**OFFICIAL STATEMENT**

**Dated June 6, 2022**

**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.

**$2,100,000**
**CITY OF SHERMAN, TEXAS**
***(A political subdivision of the State of Texas located in Grayson County)***
**LIMITED TAX NOTES, SERIES 2022**

**Dated Date: July 6, 2022** **Due: August 15, as shown on page 2**
**Interest to accrue from the Date of Initial Delivery (defined below)**

**PAYMENT TERMS** . . . Interest on the $2,100,000 City of Sherman, Texas, Limited Tax Notes, Series 2022 (the "Notes") will accrue from the Date of Initial Delivery (defined below) and will be payable on August 15 and February 15 of each year commencing August 15, 2022, 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 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 June 6, 2022, the date of sale of the Notes (the "Ordinance"). The Notes constitute direct obligations of the City, secured by a continuing 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 the (i) purchase of equipment for various City facilities; (ii) purchase of City fleet vehicles; (iii) constructing, improving, renovating, and equipping various City trails, facilities, buildings and departments; and (iv) payment of professional services in connection therewith including legal, fiscal fees and the costs of issuing the Notes.

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**CUSIP PREFIX: 824161**
**MATURITY SCHEDULE**
**See Page 2 Hereof**

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**REDEMPTION** . . . The Notes are **not** subject to optional redemption prior to their stated maturities (see "THE NOTES – Optional Redemption").

**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 July 6, 2022 (the "Date of Initial Delivery").

**MATURITY SCHEDULE**

| 8/15 Maturity | Principal Amount | Rate | Initial Yield | CUSIP Numbers[(1)] |
|---|---|---|---|---|
| 2022 | $ 385,000 | 5.000% | 1.350% | 824161UA9 |
| 2023 | 310,000 | 5.000% | 1.650% | 824161UB7 |
| 2024 | 325,000 | 5.000% | 1.950% | 824161UC5 |
| 2025 | 340,000 | 5.000% | 2.050% | 824161UD3 |
| 2026 | 360,000 | 5.000% | 2.110% | 824161UE1 |
| 2027 | 380,000 | 5.000% | 2.190% | 824161UF8 |

**(Interest Accrues from the Date of Initial Delivery)**

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(1) CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the City, the Financial Advisor, the Purchaser or their agents or counsel assume responsibility for the accuracy of such numbers.

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

*THE 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.*

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**APPENDICES**



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

## OFFICIAL STATEMENT SUMMARY

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

| | |
|---|---|
| **THE CITY** | The City of Sherman, Texas (the "City") is a political subdivision located in Grayson County and is a political subdivision of the State of Texas. It is a home-rule city, and as such it operates under a City Charter. Voters approved the first charter on November 6, 1915. The City operates under the City Council/Manager form of government. The Mayor and six Council Members formulate the operating policy of the government, and the City Manager serves as the chief administrative officer (see "INTRODUCTION – Description of the City"). |
| **THE NOTES** | The Notes are issued as $2,100,000 Limited Tax Notes, Series 2022. The Notes are issued as serial Notes maturing on August 15 in the years 2022 through and including 2027 (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 on August 15, 2022, and each February 15 and August 15 thereafter until maturity (see "THE NOTES – Description of the Notes" and "THE NOTES – 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 June 6, 2022, 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 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." |
| **REDEMPTION** | **The Notes are not subject to optional redemption prior to their stated maturities** (see "THE NOTES – 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. 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 the (i) purchase of equipment for various City facilities; (ii) purchase of City fleet vehicles; (iii) constructing, improving, renovating, and equipping various City trails, facilities, buildings and departments; and (iv) payment of professional services in connection therewith including legal, fiscal fees and the 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 | Occupation |
|---|---|---|
| David Plyler<br>Mayor | 2024 | President, Plyler Construction |
| Pamela L. Howeth<br>Deputy Mayor, District #3 | 2022 | Retired |
| Justin Dobbs<br>Councilmember, Place #1 | 2024 | Financial Advisor, Dobbs Wealth Management |
| Shawn C. Teamann<br>Councilmember, District #1 | 2022 | Owner, Nautilus Sports and Fitness Center |
| Josh Stevenson<br>Councilmember, District #2 | 2023 | Sales/Inspector for Eric L. Davis Engineering, Inc., Grayson County |
| Henry Marroquin<br>Councilmember, Place #2 | 2024 | Owner, H&R Construction |
| Daron Holland<br>Councilmember, District #4 | 2023 | Owner, Holland Logos |

### CITY OFFICIALS

| Name | Position |
|---|---|
| Robby Hefton, CPM | City Manager |
| Clint Philpott, PE | Assistant City Manager |
| Terrence Steele, CPM | Assistant City Manager |
| Mary Lawrence, CPA | Director of Finance |
| Linda Ashby | City Clerk |

### CONSULTANTS AND ADVISORS

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

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

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

For additional information regarding the City, please contact:

| | | |
|---|---|---|
| Mary Lawrence, CPA<br>Director of Finance<br>City of Sherman<br>220 West Mulberry Street<br>Sherman, Texas 75090<br>(903) 892-7205<br>(903) 892-9394 Fax | or | Garry Kimball<br>Managing Director<br>Specialized Public Finance Inc.<br>248 Addie Roy Road, Suite B-103<br>Austin, Texas 78746<br>(512) 275-7300<br>(512) 275-7305 Fax |

**OFFICIAL STATEMENT**
**RELATING TO**

**$2,100,000**
**CITY OF SHERMAN, TEXAS**
**LIMITED TAX NOTES, SERIES 2022**

## INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the $2,100,000 City of Sherman, Texas, Limited Tax Notes, Series 2022 (the "Notes"). The Notes are being issued pursuant to an ordinance approved by the City Council of the City of Sherman, Texas (the "City") on June 6, 2022 (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 2005. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

**DESCRIPTION OF THE CITY** . . . The City of Sherman, Texas (the "City") is a political subdivision located in Grayson County and is a political subdivision of the State of Texas (the "State"). It is a home-rule city, and as such it operates under a City Charter. Voters approved the first charter on November 6, 1915. The City operates under the City Council/Manager form of government. The Mayor and six Council Members formulate the operating policy of the government, and the City Manager serves as the chief administrative officer. The City's estimated 2022 population is 43,645.

## INFECTIOUS DISEASE OUTBREAK – COVID-19

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings and other activities.

Over the ensuing year, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within the U.S., the State and the City. Following the widespread release and distribution of various COVID-19 vaccines beginning in December 2020 and a decrease in active COVID-19 cases generally in the United States, state governments (including the State) began lifting business and social limitations associated with COVID-19. Under executive orders in effect as of the date of this Official Statement, there are no State-imposed COVID-19 related operating limits for any business or other establishment in the State and no State-imposed requirement to wear a face covering. The Governor retains the right to impose future restrictions on activities if needed in order to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

With the easing or removal of associated governmental restrictions and the widespread availability of vaccines, economic activity has increased. However, there are no assurances that economic activity will continue or increase at the same rate, especially if there are future outbreaks of COVID-19 or variants of COVID-19. The COVID-19 pandemic may result in lasting changes in some businesses and social practices, which could affect business activity and limit the growth of or reduce the City's ad valorem and sales tax collections, as well as reduce the collection of taxes, charges and fees within the City. In addition, further or extended reductions in the value of stocks and other investments could impact employee retirement plans or other funds and could require actions by the State. See "AD VALOREM PROPERTY TAXATION – Employment Benefit Plans." The City cannot predict the long-term economic effect of COVID-19 or the effect of any future outbreak of COVID-19, or variants of COVID-19, or a similar virus on the City's operations or financial condition.

Some of the financial and operating data contained herein are as of dates and for periods prior to the economic impact of COVID-19 and measures instituted to slow it. Accordingly, such information is not necessarily indicative of the current financial condition or future prospects of the City. The City continues to monitor the spread of COVID-19 and is working with local, State, and national agencies to address the potential impact of the COVID-19 pandemic upon the City. While the extent of the impact of

COVID-19 on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition, and the effect could be material.

## THE NOTES

**DESCRIPTION OF THE NOTES** . . . The Notes are dated July 6, 2022 (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 August 15 and February 15 of each year, commencing August 15, 2022 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 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, and the Ordinance.

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

**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.

**OPTIONAL REDEMPTION** . . . **The Notes are not subject to optional redemption prior to their stated maturities.**

**DEFEASANCE** . . . The Ordinance provide 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 provide 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 do 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.

**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 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 the (i) purchase of equipment for various City facilities; (ii) purchase of City fleet vehicles; (iii) constructing, improving, renovating, and equipping various City trails, facilities, buildings and departments; and (iv) payment of professional services in connection therewith including legal, fiscal fees and the costs of issuing the Notes.

**SOURCES AND USES OF PROCEEDS** . . . The proceeds from the sale of the Notes are expected to be applied as follows:

| | |
|---|---|
| Sources: | |
| Principal | $ 2,100,000.00 |
| Reoffering Premium | 155,331.55 |
| Total Sources | $ 2,255,331.55 |
| | |
| Uses: | |
| Deposit to Project Fund | $ 2,199,141.55 |
| Underwriter's Discount | 10,298.00 |
| Costs of Issuance | 45,892.00 |
| Total Uses | $ 2,255,331.55 |

## 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").

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

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

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

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

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within

175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

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

**OTHER EXEMPT PROPERTY** . . . Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

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

**TAX ABATEMENT AGREEMENTS** . . . Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" herein.

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount," as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at $52.978 million for the 2022 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

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

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

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

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

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS** . . . The following terms as used in this section have the meanings provided below:

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

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

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

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

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

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

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

A city must annually calculate its voter-approval tax rate and no-new-revenue tax rate in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

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

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

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

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

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

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

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

**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.

**CITY APPLICATION OF PROPERTY TAX CODE** . . . The City does not grant 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 not 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 2021/2022 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, 2021."

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, 2021."

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 a debt instrument (excluding voted general obligation bonds, bonds issued to refund general obligation bonds, and revenue bonds) may not exceed one percent (1%) of the value of the property within the city that is subject to ad valorem taxes at the time of issuance (see "THE NOTES – Tax Rate Limitation").

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS** . . . None

**ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT** . . . The City does not anticipate issuing 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, 2021," Note IV.E, 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, 2021," Note IV.E, Deferred Compensation Plan.

Health Insurance Plan. The City contracts with an insurance carrier to administer a self-insured health insurance plan. For more information see "APPENDIX C – Excerpts from the City's Annual Financial Report, September 30, 2021," 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, 2021," 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 and subject to certain limitations, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized U.S. government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

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

Except as stated above or inconsistent with its investment policy, the 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 opinions 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 opinions (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. Form of Bond Counsel's Opinion are reproduced as APPENDIX D. The statutes, regulations, rulings, and court decisions on which such opinions are based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the 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 contain 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 opinions are not a guarantee of a result, but represent 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 opinions of Bond Counsel, and Bond Counsel's opinions are 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, 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.

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, 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 (or, in some cases with respect to a callable Note, the yield based on a call date that results in the lowest yield on the Note).

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 2022. The City may provide the Financial Statements earlier, including at the time it provides its Annual Financial Information, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

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

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

**NOTICE OF CERTAIN EVENTS** . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the 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 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 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 Comprehensive Annual Financial Report ("Annual Report"), 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 Annual Reports.

## OTHER INFORMATION

**RATINGS** . . . 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.

**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 is 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 is 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 and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the 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 SAMCO Capital Markets, Inc. (the "Purchaser") to purchase the Notes at the interest rates shown on page 2 hereof at a price of approximately 106.906% 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 approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized 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, 2021, 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 was 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.

David Plyler
Mayor
City of Sherman, Texas

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# APPENDIX A

## Financial Information of the City

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| **ASSESSED VALUATION** | | | | **TABLE 1** |
|---|---|---|---|---|
| 2021 Actual Market Value of Taxable Property | | | $ | 5,245,031,633 |
| Less Exemptions: | | | | |
| Local Over-65/Disabled | $ | 90,751,051 | | |
| Abatement | | 242,080,397 | | |
| Charitable | | 3,717,005 | | |
| Pollution Control Exemption Loss | | 43,005,842 | | |
| Veterans Exemption Loss | | 37,932,176 | | |
| Freeport Exemption/Miscellaneous | | 107,184,485 | | |
| Other | | 541,341 | | |
| Exempt Property | | 595,870,394 | | |
| | $ | 1,121,082,691 | | |
| 2021 Net Taxable Assessed Valuation (100% of Actual)[1] | | | $ | 4,123,948,942 |

_______________

*(1) Source information provided by the Grayson Central Appraisal District, 2021 Certified Totals. Amounts include estimated taxable value of properties under Appraisal Review Board review.*

| **GENERAL OBLIGATION BONDED DEBT (includes self-supporting debt)** | | **TABLE 2** |
|---|---|---|
| **General Obligation Debt Principal Outstanding (as of May 1, 2022):** | | |
| Combination Tax & Tax Increment Revenue Certificates of Obligation, Series 2004[1] | $ | 470,000 |
| Tax & Waterworks & Sewer System (Limited Pledge) Rev. Certificates of Obligation, Series 2016[1] | | 5,775,000 |
| Combination Tax & Revenue Certificates of Obligation, Series 2017[1] | | 16,135,000 |
| General Obligation Refunding Bonds, Series 2017[1] | | 6,895,000 |
| Tax & Municipal Drainage Utility System Rev. Certificates of Obligation, Series 2017A[1] | | 3,330,000 |
| Combination Tax & Revenue Certificates of Obligation, Series 2018[1] | | 18,015,000 |
| Combination Tax & Revenue Certificates of Obligation, Series 2019[1] | | 18,240,000 |
| Combination Tax & Revenue Certificates of Obligation, Series 2021[1] | | 29,025,000 |
| Limited Tax Notes, Series 2021[1] | | 1,630,000 |
| The Notes, Series 2022[1] | | 2,100,000 |
| Total Gross General Obligation Debt Outstanding | $ | 101,615,000 |
| General Obligation Interest & Sinking Fund Balance - 5/1/22[1] | $ | 5,288,417 |
| Net General Obligation Debt Outstanding | $ | 96,326,583 |
| Ratio of Net General Obligation Debt to 2021 Net Taxable Assessed Valuation | | 2.34% |

| | | |
|---|---|---|
| 2022 Population Estimate - | | 43,645 |
| Per Capita 2022 Net Taxable Assessed Valuation - | $ | 94,488 |
| Per Capita 2022 Net General Obligation Debt - | $ | 2,207 |

_______________

*(1) The 2004 Certificates have been paid from tax increment revenues. For the year ended September 30, 2021, the City collections in tax increment revenue exceed the projected maximum annual debt service. The Series 2016, 2017, 2018, 2019 and 2021 Certificates of Obligation and the 2017 Refunding Bonds are secured by ad valorem taxes and a pledge of water and sewer revenues 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 30-Sep | Outstanding Debt Service Principal | Interest | Total | Plus: The Notes[1] Principal | Interest | Total | Total Combined Debt Service |
|---|---|---|---|---|---|---|---|
| 2022 | $ 3,950,000 | $ 3,537,711 | $ 7,487,711 | $ 385,000 | $ 11,375 | $ 396,375 | $ 7,884,086 |
| 2023 | 4,320,000 | 3,185,094 | 7,505,094 | 310,000 | 85,750 | 395,750 | 7,900,844 |
| 2024 | 4,245,000 | 2,999,038 | 7,244,038 | 325,000 | 70,250 | 395,250 | 7,639,288 |
| 2025 | 4,425,000 | 2,816,138 | 7,241,138 | 340,000 | 54,000 | 394,000 | 7,635,138 |
| 2026 | 4,640,000 | 2,616,088 | 7,256,088 | 360,000 | 37,000 | 397,000 | 7,653,088 |
| 2027 | 4,375,000 | 2,409,788 | 6,784,788 | 380,000 | 19,000 | 399,000 | 7,183,788 |
| 2028 | 4,570,000 | 2,222,188 | 6,792,188 | - | - | - | 6,792,188 |
| 2029 | 4,385,000 | 2,024,900 | 6,409,900 | - | - | - | 6,409,900 |
| 2030 | 4,000,000 | 1,860,788 | 5,860,788 | - | - | - | 5,860,788 |
| 2031 | 4,075,000 | 1,719,225 | 5,794,225 | - | - | - | 5,794,225 |
| 2032 | 4,195,000 | 1,599,650 | 5,794,650 | - | - | - | 5,794,650 |
| 2033 | 4,320,000 | 1,473,519 | 5,793,519 | - | - | - | 5,793,519 |
| 2034 | 4,460,000 | 1,341,031 | 5,801,031 | - | - | - | 5,801,031 |
| 2035 | 4,585,000 | 1,211,969 | 5,796,969 | - | - | - | 5,796,969 |
| 2036 | 4,725,000 | 1,074,381 | 5,799,381 | - | - | - | 5,799,381 |
| 2037 | 4,395,000 | 932,469 | 5,327,469 | - | - | - | 5,327,469 |
| 2038 | 2,925,000 | 798,819 | 3,723,819 | - | - | - | 3,723,819 |
| 2039 | 3,005,000 | 716,419 | 3,721,419 | - | - | - | 3,721,419 |
| 2040 | 3,090,000 | 630,444 | 3,720,444 | - | - | - | 3,720,444 |
| 2041 | 3,180,000 | 540,669 | 3,720,669 | - | - | - | 3,720,669 |
| 2042 | 3,270,000 | 448,131 | 3,718,131 | - | - | - | 3,718,131 |
| 2043 | 3,370,000 | 351,425 | 3,721,425 | - | - | - | 3,721,425 |
| 2044 | 2,270,000 | 251,631 | 2,521,631 | - | - | - | 2,521,631 |
| 2045 | 1,170,000 | 192,169 | 1,362,169 | - | - | - | 1,362,169 |
| 2046 | 1,195,000 | 167,306 | 1,362,306 | - | - | - | 1,362,306 |
| 2047 | 1,220,000 | 141,913 | 1,361,913 | - | - | - | 1,361,913 |
| 2048 | 1,245,000 | 115,988 | 1,360,988 | - | - | - | 1,360,988 |
| 2049 | 1,275,000 | 87,975 | 1,362,975 | - | - | - | 1,362,975 |
| 2050 | 1,305,000 | 59,288 | 1,364,288 | - | - | - | 1,364,288 |
| 2051 | 1,330,000 | 29,925 | 1,359,925 | - | - | - | 1,359,925 |
| | $ 99,515,000 | $ 37,556,074 | $ 137,071,074 | $ 2,100,000 | $ 277,375 | $ 2,377,375 | $ 139,448,449 |

*Note: The City has entered into a number of capital leases for fire equipment, water system equipment, and other activities of the City. For a description of such leases, reference is made to Note III.D. of the City's audited financial statements for the year ended September 30, 2021, 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**

| | |
|---|---|
| 2021 Taxable Assessed Valuation | $ 4,123,948,942 |
| Maximum Annual Debt Service Requirements | $ 7,900,844 [1] |
| Indicated Maximum Interest and Sinking Fund Tax Rate | $ 0.1976 |
| Indicated Maximum Interest and Sinking Fund Tax Levy at 97% Collections | $ 7,904,455 |

*(1) Includes the Notes.*

**OVERLAPPING DEBT DATA** **TABLE 5**

| Taxing Body | Outstanding Tax-Secured Debt as of 3/31/22 | Percent Overlapping[2] | Amount Overlapping |
|---|---|---|---|
| Denison Independent School District | $ 88,763,160 | 4.01% | $ 3,559,403 |
| Grayson County | 26,885,000 | 32.30% | 8,683,855 |
| Grayson Junior College District | 18,945,000 | 32.30% | 6,119,235 |
| Howe ISD | 21,431,389 | 1.78% | 381,479 |
| S&S Consolidated ISD | 25,060,000 | 24.53% | 6,147,218 |
| Sherman ISD | 189,140,000 | 90.96% | 172,041,744 |
| Total Overlapping Debt | | | $ 196,932,933 |
| City of Sherman[1] | 101,615,000 | 100.00% | 101,615,000 |
| Total Direct Overlapping Debt | | | $ 298,547,933 |
| Ratio of Direct and Overlapping Debt to 2021 Assessed Valuation | | | 7.24% |
| Per Capita Direct and Overlapping Debt | | | $ 6,840 |

*(1) To date, all of the City's debt payments have been paid by other revenue sources. Includes the Notes. Preliminary, subject to change.*
*(2) Source: Texas Municipal Advisory Council.*

**2021/22 Top Ten Taxpayers[(1)]**

| Name of Taxpayer | Type of Business | 2021 Taxable Value | % of Net Valuation |
|---|---|---|---|
| Panda Sherman Power LLC | Electric Utility | $ 124,922,977 | 3.03% |
| JMCR Sherman LLC | Real Estate | 47,381,411 | 1.15% |
| Tyson Fresh Meats Inc. | Food Processing | 46,973,360 | 1.14% |
| Finisar Corporation | Optical Communications | 46,391,609 | 1.12% |
| Oncor Electric Delivery Co. LLC | Electric Utility | 44,697,126 | 1.08% |
| Globitech Incorporated | Silicon Wafers | 44,397,837 | 1.08% |
| Texas Instruments, Inc. | Silicon Wafers | 37,477,532 | 0.91% |
| Sherman Commons LP | Real Estate | 31,281,281 | 0.76% |
| First United Bank & Trust | Bank | 23,146,784 | 0.56% |
| Tyson Fresh Meats Inc., a Delaware Corp. | Food Processing | 22,855,583 | 0.55% |
| | | $ 469,525,500 | 11.39% |

*Based on Net Taxable Assessed Valuation of* *$ 4,123,948,942*

**2020/21 Top Ten Taxpayers[(1)]**

| Name of Taxpayer | Type of Business | 2020 Taxable Value | % of Net Valuation |
|---|---|---|---|
| Panda Sherman Power LLC | Electric Utility | $ 119,885,665 | 3.14% |
| Tyson Fresh Meats Inc. | Food Processing | 64,297,238 | 1.68% |
| Texas Instruments Inc. | Silicon Wafers | 51,198,720 | 1.34% |
| Finisar Sherman Re HOLDCO LLC | Optical Communications | 49,695,968 | 1.30% |
| JMCR Sherman LLC | Real Estate | 47,159,449 | 1.23% |
| Globitech Incorporated | Silicon Wafers | 46,522,584 | 1.22% |
| Oncor Electric Delivery Co. LLC | Electric Utility | 40,876,889 | 1.07% |
| Sherman Commons LP | Real Estate | 31,257,590 | 0.82% |
| Finisar Corporation | Optical Communications | 29,109,634 | 0.76% |
| Tyson Fresh Meats Inc., a Delaware Corp. | Food Processing | 22,855,583 | 0.60% |
| | | $ 502,859,320 | 13.16% |

*Based on Net Taxable Assessed Valuation of* *$ 3,819,840,433*

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*(1) Source information provided by the Grayson Central Appraisal District.*

**PROPERTY TAX RATES AND COLLECTIONS** **TABLE 7**

| Fiscal Year | Net Taxable Assessed Valuation | M&O Tax Rate | I&S Tax Rate | % Collections Current | % Collections Total |
|---|---|---|---|---|---|
| 2018 | $ 2,886,893,938 | $ 0.3476 | $ 0.0797 | 98.86% | 99.53% |
| 2019 | 3,125,349,460 | 0.3196 | 0.1077 | 98.40% | 99.11% |
| 2020 | 3,481,852,949 | 0.3384 | 0.1506 | 98.38% | 99.03% |
| 2021 | 3,819,840,433 | 0.3384 | 0.1506 | 98.67% | 98.96% |
| 2022 | 4,123,948,942 | 0.3056 | 0.1834 | 91.75% (1) | 91.75% (1) |

*(1) Partial collections as of April 19, 2022.*

**MUNICIPAL SALES TAX COLLECTIONS** **TABLE 8**

| Fiscal Year | Sales Tax Collections (1) | Ad Valorem Tax Levy | Sales Tax Rate | Percent of Ad Valorem Tax Levy | Equivalent Ad Valorem Tax Rate |
|---|---|---|---|---|---|
| 2018 | $ 17,454,767 | $ 12,056,000 | 6.250% | 144.78% | $ 0.6046 |
| 2019 | 17,969,235 | 12,904,653 | 6.250% | 139.25% | 0.5750 |
| 2020 | 18,494,327 | 16,224,684 | 6.250% | 113.99% | 0.5312 |
| 2021 | 21,037,726 | 17,890,744 | 6.250% | 117.59% | 0.5507 |
| 2022 | 13,086,870 (2) | 20,166,110 | 6.250% | 64.90% | 0.3173 |

*(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) Partial collections as of April 19, 2022.*

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

| | 9/30/2021 | 9/30/2020 | 9/30/2019 | 9/30/2018 | 9/30/2017 |
|---|---|---|---|---|---|
| Fund Balance - Beginning of Year | $ 12,746,493 | $ 11,358,102 | $ 11,556,332 | $ 9,393,440 | $ 10,219,666 |
| Revenues | | | | | |
| Taxes | $ 37,052,436 | $ 32,511,083 | $ 30,254,422 | $ 30,162,616 | $ 27,444,178 |
| Licenses and Permits | 810,670 | 608,942 | 691,323 | 824,046 | 503,097 |
| Intergovernmental | 1,922,483 | 1,305,186 | 942,785 | 26,541 | 209,779 |
| Charges for Services | 3,062,485 | 2,507,034 | 2,490,359 | 2,780,981 | 2,727,123 |
| Fines and Forfeituress | 336,442 | 349,213 | 578,638 | 471,815 | 432,946 |
| Investment Income | 35,504 | 128,409 | 232,376 | 65,690 | 84,858 |
| Donations | 8,713 | 105,534 | 10,193 | 13,038 | 14,870 |
| Miscellaneous | 240,406 | 275,017 | 355,335 | 188,030 | 275,614 |
| Total Revenues | $ 43,469,139 | $ 37,790,418 | $ 35,555,431 | $ 34,532,757 | $ 31,692,465 |
| Expenditures | | | | | |
| General Government | $ 7,165,907 | $ 6,633,870 | $ 6,157,454 | $ 6,396,050 | $ 5,408,179 |
| Public Safety | 24,529,901 | 22,866,008 | 21,921,180 | 20,971,917 | 19,105,247 |
| Streets | 3,897,857 | 3,798,232 | 4,173,527 | 3,229,927 | 3,373,505 |
| Sanitation | 709,899 | 912,939 | 792,838 | 729,808 | 714,236 |
| Community Services | 5,729,479 | 5,092,577 | 4,554,697 | 4,273,902 | 3,973,351 |
| Debt Service/Capital Outlay | 346,465 | 1,015,401 | 331,965 | 518,261 | 1,344,674 |
| Total Expenditures | $ 42,379,508 | $ 40,319,027 | $ 37,931,661 | $ 36,119,865 | $ 33,919,192 |
| Excess (Deficit) of Revenues Over Expenditures | $ 1,089,631 | $ (2,528,609) | $ (2,376,230) | $ (1,587,108) | $ (2,226,727) |
| Other Financing Sources (Uses): | | | | | |
| Proceeds from Lease Financing | $ - | $ - | $ - | $ - | $ - |
| Proceeds from Sales of Assets | - | - | - | - | 49,535 |
| Operating Transfers In | 3,927,975 | 4,149,000 | 2,878,000 | 3,800,000 | 2,884,020 |
| Operating Transfers (Out) | (860,000) | (232,000) | (700,000) | (50,000) | (1,533,054) |
| Total Other Financing Sources (Uses): | 3,067,975 | 3,917,000 | 2,178,000 | 3,750,000 | 1,400,501 |
| Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses | 4,157,606 | 1,388,391 | (198,230) | 2,162,892 | (826,226) |
| Prior period adjustment | - | - | - | - | - |
| Fund Balance - End of Year | $ 16,904,099 | $ 12,746,493 | $ 11,358,102 | $ 11,556,332 | $ 9,393,440 |

# 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 | | |
|---|---|---|
| | April 2022 | April 2021 |
| Total Civilian Labor Force | 66,758 | 65,688 |
| Total Unemployment | 2,018 | 2,927 |
| Percent Unemployed | 3.0% | 4.5% |
| Total Employment | 64,740 | 62,761 |

| State of Texas | | |
|---|---|---|
| | April 2022 | April 2021 |
| Total Civilian Labor Force | 14,462,593 | 14,150,421 |
| Total Unemployment | 530,214 | 836,773 |
| Percent Unemployed | 3.7% | 5.9% |
| Total Employment | 13,932,379 | 13,313,648 |

Source: Texas Employment Commission, Austin, Texas

## MAJOR AREA EMPLOYERS

| Name | # of Employees |
|---|---|
| Tyson Fresh Meats | 1,745 |
| Sherman ISD | 1,091 |
| Wilson N. Jones Medical Center | 792 |
| Texas Instruments | 600 |
| Grayson County | 560 |
| Finisar | 450 |
| Wal-Mart/Sam's Club | 450 |
| City of Sherman | 457 |
| Alorica | 415 |
| Emerson | 395 |

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# <u>APPENDIX C</u>

**Excerpts from the**
**City of Sherman, Texas**
**Annual Financial Report**
**For the Year Ended September 30, 2021**

The information contained in this APPENDIX consists of excerpts from the City of Sherman, Texas Annual Financial Report for the Year Ended September 30, 2021, 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.

The information contained in this APPENDIX is provided as of the respective dates and for the periods specified herein and is subject to change without notice, and the filing of this APPENDIX does not, under any circumstances, imply that there has been no change in the affairs of the City since the specified date as of which such information is provided. In particular, the dates as of and periods for which some of such information is provided occurred before the impact of the worldwide COVID-19 pandemic and the economic impact of measures instituted to slow it could be fully realized. Accordingly, the historical information set forth in this Appendix is not necessarily indicative of future results or performance due to these and other factors, including those discussed in the Official Statement.

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PATTILLO, BROWN & HILL, L.L.P.
401 West State Highway 6
Waco, Texas 76710
254.772.4901 | pbhcpa.com

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and
Members of the City Council
Sherman, Texas

**Report on the Financial Statements**

We have audited the accompanying 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, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Sherman, Texas' basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sherman, Texas, as of September 30, 2021, 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.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sherman, Texas' basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2022, on our consideration of the City of Sherman, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Sherman, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sherman, Texas' internal control over financial reporting and compliance.

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

Waco, Texas
March 7, 2022

# MANAGEMENT'S
# DISCUSSION AND ANALYSIS

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As management of the City of Sherman, Texas (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2021. 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 $47.7 million (net position). Of this amount, $45.2 million represents net investment in capital assets, $6.5 million is restricted for specific uses with the remainder identified as, which may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's total net position increased $1.9 million or 4.1% from last fiscal year's net position. The increase was due primarily to the sale of land near the new Sherman High School at FM 1417 and West Travis Street.

- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of $60.6 million, an increase of $30.5 million in comparison with the prior year. Approximately 26% of this total amount, $16.1 million, is available for spending at the government's discretion (unassigned fund balance). $40 million or 66% 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 $25.9 million. Approximately 5.3% of this total amount, $1.4 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 of 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, sanitation, 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 14 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 of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

  The City maintains three (3) major governmental funds, and seventeen (17) 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 90 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 18 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 considered to be 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 115 of this report.

  The basic proprietary fund financial statements begin on page 24 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 29 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 66 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 90 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 $47.7 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 $1.9 million, or 4.1% from the prior fiscal year. The increase was due primarily to the sale of land near the new Sherman High School at FM 1417 and West Travis Street.

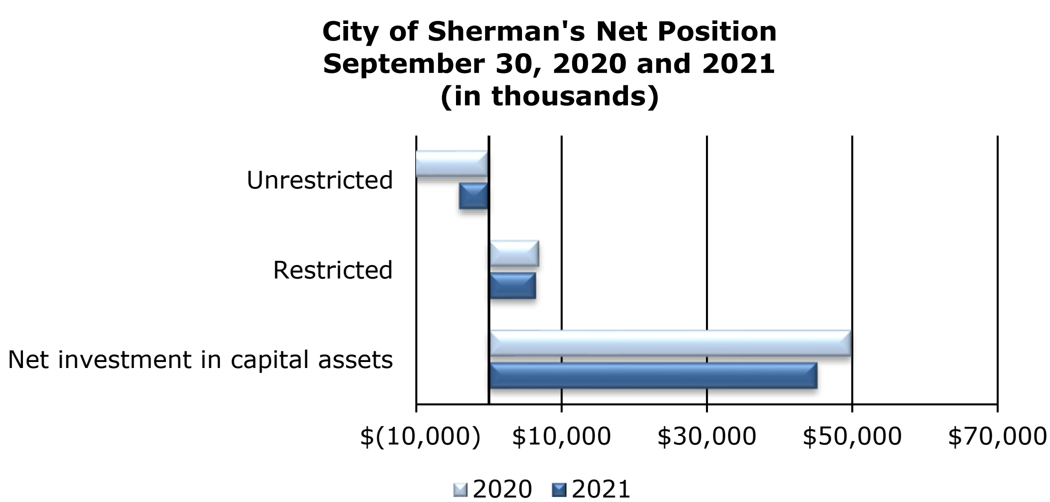
During fiscal year 2021, the City continued its plan to fund upcoming capital projects related to current and expected growth with debt issuances of $30.1 million in certificates of obligation and $2.2 million in tax notes. Additionally, the City received $4.2 million in grant funds which represents half of the allocation from the Coronavirus State and Local Fiscal Recovery Fund through the American Rescue Plan Act. The debt issuance and grant funding primarily account for the increase in current assets from the prior year. Correlating increases in total liabilities of $29.7 million were attributed to the debt issuances during the current fiscal year.

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

**CITY OF SHERMAN'S NET POSITION**
***(in thousands)***

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Current and other assets | $ 66,479 | $ 33,424 | $ 12,352 | $ 8,488 | $ 78,831 | $ 41,912 |
| Capital assets | 90,741 | 92,369 | 26,863 | 28,774 | 117,604 | 121,143 |
| **Total assets** | **157,220** | **125,793** | **39,215** | **37,262** | **196,435** | **163,055** |
| **Deferred outflows of resources** | **4,202** | **4,560** | **1,105** | **1,180** | **5,307** | **5,740** |
| Long-term liabilities | 122,769 | 98,236 | 6,701 | 7,759 | 129,470 | 105,995 |
| Other liabilities | 11,117 | 9,083 | 6,250 | 2,090 | 17,367 | 11,173 |
| **Total liabilities** | **133,886** | **107,319** | **12,951** | **9,849** | **146,837** | **117,168** |
| **Deferred inflows of resources** | **5,670** | **4,588** | **1,491** | **1,156** | **7,161** | **5,744** |
| Net investment in capital assets | 20,738 | 23,785 | 24,504 | 26,167 | 45,242 | 49,952 |
| Restricted | 6,525 | 6,942 | - | - | 6,525 | 6,942 |
| Unrestricted | (5,397) | (12,281) | 1,374 | 1,270 | (4,023) | (11,011) |
| **Total net position** | **$ 21,866** | **$ 18,446** | **$ 25,878** | **$ 27,437** | **$ 47,744** | **$ 45,883** |

A portion of the City's net position, $6.5 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 except for Unrestricted Net Position in Governmental Activities.



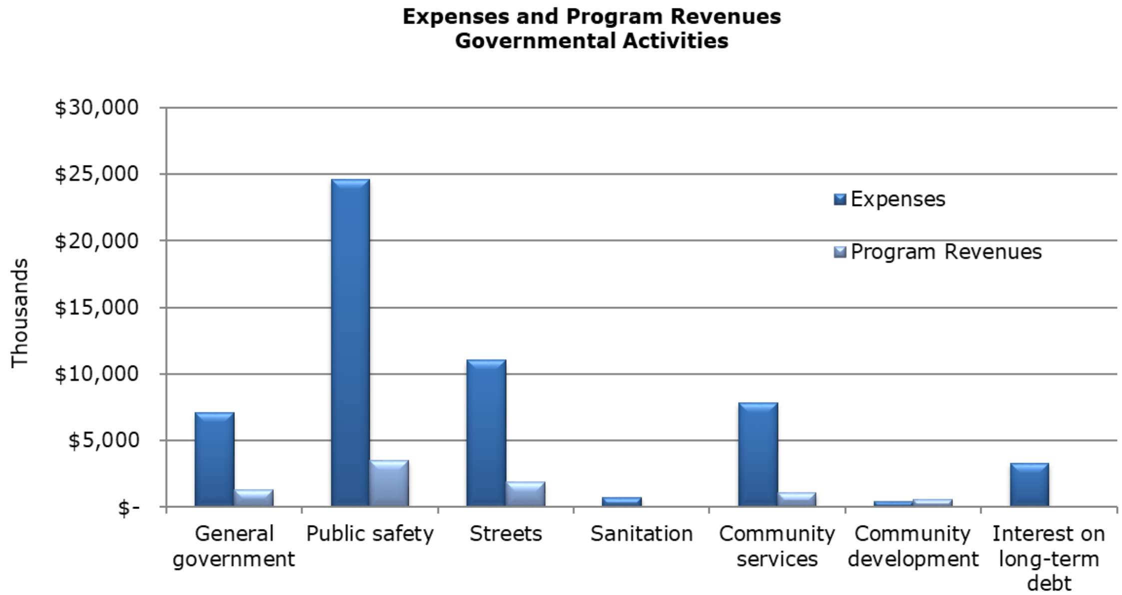
The City's condensed changes in net position, along with last fiscal year's numbers, are presented for comparison in the following table.

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

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| **Revenues** | | | | | | |
| Program revenues: | | | | | | |
| Changes for services | $ 5,898 | $ 6,908 | $ 31,343 | $ 30,335 | $ 37,241 | $ 37,243 |
| Operating grants and contributions | 2,251 | 1,254 | - | - | 2,251 | 1,254 |
| Capital grants and contributions | 348 | 2,984 | 600 | 2,129 | 948 | 5,113 |
| General revenues: | | | | | | |
| Property taxes | 17,627 | 16,272 | - | - | 17,627 | 16,272 |
| Sales taxes | 21,564 | 18,696 | - | - | 21,564 | 18,696 |
| Other taxes | 3,651 | 3,446 | - | - | 3,651 | 3,446 |
| Other | 3,611 | 874 | 115 | 1,255 | 3,726 | 2,129 |
| **Total revenues** | **54,950** | **50,434** | **32,058** | **33,719** | **87,008** | **84,153** |
| **Expenses** | | | | | | |
| General government | 7,089 | 7,071 | - | - | 7,089 | 7,071 |
| Public safety | 24,623 | 25,886 | - | - | 24,623 | 25,886 |
| Streets | 11,044 | 10,492 | - | - | 11,044 | 10,492 |
| Sanitation | 732 | 959 | - | - | 732 | 959 |
| Community services | 7,808 | 7,281 | - | - | 7,808 | 7,281 |
| Community development | 441 | 441 | - | - | 441 | 441 |
| Interest on long-term debt | 3,319 | 2,678 | - | - | 3,319 | 2,678 |
| Water and sewer service | - | - | 24,360 | 24,960 | 24,360 | 24,960 |
| Solid waste service | - | - | 5,731 | 6,600 | 5,731 | 6,600 |
| **Total expenses** | **55,056** | **54,808** | **30,091** | **31,560** | **85,147** | **86,368** |
| Increases (decreases) in net position before transfers | (106) | (4,374) | 1,967 | 2,159 | 1,861 | (2,215) |
| Transfers | 3,526 | 2,599 | (3,526) | (2,599) | - | - |
| **Change in net position** | **3,420** | **(1,775)** | **(1,559)** | **(440)** | **1,861** | **(2,215)** |
| Net position, beginning | 18,446 | 20,221 | 27,437 | 27,877 | 45,883 | 48,098 |
| **Net position, ending** | **$ 21,866** | **$ 18,446** | **$ 25,878** | **$ 27,437** | **$ 47,744** | **$ 45,883** |

**Governmental Activities**

Governmental activities increased the City's net position by $3.4 million. Primary factors attributing to the increase compared to the prior year include sales tax growth of 15.3% or $2.9 million and general property tax growth of 8.3% or $1.4 million due to increased valuations and additions to the tax roll. Expenses in governmental activities were overall similar to the prior year, yet charges for services were lower compared to the prior year due to a one-time $1.7 million reimbursement from the Sherman Economic Development Corporation for participation in infrastructure projects related to industry. Engineering inspection fees were up $0.5 million in fiscal year 2021 from development growth, and program revenue for community services was up by $0.3 million due to activities through the Parks and Recreation Department, including the public swimming pool (The Splash) and sports leagues, which were unavailable to the public in fiscal year 2020 due to the coronavirus pandemic.

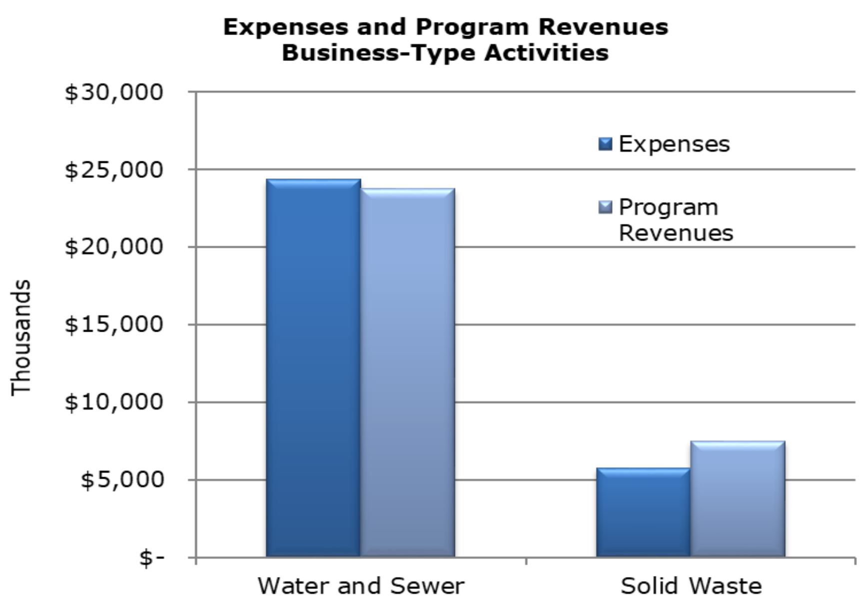



## Business-type Activities

Results for the current fiscal year in the City's business-type activities decreased the City's net position by $1.6 million, with operations similar to the prior year. Net position from Water and Sewer activities for fiscal year 2021 decreased $2.4 million due in part to effects from the severe winter storm of February 2021 which saw temperatures below freezing for over seven days, resulting in widespread power outages and disruptions in the City's water production and distribution process. Not only did the down time impact service in the water and sewer fund, but costly repairs were necessary once the full effect of the winter storm was realized. Additionally, the Sherman City Council approved a $30 water credit for residents as part of relief efforts. Prior to the winter storm, a utility rate study was initiated to assess the City's future needs.

Net position related to Solid Waste activities increased $0.8 million primarily due to a distribution to member cities from the City's landfill joint venture in the Texoma Area Solid Waste Authority.

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



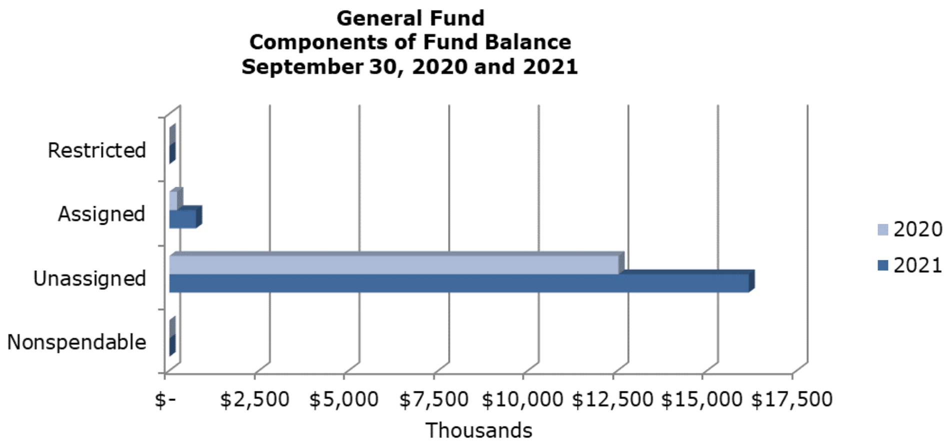
## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

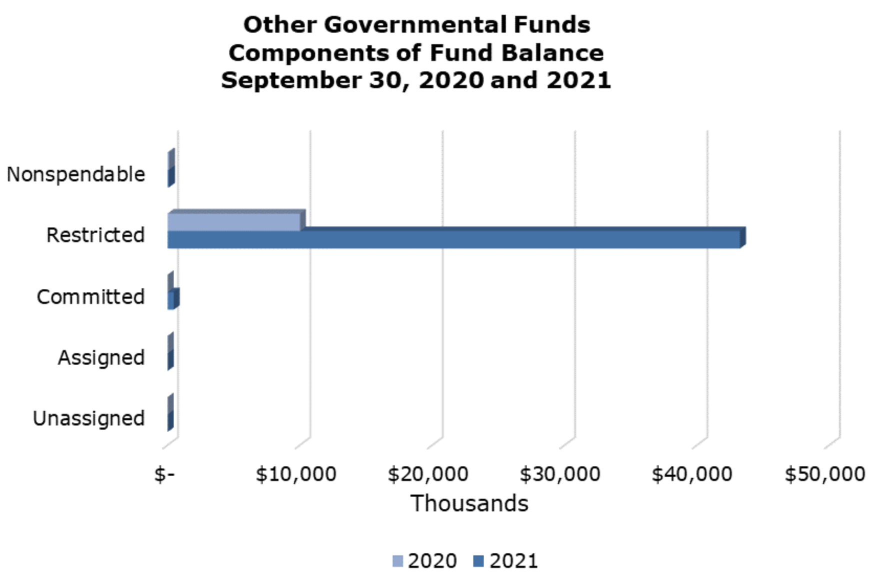
**Governmental Funds**

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.

At September 30, 2021, the City's governmental funds reported combined fund balances of $60.6 million, which is $30.5 million more than the prior year due to proceeds from the issuance of certificates of obligation. Approximately 26.6% of the governmental fund balances, or $16.1 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 ($43.2 million), or 4) assigned for particular purposes ($0.7 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 $16.2 million. Total fund balance increased by $4.2 million from the prior fiscal year to $16.9 million, primarily due to better than expected sales tax performance. Unassigned fund balance represents approximately 38% of total general fund expenditures, which is about the same percentage as total fund balance to expenditures.



The General Improvement Fund, a major fund, increased $26.7 million during the fiscal year, ending the year at a fund balance of $36.4 million. The increase was due primarily to the issuance of certificates of obligation and the sale of land near the new Sherman High School. Expenditures of $7.2 million in fiscal year 2021 included $2.0 million to the Texas Department of Transportation for the City's portion to widen FM 1417 to six lanes, $1.8 million for the Park Avenue extension and realignment, $1.3 million related to the new police headquarters and $0.9 million for West Travis Street.

The Debt Service Fund, also a major fund, ended the year at a fund balance of $0.4 million. General property taxes of $4.7 million were allocated to this fund to cover principal and interest payments of approximately $5.75 million.

The remaining governmental funds ended the year with a fund balance of $6.9 million, a decrease of $0.4 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 $1.4 million and had decreased by $0.6 million or 30% due in part to effects from the severe winter storm of February 2021 which saw temperatures below freezing for over seven days, resulting in widespread power outages and disruptions in the City's water production and distribution process. Not only did the down time impact service in the water and sewer fund, but costly repairs were necessary once the full effect of the winter storm was realized. Additionally, the Sherman City Council approved a $30 water credit for residents as part of relief efforts. Prior to the winter storm, a utility rate study was initiated to assess the City's future needs.

Unrestricted net position of the Solid Waste Fund increased by $0.7 million. 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 2021, increasing revenues by $36.1 million and expenditures by $6.0 million primarily related to debt proceeds from the 2021 Certificates of Obligation issued in May 2021 and related spending, as well as remaining items for the Coronavirus Aid, Relief and Economic Security (CARES) Act grant revenue and expenses through the Texas Department of Emergency Management, increased sales tax revenue, plus expenses related to fleet purchases and operations. The size of the budget amendment was a reflection of the rate of growth and change the City experienced during fiscal year 2021.

### Final budget compared to actual results

A review of actual expenditures in the General Fund compared to appropriations in the final budget yielded two significant budget variances. Law Enforcement Services experienced a variance of $381,090 in personnel costs which were less than budgeted, primarily due to staffing vacancies. Civil service testing was limited during fiscal year 2021 due to the coronavirus pandemic. The Street Department also ended fiscal year 2021 with a savings of $269,016 in personnel costs due to unfilled positions related to coronavirus challenges.

## CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2021, amounts to $118 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 decreased in the current fiscal year by $3.5 million or approximately 2.9%.

Major capital asset events during fiscal year 2021 included the following:

- New and continuing projects included the Park Avenue extension and realignment, work related to the new police headquarters, and the final phase of the extension of West Travis Street from US Hwy 75 to FM 1417.

- Construction projects in progress at the end of fiscal year 2021 included new street design and construction in developing areas, new police headquarters, ballfields, bridge repairs, wastewater treatment plant and lift station improvements and water system extension and improvements.

- Various machinery and equipment were acquired totaling approximately $2.1 million. Governmental activities included replacing a fire engine, ambulance, brush truck, and a pickup truck for the fire department, patrol vehicles and equipment for law enforcement, adding four pickup trucks for the development services department, a dump truck, trailer, box blade, bucket truck, chipper truck and two pickup trucks for the street department, a utility vehicle, excavator and dump trailer for cemetery and grounds maintenance departments, a trailer for animal services and an SUV for the neighborhood services department. Business type activities included purchasing a pickup truck and a 15-yard dump truck for water treatment and distribution, as well as a transit van and pickup truck for wastewater pretreatment and water quality departments, and two solid waste collection trucks and trailers.

- Depreciation totaled $8.7 million for governmental activities, including internal service funds and $3.1 million for business-type activities.

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

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Land | $ 7,556 | $ 6,807 | $ 383 | $ 347 | $ 7,939 | $ 7,154 |
| Buildings | 9,404 | 9,364 | 1,096 | 1,283 | 10,500 | 10,647 |
| Other improvements | 49,007 | 42,396 | 16,441 | 18,562 | 65,448 | 60,958 |
| Machinery and equipment | 13,503 | 14,446 | 2,011 | 2,008 | 15,514 | 16,454 |
| Other assets | 83 | 109 | 6,432 | 6,459 | 6,515 | 6,568 |
| Construction in progress | 11,188 | 19,247 | 500 | 115 | 11,688 | 19,362 |
| **Total Assets** | **$ 90,741** | **$ 92,369** | **$ 26,863** | **$ 28,774** | **$117,604** | **$121,143** |

Additional information on the City's capital assets can be found in the notes on pages 41 through 43 of this report.

## DEBT ADMINISTRATION

At the end of the current fiscal year, the City had total contractually obligated long-term debt of $81.9 million. In fiscal year 2021 the City issued $30.1 million of governmental certificates of obligation to fund general improvements. These obligations are to be repaid from general tax revenues of the General Fund and property taxes. Property taxes and a limited pledge of the net revenues of the water and sewer system secure the certificates of obligation even through repayment is expected to be made solely from general tax revenues. The City also issued $2.2 in tax notes for the purchase of equipment for departments in the general 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 | |
|---|---|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Bonds | $ 7,386 | $ 8,250 | $ - | $ - | $ 7,386 | $ 8,250 |
| Capital leases | 2,668 | 3,331 | 158 | 282 | 2,826 | 3,613 |
| Certificates of obligation, net of premium | 94,549 | 66,837 | - | - | 94,549 | 66,837 |
| Other long-term payables | - | - | 2,201 | 2,326 | 2,201 | 2,326 |
| Tax notes | 1,795 | - | - | - | 1,795 | - |
| **Total Debt** | **$106,398** | **$ 78,418** | **$ 2,359** | **$ 2,608** | **$108,757** | **$ 81,026** |

Long-term debt for the City increased by $27.7 million or 34.2%, due to issuances of $30.1 million in certificates of obligation and $2.2 million in tax notes. Principal payments on outstanding debt totaled $4.6 million in fiscal year 2021.

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 compares the debt limit allowed under the City charter to debt outstanding. At the beginning of the 2021 fiscal year, the City had 39.7% of allowable bonded debt outstanding. After the issuance of certificates of obligation in May 2021, the allowable bonded debt outstanding was 70.4%, with 29.6% remaining allowable for certificates of obligation.

Additional information on the City's long-term debt can be found in the notes on pages 43 through 47 of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

Although the TI project was unknown during the regular budget process for fiscal year 2022, the City began planning for this significant investment immediately. In addition to direct benefits of property and sales tax revenue, water and sewer revenue, hotel/motel revenue during the construction phases, the addition of high-paying jobs and the community reputation in the US and global technology circles, the City anticipates indirect benefits as well: the "spillover" effect for complementary primary job creation and TI's complementary effect with other existing high-tech employers in the area which could lead to Sherman becoming known as a "tech-corridor" worldwide.

The City has entered into tax abatement agreements and Chapter 380 economic incentive agreements with TI for each scheduled phase, but the major focus for fiscal year 2022 will involve preparing for TI's significant water and wastewater infrastructure needs. The City is confident it will be able to provide such services when they are needed by TI.

Prior to the TI announcement, the following economic factors affecting the City were considered in developing the 2021-2022 fiscal year budget.

- General Fund revenues are expected to be more than fiscal year 2021. Property values and property tax revenue are projected to increase about 8%. The property tax rate is unchanged at .489/$100. Sales tax revenue is budgeted to increase about 3.6% after considering the one-time events in fiscal year 2021. Tax notes will be used to finance equipment purchases of about $1.7 million. Fund balance is projected to be $10.4 million or 83 days of operating expenses at the end of FY2022. New positions consist of a civil engineer, an engineering inspector, a motorcycle officer, two building inspectors and a cemetery maintenance worker.

- Utility Fund revenue is expected to increase in fiscal year 2022 due to a 4.2% utility rate increase as a result of the recommendation from a utility rate study. One new position is budgeted to address inflow and infiltration. Various fleet and equipment critical to operations are budgeted. Fund balance at the end of FY2022 is projected to be about $4.2 million, or about 60 days of operating expenses.

- Solid Waste Fund revenue from services is not expected to increase in fiscal year 2022. However, another distribution of $700,000 in fiscal year 2022 from the City's joint venture in the Texoma Area Solid Waste Authority landfill is expected and considered critical to this fund. Fund balance is projected to be $1.3 million, or 60 days of operating expenditures.

- The $30.6 million budget of the General Improvement Fund primarily consists of funding for a new police headquarters ($17.2 million), street projects funded by debt and impact fees, and smaller projects for parks and other departments funded by the General Fund and by the sale of city property in fiscal year 2021. Major projects include Moore Street, Bel Air Boulevard, right-of-way and design of FM 1417 south of Hwy 56, a match for a federal grant for a new bridge on South Travis Street, and a match for a Texas Department of Transportation grant for airport improvements. Reserves of about $3.0 million are expected at the end of fiscal year 2022 primarily consisting of unspent debt proceeds.

- The Utility Improvement Fund budget includes projects that will be funded by debt issued by the Greater Texoma Utility Authority on behalf of the City, existing reserves and impact fees. Projects totaling $17.4 million include the continuation of the construction of the northwest sewer lift station near the intersection of Highway 82 and Highway 289, a waterline to service Legacy Village/Bel Air developments, a waterline that will enable the City to sell to Marilee Special Utility District, a wastewater line for concentrate disposal from the water treatment plant, the last phase of a water line replacement on Texoma Parkway, major rehabilitation of the Ida Road ground storage tank, backup generators at the water and wastewater treatment plants, water and sewer line replacements and other system improvements. Utility Improvement Fund reserves are expected be about $127,000 at the end of fiscal 2022.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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# BASIC
# FINANCIAL STATEMENTS

**CITY OF SHERMAN, TEXAS**

STATEMENT OF NET POSITION

SEPTEMBER 30, 2021

| | Governmental Activities | Business-type Activities | Total | Component Unit |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash | $ 19,499,335 | $ 425,365 | $ 19,924,700 | $ 10,892,166 |
| Pooled and temporary investments | 41,038,453 | 7,592,048 | 48,630,501 | 2,954,708 |
| Receivables, net | 5,293,145 | 4,344,964 | 9,638,109 | 897,534 |
| Inventories, at cost | 171,506 | 451,272 | 622,778 | - |
| Prepayments and deposits | 4,880 | 10,158 | 15,038 | 12,400 |
| Internal balances | 471,412 | ( 471,412) | - | - |
| Total current assets | 66,478,731 | 12,352,395 | 78,831,126 | 14,756,808 |
| Noncurrent assets: | | | | |
| Capital assets: | | | | |
| Non-depreciable assets | 18,743,717 | 7,283,435 | 26,027,152 | 9,101,598 |
| Other capital assets, net | 71,997,253 | 19,579,352 | 91,576,605 | 6,646 |
| Total noncurrent assets | 90,740,970 | 26,862,787 | 117,603,757 | 9,108,244 |
| Total assets | $ 157,219,701 | $ 39,215,182 | $ 196,434,883 | $ 23,865,052 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Pension plan - TMRS | $ 3,113,283 | $ 818,616 | $ 3,931,899 | $ 38,112 |
| OPEB - Retiree health plan | 663,684 | 174,512 | 838,196 | 8,125 |
| OPEB - TMRS supplemental death benefit | 425,160 | 111,793 | 536,953 | 5,205 |
| Total deferred outflows of resources | $ 4,202,127 | $ 1,104,921 | $ 5,307,048 | $ 51,442 |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 2,028,032 | $ 765,331 | $ 2,793,363 | $ 54,556 |
| Accrued expenses payable | 922,926 | 348,620 | 1,271,546 | 3,541 |
| Accrued interest payable | 843,840 | - | 843,840 | - |
| Unearned revenue | 9,711 | 4,218,221 | 4,227,932 | - |
| Landfill closure costs | - | 39,468 | 39,468 | - |
| Customers' deposits payable | 178,872 | 240,002 | 418,874 | - |
| Current portion of bonds, capital leases, certificates of obligation, tax notes and other long-term payables | 7,133,186 | 637,885 | 7,771,071 | - |
| Total current liabilities | 11,116,567 | 6,249,527 | 17,366,094 | 58,097 |

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

| | Governmental Activities | Business-type Activities | Total | Component Unit |
|---|---|---|---|---|
| **LIABILITIES** (Continued) | | | | |
| Long-term liabilities: | | | | |
| Accrued compensated absences | 3,775,171 | - | 3,775,171 | - |
| Capital lease obligations payable | 1,984,358 | 31,930 | 2,016,288 | - |
| General obligation bonds | 6,501,228 | - | 6,501,228 | - |
| Certificates of obligation | 91,562,760 | - | 91,562,760 | - |
| Tax notes | 1,462,126 | - | 1,462,126 | - |
| Net pension liability | 10,106,118 | 2,657,335 | 12,763,453 | 123,717 |
| Total OPEB liability - retiree health plan | 5,887,481 | 1,548,073 | 7,435,554 | 72,073 |
| Total OPEB liability - TMRS supplemental death benefit | 1,489,776 | 391,727 | 1,881,503 | 18,238 |
| Other long-term payables | - | 2,072,143 | 2,072,143 | - |
| Total long-term liabilities | 122,769,018 | 6,701,208 | 129,470,226 | 214,028 |
| Total liabilities | $ 133,885,585 | $ 12,950,735 | $ 146,836,320 | $ 272,125 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Pension plan - TMRS | $ 4,048,873 | $ 1,064,623 | $ 5,113,496 | $ 49,565 |
| OPEB - Retiree health plan | 1,363,723 | 358,581 | 1,722,304 | 16,694 |
| OPEB - TMRS supplemental death benefit | 257,260 | 67,645 | 324,905 | 3,149 |
| Total deferred inflows of resources | $ 5,669,856 | $ 1,490,849 | $ 7,160,705 | $ 69,408 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 20,738,117 | 24,503,817 | 45,241,934 | 9,108,244 |
| Restricted for: | | | | |
| Cemetery maintenance: | | - | | |
| Expendable | 1,904,329 | - | 1,904,329 | |
| Nonexpendable | 100,000 | - | 100,000 | |
| Cafeteria plan | 11,162 | - | 11,162 | - |
| Infrastructure and facilities improvements | 3,684,445 | - | 3,684,445 | - |
| Law enforcement support | 732,516 | - | 732,516 | - |
| Airport and tourism | 93,283 | - | 93,283 | - |
| Economic development | - | - | - | 14,466,717 |
| Unrestricted | ( 5,397,465) | 1,374,702 | ( 4,022,763) | - |
| Total net position | $ 21,866,387 | $ 25,878,519 | $ 47,744,906 | $ 23,574,961 |

**CITY OF SHERMAN, TEXAS**

STATEMENT OF ACTIVITIES

YEAR END SEPTEMBER 30, 2021

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| Governmental activities: | | | | |
| General government | $ 7,088,978 | $ 1,323,308 | $ 145,589 | $ - |
| Public safety | 24,622,926 | 3,136,475 | 1,110,613 | 839 |
| Streets | 11,044,202 | 278,846 | - | 347,102 |
| Sanitation | 731,701 | 75,302 | - | - |
| Community services | 7,807,883 | 1,083,710 | 411,343 | - |
| Community development | 441,208 | - | 583,959 | - |
| Interest on long-term debt | 3,318,977 | - | - | - |
| Total governmental activities | 55,055,875 | 5,897,641 | 2,251,504 | 347,941 |
| Business-type activities: | | | | |
| Water and sewer service | 24,359,919 | 23,877,936 | - | 599,686 |
| Solid waste service | 5,730,346 | 7,465,978 | - | - |
| Total business-type activities | 30,090,265 | 31,343,914 | - | 599,686 |
| Total primary government | $ 85,146,140 | $ 37,241,555 | $ 2,251,504 | $ 947,627 |
| Component unit: | | | | |
| Economic development | $ 272,757 | $ - | $ - | $ - |
| Administration | 1,415,628 | - | - | - |
| Total component unit | $ 1,688,385 | $ - | $ - | $ - |

General revenues:
- Taxes
  - General property
  - City sales
  - Franchise
  - Nonproperty
- Investment income
- Miscellaneous
- Gain on sale of capital assets

Transfers - internal activity

Total general revenues and transfers

Change in net position

Net position, beginning

Net position, ending

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

| Net (Expense) Revenue and Change in Net Position | | | |
|---|---|---|---|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Unit |
| $( 5,620,081) | $ - | $( 5,620,081) | $ - |
| ( 20,374,999) | - | ( 20,374,999) | - |
| ( 10,418,254) | - | ( 10,418,254) | - |
| ( 656,399) | - | ( 656,399) | - |
| ( 6,312,830) | - | ( 6,312,830) | - |
| 142,751 | - | 142,751 | - |
| ( 3,318,977) | - | ( 3,318,977) | - |
| ( 46,558,789) | - | ( 46,558,789) | - |
| | | | |
| - | 117,703 | 117,703 | - |
| - | 1,735,632 | 1,735,632 | - |
| - | 1,853,335 | 1,853,335 | - |
| | | | |
| $( 46,558,789) | $ 1,853,335 | $( 44,705,454) | $ - |
| | | | |
| $ - | $ - | $ - | $( 272,757) |
| - | - | - | ( 1,415,628) |
| | | | |
| $ - | $ - | $ - | $( 1,688,385) |
| | | | |
| $ 17,626,781 | $ - | $ 17,626,781 | $ - |
| 21,563,812 | - | 21,563,812 | 4,976,264 |
| 2,876,387 | - | 2,876,387 | - |
| 774,963 | - | 774,963 | - |
| 324,976 | 13,737 | 338,713 | 42,753 |
| 240,582 | 100,730 | 341,312 | - |
| 3,045,886 | - | 3,045,886 | 647,847 |
| 3,525,719 | ( 3,525,719) | - | - |
| 49,979,106 | ( 3,411,252) | 46,567,854 | 5,666,864 |
| | | | |
| 3,420,317 | ( 1,557,917) | 1,862,400 | 3,978,479 |
| | | | |
| 18,446,070 | 27,436,436 | 45,882,506 | 19,596,482 |
| | | | |
| $ 21,866,387 | $ 25,878,519 | $ 47,744,906 | $ 23,574,961 |

**CITY OF SHERMAN, TEXAS**

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2021

| | General | General Improvement | Debt Service |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | $ 6,630,797 | $ 6,970,926 | $ 432,723 |
| Pooled and temporary investments | 6,804,609 | 29,793,588 | - |
| Receivables (net of allowances for uncollectibles): | | | |
| Interest | 9,635 | 2,858 | - |
| Intergovernmental | 156,925 | - | - |
| Accounts | 441,549 | - | - |
| Taxes | 4,104,102 | - | 73,276 |
| Prepayments and deposits | 250 | - | - |
| Due from other funds | 940,882 | - | - |
| Total assets | $ 19,088,749 | $ 36,767,372 | $ 505,999 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE** | | | |
| Liabilities: | | | |
| Accounts payable | $ 1,139,620 | $ 372,238 | $ - |
| Accrued wages payable | 477,148 | - | - |
| Customer deposits | 1,824 | - | - |
| Due to other funds | - | - | - |
| Total liabilities | 1,618,592 | 372,238 | - |
| Deferred inflows of resources: | | | |
| Unavailable revenue | 566,058 | - | 70,083 |
| Total deferred inflows of resources | 566,058 | - | 70,083 |
| Fund balances: | | | |
| Nonspendable: | | | |
| Prepayments and deposits | 250 | - | - |
| Endowment | - | - | - |
| Restricted for: | | | |
| Cafeteria plan | 11,162 | - | - |
| Law enforcement support | - | - | - |
| Airport and tourism | - | - | - |
| Infrastructure and facilities improvement | - | 36,385,666 | - |
| Debt service | - | - | 435,916 |
| Cemetery maintenance | - | - | - |
| Committed to: | | | |
| New street development | - | - | - |
| Assigned for: | | | |
| Public charities | 44,022 | - | - |
| General improvements | - | 9,468 | - |
| Subsequent year's budget | 510,669 | - | - |
| Unassigned | 16,337,996 | - | - |
| Total fund balance | 16,904,099 | 36,395,134 | 435,916 |
| Total liabilities, deferred inflows of resources and fund balances | $ 19,088,749 | $ 36,767,372 | $ 505,999 |

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

| Nonmajor Governmental | Total Governmental |
|---|---|
| $ 2,883,833 | $ 16,918,279 |
| 4,439,115 | 41,037,312 |
| | |
| - | 12,493 |
| 269,930 | 426,855 |
| 108,698 | 550,247 |
| 110,444 | 4,287,822 |
| - | 250 |
| - | 940,882 |
| $ 7,812,020 | $ 64,174,140 |
| | |
| $ 224,069 | $ 1,735,927 |
| 8,862 | 486,010 |
| 177,048 | 178,872 |
| 469,470 | 469,470 |
| 879,449 | 2,870,279 |
| | |
| 50,000 | 686,141 |
| 50,000 | 686,141 |
| | |
| - | 250 |
| 100,000 | 100,000 |
| | |
| - | 11,162 |
| 732,516 | 732,516 |
| 93,283 | 93,283 |
| 3,693,913 | 40,079,579 |
| - | 435,916 |
| 1,904,329 | 1,904,329 |
| | |
| 461,770 | 461,770 |
| | |
| - | 44,022 |
| - | 9,468 |
| - | 510,669 |
| ( 103,240) | 16,234,756 |
| 6,882,571 | 60,617,720 |
| | |
| $ 7,812,020 | $ 64,174,140 |

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**CITY OF SHERMAN, TEXAS**

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

SEPTEMBER 30, 2021

| | |
|---|---|
| Total fund balances - governmental funds | $ 60,617,720 |
| 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. | 8,341,852 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | |
| Governmental capital assets | 162,184,262 |
| Less: accumulated depreciation | ( 83,273,292) |
| Long-term liabilities that pertain to governmental funds are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Included with amounts related to long-term liabilities is the deferred charge on bond refunding. Included with amounts related to the net pension liability are deferred outflows of resources and deferred inflows of resources that are attributable to the multiple-employer pension plan. Balances at year-end are: | |
| Bonds payable | ( 7,385,756) |
| Certificates of obligation | ( 94,548,889) |
| Compensated absences | ( 5,924,939) |
| Net pension liability | ( 9,591,919) |
| OPEB - Retiree health plan | ( 5,587,927) |
| OPEB - TMRS supplemental death benefit | ( 1,413,976) |
| Deferred outflow of resources - pension plan | 2,954,880 |
| Deferred outflow of resources - OPEB retiree health plan | 629,916 |
| Deferred outflow of resources - TMRS supplemental death benefit | 403,528 |
| Deferred inflow of resources - pension plan | ( 3,842,867) |
| Deferred inflow of resources - OPEB retiree health plan | ( 1,294,337) |
| Deferred inflow of resources - TMRS supplemental death benefit | ( 244,170) |
| Various other items necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, including: | |
| Accrued interest payable | ( 843,840) |
| Unavailable revenue - property taxes | 284,406 |
| Unavailable revenue - court fines | 141,567 |
| Unavailable revenue - ambulance fees | 260,168 |
| Net position of governmental activities | $ 21,866,387 |

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

**CITY OF SHERMAN, TEXAS**

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

YEAR ENDED SEPTEMBER 30, 2021

| | General | General Improvement | Debt Service |
|---|---|---|---|
| **REVENUES** | | | |
| Taxes: | | | |
| General property | $ 12,445,529 | $ - | $ 4,663,048 |
| City sales | 21,563,812 | - | - |
| Franchise | 2,876,387 | - | - |
| Nonproperty | 166,708 | - | - |
| Licenses and permits | 810,670 | - | - |
| Intergovernmental | 1,922,483 | - | - |
| Charges for services | 3,062,485 | - | - |
| Fines and forfeitures | 336,442 | - | - |
| Investment income (loss) | 35,504 | 7,553 | 2,119 |
| Donations | 8,713 | - | - |
| Miscellaneous | 240,406 | - | 2,576 |
| Total revenues | 43,469,139 | 7,553 | 4,667,743 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | 7,165,907 | - | - |
| Public safety | 24,529,901 | - | - |
| Streets | 3,897,857 | 2,792,323 | - |
| Sanitation | 709,899 | - | - |
| Community services | 5,729,479 | - | - |
| Community development | - | - | - |
| Capital outlay | 346,465 | 4,374,166 | - |
| Debt service: | | | |
| Principal | - | - | 3,125,000 |
| Interest | - | - | 2,624,486 |
| Debt issuance costs and agent fees | - | 155,273 | 4,700 |
| Total expenditures | 42,379,508 | 7,321,762 | 5,754,186 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | 1,089,631 | ( 7,314,209) | ( 1,086,443) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Issuance of bonds | - | 29,025,000 | - |
| Premium on issuance of debt | - | 1,130,384 | - |
| Sale of general capital assets | - | 3,647,497 | - |
| Transfers in | 3,927,975 | 250,000 | 1,070,491 |
| Transfers out | ( 860,000) | - | - |
| Total other financing sources (uses) | 3,067,975 | 34,052,881 | 1,070,491 |
| **NET CHANGE IN FUND BALANCES** | 4,157,606 | 26,738,672 | ( 15,952) |
| **FUND BALANCES, BEGINNING** | 12,746,493 | 9,656,462 | 451,868 |
| **FUND BALANCES, ENDING** | $ 16,904,099 | $ 36,395,134 | $ 435,916 |

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

| Nonmajor Governmental | Total Governmental |
|---|---|
| $ 514,493 | $ 17,623,070 |
| - | 21,563,812 |
| - | 2,876,387 |
| 608,255 | 774,963 |
| - | 810,670 |
| 605,669 | 2,528,152 |
| 1,240,548 | 4,303,033 |
| 46,511 | 382,953 |
| 275,611 | 320,787 |
| 43,257 | 51,970 |
| 72,505 | 315,487 |
| 3,406,849 | 51,551,284 |
| | |
| - | 7,165,907 |
| 220,545 | 24,750,446 |
| - | 6,690,180 |
| - | 709,899 |
| 1,346,657 | 7,076,136 |
| 446,280 | 446,280 |
| 883,052 | 5,603,683 |
| | |
| - | 3,125,000 |
| - | 2,624,486 |
| - | 159,973 |
| 2,896,534 | 58,351,990 |
| | |
| 510,315 | ( 6,800,706) |
| | |
| - | 29,025,000 |
| - | 1,130,384 |
| - | 3,647,497 |
| 210,000 | 5,458,466 |
| ( 1,072,747) | ( 1,932,747) |
| ( 862,747) | 37,328,600 |
| ( 352,432) | 30,527,894 |
| 7,235,003 | 30,089,826 |
| $ 6,882,571 | $ 60,617,720 |

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**CITY OF SHERMAN, TEXAS**

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

YEAR ENDED SEPTEMBER 30, 2021

| | |
|---|---|
| Total net change in fund balance - governmental funds | $ 30,527,894 |
| 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. | 225,866 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation. This is the amount of capital assets recorded in the current period. | 5,950,785 |
| 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. | ( 6,264,770) |
| 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 | ( 29,025,000) |
| Premium on debt issuance | ( 947,407) |
| Amortization of deferred charge on bond refunding | ( 178,354) |
| Principal paid - bonds payable | 810,000 |
| Principal paid - certificates of obligation | 2,315,000 |
| 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 | ( 303,857) |
| Change in net pension liability | 1,406,646 |
| Change in OPEB obligation - Retiree health plan | 128,362 |
| Change in OPEB obligation - TMRS supplemental death benefit | ( 94,107) |
| 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 | ( 674,898) |
| Change in accrued interest payable | ( 457,855) |
| Change in unavailable revenue - property taxes | 3,711 |
| Change in unavailable revenue - court fines | ( 96,488) |
| Change in unavailable revenue - ambulance fees | 94,789 |
| Change in net position of governmental activities | $ 3,420,317 |

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

**CITY OF SHERMAN, TEXAS**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

SEPTEMBER 30, 2021

| | Business-type Activities Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Water and Sewer | Solid Waste | Total | Internal Service |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash | $ - | $ 425,365 | $ 425,365 | $ 2,581,056 |
| Pooled and temporary investments | 7,389,575 | 202,473 | 7,592,048 | 1,141 |
| Receivables (net of allowances for uncollectibles): | | | | |
| Interest | 20,306 | - | 20,306 | - |
| Accounts | 2,629,417 | 809,946 | 3,439,363 | 15,728 |
| Unbilled accounts | 782,471 | 102,824 | 885,295 | - |
| Inventories, at cost | 451,272 | - | 451,272 | 171,506 |
| Prepaid items | 10,158 | - | 10,158 | 4,630 |
| Total current assets | 11,283,199 | 1,540,608 | 12,823,807 | 2,774,061 |
| Capital assets | | | | |
| Non-depreciable assets | 7,280,435 | 3,000 | 7,283,435 | 55,250 |
| Other capital assets, net | 18,962,018 | 617,334 | 19,579,352 | 11,774,750 |
| Total noncurrent assets | 26,242,453 | 620,334 | 26,862,787 | 11,830,000 |
| Total assets | 37,525,652 | 2,160,942 | 39,686,594 | 14,604,061 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Pension plan - TMRS | 645,524 | 173,092 | 818,616 | 158,403 |
| OPEB - retiree health plan | 137,612 | 36,900 | 174,512 | 33,768 |
| OPEB - supplemental death benefit | 88,155 | 23,638 | 111,793 | 21,632 |
| Total deferred outflows of resources | 871,291 | 233,630 | 1,104,921 | 213,803 |

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

| | Business-type Activities Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Water and Sewer | Solid Waste | Total | Internal Service |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 506,765 | $ 258,566 | $ 765,331 | $ 292,105 |
| Accrued expenses payable: | | | | |
| Accrued wages payable | 273,842 | 74,778 | 348,620 | 62,951 |
| Landfill closure and postclosure care costs | - | 39,468 | 39,468 | - |
| Claims payable | - | - | - | 373,965 |
| Due to other funds | 471,412 | - | 471,412 | - |
| Unearned revenue | 4,218,221 | - | 4,218,221 | 9,711 |
| Customers' deposits payable | 190,963 | 49,039 | 240,002 | - |
| Current portion of long-term liabilities: | | | | |
| Capital lease obligations | 126,294 | - | 126,294 | 683,815 |
| Accrued compensated absences | 282,807 | 100,181 | 382,988 | 95,903 |
| Tax notes | - | - | - | 333,043 |
| Other long-term payables | 128,603 | - | 128,603 | - |
| Total current liabilities | 6,198,907 | 522,032 | 6,720,939 | 1,851,493 |
| Long-term liabilities (net of current portion): | | | | |
| Capital lease obligations payable | 31,930 | - | 31,930 | 1,984,358 |
| Net pension liability | 2,095,454 | 561,881 | 2,657,335 | 514,199 |
| Tax notes | - | - | - | 1,462,126 |
| Total OPEB liability - retiree health plan | 1,220,740 | 327,333 | 1,548,073 | 299,554 |
| Total OPEB liability - supplemental death benefit | 308,898 | 82,829 | 391,727 | 75,800 |
| Other long-term payables | 2,072,143 | - | 2,072,143 | - |
| Total long-term liabilities | 5,729,165 | 972,043 | 6,701,208 | 4,336,037 |
| Total liabilities | 11,928,072 | 1,494,075 | 13,422,147 | 6,187,530 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Pension plan - TMRS | 839,514 | 225,109 | 1,064,623 | 206,006 |
| OPEB - retiree health plan | 282,761 | 75,820 | 358,581 | 69,386 |
| OPEB - supplemental death benefits | 53,342 | 14,303 | 67,645 | 13,090 |
| Total deferred outflows of resources | 1,175,617 | 315,232 | 1,490,849 | 288,482 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 23,883,483 | 620,334 | 24,503,817 | 7,366,658 |
| Unrestricted | 1,409,771 | ( 35,069) | 1,374,702 | 975,194 |
| Total net position | $ 25,293,254 | $ 585,265 | $ 25,878,519 | $ 8,341,852 |

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**CITY OF SHERMAN, TEXAS**

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

YEAR ENDED SEPTEMBER 30, 2021

| | Business-type Activities - Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Water and Sewer | Solid Waste | Total | Internal Service |
| **OPERATING REVENUES** | | | | |
| Water sales | $ 14,039,893 | $ - | $ 14,039,893 | $ - |
| Sewer sales | 7,857,841 | - | 7,857,841 | - |
| Solid waste service | - | 7,465,978 | 7,465,978 | - |
| Laboratory fees | 123,444 | - | 123,444 | - |
| Service connections and penalties | 742,594 | - | 742,594 | - |
| Utility tap fees | 90,950 | - | 90,950 | - |
| Charges for services | 318,306 | - | 318,306 | 11,614,860 |
| Property taxes | - | - | - | 400,950 |
| Miscellaneous | 59,163 | 41,567 | 100,730 | 19,238 |
| Total operating revenues | 23,232,191 | 7,507,545 | 30,739,736 | 12,035,048 |
| **OPERATING EXPENSES** | | | | |
| Personnel services | 6,321,196 | 1,557,586 | 7,878,782 | 1,503,012 |
| Contractual services | 10,564,687 | 2,322,760 | 12,887,447 | 5,619,588 |
| Supplies | 1,069,003 | 227,387 | 1,296,390 | 851,996 |
| Maintenance and repair | 2,885,685 | 44,164 | 2,929,849 | 1,436,953 |
| Vehicle usage | 464,350 | 1,504,731 | 1,969,081 | - |
| Depreciation | 2,981,082 | 73,718 | 3,054,800 | 2,393,823 |
| Total operating expenses | 24,286,003 | 5,730,346 | 30,016,349 | 11,805,372 |
| **OPERATING INCOME (LOSS)** | ( 1,053,812) | 1,777,199 | 723,387 | 229,676 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Gain (loss) on sale of assets | - | - | - | 73,287 |
| Investment income | 12,936 | 801 | 13,737 | 4,189 |
| Interest expense | ( 73,916) | - | ( 73,916) | ( 81,286) |
| Intergovernmental | 457 | 704,451 | 704,908 | - |
| Total nonoperating revenues (expenses) | ( 60,523) | 705,252 | 644,729 | ( 3,810) |
| **INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS** | ( 1,114,335) | 2,482,451 | 1,368,116 | 225,866 |
| **CONTRIBUTIONS AND TRANSFERS** | | | | |
| Capital contributions | 599,686 | - | 599,686 | - |
| Transfers in | 438,000 | 120,000 | 558,000 | - |
| Transfers out | ( 2,300,000) | ( 1,783,719) | ( 4,083,719) | - |
| Total contributions and transfers | ( 1,262,314) | ( 1,663,719) | ( 2,926,033) | - |
| **CHANGE IN NET POSITION** | ( 2,376,649) | 818,732 | ( 1,557,917) | 225,866 |
| **NET POSITION, BEGINNING** | 27,669,903 | ( 233,467) | 27,436,436 | 8,115,986 |
| **NET POSITION, ENDING** | $ 25,293,254 | $ 585,265 | $ 25,878,519 | $ 8,341,852 |

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

**CITY OF SHERMAN, TEXAS**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

YEAR ENDED SEPTEMBER 30, 2021

| | Business-type Activities - Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Water and Sewer | Solid Waste | Total | Internal Service |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Cash received from customers | $ 27,646,342 | $ 7,483,437 | $ 35,129,779 | $ - |
| Cash received for interfund services | - | - | - | 11,994,823 |
| Cash paid for supplies and materials | (14,696,848) | ( 4,101,257) | (18,798,105) | ( 2,713,317) |
| Cash paid for premiums, claims and administrative | - | - | - | ( 4,951,533) |
| Cash paid for personnel services | ( 6,486,258) | ( 1,764,442) | ( 8,250,700) | ( 1,588,458) |
| Net cash provided (used) by operating activities | 6,463,236 | 1,617,738 | 8,080,974 | 2,741,515 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Cash received from other governments | 457 | - | 457 | - |
| Transfers from other funds | 438,000 | 120,000 | 558,000 | - |
| Transfers to other funds | ( 2,300,000) | ( 1,783,719) | ( 4,083,719) | - |
| Net cash provided (used) by noncapital financing activities | ( 1,861,543) | ( 1,663,719) | ( 3,525,262) | - |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Proceeds from sale of assets | - | - | - | 73,287 |
| Acquisition of capital assets | ( 973,644) | ( 169,373) | ( 1,143,017) | ( 1,404,835) |
| Proceeds from issuance of long-term debt | - | - | - | 1,132,286 |
| Principal retirement of long-term debt | ( 248,908) | - | ( 248,908) | ( 350,000) |
| Interest paid on long-term debt | ( 73,916) | - | ( 73,916) | ( 81,286) |
| Capital contributions | 599,686 | 704,451 | 1,304,137 | - |
| Net cash provided (used) by capital and related financing activities | ( 696,782) | 535,078 | ( 161,704) | ( 630,548) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest and investment income received | 8,961 | 801 | 9,762 | 4,189 |
| Purchases of investments | ( 8,954,337) | ( 200,022) | ( 9,154,359) | - |
| Proceeds from sale of investments | 4,675,910 | - | 4,675,910 | - |
| Net cash provided (used) by investing activities | ( 4,269,466) | ( 199,221) | ( 4,468,687) | 4,189 |
| **NET INCREASE (DECREASE) IN CASH** | ( 364,555) | 289,876 | ( 74,679) | 2,115,156 |
| **CASH, BEGINNING** | 364,555 | 135,489 | 500,044 | 465,900 |
| **CASH, ENDING** | $ - | $ 425,365 | $ 425,365 | $ 2,581,056 |

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

| | Business-type Activities - Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Water and Sewer | Solid Waste | Total | Internal Service |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | | | | |
| Operating income | $( 1,053,812) | $ 1,777,199 | $ 723,387 | $ 229,676 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation and amortization | 2,981,082 | 73,718 | 3,054,800 | 2,393,823 |
| (Increase) decrease in: | | | | |
| Accounts receivable (net) | 424,339 | ( 32,420) | 391,919 | 35,662 |
| Unbilled receivables | ( 229,566) | 3,565 | ( 226,001) | - |
| Inventories | ( 94,362) | - | ( 94,362) | ( 34,619) |
| Prepaid items | - | - | - | 2,308 |
| Deferred outflows of resources | 42,678 | 32,351 | 75,029 | 2,424 |
| Increase (decrease) in: | | | - | |
| Accounts payable | ( 90,173) | ( 2,215) | ( 92,388) | 135,038 |
| Accrued wages payable | 10,064 | ( 13,840) | ( 3,776) | ( 2,463) |
| Estimated liability for claims | - | - | - | 140,960 |
| Accrued compensated absences | 17,954 | ( 1,631) | 16,323 | 13,795 |
| Due to other funds | 471,412 | - | 471,412 | ( 74,393) |
| Unearned revenue | 4,218,221 | - | 4,218,221 | ( 1,494) |
| Customer deposits | 1,157 | 4,747 | 5,904 | - |
| Net pension liability | ( 480,222) | ( 200,866) | ( 681,088) | ( 120,085) |
| Net OPEB | ( 54,292) | ( 58,894) | ( 113,186) | ( 14,704) |
| Deferred inflows of resources | 298,756 | 36,024 | 334,780 | 35,587 |
| Total adjustments | 7,517,048 | ( 159,461) | 7,357,587 | 2,511,839 |
| Net cash provided (used) by operating activities | $ 6,463,236 | $ 1,617,738 | $ 8,080,974 | $ 2,741,515 |

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## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

### A. Financial Statement Presentation

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

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

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

### B. Financial Reporting Entity

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

The City's financial reporting entity comprises the following:

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

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

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

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

**Blended Component Units**

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

**Discretely Presented Component Units**

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

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

**Related Organizations**

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

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

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

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

## C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

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

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

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

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

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

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

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

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

## E. Fund Types and Major Funds

### Governmental Funds

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

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

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

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

### Proprietary Funds

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

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

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

### Other Fund Types

Additionally, the City reports the following fund type:

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

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

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

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

## F. Assets, Liabilities, and Net Position or Equity

### Cash and Investments

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

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

### Property Taxes

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

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

| | 2021 Tax Roll | 2020 Tax Roll |
|---|---|---|
| Total assessed value | $ 4,972,377,540 | $ 4,442,247,607 |
| Less exemptions for: | | |
| Individuals over 65/disabled | 87,472,969 | 88,147,460 |
| Community housing | 3,300,000 | 3,322,189 |
| Productivity valuations of open land space | 108,704,423 | 88,654,461 |
| Homestead cap exemption | 66,573,618 | 47,090,303 |
| Veterans exemption | 32,794,646 | 28,353,055 |
| Pollution control exemption | 22,590,402 | 16,344,385 |
| Freeport exemptions | 116,126,760 | 94,958,354 |
| Exempt | 418,168,156 | 361,071,806 |
| Abatement | 279,182,548 | 294,237,452 |
| Wind/solar power | 315,448 | 210,926 |
| Net assessed value | $ 3,837,148,570 | $ 3,419,857,216 |
| Tax rate (per $100 valuation) | $ 0.4890 | $ 0.4890 |

### Inventories

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

### Prepayments and Deposits

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

### Interfund Receivables and Payables

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

### Transactions between Funds

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

### Capital Assets

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

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

Assets capitalized have an original cost of $5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. 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 |

**Compensated Absences**

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

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

**Pensions**

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

**Other Post-Employment Benefits**

***TMRS Supplemental Death Benefits Fund***

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

***Retiree Insurance Plan***

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

**Deferred Outflows / Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position applying to a future period 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 position applying to a future period 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.

**Fund Balances**

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

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

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

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

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

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

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

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

**Net Position**

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

**Estimates**

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

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

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

Statement No. 87, *Leases* – This Statement will improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classifies as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under the Statement a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resource, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the City in fiscal year 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements* – This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. GASB 96 will become effective for the City for Fiscal Year 2024.

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. Budgetary Information

**Budget Policy and Practice**

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

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

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

At any time during the fiscal year, the City Manager may move part or all of any unencumbered appropriation balance among the various departments or programs within each fund. In the case where additional appropriations are required within a fund, the City Manager must seek approval of the City Council, who may, by resolution, increase that fund's appropriation.

**Budget Basis of Accounting**

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

### B. Deficit Fund Equity

The TIRZ#7 Fund has a deficit fund balance of $103,240. The deficit will be addressed as part of the development of the Fiscal Year 2021-2022 budget.

## III. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

**Deposits**

Cash at September 30, 2021, as reported in the Statement of Net Position, consists of the following items:

| | Primary Government | Component Unit |
|---|---|---|
| Petty Cash | $ 6,030 | $ 805 |
| Bank Deposits: | | |
| Demand Accounts | 18,418,216 | 7,876,700 |
| Time Accounts | 1,500,454 | 3,014,661 |
| Total Cash and Deposits | $ 19,924,700 | $ 10,892,166 |

***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, 2021, the City's deposit balance of $19,924,700 and the Sherman Economic Development Corporation, a discretely presented component unit, balance of $10,892,166 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, 2021:

| Investment Type | Fair Value | Credit Rating | Weighted Average Maturity (Days) |
|---|---|---|---|
| **Primary government** | | | |
| U.S. Treasury | $ 994,219 | AA+ | 99 |
| Texas Subdivisions Municipal Obligations | 3,300,662 | A3 to AA+ | 235 |
| U.S. Agencies | 6,502,900 | AA+ | 509 |
| TexStar | 1,111,176 | AAAm | 39 |
| TexPool | 34,742,184 | AAAm | 34 |
| Common trust funds (corporate) | 1,979,360 | NR | 6 |
| Total primary government | 48,630,501 | | |
| **Component unit** | | | |
| TexPool | 2,954,708 | AAAm | 34 |
| Total component unit | 2,954,708 | | |
| Total Investments | $ 51,585,209 | | |

The City has investments with two public funds investment pools as of September 30, 2021: 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, 2021, 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, 2021, the City was not exposed to foreign currency risk.

**Investments - Fair Value Hierarchy**

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

The following schedule summarizes the City's investments that are measured at fair value on a recurring basis as of September 30, 2021:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Investment Type | Fair Value 9/30/2021 | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| U.S. Treasury | $ 994,219 | $ 994,219 | $ - | $ - |
| Texas Subdivisions Obligations | 3,300,662 | - | 3,300,662 | - |
| U.S. Agencies | 6,502,900 | | 6,502,900 | |
| Common trust funds | 1,979,360 | 1,979,360 | - | - |
| Total | $ 12,777,141 | $ 2,973,579 | $ 3,300,662 | $ - |

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

## B. Receivables

Amounts recorded as receivable as of September 30, 2021, 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 |
|---|---|---|---|---|---|---|---|
| Receivables: | | | | | | | |
| Interest | $ 9,635 | $ 2,858 | $ - | $ 20,306 | $ - | $ - | $ - |
| Intergovernmental | 156,925 | - | - | - | - | - | 269,930 |
| Accounts | 2,068,218 | - | - | 3,473,888 | 961,770 | 15,728 | 111,933 |
| Taxes | 4,328,750 | - | 146,553 | - | - | - | 110,444 |
| Gross receivables | 6,563,528 | 2,858 | 146,553 | 3,494,194 | 961,770 | 15,728 | 492,307 |
| Less: allowance for uncollectibles | ( 1,851,317) | - | ( 73,277) | ( 62,000) | ( 49,000) | - | ( 3,235) |
| Net total receivables | $ 4,712,211 | $ 2,858 | $ 73,276 | $ 3,432,194 | $ 912,770 | $ 15,728 | $ 489,072 |

The Water and Sewer Fund and the Solid Waste Fund accounts receivable include unbilled charges for services rendered at September 30, 2021.

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 | Nonmajor Governmental | Total |
|---|---|---|---|---|
| Delinquent property taxes receivables | $ 214,323 | $ 70,083 | $ - | $ 284,406 |
| Court fines | 141,567 | - | - | 141,567 |
| Ambulance fees | 210,168 | - | - | 210,168 |
| Grants | - | - | 50,000 | 50,000 |
| Total governmental funds | $ 566,058 | $ 70,083 | $ 50,000 | $ 686,141 |

## C. Capital Assets

Capital asset activity for the year ended September 30, 2021, was as follows:

### Primary Government

| | Beginning Balance | Increases | Decreases | Reclassifications/ Transfers | Ending Balance |
|---|---|---|---|---|---|
| **Governmental activities, excluding internal service funds:** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 6,751,670 | $ 1,380,286 | $( 631,599) | $ - | $ 7,500,357 |
| Construction in progress | 19,246,682 | 1,653,035 | ( 9,711,607) | - | 11,188,110 |
| Total assets not being depreciated | 25,998,352 | 3,033,321 | ( 10,343,206) | - | 18,688,467 |
| Capital assets, being depreciated: | | | | | |
| Buildings | 14,765,398 | 559,758 | ( 16,815) | - | 15,308,341 |
| Improvements other than buildings | 104,796,226 | 11,736,666 | - | - | 116,532,892 |
| Machinery and equipment | 10,175,990 | 319,202 | ( 247,462) | - | 10,247,730 |
| Other assets | 1,393,387 | 13,445 | - | - | 1,406,832 |
| Total capital assets being depreciated | 131,131,001 | 12,629,071 | ( 264,277) | - | 143,495,795 |
| Less accumulated depreciation: | | | | | |
| Buildings | ( 5,465,651) | ( 509,725) | 14,684 | - | ( 5,960,692) |
| Improvements other than buildings | ( 62,411,038) | ( 5,191,504) | - | - | ( 67,602,542) |
| Machinery and equipment | ( 8,045,525) | ( 535,817) | 206,294 | - | ( 8,375,048) |
| Other assets | ( 1,307,286) | ( 27,724) | - | - | ( 1,335,010) |
| Total accumulated depreciation | ( 77,229,500) | ( 6,264,770) | 220,978 | - | ( 83,273,292) |
| Total capital assets being depreciated, net | 53,901,501 | 6,364,301 | ( 43,299) | - | 60,222,503 |
| Governmental activities, excluding internal service funds, capital assets, net | $ 79,899,853 | $ 9,397,622 | $( 10,386,505) | $ - | $ 78,910,970 |

| | Beginning Balance | Increases | Decreases | Reclassifications/ Transfers | Ending Balance |
|---|---|---|---|---|---|
| **Internal service funds:** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 55,250 | $ - | $ - | $ - | $ 55,250 |
| Total Assets not being depreciated: | 55,250 | - | - | - | 55,250 |
| Capital assets, being depreciated: | | | | | |
| Buildings | 201,401 | - | - | - | 201,401 |
| Improvements other than buildings | 12,926 | 70,023 | - | - | 82,949 |
| Machinery and equipment | 24,004,631 | 1,776,548 | ( 189,214) | - | 25,591,965 |
| Other assets | 115,289 | 7,650 | - | - | 122,939 |
| Total capital assets being deprecated | 24,334,247 | 1,854,221 | ( 189,214) | - | 25,999,254 |
| Less: accumulated depreciation: | | | | | |
| Buildings | ( 136,294) | ( 8,198) | - | - | ( 144,492) |
| Improvements other than buildings | ( 2,298) | ( 3,670) | - | - | ( 5,968) |
| Machinery and equipment | ( 11,690,369) | ( 2,361,892) | 89,828 | - | ( 13,962,433) |
| Other assets | ( 91,548) | ( 20,063) | - | - | ( 111,611) |
| Total accumulated depreciation | ( 11,920,509) | ( 2,393,823) | 89,828 | - | ( 14,224,504) |
| Total capital assets being depreciated, net | 12,413,738 | ( 539,602) | ( 99,386) | - | 11,774,750 |
| Internal service fund capital assets, net | 12,468,988 | ( 539,602) | ( 99,386) | - | 11,830,000 |
| Governmental activities capital assets, net | $ 92,368,841 | $ 8,858,020 | $( 10,485,891) | $ - | $ 90,740,970 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Business-type activities** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 347,242 | $ 35,000 | $ - | $ 382,242 |
| Water rights | 6,400,892 | - | - | 6,400,892 |
| Construction in progress | 115,067 | 484,116 | ( 98,882) | 500,301 |
| Total assets not being depreciated | 6,863,201 | 519,116 | ( 98,882) | 7,283,435 |
| Capital assets, being depreciated: | | | | |
| Buildings | 4,159,700 | - | - | 4,159,700 |
| Improvements other than buildings | 58,418,466 | 342,463 | - | 58,760,929 |
| Machinery and equipment | 8,747,730 | 380,320 | - | 9,128,050 |
| Other assets | 154,200 | - | - | 154,200 |
| Total capital assets being depreciated | 71,480,096 | 722,783 | - | 72,202,879 |
| Less accumulated depreciation: | | | | |
| Buildings | ( 2,877,404) | ( 186,244) | - | ( 3,063,648) |
| Improvements other than buildings | ( 39,855,497) | ( 2,464,193) | - | ( 42,319,690) |
| Machinery and equipment | ( 6,740,376) | ( 376,450) | - | ( 7,116,826) |
| Other assets | ( 95,450) | ( 27,913) | - | ( 123,363) |
| Total accumulated depreciation | ( 49,568,727) | ( 3,054,800) | - | ( 52,623,527) |
| Total capital assets being depreciated, net | 21,911,369 | ( 2,332,017) | - | 19,579,352 |
| Business-type activities capital assets, net | 28,774,570 | ( 1,812,901) | ( 98,882) | 26,862,787 |
| Total primary government | $ 121,143,411 | $ 7,045,119 | $( 10,584,773) | $ 117,603,757 |
| **Component unit** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land and improvements | $ 6,979,190 | $ 2,170,171 | $( 47,763) | $ 9,101,598 |
| Total assets not being depreciated | 6,979,190 | 2,170,171 | ( 47,763) | 9,101,598 |
| Capital assets, being depreciated: | | | | |
| Equipment | 39,747 | - | ( 21,257) | 18,490 |
| Accumulated depreciation | ( 29,103) | ( 3,798) | 21,057 | ( 11,844) |
| Total capital assets being depreciated, net | 10,644 | ( 3,798) | ( 200) | 6,646 |
| Total component unit | $ 6,989,834 | $ 2,166,373 | $( 47,963) | $ 9,108,244 |

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

| | | |
|---|---|---|
| Governmental activities: | | |
| General government | $ | 137,925 |
| Public safety | | 730,885 |
| Streets | | 4,453,998 |
| Sanitation | | 40,659 |
| Community services | | 901,303 |
| Internal service funds | | 2,393,823 |
| Total depreciation expense - governmental activities | $ | 8,658,593 |
| | | |
| Business-type activities: | | |
| Water and sewer | $ | 2,981,082 |
| Solid waste | | 73,718 |
| Total depreciation expense - business-type activities | $ | 3,054,800 |

## D. Long-term Debt

The following schedule summarizes the changes in long-term debt during the year ended September 30, 2021:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental activities** | | | | | |
| Certificates of obligation | $ 64,280,000 | $ 29,025,000 | $ 2,315,000 | $ 90,990,000 | $ 2,820,000 |
| Premium | 2,556,954 | 1,130,384 | 128,449 | 3,558,889 | 166,129 |
| Total certificates of obligation | 66,836,954 | 30,155,384 | 2,443,449 | 94,548,889 | 2,986,129 |
| Bonds payable | 7,705,000 | - | 810,000 | 6,895,000 | 830,000 |
| Premium | 545,284 | - | 54,528 | 490,756 | 54,528 |
| Total bonds payable | 8,250,284 | - | 864,528 | 7,385,756 | 884,528 |
| Tax notes | - | 1,980,000 | 350,000 | 1,630,000 | 300,000 |
| Tax note premium | - | 198,203 | 33,034 | 165,169 | 33,034 |
| Capital leases payable | 3,331,056 | - | 662,883 | 2,668,173 | 683,815 |
| Compensated absences | 5,703,190 | 3,278,576 | 2,960,924 | 6,020,842 | 2,245,671 |
| Governmental activities long-term liabilities | $ 84,121,484 | $ 35,612,163 | $ 7,314,818 | $ 112,418,829 | $ 7,133,177 |
| | | | | | |
| **Business-type activities** | | | | | |
| Capital leases payable | $ 282,270 | $ - | $ 124,046 | $ 158,224 | $ 126,294 |
| Other long-term debt | 2,325,608 | - | 124,862 | 2,200,746 | 128,603 |
| Compensated absences | 366,665 | 656,567 | 640,244 | 382,988 | 382,988 |
| Business-type activities long-term liabilities | $ 2,974,543 | $ 656,567 | $ 889,152 | $ 2,741,958 | $ 637,885 |

Interest expense totaled $2,738,805 and $73,916 for governmental and business-type activities, respectively. No interest was capitalized during the year ended September 30, 2021.

### Certificates of Obligation

Certificates of obligation are comprised of the following issues at September 30, 2021:

**Governmental activities**

| | |
|---|---|
| $2,840,000 Combination Tax and Tax Increment Revenue Certificates of Obligation, Series 2004, due in annual installments of $75,000 to $240,000 through 2023, interest at 4.44% to pay contractual obligations incurred for public works projects in the Sherman Tax Increment Financing Reinvestment Zone Number One. | $ 470,000 |
| $6,970,000 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2016, due in annual installments of $290,000 to $455,000 through 2036, interest at 2.0% to 3.0%, to pay contractual obligations for public works projects. | 5,775,000 |
| $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. | 16,135,000 |
| $3,900,000 Tax and Municipal Drainage Utility System Revenue Certificates of Obligation, Series 2017A, due in annual installments of $130,000 to $260,000, interest at 2% to 4% to pay contractual obligations for public works projects. | 3,330,000 |
| $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. | 18,015,000 |
| $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. | 18,240,000 |
| $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. | 29,025,000 |
| Total governmental activities | $ 90,990,000 |

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

| Year Ending | Governmental Activities | | |
|---|---|---|---|
| September 30, | Principal | Interest | Totals |
| 2022 | $ 2,820,000 | $ 3,227,960 | $ 6,047,960 |
| 2023 | 3,145,000 | 2,907,344 | 6,052,344 |
| 2024 | 3,040,000 | 2,759,688 | 5,799,688 |
| 2025 | 3,180,000 | 2,616,188 | 5,796,188 |
| 2026 | 3,335,000 | 2,465,938 | 5,800,938 |
| 2027-2031 | 18,940,000 | 10,049,288 | 28,989,288 |
| 2032-2036 | 22,285,000 | 6,700,550 | 28,985,550 |
| 2037-2041 | 16,595,000 | 3,618,819 | 20,213,819 |
| 2042-2046 | 11,275,000 | 1,410,663 | 12,685,663 |
| 2047-2051 | 6,375,000 | 435,088 | 6,810,088 |
| Total | $ 90,990,000 | $ 36,191,526 | $ 127,181,526 |

### Bonds Payable

Bonds payable is comprised of the following issue at September 30, 2021:

**Governmental Activities**

| | |
|---|---|
| $9,360,000 General Obligation Refunding Bonds, Series 2017, due in annual installments of $65,000 to $955,000 through 2030; interest at 2% to 4%. | $ 6,895,000 |

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

| Year Ending | Governmental Activities | | |
|---|---|---|---|
| September 30, | Principal | Interest | Totals |
| 2022 | $ 830,000 | $ 245,300 | $ 1,075,300 |
| 2023 | 860,000 | 224,550 | 1,084,550 |
| 2024 | 880,000 | 198,750 | 1,078,750 |
| 2025 | 905,000 | 172,350 | 1,077,350 |
| 2026 | 955,000 | 136,150 | 1,091,150 |
| 2027-2029 | 2,465,000 | 187,600 | 2,652,600 |
| Total | $ 6,895,000 | $ 1,164,700 | $ 8,059,700 |

### 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.

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

| Year Ending | Governmental Activities | | |
|---|---|---|---|
| September 30, | Principal | Interest | Totals |
| 2022 | $ 300,000 | $ 64,450 | $ 364,450 |
| 2023 | 315,000 | 53,200 | 368,200 |
| 2024 | 325,000 | 40,600 | 365,600 |
| 2025 | 340,000 | 27,600 | 367,600 |
| 2026 | 350,000 | 14,000 | 364,000 |
| Total | $ 1,630,000 | $ 199,850 | $ 1,829,850 |

### Capital Leases Payable

Capital leases payable is comprised of the following issue at September 30, 2021:

**Business-type activities**

| | |
|---|---|
| $842,000 Capital lease for the purchase of an excavator, wheel loader, forklift, haul truck and trailer, due in quarterly installments of $32,073 through 2023, interest at 1.8%. | $ 158,224 |

The future minimum lease obligations and the net present value of those minimum lease payments as of September 30, 2021, were as follows:

| Year Ending September 30, | Business-Type Activities |
|---|---|
| 2022 | 128,293 |
| 2023 | 32,073 |
| Total minimum leases payable | 160,366 |
| Less: amounts representing interest | 2,142 |
| Present value of minimum lease payments | $ 158,224 |

The assets acquired through capital leases are as follows:

| | Business-Type Activities |
|---|---|
| Asset: | |
| Machinery and equipment | $ 839,131 |
| Less: accumulated depreciation | (528,028) |
| Total | $ 311,103 |

**Governmental activities**

| | |
|---|---|
| $2,522,822 Capital lease 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%☐ | $ 1,340,095 |
| $1,418,810 Capital lease 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% | 764,439 |
| $794,090 Capital lease for the purchase of a pumper and police vehicles, due in quarterly installments of $41,515 through 2025, interest at 1.78% | 563,639 |
| Total | $ 2,668,173 |

The future minimum lease obligations and the net present value of those minimum lease payments as of September 30, 2021, were as follows:

| Year Ending September 30, | Governmental Activities |
|---|---|
| 2022 | 758,985 |
| 2023 | 758,985 |
| 2024 | 758,985 |
| 2025 | 470,274 |
| 2026 | 90,782 |
| | 2,838,011 |
| Less: amounts representing interest | (169,838) |
| Present value of minimum lease payments | $ 2,668,173 |

The assets acquired through capital leases are as follows.

| | | Governmental Activities |
|---|---|---|
| Assets: | | |
| Machinery and Equipment | $ | 2,522,822 |
| Less: accumulated depreciation | ( | 329,886) |
| Total | $ | 2,192,936 |

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

The Tax Increment Revenues Certificates of Obligation, Series 2004 are private placement, related to governmental activities, and are secured with property tax revenue. In the event of default, an acceleration clause goes into effect and the bonds become immediately due.

**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 $194,532. The balance outstanding at September 30, 2021, is $2,200,746.

Debt service requirements at September 30, 2021, for the long-term payable through maturity are as follows:

| | Business-Type Activities Texoma Water Rights Series 2006 | | |
|---|---|---|---|
| Year Ending September 30, | Principal | Interest | Totals |
| 2022 | $ 128,603 | $ 65,929 | $ 194,532 |
| 2023 | 132,455 | 62,076 | 194,531 |
| 2024 | 136,423 | 58,108 | 194,531 |
| 2025 | 140,510 | 54,021 | 194,531 |
| 2026 | 144,720 | 49,812 | 194,532 |
| 2027-2031 | 791,286 | 181,370 | 972,656 |
| 2032-2036 | 726,749 | 55,408 | 782,157 |
| Total | $ 2,200,746 | $ 526,724 | $ 2,727,470 |

**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, 2021, 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. <u>Interfund Transfers and Balances</u>

Transfers between funds during the year were as follows:

| | Transfers In | | | | | | |
|---|---|---|---|---|---|---|---|
| Transfers Out | General | General Improvement | Debt Service | Nonmajor Governmental | Water and Sewer | Solid Waste | Totals |
| General fund | $ - | $ 250,000 | $ - | $ 210,000 | $ 280,000 | $ 120,000 | $ 860,000 |
| Nonmajor governmental | - | - | 1,070,491 | - | 2,256 | - | 1,072,747 |
| Water and sewer | 2,300,000 | - | - | - | - | - | 2,300,000 |
| Solid waste | 1,627,975 | - | - | - | 155,744 | - | 1,783,719 |
| Total | $ 3,927,975 | $ 250,000 | $ 1,070,491 | $ 210,000 | $ 438,000 | $ 120,000 | $ 6,016,466 |

Transfers were used to 1) allocate funds from the Water and Sewer Fund and Solid Waste Fund for general, administrative and franchise costs; 2) move funds from Construction funds, Stormwater Fund and the Hotel Tax Fund for debt service payments; 3) restore fund balance in the Water and Sewer Fund; 4) transfer funds to the Hotel Tax Fund for various programs; and 5.) fund capital projects in the General Improvement Fund and fleet in the Solid Waste Fund.

Interfund balances at September 30, 2021 consisted of the following receivables and payables:

| | Due from Other Funds | |
|---|---|---|
| Due to Other Funds | General Fund | Purpose |
| Nonmajor governmental | $ 469,470 | Pooled cash overdraft |
| Water and Sewer | 471,412 | Pooled cash overdraft |
| Total | $ 940,882 | |

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

## IV. OTHER INFORMATION

### A. Risk Management

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

**Workers' Compensation, Liability and Property Insurance**

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

### B. Health Insurance

The City contracts with an insurance carrier to administer a self-insured health and dental insurance plan. This plan is funded by charges to other funds and charges to employees for extended benefits at their option. For the year ended September 30, 2021, total City and employee contributions to the plan were $5,481,388. Benefit payments, insurance premiums and administrative fees aggregated $5,094,301. The cumulative net position was $511,656 at September 30, 2021.

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 $1,283. The largest portion of this amount is dedicated to the direct payment of claims. The remaining part of the monthly amount is dedicated to the payment of administrative fees and commercial insurance for excess claims. The commercial insurance coverage becomes effective when the claims exceed the maximum amount per employee.

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

The following presentation shows the changes in claims liabilities for the years ended September 30, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Amount of claims liability - October 1 | $ 233,005 | $ 293,259 |
| Incurred claims | 4,018,305 | 4,098,917 |
| Payments on claims | ( 3,877,345) | ( 4,159,171) |
| Amount of claims liability - September 30 (due within one year) | $ 373,965 | $ 233,005 |

**C. <u>Landfill Closure and Postclosure Care Costs</u>**

The Cities of Sherman and Denison contracted with the Greater Texoma Utility Authority (GTUA) for use of the Dripping Springs landfill. The City owns the permitted area but GTUA is responsible for the operation and maintenance. This landfill was considered full at September 30, 1993, for financial reporting purposes and a liability was recognized by GTUA based on the future landfill closure and postclosure care cost estimates. The City is financially obligated for a portion of these costs related to gas and ground water monitoring. To date, the City has paid $1,111,982. These costs are expected to significantly decline in the near future and long-term costs cannot be reasonably estimated.

**D. <u>Commitments</u>**

**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, 2021, the City paid $6,218,839 to GTUA in accordance with these contracts. Future payments under these contracts average approximately $6,000,000 per year for the next 20 years.

A summary of the remaining debt service as of September 30, 2021, is as follows:

| Year Ending September 30, | Principal | Interest | Totals |
|---|---|---|---|
| 2022 | $ 4,887,600 | $ 1,772,070 | $ 6,659,670 |
| 2023 | 4,988,000 | 1,392,880 | 6,380,880 |
| 2024 | 5,444,480 | 1,672,819 | 7,117,299 |
| 2025 | 5,310,960 | 1,538,802 | 6,849,762 |
| 2026 | 5,447,440 | 1,399,606 | 6,847,046 |
| 2027-2031 | 25,797,160 | 4,889,639 | 30,686,799 |
| 2032-2036 | 20,275,000 | 2,042,682 | 22,317,682 |
| 2037-2041 | 7,370,000 | 559,272 | 7,929,272 |
| 2042-2046 | 2,400,000 | 154,550 | 2,554,550 |
| Total | $ 81,920,640 | $ 15,422,320 | $ 97,342,960 |

Following is an excerpt from the audited financial statements of GTUA, reflecting the balances as of and for the year ended September 30, 2021. These assets, deferred outflows of resources, liabilities, and net position are not that of the City but are the City's allocation of resources held by GTUA.

## SCHEDULE OF NET POSITION

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,337,930 | $ 167,323 |
| Due from other funds | 458,821 | 439,705 |
| Restricted assets: | | |
| Cash and cash equivalents | 20,356,931 | 27,299,406 |
| Total restricted assets | 20,356,931 | 27,299,406 |
| Total Current Assets | 22,153,682 | 27,906,434 |
| Noncurrent assets: | | |
| Cash and cash equivalents | 89,001 | 45,177 |
| Temporary investments | 16,960,000 | 5,408,740 |
| Interest receivable | 51,681 | 90,128 |
| Capital assets (net) | 60,763,154 | 62,816,324 |
| Total Noncurrent Assets | 77,863,836 | 68,360,369 |
| Total assets | 100,017,518 | 96,266,803 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred loss on refunding | 218,020 | 124,269 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | 208,588 | 237,762 |
| Retainage payable | 95,427 | 5,790 |
| Accrued interest payable | 855,069 | 851,446 |
| Revenue bonds payable | 4,975,000 | 4,885,000 |
| Total current liabilities | 6,134,084 | 5,979,998 |
| Long-term liabilities: | | |
| Revenue bonds payable | 83,366,928 | 78,187,843 |
| Total liabilities | 89,501,012 | 84,167,841 |
| **NET POSITION** | | |
| Net investment in capital assets | ( 8,141,877) | 2,174,939 |
| Restricted - debt service | 17,383,667 | 9,441,264 |
| Unrestricted | 1,492,736 | 607,028 |
| Total net position | $ 10,734,526 | $ 12,223,231 |

## COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES

| | 2021 | 2020 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Charges for services | $ 6,128,822 | $ 6,752,591 |
| Total operating revenues | 6,128,822 | 6,752,591 |
| **OPERATING EXPENSES** | | |
| General and administrative | 360,081 | 397,357 |
| Depreciation | 5,691,638 | 4,531,267 |
| Total operating expenses | 6,051,719 | 4,928,624 |
| **OPERATING INCOME (LOSS)** | 77,103 | 1,823,967 |
| **NONOPERATING REVENUE (EXPENSES)** | ( 1,565,808) | ( 1,720,788) |
| **TRANSFERS IN (OUT)** | - | - |
| **CHANGE IN NET POSITION** | $( 1,488,705) | $ 103,179 |

**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, 2021:

| | General |
|---|---|
| General government | $ 10,673 |
| Public safety | 353,477 |
| Streets | 8,094 |
| Sanitation | 38,667 |
| Community services | 101,795 |
| General improvements | 9,468 |
| | $ 522,174 |

**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 $70,000 to $1,900,000 to each of the individual companies if the companies meet certain requirements by a specified date. Total payments for the fiscal year 2021 under these agreements were $205,486. Potential payments for these agreements are estimated at $1,916,000 for the fiscal year ending September 30, 2022.

SEDCO has contracted with the City of Sherman to fund the City's debt service on the construction of certain infrastructure projects, including water and sewer lines along the west and east sides of Highway 75, sewer lines along Highway 289, sewer lines to Blalock Industrial Park, northbound entrance/exit ramps near Highway 75 and FM 1417, and the Northgate Drive extension. During the year ended September 30, 2021, SEDCO paid $655,027 to the City of Sherman in accordance with these contracts. Future payments under this contract average $382,732 over the next 16 years. A summary of the remaining debt service as of September 30, 2021, is as follows:

| Year Ending September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2022 | $ 386,428 | $ 216,464 | $ 602,892 |
| 2023 | 399,587 | 166,469 | 566,056 |
| 2024 | 415,532 | 152,453 | 567,985 |
| 2025 | 437,640 | 138,084 | 575,724 |
| 2026 | 450,708 | 122,887 | 573,595 |
| 2027-2031 | 1,687,143 | 418,199 | 2,105,342 |
| 2032-2036 | 948,989 | 116,518 | 1,065,507 |
| 2037 | 64,357 | 2,252 | 66,609 |
| | $ 4,790,384 | $ 1,333,326 | $ 6,123,710 |

**Construction Commitments**

The City has active construction projects as of September 30, 2021. The projects include new street design and construction in developing areas, Texas Department of Transportation (TxDOT) highway projects within the city limits, new ballfields, bridge repairs, wastewater treatment plant and lift station improvements, water system extension and improvements, and stormwater drainage improvements. At year end, the City's commitments with contractors are as follows:

| | Spent-to-Date | Remaining Commitment |
|---|---|---|
| Bridge repairs | $ 144,880 | $ 17,320 |
| Construction of new city building facilities | 144,815 | 16,287,109 |
| Drainage improvements | 234,666 | 1,494,003 |
| New street design and construction | 8,791,828 | 5,088,166 |
| Wastewater treatment plant and system improvements | 182,717 | 271,775 |
| Water system expansion/extension | 228,633 | 36,450 |
| **Grand Total** | $ 9,727,539 | $ 23,194,823 |

**Litigation**

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

**E. Tax Abatements**

The City of Sherman is authorized by the Texas Local Government Code to enter into property tax abatement agreements and to offer a range of incentives designed to promote local economic development. For the year ended September 30, 2021, the City abated property taxes of $1,390,535 or 0.26% of the $535,276,576 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 2021 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. No grant payments were made under this program for fiscal year 2021.

**Residential Tax Abatement Program Texas Local Government Code Chapter 312**

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

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

The City enters into property tax abatement agreements to promote development or redevelopment through modernization or new construction of commercial structures with improvements valued in excess of $25,000 in the Central Business District of Sherman. Property tax abatement agreements under this program generally call for abatements of 100% for five years with no provision to recapture taxes abated in prior years. No property tax abatements were granted under this program for fiscal year 2021.

| Tax Abatement Program | Purpose | Recapture Provisions | Abated Property Tax Revenue for Fiscal Year 2021 |
|---|---|---|---|
| Industrial and Commercial Reinvestment Incentives: | | | |
| Panda Sherman Power, LLC | Development and construction of electric generation facility | None | $ 641,293 |
| Texas Instruments | Warehousing equipment | None | 190,903 |
| Kaiser Aluminum Fabricated Products, LLC | Building and facility improvements, equipment and machinery | None | 51,900 |
| JP Hart Lumber Company | Building, facility improvements, land, equipment and machinery | None | 17,128 |
| FinisarSherman RE HOLDCO LLC | Building, facility improvements, land, equipment and machinery | None | 423,281 |
| West Moore Solar II LLC | Building, facility improvements, land, equipment and machinery | None | 18,973 |
| Total Industrial and Commercial Reinvestment Incentives | | | 1,343,478 |
| Economic Development Agreements Chapter 380 Incentives: | | | |
| Riverside(East) Homebuilders, Ltd. | Building, facility improvements, land, equipment and machinery | None | 15,017 |
| Highland Homes - Dallas, LLC | Building, facility improvements, land, equipment and machinery | None | 10,315 |
| Total Chapter 380 Incentives | | | 25,332 |
| Residential Tax Abatement Program | Residential development and redevelopment in low to moderate income locations | None | 21,725 |
| Total Tax Abatements | | | $ 1,390,535 |

## F. Joint Venture

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

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

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

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

**G. Deferred Compensation Plan**

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

**H. Net Pension and Total OPEB Liabilities and Expenses**

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

| | Governmental Activities | Business-type Activities | Totals | Component Unit |
|---|---|---|---|---|
| Deferred Outflows: | | | | |
| OPEB - Retiree health plan | $ 663,684 | $ 174,512 | $ 838,196 | $ 8,125 |
| OPEB - TMRS supplemental death benefit | 425,160 | 111,793 | 536,953 | 5,205 |
| Total Deferred Outflows | $ 1,088,844 | $ 286,305 | $ 1,375,149 | $ 13,330 |
| Net pension liability | $ 10,106,116 | $ 2,657,335 | $ 12,763,451 | $ 123,717 |
| Total OPEB liability: | | | | |
| OPEB - Retiree health plan | $ 5,887,481 | $ 1,548,073 | $ 7,435,554 | $ 72,073 |
| OPEB - TMRS supplemental death benefit | 1,489,776 | 391,727 | 1,881,503 | 18,238 |
| Total OPEB liability | $ 7,377,257 | $ 1,939,800 | $ 9,317,057 | $ 90,311 |
| Deferred Inflows: | | | | |
| OPEB - Retiree health plan | $ 1,363,723 | $ 358,581 | $ 1,722,304 | $ 16,694 |
| OPEB - TMRS supplemental death benefit | 257,260 | 67,645 | 324,905 | 3,149 |
| Total Deferred Inflows | $ 1,620,983 | $ 426,226 | $ 2,047,209 | $ 19,843 |

| | Governmental Activities | Business-type Activities | Totals | Component Unit |
|---|---|---|---|---|
| Pension expense | $ 1,811,267 | $ 439,461 | $ 2,250,728 | $ 15,217 |
| OPEB expense: | | | | |
| OPEB - TMRS supplemental death benefit | $ 130,962 | $ 30,845 | $ 161,807 | $ 924 |
| OPEB - Retiree health plan | 309,414 | 63,668 | 373,082 | 444 |
| Total OPEB expense | $ 440,376 | $ 94,513 | $ 534,889 | $ 1,368 |

## I. Defined Benefit Pension Plan

### Plan Description

The City participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Comprehensive Annual Financial Report (Annual Report) that can be obtained at *tmrs.com.*

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

### Benefits Provided

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

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

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

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

Plan provisions for the City were as follows:

| | Plan Year 2020 | Plan Year 2019 |
|---|---|---|
| Employee deposit rate | 7.0% | 7.0% |
| Matching ratio (city to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% repeating, transfers | 100% repeating, transfers |
| Annuity increase (to retirees) | 30% of CPI repeating | 30% of CPI repeating |

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 353 |
| Inactive employees entitled to but not yet receiving benefits | 186 |
| Active employees | 459 |
| Total | 998 |

**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 14.34% and 14.55% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021, were $4,148,565, and were equal to the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset alloca- tion 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 2021 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Global Equity | 30.0% | 5.30% |
| Core Fixed Income | 10.0% | 1.25% |
| Non-Core Fixed Income | 20.0% | 4.14% |
| Real Return | 10.0% | 3.85% |
| Real Estate | 10.0% | 4.00% |
| Absolute Return | 10.0% | 3.48% |
| Private Equity | 10.0% | 7.75% |
| Total | 100.0% | |

*Discount Rate:*

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

*Changes in the Net Pension Liability*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Balance at December 31, 2019 | $ 155,659,666 | $ 139,601,836 | $ 16,057,830 |
| Changes for the year: | | | |
| Service cost | 4,499,305 | - | 4,499,305 |
| Interest | 10,371,517 | - | 10,371,517 |
| Difference between expected and actual experience | ( 1,535,502) | - | ( 1,535,502) |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 4,024,957 | ( 4,024,957) |
| Contributions - employee | - | 1,964,762 | ( 1,964,762) |
| Net investment income | - | 10,587,504 | ( 10,587,504) |
| Benefit payments, including refunds of employee contributions | ( 8,514,436) | ( 8,514,436) | - |
| Administrative expense | - | ( 68,568) | 68,568 |
| Other changes | - | ( 2,675) | 2,675 |
| Net changes | 4,820,884 | 7,991,544 | ( 3,170,660) |
| Balance at December 31, 2020 | $ 160,480,550 | $ 147,593,380 | $ 12,887,170 |

*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) | $ 34,184,044 | $ 12,887,170 | $( 4,686,941) |

*Pension Plan Fiduciary Net Position*

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

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

For the year ended September 30, 2021, the City recognized pension expense of $2,250,728 and $15,217 for the component unit.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**City**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual economic experience | $ 780,440 | $ 1,192,303 |
| Change in actuarial assumptions | 146,770 | - |
| Difference between projected and actual investment earnings | - | 3,921,193 |
| Contributions subsequent to the measurement date | 3,004,689 | - |
| Total | $ 3,931,899 | $ 5,113,496 |

At September 30, 2021, the Component Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Component Unit**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual economic experience | $ 7,565 | $ 11,557 |
| Change in actuarial assumptions | 1,423 | - |
| Difference between projected and actual investment earnings | - | 38,008 |
| Contributions subsequent to the measurement date | 29,124 | - |
| Total | $ 38,112 | $ 49,565 |

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date in the amount of $3,004,689 will be recognized as a reduction of the NPL for the year ended September 30, 2022 for the City.

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date in the amount of $29,124 will be recognized as a reduction of the NPL for the year ended September 30, 2022 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**<br>Year Ended December 31, | Pension Expense |
|---|---|
| 2022 | $( 1,332,931) |
| 2023 | 153,479 |
| 2024 | ( 2,569,264) |
| 2025 | ( 437,570) |
| Total | $( 4,186,286) |

| **Component Unit**<br>Year Ended December 31, | Pension Expense |
|---|---|
| 2022 | $( 12,920) |
| 2023 | 1,488 |
| 2024 | ( 24,904) |
| 2025 | ( 4,241) |
| Total | $( 40,577) |

## J. Other Postemployment Benefits

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

***Contributions.*** The City's contributions to the OPEB for the year ended September 30, 2021 were $564,853, 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 | 50 |
| Active employees | 451 |
| Total | 501 |

*Actuarial Methods and Assumptions*

Significant methods and assumptions were as follows:

| | |
|---|---|
| Actuarial Valuation Date | December 31, 2020 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Discount Rate | 2.00% as of December 31, 2020 |
| Inflation Rate | 2.50% |
| Salary Increases | 3.50% to 11.50%, including inflation |
| Demographic Assumptions | Based on the experience study covering the four year period ending December 31, 2018 as conducted for the Texas Municipal Retirement System (TMRS). |
| Mortality | For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables published through 2019 to account for future mortality improvements. |
| Health care cost trend rates | For Pre-65, initial rate of 7.0% declining to an ultimate rate of 4.25% after 13 years. |
| Participation rates | 25% for retirement ages between 50 and 65; 0% for employees who retire before age 50; 0% for employees who retire after the age of 65. |
| Discount rate | The discount rate changed from 2.75% as of December 31, 2019. Additionally, the participation rates were lowered, the dependent coverage assumption for females was lowered, and the health care trend rates were updated to reflect the plan's anticipated experience. |

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

A Single Discount Rate of 2% 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, 2020.

*Changes in the Total OPEB Liability*

The City's total OPEB liability of $7,507,627 was measured as of December 31, 2020 and was determined by an actuarial valuation as of December 31, 2020.

| | Total OPEB Liability |
|---|---|
| Balance at 12/31/2019 | $ 8,216,466 |
| Changes for the year: | |
| Service cost | 353,212 |
| Interest on the total liability | 224,515 |
| Difference between expected and actual experience | ( 548,928) |
| Changes in assumptions and other inputs | ( 279,885) |
| Benefit payments | ( 457,753) |
| Net changes | ( 708,839) |
| Balance at 12/31/2020 | $ 7,507,627 |

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

*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 (2%) in measuring the total OPEB liability.

| | 1% Decrease in Discount Rate (1%) | Discount Rate (2%) | 1% Increase in Discount Rate (3%) |
|---|---|---|---|
| Total OPEB Liability | $ 8,161,669 | $ 7,507,627 | $ 6,917,775 |

*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 | $ 6,800,564 | $ 7,507,627 | $ 8,341,187 |

*OPEB Expense and Deferred Outflows of Resources Related to OPEB*

For the year ended September 30, 2021, the City recognized OPEB expense of $373,082 and $444 for the Component Unit.

At September 30, 2021, the City reported deferred outflows of resources related to OPEB from the following sources:

**City**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 1,476,704 |
| Changes in actuarial assumptions | 423,573 | 245,600 |
| Contributions subsequent to the measurement date | 414,623 | - |
| Total | $ 838,196 | $ 1,722,304 |

At September 30, 2021, the Component Unit reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

**Component Unit**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 14,314 |
| Changes in actuarial assumptions | 4,106 | 2,380 |
| Contributions subsequent to the measurement date | 4,019 | - |
| Total | $ 8,125 | $ 16,694 |

$414,623 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, 2022.

$4,019 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, 2022.

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

**City**

| For the Year Ended September 30, | |
|---|---|
| 2022 | $( 202,241) |
| 2023 | ( 202,241) |
| 2024 | ( 202,241) |
| 2025 | ( 202,241) |
| 2026 | ( 208,281) |
| Thereafter | ( 281,486) |
| Total | $( 1,298,731) |

**Component Unit**

| For the Year Ended September 30, | |
|---|---|
| 2022 | $( 1,960) |
| 2023 | ( 1,960) |
| 2024 | ( 1,960) |
| 2025 | ( 1,960) |
| 2026 | ( 2,019) |
| Thereafter | ( 2,729) |
| Total | $( 12,588) |

## K. Defined Other Post-Employment Benefit Plans

### TMRS Supplemental Death Benefits Fund

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

***Benefits Provided.*** The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other employment benefit and is a fixed amount of $7,500.

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

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 248 |
| Inactive employees entitled to but not yet receiving benefits | 36 |
| Active employees | 459 |
| Total | 743 |

***Contributions.*** The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.26% for 2021 and 0.20% for 2020, of which 0.17% and 0.06%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2021 and 2020 were $57,250 and $54,886, 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 $1,899,741 was measured as of December 31, 2020 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation rate | 2.5% per annum |
| Discount rate | 2.00% |
| Actuarial cost method | Entry Age Normal |
| Projected salary increases | 3.50% to 11.50% including inflation |

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

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 2% 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, 2020.

***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 (2%) in measuring the Total OPEB Liability.

| | 1% Decrease in Discount Rate (1%) | Discount Rate (2%) | 1% Increase in Discount Rate (3%) |
|---|---|---|---|
| Total OPEB Liability | $ 2,294,966 | $ 1,899,741 | $ 1,591,274 |

***Changes in the Total OPEB Liability***

| | Total OPEB Liability |
|---|---|
| Balance at 12/31/2019 | $ 1,658,409 |
| Changes for the year: | |
| Service cost | 64,556 |
| Interest | 46,262 |
| Difference between expected and actual experience | ( 90,851) |
| Changes of assumptions and other inputs | 238,206 |
| Benefit payments | ( 16,841) |
| Net changes | 241,332 |
| Balance at 12/31/2020 | $ 1,899,741 |

Changes in assumptions and other inputs reflect a chance in the discount rate from 2.75% to 2%.

***OPEB Expense and Deferred Outflows of Resources Related to OPEB.*** For the year ended September 30, 2021, the City recognized OPEB expense of $161,806 and $924 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, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

**City**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 106,013 | $ 279,227 |
| Changes in assumptions and other inputs | 395,833 | 45,678 |
| Contributions subsequent to the measurement date | 35,107 | - |
| Totals | $ 536,953 | $ 324,905 |

At September 30, 2021, the Component Unit reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

**Component Unit**

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 1,028 | $ 2,706 |
| Changes in assumptions and other inputs | 3,837 | 443 |
| Contributions subsequent to the measurement date | 340 | - |
| Totals | $ 5,205 | $ 3,149 |

$35,107 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, 2022 for the City.

$340 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, 2022 for the Component Unit.

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

**City**

| For the Year Ended September 30, | |
|---|---|
| 2022 | $ 51,415 |
| 2023 | 51,070 |
| 2024 | 33,797 |
| 2025 | 13,956 |
| 2026 | 22,913 |
| Thereafter | 3,790 |
| Total | $ 176,941 |

**Component Unit**

| For the Year Ended September 30, | |
|---|---|
| 2022 | $ 498 |
| 2023 | 495 |
| 2024 | 328 |
| 2025 | 135 |
| 2026 | 222 |
| Thereafter | 38 |
| Total | $ 1,716 |

## L. Related Party Transactions

The City had two council members that had transactions with the City through their personal businesses. The two council members had transactions totaling $5,627 and $38,706. The City paid invoices of $28,815 to these vendors and $15,518 was paid to one of the members through withholding of employee transactions. One of the council members also had a right of way transfer in order to receive water services. Both members disclosed the financial relationship with the City on their conflict of interest questionnaires.

## M. Subsequent Event

The City was notified that it has been overpaid in sales tax in the amount of $896,970, which includes SEDCO's portion of the overpayment. Starting October 2021, the City has entered into an agreement with the Texas Comptroller of Public Accounts to pay this overpayment back. The City's monthly sales tax deposits will be decreased by $40,771 a month for a 22-month period.

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# APPENDIX D

**Form of Bond Counsel's Opinion**

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July 6, 2022

IN REGARD to the authorization and issuance of the "City of Sherman, Texas, Limited Tax Notes, Series 2022," dated July 6, 2022, in the principal amount of $2,100,000 (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 the 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.

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, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES