Unearned revenue	214,722	1,564,578	1,779,300	-
Landfill closure costs	-	39,468	39,468	-
Customers' deposits payable	188,790	576,129	764,919	-
Current portion of bonds, leases, certificates of obligation, tax notes and other long-term payables	10,958,239	752,196	11,710,435	49,042
Total current liabilities	19,046,045	4,024,533	23,070,578	289,775

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas

Statement of Net Position (Continued)

September 30, 2024

	Governmental Activities	Business-type Activities	Total	Component Unit
Long-term liabilities:				
Accrued compensated absences	3,293,625	-	3,293,625	-
Notes payable	89,823	-	89,823	-
General obligation bonds	3,747,172	-	3,747,172	-
Certificates of obligation	157,143,185	-	157,143,185	-
Tax notes	5,773,131	-	5,773,131	-
Subscription liability	-	-	-	-
Lease liabilities	-	-	-	21,164
Net pension liability	16,413,466	4,001,673	20,415,139	233,328
Total OPEB liability - retiree health plan	4,035,359	983,838	5,019,197	57,366
Total OPEB liability - TMRS supplemental death benefit	1,180,957	287,922	1,468,879	16,788
Other long-term payables	-	1,662,718	1,662,718	-
Total long-term liabilities	191,676,718	6,936,151	198,612,869	328,646
Total liabilities	210,722,763	10,960,684	221,683,447	618,421
DEFERRED INFLOWS OF RESOURCES				
Leases	47,434	308,450	355,884	-
Pension plan - TMRS	678,406	165,399	843,805	9,644
OPEB - Retiree health plan	1,772,017	432,025	2,204,042	25,190
OPEB - TMRS supplemental death plan	471,759	115,017	586,776	6,706
Total deferred inflows of resources	2,969,616	1,020,891	3,990,507	41,540
NET POSITION				
Net investment in capital assets	48,480,174	36,746,207	85,226,381	7,108,580
Restricted for:				
General obligation debt service	554,614	-	554,614	-
Cemetery maintenance:				
Expendable	2,025,430	-	2,025,430	-
Nonexpendable	100,000	-	100,000	-
Cafeteria plan	55,087	-	55,087	-
Law enforcement support	1,401,810	-	1,401,810	-
Airport and tourism	202,793	-	202,793	-
Impact fees	-	4,951,697	4,951,697	-
Economic development	-	-	-	28,029,058
Unrestricted	9,762,758	8,720,177	18,482,935	-
TOTAL NET POSITION	\$ 62,582,666	\$ 50,418,081	\$ 113,000,747	\$ 35,137,638

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas

Statement of Activities

For the Fiscal Year Ended September 30, 2024

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 11,639,094	\$ 2,423,993	\$ 857,608	\$ -
Public safety	38,540,704	5,947,907	987,024	-
Streets	12,240,440	1,877,392	16,149	8,147,186
Community services	13,120,403	2,055,668	88,981	5,056,638
Community development	796,499	-	1,238,541	-
Interest on long-term debt	6,597,284	-	-	-
Total governmental activities	82,934,424	12,304,960	3,188,303	13,203,824
Business-type activities:				
Water and sewer service	30,972,255	34,491,786	-	7,873,104
Solid waste service	8,565,554	8,988,120	-	-
Total business-type activities	39,537,809	43,479,906	-	7,873,104
TOTAL PRIMARY GOVERNMENT	\$ 122,472,233	\$ 55,784,866	\$ 3,188,303	\$ 21,076,928
COMPONENT UNIT				
Economic development	\$ 3,049,877	\$ -	\$ -	\$ -

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 Notes to the Financial Statements are an integral part of this statement.

Net Revenues (Expenses) and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (8,357,493)	\$ -	\$ (8,357,493)	\$ -
(31,605,773)	-	(31,605,773)	-
(2,199,713)	-	(2,199,713)	-
(5,919,116)	-	(5,919,116)	-
442,042	-	442,042	-
(6,597,284)	-	(6,597,284)	-
(54,237,337)	-	(54,237,337)	-
-	11,392,635	11,392,635	-
-	422,566	422,566	-
-	11,815,201	11,815,201	-
\$ (54,237,337)	\$ 11,815,201	\$ (42,422,136)	\$ -
-	-	-	(3,049,877)
27,863,709	-	27,863,709	-
30,207,162	-	30,207,162	6,970,884
3,120,613	-	3,120,613	-
1,035,849	-	1,035,849	-
295,680	-	295,680	-
6,488,918	725,715	7,214,633	1,258,478
968,368	1,042,670	2,011,038	22,500
255,848	51,338	307,186	189,061
4,650,915	(4,650,915)	-	-
74,887,062	(2,831,192)	72,055,870	8,440,923
20,649,725	8,984,009	29,633,734	5,391,046
41,932,941	41,434,072	83,367,013	29,746,592
\$ 62,582,666	\$ 50,418,081	\$ 113,000,747	\$ 35,137,638

City of Sherman, Texas

Balance Sheet

Governmental Funds

September 30, 2024

	General	General Improvement	Debt Service	Nonmajor Governmental	Total Governmental
ASSETS					
Cash	\$ 3,296,500	\$ 1,764,906	\$ 1,252,478	\$ 3,652,484	\$ 9,966,368
Pooled and temporary investments	18,095,555	60,727,538	-	4,304,418	83,127,511
Receivables (net of allowance for uncollectibles):					
Interest	107,912	29,515	-	3,642	141,069
Intergovernmental	66,430	-	-	150,115	216,545
Accounts	1,167,570	-	-	152,424	1,319,994
Taxes	5,151,154	-	204,672	267,559	5,623,385
Leases	-	-	-	49,584	49,584
Due from other funds	264,307	-	-	-	264,307
Inventory	-	-	-	15,532	15,532
Prepayments and deposits	644	-	-	-	644
TOTAL ASSETS	\$ 28,150,072	\$ 62,521,959	\$ 1,457,150	\$ 8,595,758	\$ 100,724,939
LIABILITIES					
Accounts payable	\$ 2,429,898	\$ 2,736,559	\$ -	\$ 118,448	\$ 5,284,905
Accrued wages payable	297,918	-	-	5,510	303,428
Customer deposits	2,265	-	-	186,525	188,790
Unearned revenue	203,913	-	-	5,580	209,493
Due to other funds	-	-	-	1,763,724	1,763,724
Total liabilities	2,933,994	2,736,559	-	2,079,787	7,750,340
DEFERRED INFLOWS OF RESOURCES					
Property taxes	299,351	-	186,888	-	486,239
Court fines	114,113	-	-	-	114,113
Ambulance fees	436,552	-	-	-	436,552
Deferred inflows - leases	-	-	-	47,434	47,434
Total deferred inflows of resources	850,016	-	186,888	47,434	1,084,338
FUND BALANCES					
Nonspendable:					
Prepayments and deposits	644	-	-	-	644
Endowment	-	-	-	100,000	100,000
Inventory	-	-	-	15,532	15,532
Restricted for:					
Cafeteria plan	55,087	-	-	-	55,087
Law enforcement support	-	-	-	1,401,810	1,401,810
Airport and tourism	-	-	-	202,793	202,793
Infrastructure and facilities improvement	-	58,333,768	-	3,347,127	61,680,895
Debt service	-	-	1,270,262	-	1,270,262
Cemetery maintenance	-	-	-	2,025,430	2,025,430
Committed to:					
New street development	-	-	-	548,487	548,487
Assigned for:					
Public charities	56,698	-	-	-	56,698
General improvements	-	1,451,632	-	-	1,451,632
Unassigned	24,253,633	-	-	(1,172,642)	23,080,991
Total fund balance	24,366,062	59,785,400	1,270,262	6,468,537	91,890,261
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 28,150,072	\$ 62,521,959	\$ 1,457,150	\$ 8,595,758	\$ 100,724,939

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2024

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ 91,890,261
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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.	11,995,280
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	249,936,930
Less: accumulated depreciation	(103,484,245)

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 multi-employer pension plan. Balances at year-end are:

Bonds payable	(4,652,172)
Certificates of obligation	(161,483,185)
Tax notes	(580,828)
Subscription liability	(102,080)
Compensated absences	(6,074,469)
Net pension liability	(15,556,555)
OPEB - retiree health plan	(4,329,080)
OPEB - TMRS supplemental death benefit	(1,119,302)
Deferred outflows of resources - pension plan	8,076,440
Deferred outflows of resources - OPEB retiree health plan	503,526
Deferred outflows of resources - TMRS supplemental death benefit	197,398
Deferred inflows of resources - pension plan	(642,988)
Deferred inflows of resources - OPEB retiree health plan	(1,679,504)
Deferred inflows of resources - TMRS supplemental death benefit	(447,129)

Various other items necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, including:

Accrued interest payable	(902,536)
Unavailable revenue - property taxes	486,239
Unavailable revenue - court fines	114,113
Unavailable revenue - ambulance fees	436,552

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$ 62,582,666
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The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Fiscal Year Ended September 30, 2024

	General	General Improvement	Debt Service	Nonmajor Governmental	Total Governmental
REVENUES					
Taxes:					
General property	\$ 14,513,257	\$ -	\$ 10,413,377	\$ 852,157	\$ 25,778,791
City sales	30,207,162	-	-	-	30,207,162
Franchise	3,120,613	-	-	-	3,120,613
Nonproperty	195,876	-	-	839,973	1,035,849
Property assessment	-	-	-	295,680	295,680
Licenses and permits	3,053,786	-	-	-	3,053,786
Intergovernmental	1,033,521	-	-	1,262,578	2,296,099
Charges for services	5,963,760	-	-	2,981,668	8,945,428
Fines and forfeitures	776,769	-	-	122,751	899,520
Investment income (loss)	1,298,577	4,166,589	115,660	645,485	6,226,311
Donations	42,991	-	-	78,301	121,292
Miscellaneous	797,534	40,744	1,056	61,377	900,711
Total revenues	61,003,846	4,207,333	10,530,093	7,139,970	82,881,242
EXPENDITURES					
Current:					
General government	11,062,394	-	-	-	11,062,394
Public safety	36,149,039	-	-	256,104	36,405,143
Streets	6,385,459	-	-	-	6,385,459
Community services	8,833,547	-	-	1,842,972	10,676,519
Community development	-	-	-	790,030	790,030
Capital outlay	904,782	34,632,748	-	1,717,515	37,255,045
Debt service:					
Principal	107,441	-	5,506,908	-	5,614,349
Interest	4,265	-	6,297,704	-	6,301,969
Debt issuance costs and agent fees	-	-	8,025	-	8,025
Total expenditures	63,446,927	34,632,748	11,812,637	4,606,621	114,498,933
Excess (deficiency) of revenues over (under) expenditures	(2,443,081)	(30,425,415)	(1,282,544)	2,533,349	(31,617,691)
OTHER FINANCING SOURCES (USES)					
Issuance of tax notes	-	468,426	-	-	468,426
Transfers in	5,005,471	3,900,000	1,075,000	-	9,980,471
Transfers out	(1,000,000)	(50,516)	-	(4,234,000)	(5,284,516)
Total other financing sources (uses)	4,005,471	4,317,910	1,075,000	(4,234,000)	5,164,381
Net change in fund balances	1,562,390	(26,107,505)	(207,544)	(1,700,651)	(26,453,310)
Fund balances, beginning	22,803,672	85,892,905	1,477,806	8,169,188	118,343,571
FUND BALANCES, ENDING	\$ 24,366,062	\$ 59,785,400	\$ 1,270,262	\$ 6,468,537	\$ 91,890,261

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Fiscal Year Ended September 30, 2024

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS

\$ (26,453,310)

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.

1,430,367

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 outlay (\$35,718,905) and capital contributions (\$13,203,824) recorded as capital assets in the current period.

48,922,729

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.

(8,546,751)

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	(468,426)
Principal paid - bonds payable	880,000
Principal paid - certificates of obligation	4,495,000
Principal paid - tax notes	131,908
Principal paid - subscription liability	107,441
Amortization of premium on debt issuance	362,726

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	(905,531)
Change in pension liability	722,233
Change in OPEB obligation - retiree health plan	181,391
Change in OPEB obligation - TMRS supplemental death benefit	19,875

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	(144,246)
Change in accrued interest payable	(425,772)
Change in unavailable revenue - property taxes	162,953
Change in unavailable revenue - court fines	16,494
Change in unavailable revenue - ambulance fees	160,644

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 20,649,725

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas
Statement of Net Position
Proprietary Funds
September 30, 2024

	Business-type Activities Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
ASSETS				
Current assets:				
Cash	\$ 2,571,231	\$ 296,667	\$ 2,867,898	\$ 1,506,801
Pooled and temporary investments	10,354,243	744,141	11,098,384	2,527,902
Receivables (net allowances for uncollectibles):				
Interest	9,310	5,137	14,447	-
Leases	502,170	-	502,170	-
Accounts	3,554,434	949,973	4,504,407	11,651
Unbilled accounts	1,544,598	139,952	1,684,550	-
Inventories, at cost	859,428	-	859,428	220,653
Prepaid items	10,158	-	10,158	-
Due from other funds	-	-	-	1,683,086
Total current assets	19,405,572	2,135,870	21,541,442	5,950,093
Capital assets:				
Non-depreciable assets	9,817,743	3,000	9,820,743	55,250
Other capital assets, net	27,915,678	863,957	28,779,635	15,778,618
Total noncurrent assets	37,733,421	866,957	38,600,378	15,833,868
Total assets	57,138,993	3,002,827	60,141,820	21,783,961
DEFERRED OUTFLOWS OF RESOURCES				
Pension plan - TMRS	1,618,718	458,816	2,077,534	444,880
OPEB - retiree health plan	100,919	28,605	129,524	27,736
OPEB - supplemental death benefit	39,564	11,214	50,778	10,873
Total deferred outflows of resources	1,759,201	498,635	2,257,836	483,489
LIABILITIES				
Current liabilities:				
Accounts payable	598,158	297,375	895,533	355,183
Accrued expenses payable:				
Accrued wages payable	150,786	45,843	196,629	37,421
Landfill closure and postclosure care costs	-	39,468	39,468	-
Claims payable	-	-	-	800,821
Due to other funds	-	-	-	183,669
Unearned revenue	1,564,578	-	1,564,578	5,229
Customers' deposits payable	506,945	69,184	576,129	-
Current portion of long-term liabilities:				
Notes payable	-	-	-	530,890
Subscription liability	-	50,938	50,938	-
Accrued compensated absences	323,513	107,482	430,995	122,065
Tax notes	-	-	-	6,927,303
Total OPEB liability - retiree health plan	101,094	28,654	129,748	27,784
Other long-term payables	140,515	-	140,515	-
Total current liabilities	3,385,589	638,944	4,024,533	8,990,365

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas

Statement of Net Position (Continued)

Proprietary Funds

September 30, 2024

	Business-type Activities Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
Long-term liabilities (net of current portion):				
Notes payable	\$ -	\$ -	\$ -	-
Subscription liability	-	-	-	-
Net pension liability	3,117,918	883,755	4,001,673	856,911
Tax notes	-	-	-	-
Total OPEB liability - retiree health plan	766,561	217,277	983,838	210,678
Total OPEB liability - supplemental death benefit	224,336	63,586	287,922	61,655
Other long-term payables	1,662,718	-	1,662,718	-
Total long-term liabilities	5,771,533	1,164,618	6,936,151	1,129,244
Total liabilities	9,157,122	1,803,562	10,960,684	10,119,609
DEFERRED INFLOWS OF RESOURCES				
Leases	308,450	-	308,450	-
Pension plan - TMRS	128,871	36,528	165,399	35,418
OPEB - retiree health plan	336,614	95,411	432,025	92,513
OPEB - supplemental death benefits	89,616	25,401	115,017	24,630
Total deferred inflows of resources	863,551	157,340	1,020,891	152,561
NET POSITION				
Net investment in capital assets	35,930,188	816,019	36,746,207	10,603,909
Restricted for:				
Impact fees	4,951,697	-	4,951,697	-
Unrestricted	7,995,636	724,541	8,720,177	1,391,371
TOTAL NET POSITION	<u>\$ 48,877,521</u>	<u>\$ 1,540,560</u>	<u>\$ 50,418,081</u>	<u>\$ 11,995,280</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas

Statement of Revenues, Expenses

and Changes in Net Position

Proprietary Funds

For the Fiscal Year Ended September 30, 2024

	Business-type Activities -Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
OPERATING REVENUES				
Water sales	\$ 18,984,415	\$ -	\$ 18,984,415	\$ -
Sewer sales	10,823,414	-	10,823,414	-
Solid waste service	-	8,988,120	8,988,120	-
Laboratory fees	139,362	-	139,362	-
Service connections and penalties	756,124	-	756,124	-
Utility tap fees	70,107	-	70,107	-
Charges for services	60,604	-	60,604	16,382,328
Property taxes	-	-	-	1,921,965
Intergovernmental	60,950	-	60,950	-
Miscellaneous	121,005	921,665	1,042,670	67,657
Total operating revenues	31,015,981	9,909,785	40,925,766	18,371,950
OPERATING EXPENSES				
Personnel services	8,128,621	2,354,349	10,482,970	2,282,081
Contractual services	11,702,562	3,556,466	15,259,028	7,816,386
Supplies	2,152,397	508,755	2,661,152	1,383,775
Maintenance and repair	4,784,292	74,187	4,858,479	2,528,164
Vehicle usage	888,646	1,923,940	2,812,586	107,962
Depreciation and amortization	3,257,646	145,079	3,402,725	3,072,386
Total operating expenses	30,914,164	8,562,776	39,476,940	17,190,754
Operating income (loss)	101,817	1,347,009	1,448,826	1,181,196
NONOPERATING REVENUES (EXPENSES)				
Gain (loss) on sale of assets	16,974	34,364	51,338	255,848
Investment income	629,342	96,373	725,715	262,607
Interest expense	(58,091)	(2,778)	(60,869)	(224,244)
Impact fees	3,657,760	-	3,657,760	-
Total nonoperating revenues (expenses)	4,245,985	127,959	4,373,944	294,211
Income (loss) before contributions and transfers	4,347,802	1,474,968	5,822,770	1,475,407
CONTRIBUTIONS AND TRANSFERS				
Capital contributions	7,812,154	-	7,812,154	-
Transfers in	438,092	-	438,092	-
Transfers out	(3,456,458)	(1,632,549)	(5,089,007)	(45,040)
Total contributions and transfers	4,793,788	(1,632,549)	3,161,239	(45,040)
Change in net position	9,141,590	(157,581)	8,984,009	1,430,367
Net position, beginning	39,735,931	1,698,141	41,434,072	10,564,913
NET POSITION, ENDING	<u>\$ 48,877,521</u>	<u>\$ 1,540,560</u>	<u>\$ 50,418,081</u>	<u>\$ 11,995,280</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2024

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 30,261,699	\$ 9,740,156	\$ 40,001,855	\$ -
Cash received for interfund services	-	-	-	18,860,757
Cash paid for supplies and materials	(19,809,801)	(5,962,536)	(25,772,337)	(4,927,513)
Cash paid for premiums, claims and administrative	-	-	-	(6,520,179)
Cash paid for personnel services	(8,299,919)	(2,387,220)	(10,687,139)	(2,317,373)
Net cash provided by (used for) operating activities	2,151,979	1,390,400	3,542,379	5,095,692
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other funds	438,092	-	438,092	-
Cash paid to other funds	(3,456,458)	(1,632,549)	(5,089,007)	(45,040)
Net cash provided by (used for) noncapital financing activities	(3,018,366)	(1,632,549)	(4,650,915)	(45,040)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	16,974	34,364	51,338	249,408
Acquisition of capital assets	(7,952,407)	(101,185)	(8,053,592)	(5,217,249)
Proceeds from issuance of long-term debt	-	-	-	3,532,851
Principal retirement of long-term debt	(136,440)	(49,568)	(186,008)	(2,587,558)
Impact fees	3,657,760	-	3,657,760	-
Interest paid on long-term debt	(58,091)	(2,778)	(60,869)	(224,244)
Capital contributions	7,812,154	-	7,812,154	-
Net cash provided by (used for) capital and related financing activities	3,339,950	(119,167)	3,220,783	(4,246,792)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and investment income received	629,342	96,373	725,715	262,607
Purchases of investments	(2,569,741)	-	(2,569,741)	(2,228,321)
Proceeds from sale of investments	-	285,500	285,500	676,838
Net cash provided by (used for) investing activities	(1,940,399)	381,873	(1,558,526)	(1,288,876)
Net increase (decrease) in cash	533,164	20,557	553,721	(485,016)
Cash beginning	2,038,067	276,110	2,314,177	1,991,817
CASH ENDING	\$ 2,571,231	\$ 296,667	\$ 2,867,898	\$ 1,506,801

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas

Statement of Cash Flows (Continued)

Proprietary Funds

For the Fiscal Year Ended September 30, 2024

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Operating income	\$ 101,817	\$ 1,347,009	\$ 1,448,826	\$ 1,181,196
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation and amortization	3,257,646	145,079	3,402,725	3,072,386
(Increase) decrease in:				
Accounts receivable (net)	(4,294)	(158,314)	(162,608)	(3,661)
Due from other funds	-	-	-	493,962
Unbilled services	(689,038)	(11,315)	(700,353)	-
Inventories	(164,335)	-	(164,335)	21,701
Prepaid items	-	-	-	13
Increase (decrease) in:				
Accounts payable	(288,063)	63,274	(224,789)	(17,835)
Accrued wages payable	32,809	8,413	41,222	6,769
Due to other funds	-	-	-	50,252
Estimated liability for claims	-	-	-	327,695
Accrued compensated absences	14,132	19,275	33,407	15,577
Unearned revenue	(60,950)	-	(60,950)	(1,494)
Customer deposits	137,685	29,125	166,810	-
Net pension and OPEB obligations	(185,430)	(52,146)	(237,576)	(50,869)
Total adjustments	2,050,162	43,391	2,093,553	3,914,496
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 2,151,979</u>	<u>\$ 1,390,400</u>	<u>\$ 3,542,379</u>	<u>\$ 5,095,692</u>

The Notes to the Financial Statements are an integral part of this statement.

City of Sherman, Texas

Notes to the Financial Statements

Note 1. 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)

City of Sherman, Texas

Notes to the Financial Statements

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.

City of Sherman, Texas

Notes to the Financial Statements

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.

City of Sherman, Texas

Notes to the Financial Statements

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.

City of Sherman, Texas

Notes to the Financial Statements

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, donations, assessments, fees and fines.

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.

City of Sherman, Texas

Notes to the Financial Statements

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.

	2024 Tax Roll	2023 Tax Roll
Total assessed value	\$ 7,926,709,648	\$ 6,753,984,305
Less exemptions for:		
Individuals over 65/disabled	92,776,326	90,697,998
Community housing	-	4,254,805
Productivity valuations of open land space	295,612,597	219,669,855
Homestead cap exemption	391,829,663	300,532,863
Veterans exemption	57,209,660	45,047,270
Pollution control exemption	49,650,859	49,170,015
Freeport exemptions	160,756,942	138,752,880
Exempt	867,835,245	767,487,790
Abatement	220,116,531	219,705,138
Wind/solar power	1,097,456	494,088
Net assessed value	\$ 5,789,824,369	\$ 4,918,171,603
Tax rate (per \$100 valuation)	\$ 0.5080	\$ 0.4699

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."

City of Sherman, Texas

Notes to the Financial Statements

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.

City of Sherman, Texas

Notes to the Financial Statements

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 Postemployment 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.

City of Sherman, Texas

Notes to the Financial Statements

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.

City of Sherman, Texas

Notes to the 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.

City of Sherman, Texas

Notes to the Financial Statements

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.

City of Sherman, Texas

Notes to the Financial Statements

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. New Accounting Pronouncements

The City implemented the following standards during the fiscal year:

GASB Statement No. 100, Accounting Changes and Error Corrections (GASB 100), establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction). The requirements of this statement are effective for reporting periods beginning after June 15, 2023, with earlier application encouraged.

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

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 becomes effective for the City in fiscal year 2025, and the impact has not yet been determined.

GASB Statement No. 102, Certain Risk Disclosures. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement becomes effective for the City in fiscal year 2025, and the impact has not yet been determined.

GASB Statement No. 103, Financial Report Model Improvements. The objective of this Statement is to establish new accounting and financial reporting requirements – or modify existing requirements – related to the following:

- Management's discussion and analysis
- Unusual or infrequent items
- Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position
- Information about major component units in basic financial statements
- Budgetary comparison information
- Financial trends information in the statistical section

This Statement becomes effective for the City in fiscal year 2026, and the impact has not yet been determined.

GASB Statement No. 104, Disclosure of Certain Capital Assets. This Statement establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. It also establishes requirements for capital assets held for sale, including additional disclosures for those capital assets. This Statement becomes effective for the City in fiscal year 2026.

City of Sherman, Texas

Notes to the Financial Statements

Note 2. 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, Equipment Services, and Information Technology Funds have a deficit fund balance of \$408,159, \$200,516, \$563,967, \$352,472, and \$41,622, respectively. These deficits will be addressed as part of the development of the Fiscal Year 2024-2025 budget.

City of Sherman, Texas

Notes to the Financial Statements

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

	Primary Government	Component Unit
Petty cash	\$ 6,430	\$ -
Bank deposits:		
Demand accounts	11,334,637	7,178,171
Times accounts	3,000,000	9,000,000
Total cash and deposits	<u>\$ 14,341,067</u>	<u>\$ 16,178,171</u>

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, 2024, the City's deposit balance of \$14,341,067 and the Sherman Economic Development Corporation, a discretely presented component unit, balance of \$16,178,171 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, 2024:

Investment Type	Fair Value	Credit Rating	Weighted Average Maturity (Days)
Primary government:			
U.S. Treasury	\$ 9,611,173	AA+	563
Texas Subdivisions Municipal Obligations	7,750,718	A3 to AA+	500
U.S. Agencies	23,778,644	AA+	597
TexStar	3,833,279	AAAm	25
TexPool	49,687,894	AAAm	26
Common trust funds (corporate)	2,092,089	NR	
Total primary government	<u>96,753,797</u>		
Component Unit:			
TexPool	<u>11,198,773</u>	AAAm	26
Total component unit	<u>11,198,773</u>		
Total Value	<u><u>\$ 107,952,570</u></u>		

City of Sherman, Texas

Notes to the Financial Statements

The City has investments with two public funds investment pools as of September 30, 2024: 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, 2024, 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, 2024, the City was not exposed to foreign currency risk.

City of Sherman, Texas

Notes to the Financial Statements

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, 2024:

Investment Type	Fair Value 9/30/24	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U. S. Treasury	\$ 9,611,173	\$ 9,611,173	\$ -	\$ -
Texas subdivisions obligations	7,750,718	-	7,750,718	-
U. S. Agencies	23,778,644	-	23,778,644	-
Common trust funds	2,092,089	2,092,089	-	-
Total	\$ 43,232,624	\$ 11,703,262	\$ 31,529,362	\$ -

Each of the City's investments are categorized as Level 2, but the U.S. Treasury and perpetual care cemetery trust are 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.

City of Sherman, Texas
Notes to the Financial Statements

B. Receivables

Amounts recorded as receivable as of September 30, 2024, 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	\$ 107,912	\$ 29,515	\$ -	\$ 9,310	\$ 5,137	\$ -	\$ 3,642	\$ 155,516
Intergovernmental	66,430	-	-	-	-	-	150,115	216,545
Leases	-	-	-	502,170	-	-	49,584	551,754
Accounts	3,533,852	-	-	3,664,434	982,973	11,651	153,984	8,346,894
Unbilled accounts	-	-	-	1,544,598	139,952	-	-	1,684,550
Taxes	5,472,966	-	409,344	-	-	-	267,559	6,149,869
Gross receivables	9,181,160	29,515	409,344	5,720,512	1,128,062	11,651	624,884	17,105,128
Less: allowance for uncollectibles	(2,688,094)	-	(204,672)	(110,000)	(33,000)	-	(1,560)	(3,037,326)
Net total receivables	\$ 6,493,066	\$ 29,515	\$ 204,672	\$ 5,610,512	\$ 1,095,062	\$ 11,651	\$ 623,324	\$ 14,067,802

The Water and Sewer Fund and the Solid Waste Fund accounts receivable include unbilled charges for services rendered at September 30, 2024.

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 tax receivable	\$ 299,351	186,888	\$ 486,239
Court fines	114,113	-	114,113
Ambulance fees	436,552	-	436,552
Total governmental funds	\$ 850,016	\$ 186,888	\$ 1,036,904

City of Sherman, Texas
Notes to the Financial Statements

C. Capital Assets

Capital asset activity for the year ended September 30, 2024, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Reclassifications/ Transfers	Ending Balance
Governmental activities, excluding internal service funds:					
Capital assets not being depreciated/amortized:					
Land	\$ 8,063,853	\$ 1,332,794	\$ -	\$ -	\$ 9,396,647
Construction in progress	12,059,652	30,037,833	-	-	42,097,485
Total capital assets, not being depreciated/amortized	20,123,505	31,370,627	-	-	51,494,132
Capital assets, being depreciated/amortized:					
Buildings	31,704,023	309,187	-	-	32,013,210
Improvements other than buildings	136,569,071	16,089,728	(81,760)	-	152,577,039
Machinery and equipment	12,043,912	1,153,187	(1,118,308)	17,803	12,096,594
Other capital assets	1,406,832	-	-	-	1,406,832
SBITA	349,588	-	-	-	349,588
Total capital assets, being depreciated/amortized	182,073,426	17,552,102	(1,200,068)	17,803	198,443,263
Less accumulated depreciation/amortization:					
Buildings	(7,282,114)	(1,091,955)	-	-	(8,374,069)
Improvements other than buildings	(79,455,586)	(6,477,330)	81,760	-	(85,851,156)
Machinery and equipment	(7,784,878)	(836,866)	974,528	(17,803)	(7,665,019)
Other capital assets	(1,373,722)	(15,320)	-	-	(1,389,042)
SBITA	(80,144)	(125,280)	-	-	(205,424)
Total accumulated depreciation/amortization	(95,976,444)	(8,546,751)	1,056,288	(17,803)	(103,484,710)
Total capital assets, being depreciated/amortized, net	86,096,982	9,005,351	(143,780)	-	94,958,553
Governmental activities, excluding internal service funds, capital assets, net	\$ 106,220,487	\$ 40,375,978	\$ (143,780)	\$ -	\$ 146,452,685
Internal service funds:					
Capital assets not being depreciated/amortized:					
Land	\$ 55,250	\$ -	\$ -	\$ -	\$ 55,250
Construction in progress	-	-	-	-	-
Total capital assets, not being depreciated/amortized	55,250	-	-	-	55,250
Capital assets, being depreciated/amortized:					
Buildings	201,401	-	-	-	201,401
Improvements other than buildings	82,949	18,175	-	-	101,124
Machinery and equipment	31,811,356	5,206,697	(1,485,047)	24,128	35,557,134
Other capital assets	180,997	7,149	-	-	188,146
SBITA	247,794	-	-	-	247,794
Total capital assets, being depreciated/amortized	32,524,497	5,232,021	(1,485,047)	24,128	36,295,599
Less accumulated depreciation/amortization:					
Buildings	(159,931)	(7,314)	-	-	(167,245)
Improvements other than buildings	(17,258)	(6,150)	-	-	(23,408)
Machinery and equipment	(18,469,366)	(2,927,488)	1,476,710	(24,128)	(19,944,272)
Other capital assets	(131,681)	(12,493)	-	-	(144,174)
SBITA	(118,941)	(118,941)	-	-	(237,882)
Total accumulated depreciation/amortization	(18,897,177)	(3,072,386)	1,476,710	(24,128)	(20,516,981)
Total capital assets, being depreciated/amortized, net	13,627,320	2,159,635	(8,337)	-	15,778,618
Internal service fund capital assets, net	13,682,570	2,159,635	(8,337)	-	15,833,868
Governmental activities capital assets, net	\$ 119,903,057	\$ 42,535,613	\$ (152,117)	\$ -	\$ 162,286,553

City of Sherman, Texas

Notes to the Financial Statements

	Beginning Balance	Increases	Decreases	Reclassifications/ Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated/amortized:					
Land	\$ 2,928,321	\$ -	\$ -	\$ -	\$ 2,928,321
Water rights	6,400,892	-	-	-	6,400,892
Construction in progress	312,207	179,323	-	-	491,530
Total capital assets, not being depreciated/amortized	9,641,420	179,323	-	-	9,820,743
Capital assets, being depreciated/amortized:					
Buildings	4,419,040	65,116	-	-	4,484,156
Improvements other than buildings	68,393,549	7,545,956	-	-	75,939,505
Machinery and equipment	9,496,918	263,195	(539,923)	(41,931)	9,178,259
Other capital assets	163,979	-	-	-	163,979
SBITA	224,977	-	-	-	224,977
Total capital assets, being depreciated/amortized	82,698,463	7,874,267	(539,923)	(41,931)	89,990,876
Less accumulated depreciation/amortization:					
Buildings	(3,360,195)	(127,529)	-	-	(3,487,724)
Improvements other than buildings	(47,351,550)	(2,809,739)	-	-	(50,161,289)
Machinery and equipment	(7,473,740)	(387,716)	539,923	41,931	(7,279,602)
Other capital assets	(154,894)	(2,748)	-	-	(157,642)
SBITA	(49,992)	(74,992)	-	-	(124,984)
Total accumulated depreciation/amortization	(58,390,371)	(3,402,724)	539,923	41,931	(61,211,241)
Total capital assets, being depreciated/amortized, net	24,308,092	4,471,543	-	-	28,779,635
Business-type activities, capital assets, net	33,949,512	4,650,866	-	-	38,600,378
Total Primary Government	\$ 153,852,569	\$ 47,186,479	\$ (152,117)	\$ -	\$ 200,886,931
Component unit:					
Capital assets, not being depreciated/amortized:					
Land and improvements	\$ 7,202,427	\$ 70,742	\$ (421,948)	\$ -	\$ 6,851,221
Construction in progress	114,125	144,343	-	-	258,468
Total capital assets, not being depreciated/amortized	7,316,552	215,085	(421,948)	-	7,109,689
Capital assets, being depreciated/amortized:					
Equipment	18,490	-	-	-	18,490
Right-to-use - building	123,056	-	-	-	123,056
Accumulated depreciation	(37,435)	(42,579)	-	-	(80,014)
Total capital assets, being depreciated/amortized, net	104,111	(42,579)	-	-	61,532
Total component unit	\$ 7,420,663	\$ 172,506	\$ (421,948)	\$ -	\$ 7,171,221

City of Sherman, Texas

Notes to the Financial Statements

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

Governmental activities:	
General government	\$ 302,043
Public safety	1,548,602
Streets	5,799,789
Community services	896,317
Internal service funds	3,072,386
Total depreciation/amortization expense - governmental activities	\$ 11,619,137
Business-type activities:	
Water and sewer	\$ 3,257,645
Solid waste	145,079
Total depreciation/amortization expense - business-type activities	\$ 3,402,724

D. Long-term Debt

The following schedule summarizes the changes in long-term debt during the year ended September 30, 2024:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Certificates of obligation	\$ 158,665,000	\$ -	\$ 4,495,000	\$ 154,170,000	\$ 4,340,000
Premium	7,620,430	-	307,245	7,313,185	-
Total certificates of obligation	166,285,430	-	4,802,245	161,483,185	4,340,000
Bonds payable	5,205,000	-	880,000	4,325,000	905,000
Premium	381,700	-	54,528	327,172	-
Total bonds payable	5,586,700	-	934,528	4,652,172	905,000
Tax notes	5,010,000	3,725,000	1,735,000	7,000,000	1,735,000
Tax note premium	371,022	275,234	138,125	508,131	-
Notes payable	1,259,383	-	728,493	530,890	441,067
SBITA	327,279	-	225,199	102,080	102,080
Compensated absences	5,275,426	3,922,380	3,001,272	6,196,534	2,902,909
Net pension liability	21,735,546	-	5,322,080	16,413,466	-
Total OPEB liability - retiree health plan	4,614,974	-	47,432	4,567,542	532,183
Total OPEB liability - SDBF	1,130,247	50,710	-	1,180,957	-
Governmental activities long-term debt	\$ 211,596,007	\$ 7,973,324	\$ 16,934,374	\$ 202,634,957	\$ 10,958,239
Business-type activities:					
Other long-term debt	\$ 1,939,673	\$ -	\$ 136,440	\$ 1,803,233	\$ 140,515
SBITA	100,506	-	49,568	50,938	50,938
Compensated absences	397,588	504,031	470,624	430,995	430,995
Net pension liability	5,299,219	-	1,297,546	4,001,673	-
Total OPEB liability - retiree health plan	1,125,150	-	11,564	1,113,586	129,748
Total OPEB liability - SDBF	275,559	12,363	-	287,922	-
Business-type activities long-term debt	\$ 9,137,695	\$ 516,394	\$ 1,965,742	\$ 7,688,347	\$ 752,196
Component unit:					
Leases	\$ 103,004	\$ -	\$ 40,363	\$ 62,641	\$ 41,477
Net pension liability	308,985	-	75,657	233,328	-
Total OPEB liability - retiree health plan	65,605	-	674	64,931	7,565
Total OPEB liability - SDBF	16,067	721	-	16,788	-
Component unit	\$ 493,661	\$ 721	\$ 116,694	\$ 377,688	\$ 49,042

City of Sherman, Texas

Notes to the Financial Statements

Interest expense totaled \$6,589,259 and \$58,091 for governmental and business-type activities, respectively. No interest was capitalized during the year ended September 30, 2024.

Proceeds from the issuance of tax notes and related premium are recorded in the General Improvement Fund (\$468,426), for governmental capital projects, and in the Fleet Replacement Fund (\$3,256,574) for fleet purchases made on behalf of all funds.

Certificates of Obligation

Certificates of obligation are comprised of the following issues at September 30, 2024:

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.	\$ 4,785,000
\$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.	13,850,000
\$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.	2,840,000
\$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.	16,380,000
\$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.	16,725,000
\$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.	27,405,000
\$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.	72,185,000
Total governmental activities	\$ 154,170,000

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

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Totals
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	5,098,624	5,357,350	10,455,974
2030-2034	29,261,376	23,663,463	52,924,839
2035-2039	30,060,000	18,147,806	48,207,806
2040-2044	28,485,000	12,754,800	41,239,800
2045-2049	23,090,000	7,562,100	30,652,100
2050-2053	19,540,000	2,253,963	21,793,963
Total	\$ 154,170,000	\$ 93,371,034	\$ 247,541,034

City of Sherman, Texas
Notes to the Financial Statements

Bonds Payable

Bonds payable is comprised of the following issue at September 30, 2024:

\$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%.

\$ 4,325,000

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

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Totals
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	<u>\$ 4,325,000</u>	<u>\$ 496,100</u>	<u>\$ 4,821,100</u>

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.

The City issued \$3,725,000 of Limited Tax Notes, Series 2024. 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 2029. 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 Ended September 30,	Governmental Activities		
	Principal	Interest	Totals
2025	\$ 1,735,000	\$ 343,100	\$ 2,078,100
2026	1,815,000	259,750	2,074,750
2027	1,545,000	172,500	1,717,500
2028	1,220,000	95,250	1,315,250
2029	685,000	34,250	719,250
Total	<u>\$ 7,000,000</u>	<u>\$ 904,850</u>	<u>\$ 7,904,850</u>

City of Sherman, Texas

Notes to the Financial Statements

Notes Payable

The note payable is comprised of the following issue at September 30, 2024:

\$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%	\$	182,506
\$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%		265,702
\$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%		82,682
Total governmental activities	\$	530,890

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

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Totals
2025	\$ 441,067	\$ 8,779	\$ 449,846
2026	89,823	959	90,782
Total	\$ 530,890	\$ 9,738	\$ 540,628

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, 2024, are as follows:

Purpose of Lease	Interest Rate	Initial Year of SBITA	Amount of Initial Liability	Interest Current Year	Amounts Outstanding 9/30/2024	Amounts Due Within One Year
SBITA:						
Brightly	2.26%	2022	\$ 48,725	\$ 587	\$ 13,187	\$ 13,187
Civic Clerk	2.73%	2023	32,616	826	16,900	16,900
Headlight	2.73%	2023	39,333	996	20,187	20,187
Neo Gov	2.73%	2023	98,633	1,581	51,806	51,806
Total			\$ 219,307	\$ 3,990	\$ 102,080	\$ 102,080

City of Sherman, Texas
Notes to the Financial Statements

	Year Ended September 30,	Governmental Activities		
		Principal	Interest	Totals
	2025	\$ 102,080	\$ 2,758	\$ 104,838
Total		<u>\$ 102,080</u>	<u>\$ 2,758</u>	<u>\$ 104,838</u>

Purpose of Lease	Interest Rate	Initial Year of SBITA	Amount of Initial Liability	Interest Current Year	Amounts Outstanding 9/30/2024	Amounts Due Within One Year
SBITA: Rubicon	2.73%	2023	\$ 100,506	\$ 2,778	\$ 50,938	\$ 50,938
Total			<u>\$ 100,506</u>	<u>\$ 2,778</u>	<u>\$ 50,938</u>	<u>\$ 50,938</u>

	Year Ended September 30,	Business-type Activities		
		Principal	Interest	Totals
	2025	\$ 50,938	\$ 1,408	\$ 52,346
Total		<u>\$ 50,938</u>	<u>\$ 1,408</u>	<u>\$ 52,346</u>

Leases

A summary of lease payables as of September 30, 2024, are as follows:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Liability	Interest Current Year	Amounts Outstanding 9/30/2024	Amounts Due Within One Year
Lease: Right to use building	2.26%	2023	\$ 123,056	\$ 2,309	\$ 62,641	\$ 41,477
Total			<u>\$ 123,056</u>	<u>\$ 2,309</u>	<u>\$ 62,641</u>	<u>\$ 41,477</u>

	Year Ended September 30,	Component Unit		
		Principal	Interest	Totals
2025		\$ 41,477	\$ 1,195	\$ 42,672
2026		21,164	168	21,332
Total		<u>\$ 62,641</u>	<u>\$ 1,363</u>	<u>\$ 64,004</u>

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, 2024, is \$1,803,233.

City of Sherman, Texas

Notes to the Financial Statements

Debt service requirements at September 30, 2024, for the long-term payable through maturity are as follows:

Year Ended September 30,	Business-type Activities Texoma Water Rights Series 2006		
	Principal	Interest	Totals
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	158,123	36,408	194,531
2030-2034	864,568	108,089	972,657
2035	192,719	5,773	198,492
Total	\$ 1,803,233	\$ 340,572	\$ 2,143,805

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, 2024, 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 Out	Transfers In				Total
	General Fund	General Improvement	Debt Service	Water and Sewer	
General fund	\$ -	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
General improvements	50,516	-	-	-	50,516
Nonmajor governmental	59,000	2,900,000	1,075,000	200,000	4,234,000
Water and sewer	3,456,458	-	-	-	3,456,458
Solid waste	1,394,457	-	-	238,092	1,632,549
Internal service	45,040	-	-	-	45,040
Total	\$ 5,005,471	\$ 3,900,000	\$ 1,075,000	\$ 438,092	\$ 10,418,563

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 the Impact Fee funds, Stormwater Fund and the Hotel Tax Fund for debt service payments and capital projects; 3) transfer funds to the Hotel Tax Fund for various programs; 4) fund capital projects in the General Improvement Fund; 5) fund a right-of-way agent in the General Fund from the General Improvement Fund; 6) reimburse the Water and Sewer Fund for TIRZ projects; 7) reimburse the General Fund for a Municipal Court truancy clerk; and 8) reimburse the General Fund for debt service on Tax Notes for equipment purchased for other funds.

City of Sherman, Texas

Notes to the Financial Statements

Interfund balances at September 30, 2024 consisted of the following receivables and payables:

Due to Other Funds	Due from Other Funds		Total	Purpose
	Internal Service Fund	General Fund		
Nonmajor governmental	\$ 1,683,086	\$ 80,638	\$ 1,763,724	Pooled cash overdraft
Internal service	-	183,669	183,669	Pooled cash overdraft
Total	\$ 1,683,086	\$ 264,307	\$ 1,947,393	

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

Note 4. 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 predetermined 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, 2024, total City and employee contributions to the plan were \$6,835,145. Benefit payments, insurance premiums and administrative fees aggregated \$6,939,448. The cumulative net position was \$1,408,446 at September 30, 2024.

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 \$920. 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.

City of Sherman, Texas

Notes to the Financial Statements

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, 2024 and 2023:

	2024	2023
Amount of claims liability - October 1	\$ 473,126	\$ 523,049
Incurred claims	5,697,862	4,749,349
Payments on claims	(5,370,167)	(4,799,272)
Amount of claims liability - September 30 (due within one year)	\$ 800,821	\$ 473,126

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 post closure 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 \$1,144,839. 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, 2024, the City paid \$7,166,360 to GTUA in accordance with these contracts. Future payments under these contracts average approximately \$45,000,000 per year for the next 30 years.

City of Sherman, Texas

Notes to the Financial Statements

A summary of the remaining debt service as of September 30, 2024, is as follows:

Year Ended September 30,	Principal	Interest	Totals
2025	\$ 5,575,960	\$ 4,381,986	\$ 9,957,946
2026	5,707,440	22,172,859	27,880,299
2027	10,813,920	33,628,746	44,442,666
2028	16,180,400	33,224,468	49,404,868
2029	16,876,880	32,552,643	49,429,523
2030-2034	94,825,960	151,356,902	246,182,862
2035-2039	116,650,000	128,461,988	245,111,988
2040-2044	138,025,000	99,688,747	237,713,747
2045-2049	172,120,000	64,443,781	236,563,781
2050-2054	180,745,000	21,454,225	202,199,225
Total	\$ 757,520,560	\$ 591,366,345	\$ 1,348,886,905

Following is an excerpt from the audited financial statements of GTUA, reflecting the balances as of and for the year ended September 30, 2024. 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.

Comparative Schedule of Revenues and Expenses:

	2024	2023
Operating Revenues		
Charges for services	\$ 7,067,922	\$ 6,613,728
Total operating revenues	7,067,922	6,613,728
Operating expenses		
General and administrative	545,763	301,781
Maintenance and repair	223,438	207,692
Depreciation	5,139,945	4,796,166
Total operating expenses	5,909,146	5,305,639
Operating income (loss)	1,158,776	1,308,089
Nonoperating revenue (expenses)	(2,442,598)	(4,167,744)
Change in net position	\$ (1,283,822)	\$ (2,859,655)

City of Sherman, Texas
Notes to the Financial Statements

Schedule of Net Position:

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,165,517	\$ 1,476,077
Interest receivable	8,904,065	4,200,952
Due from other governments	11,071	52,861
Due from other funds	1,437,489	298,846
Restricted assets:		
Cash and cash equivalents	128,133,850	136,692,750
Temporary investments	301,139,845	233,297,070
Total current assets	449,791,837	376,018,556
Noncurrent assets:		
Cash and cash equivalents	10,448	5,531,848
Temporary investments	2,332,000	45,586,839
Capital assets (net)	316,118,012	101,640,625
Total noncurrent assets	318,460,460	152,759,312
Total assets	768,252,297	528,777,868
Deferred Outflows of Resources		
Deferred loss on refunding	168,170	184,785
Liabilities		
Current liabilities:		
Accounts payable	38,957,942	6,994,332
Retainage payable	8,926,881	834,892
Accrued interest payable	15,677,455	6,330,315
Revenue bonds payable	5,195,000	5,075,000
Total current liabilities	68,757,278	19,234,539
Long-term liabilities:		
Revenue bonds payable	694,532,593	503,313,696
Total liabilities	763,289,871	522,548,235
Net position		
Net investment in capital assets	279,461	1,184,149
Restricted - debt service	10,448	5,531,848
Unrestricted	4,840,687	(301,579)
Total net position	\$ 5,130,596	\$ 6,414,418

City of Sherman, Texas

Notes to the Financial Statements

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, 2024:

	General	General Improvement	Nonmajor Governmental
General government	\$ 12,254,039	\$ -	\$ -
Public safety	3,092,977	-	1,300
Streets	81,279	-	-
Community services	643,917	-	-
General improvements	-	4,212,579	-
Total	\$ 16,072,212	\$ 4,212,579	\$ 1,300

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 \$50,000 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 2024 under these agreements were \$717,117. Potential payments for these agreements are estimated at \$7,553,734 for the fiscal year ending September 30, 2025.

City of Sherman, Texas

Notes to the Financial Statements

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, the Northgate Drive extension and other road projects in the industrial park. During the year ended September 30, 2024, SEDCO paid \$1,236,537 to the City of Sherman in accordance with these contracts. Future payments under this contract average \$819,648 over the next 29 years. A summary of the remaining debt service as of September 30, 2024, is as follows:

Year Ended September 30,	Principal	Interest	Totals
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	499,016	553,512	1,052,528
2030-2034	2,602,160	2,438,804	5,040,964
2035-2039	1,648,121	1,893,723	3,541,844
2040-2044	1,865,267	1,476,582	3,341,849
2045-2049	2,381,177	961,268	3,342,445
2050-2053	2,369,961	303,483	2,673,444
Total	\$ 13,708,663	\$ 10,061,119	\$ 23,769,782

Construction Commitments

The City has active construction projects as of September 30, 2024. The projects include new street design and construction in developing areas, drainage improvements, park facilities and improvements, consolidation of Fire Stations No. 1 and 2 and city hall design and renovation. At year end, the City's commitments with contractors are as follows:

	Spent-to-Date	Remaining Commitment
Drainage improvements	\$ -	\$ 500,000
New street design and construction	122,259	232,430
Construction of new or remodeled city building facilities	5,051,047	7,055,133
Park facilities	846,641	1,465,052
Grand total	\$ 6,019,947	\$ 9,252,615

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.

City of Sherman, Texas

Notes to the Financial Statements

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, 2024, the City abated property taxes of \$1,118,193 or 0.24% of the \$470,284,408 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 2024 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 2024 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.

City of Sherman, Texas

Notes to the Financial Statements

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 2024.

Tax Abatement Program	Purpose	Recapture Provisions	Tax Revenue for Fiscal Year 2023
Industrial and Commerical Reinvestment Incentives:			
Panda Sherman Power, LLC	Development and construction of electric generation facility	None	\$ 668,121
Texas Instruments	Warehousing equipment	None	24,165
Finisar Sherman RE HOLDCO LLC	Building and facility improvements, equipment and machinery	None	387,132
West Moore Solar II LLC	Building and facility improvements, equipment and machinery	None	16,196
Total Industrial and Commerical Reinvestment Incentives			1,095,614
Economic Development Agreements Chapter 380 Incentives:			
Riverside (East) Homebuilders, Ltd.	Building and facility improvements, equipment and machinery	None	23
Broadstone Net Lease, LLC	Building and facility improvements, equipment and machinery	None	2,032
Super Shack LLC	Building and facility improvements, equipment and machinery	None	4,153
58 Aggie Development LLC	Building and facility improvements, equipment and machinery	None	48,908
Various	Main Street Rebate Program	None	120,813
Total Economic Development Agreements Chapter 380 Incentives			175,929
Residential Tax Abatement Program	Residential development and redevelopment in low to moderate income locations	None	22,578
Total Tax Abatements			\$ 1,294,121

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.

City of Sherman, Texas

Notes to the Financial Statements

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

F. 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.

G. 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	\$ 8,521,320	\$ 2,077,534	\$ 10,598,854	\$ 121,136
OPEB - Retiree health plan	531,262	129,524	660,786	7,552
OPEB - TMRS supplemental death benefit	208,271	50,778	259,049	2,961
Total OPEB deferred outflows	739,533	180,302	919,835	10,513
Total deferred outflows	9,260,853	2,257,836	11,518,689	131,649
Net pension liability	16,413,466	4,001,673	20,415,139	233,328
Total OPEB liability:				
OPEB - Retiree health plan	4,567,542	1,113,586	5,681,128	64,931
OPEB - TMRS supplemental death benefit	1,180,957	287,922	1,468,879	16,788
Total OPEB liability	5,748,499	1,401,508	7,150,007	81,719
Deferred inflows:				
Net pension	678,406	165,399	843,805	9,644
OPEB - Retiree health plan	1,772,017	432,025	2,204,042	25,190
OPEB - TMRS supplemental death benefit	471,759	115,017	586,776	6,706
Total OPEB deferred outflows	2,243,776	547,042	2,790,818	31,896
Total deferred inflows	2,922,182	712,441	3,634,623	41,540
Pension expense	3,685,758	898,603	4,584,361	52,396
OPEB expense:				
OPEB - Retiree health plan	75,757	18,470	94,227	1,077
OPEB - TMRS supplemental death benefit	28,203	6,877	35,080	401
Total OPEB expense	\$ 103,960	\$ 25,347	\$ 129,307	\$ 1,478

City of Sherman, Texas

Notes to the Financial Statements

H. 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 Annual Comprehensive 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 2023	Plan Year 2022
Employee deposit rate	7.00%	7.00%
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

City of Sherman, Texas

Notes to the Financial Statements

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit:	378
Inactive employees entitled to but not yet receiving benefits	283
Active employees	516
Total	1,177

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 14.09% and 13.69% in calendar years 2024 and 2023, respectively. The City and the Component Unit's contributions to TMRS for the year ended September 30, 2024, were \$5,595,392, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2023, 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, 2023 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 110% of the Public Safety table used for males and 100% of 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are 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 the most recent Scale MP2021 to account for future mortality improvements subject to the 3% floor.

City of Sherman, Texas

Notes to the Financial Statements

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, 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 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 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Global equity	35.0%	6.7%
Core fixed income	6.0%	4.7%
Non-core fixed income	20.0%	8.0%
Other public and private markets	12.0%	8.0%
Real estate	12.0%	7.6%
Hedge funds	5.0%	6.4%
Private equity	10.0%	11.6%
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.

City of Sherman, Texas
Notes to the Financial Statements

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2022	\$ 177,296,937	\$ 149,953,187	\$ 27,343,750
Changes for the year:			
Service cost	5,887,123	-	5,887,123
Interest (on the total pension liability)	11,860,725	-	11,860,725
Difference between expected and actual experience	1,165,662	-	1,165,662
Change in assumptions	(830,792)	-	(830,792)
Contributions - employer	-	5,002,771	(5,002,771)
Contributions - employee	-	2,558,030	(2,558,030)
Net investment income	-	17,328,382	(17,328,382)
Benefit payments, including refunds of employee contributions	(9,052,113)	(9,052,113)	-
Administrative expense	-	(110,411)	110,411
Other	-	(771)	771
Net changes	9,030,605	15,725,888	(6,695,283)
Balance at December 31, 2023	\$ 186,327,542	\$ 165,679,075	\$ 20,648,467
City	\$ 184,222,037	\$ 163,806,898	\$ 20,415,139
Component Unit	2,105,505	1,872,177	233,328
	\$ 186,327,542	\$ 165,679,075	\$ 20,648,467

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)	\$ 45,413,749	\$ 20,648,467	\$ 191,564
City	\$ 44,900,573	\$ 20,415,139	\$ 189,399
Component Unit	513,176	233,328	2,165
	\$ 45,413,749	\$ 20,648,467	\$ 191,564

City of Sherman, Texas
Notes to the Financial Statements

Pension Plan Fiduciary Net Position

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

At September 30, 2024, 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
Differences between expected and actual experience	\$ 2,293,479	\$ 206,573
Changes in actuarial assumptions	-	637,232
Difference between projected and actual investment earnings	4,052,421	-
Contributions subsequent to the measurement date	4,252,954	-
Totals	\$ 10,598,854	\$ 843,805

At September 30, 2024, 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
Differences between expected and actual experience	\$ 26,212	\$ 2,361
Changes in actuarial assumptions	-	7,283
Difference between projected and actual investment earnings	46,316	-
Contributions subsequent to the measurement date	48,608	-
Totals	\$ 121,136	\$ 9,644

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date in the amount of \$4,252,954 will be recognized as a reduction of the NPL for the year ended September 30, 2025 for the City.

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date in the amount of \$48,608 will be recognized as a reduction of the NPL for the year ended September 30, 2025 for the Component Unit.

City of Sherman, Texas

Notes to the Financial Statements

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

For the year ended September 30, 2024, the City recognized pension expense of \$4,584,361 and \$52,396 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 Ending September 30,	Pension Expense
2025	\$ 1,591,764
2026	1,939,562
2027	3,361,642
2028	(1,390,873)
Totals	\$ 5,502,095

Component Unit	
Year Ending September 30,	Pension Expense
2025	\$ 18,193
2026	22,168
2027	38,421
2027	(15,898)
Totals	\$ 62,884

I. Other Postemployment Benefits

Plan Description. The City, through its substantive commitment to provide other postemployment 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 and Component Unit's contributions to the OPEB for the year ended September 30, 2024 were \$568,368, 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

City of Sherman, Texas

Notes to the Financial Statements

Actuarial Methods and Assumptions

Significant methods and assumptions were as follows:

Salary increases	3.60% to 11.85%, including inflation
Demographic assumptions	Based on the experience study covering the four-year period ending December 31, 2022 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, with male rates multiplied by 103% and female rates multiplied by 105%. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP-2021 table 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 the age of 50 or after the age of 65.
Discount rate	The discount rate changed from 4.05% as of December 31, 2022 to 3.77% as of December 31, 2023. Additionally, the demographic and salary increase assumptions were updated to reflect the 2023 TMRS Experience Study.

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 \$5,746,059 was measured as of December 31, 2023 and was determined by an actuarial valuation as of December 31, 2022.

Balance at December 31, 2022	\$ 5,805,729
Changes for the year:	
Service cost	231,277
Interest on the total liability	227,941
Difference between expected and actual experience	188,069
Changes in assumptions or other inputs	(120,589)
Benefit payments	(586,368)
Net changes	(59,670)
Balance at December 31, 2023	\$ 5,746,059
City	\$ 5,681,128
Component Unit	64,931
	\$ 5,746,059

City of Sherman, Texas

Notes to the Financial Statements

Changes of assumptions reflect a change in the discount rate from 4.05% as of December 31, 2022 to 3.77% as of December 31, 2023, 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 (3.77%) in measuring the total OPEB liability.

	1% Decrease in Discount Rate (2.77%)	Discount Rate (3.77%)	1% Increase in Discount Rate (4.77%)
Total OPEB liability	\$ 6,284,466	\$ 5,746,059	\$ 5,274,633
City	\$ 6,213,451	\$ 5,681,128	\$ 5,215,030
Component Unit	71,015	64,931	59,603
	<u>\$ 6,284,466</u>	<u>\$ 5,746,059</u>	<u>\$ 5,274,633</u>

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	\$ 5,165,270	\$ 5,746,059	\$ 6,432,007
City	\$ 5,106,902	\$ 5,681,128	\$ 6,359,325
Component Unit	58,368	64,931	72,682
	<u>\$ 5,165,270</u>	<u>\$ 5,746,059</u>	<u>\$ 6,432,007</u>

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended September 30, 2024, the City recognized OPEB expense of \$94,227 and \$1,077 for the Component Unit.

At September 30, 2024, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 239,774	\$ 1,016,039
Changes in actuarial assumptions and other inputs	184,078	1,188,003
Contributions made subsequent to the measurement date	236,934	-
Totals	<u>\$ 660,786</u>	<u>\$ 2,204,042</u>

City of Sherman, Texas

Notes to the Financial Statements

At September 30, 2024, the Component Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,740	\$ 11,612
Changes in actuarial assumptions and other inputs	2,104	13,578
Contributions subsequent to the measurement date	2,708	-
Total	\$ 7,552	\$ 25,190

\$236,934 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, 2025.

\$2,708 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, 2025.

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

City	
Year Ending September 30,	
2025	\$ (359,804)
2026	(365,832)
2027	(280,776)
2028	(243,893)
2029	(230,067)
Thereafter	(299,818)
Totals	\$ (1,780,190)

Component Unit	
Year Ending September 30,	
2025	\$ (4,112)
2026	(4,181)
2027	(3,209)
2028	(2,788)
2029	(2,629)
Thereafter	(3,427)
Totals	\$ (20,346)

City of Sherman, Texas

Notes to the Financial Statements

J. Defined Other Postemployment 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 currently receiving benefits	259
Inactive employees entitled to but not yet receiving benefits	51
Active employees	516
Total	826

Contributions. The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.33% for 2024 and 0.35% for 2023, of which 0.15% and 0.17% represented the retiree-only portion for each year, respectively, 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, 2024 and 2023 were \$61,861 and \$59,003, 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 \$1,485,667 was measured as of December 31, 2023 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	2.5% per annum
Discount rate	3.77%
Actuarial cost method	Entry age normal
Projected salary increases	3.60% to 11.85% including inflation

City of Sherman, Texas

Notes to the Financial Statements

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 103% and female rates multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, 2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females were used. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

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 3.77% 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, 2023.

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 (3.77%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (2.77%)	Discount Rate (3.77%)	1% Increase in Discount Rate (4.77%)
Total OPEB liability	\$ 1,758,722	\$ 1,485,667	\$ 1,269,850
City	\$ 1,738,848	\$ 1,468,879	\$ 1,255,501
Component Unit	19,874	16,788	14,349
	<u>\$ 1,758,722</u>	<u>\$ 1,485,667</u>	<u>\$ 1,269,850</u>

City of Sherman, Texas
Notes to the Financial Statements

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2022	\$ 1,421,873
Changes for the year:	
Service cost	47,506
Interest	57,290
Difference between expected and actual experience	(48,818)
Changes of assumptions and other inputs	69,940
Benefit payments	(62,124)
Net changes	63,794
Balance at December 31, 2023	\$ 1,485,667
City	\$ 1,468,879
Component Unit	16,788
	\$ 1,485,667

Changes in assumptions and other inputs reflect a change in the discount rate from 4.05% to 3.77%.

OPEB Expense and Deferred Outflows of Resources Related to OPEB. For the year ended September 30, 2024, the City recognized OPEB expense of \$35,080 and \$401 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, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 138,796
Changes in actuarial assumptions and other inputs	213,772	447,980
Contributions made subsequent to the measurement date	45,277	-
Totals	\$ 259,049	\$ 586,776

City of Sherman, Texas

Notes to the Financial Statements

At September 30, 2024, the Component Unit reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,586
Changes in actuarial assumptions and other inputs	2,444	5,120
Contributions made subsequent to the measurement date	517	-
Totals	\$ 2,961	\$ 6,706

\$45,277 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, 2025 for the City.

\$517 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, 2025 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		
Year Ending September 30,		
2025	\$	(88,339)
2026		(79,400)
2027		(98,485)
2028		(109,548)
2029		2,263
Thereafter		505
Totals	\$	(373,004)

Component Unit		
Year Ending September 30,		
2025	\$	(1,010)
2026		(907)
2027		(1,126)
2028		(1,252)
2029		26
Thereafter		7
Totals	\$	(4,262)

City of Sherman, Texas

Notes to the Financial Statements

K. Related Party Transactions

The City had three council members that had transactions with the City through their personal businesses. The three council members had transactions totaling \$5,361, \$45,742 and \$12,050. Two employees had transactions with the City through their personal businesses, totaling \$47,460 and \$7,550. All three council members disclosed the financial relationship with the City on their conflict-of-interest questionnaires.

L. Subsequent events

The City has evaluated all events or transactions that occurred after September 30, 2024, and through February 25, 2025, the date the financial statements were issued. On October 31, 2024, the City issued \$19,735,000 of Combination Tax and Revenue Certificates of Obligation, Series 2024. On January 16, 2025, the City issued \$6,810,000 of Limited Tax Notes, Series 2025.

APPENDIX D

Form of Bond Counsel's Opinion

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IN REGARD to the authorization and issuance of the “City of Sherman, Texas, Limited Tax Notes, Series 2026,” dated January 15, 2026, in the principal amount of \$4,045,000 (the “Notes”), 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 Notes and the exclusion of the interest on the Notes 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 Notes, or the sufficiency of the security for or the value or marketability of the Notes.

THE NOTES are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Notes 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 Notes (the “Ordinance”), without right of prior redemption. The Notes accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

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

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

1. The Notes 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, except to the extent that the enforceability thereof may be affected by

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bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Notes 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 Notes. Ownership of tax-exempt obligations such as the Notes may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, 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, 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.

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